

Why Your Ministry Needs a Conflict of Interest Policy

Government oversight agencies, foundations, donors and members are all demanding greater accountability and transparency from charities these days, including churches and religious nonprofits, in order to help ensure that the organizations they are involved with avoid conflicts of interest and better serve their respective constituents.

In recent years we have seen a number of high profile ministries embarrassed by events where they have come off looking more like big business than entities of service and commitment to charitable causes. Many of these events were caused by real, or apparent, conflicts of interest within the organization related to board structure, salaries, organization founders and contract awards, which might have been prevented had an established conflict of interest policy been in place and followed.

As the name suggests, a conflict of interest policy sets forth clear and concise rules for helping to safeguard the organization from bias and inappropriate preferential practices. *A conflict of interest policy does not propose or intend to preclude a conflict of interest from occurring.* However, an effective policy can provide guidelines for how to manage a potential conflict of interest and minimize any improper conduct that might arise as a result.

A conflict of interest occurs where an individual's obligation to further the organization's charitable purposes is at odds with their own financial interests. For example, a conflict of interest would occur where an officer or director votes on a contract between the organization and a business that is owned by that officer or director. Conflicts of interest frequently arise when setting compensation or benefits for officers, directors or employees who may serve on the Board. A conflict of interest policy is intended to help ensure that when actual or potential conflicts of interest arise, the organization has a process in place under which the affected individual will advise the governing body about all the relevant facts concerning the situation. A conflict of interest policy is also intended to establish procedures under which individuals who have a conflict of interest will be excused from voting on such matters.

Apart from any appearance of impropriety, organizations will lose their tax-exempt status unless they operate in a manner consistent with their charitable purposes. Serving private interests more than insubstantially is inconsistent with accomplishing charitable purposes.

While no organization plans to face a conflict of interest, having a detailed written policy in place is essential as issues will inevitably surface at some point in the ministry's history. Organizations without these procedures are often lost as to how to address issues and the lack of a policy can sometimes serve to split the board and cause dissension.

The Evangelical Council on Financial Accountability (ECFA) recommends that board members guard against possible bias or improper conduct by; adopting a full disclosure policy, requiring

board members to abstain from discussing and voting when they have a possible conflict of interest, and removing staff members from decision making roles.

A full disclosure policy will require each member of the board to quickly and completely disclose any potential relationships or financial gains that can be realized as a result of board action. After disclosing the potential conflict the board member should excuse themselves from the room for as long as the topic and vote remains before the Board. Staff members have a built in conflict of interest as they receive a direct financial benefit by belonging to the ministry, so it is recommended that they only serve as a non-voting member of the board.

With this in mind, it is helpful to have a policy for removing ineffective board members. Funding sources know that not everyone chosen to serve on the board will be up to the job, despite all the scrutiny to ensure otherwise. Conflicts of interest and unethical behavior will occur. In response, you should include a clause in your bylaws stating that Board members who fail to fulfill their responsibilities or who habitually exceed their authority may be subject to removal by a two-thirds majority vote of the Board.

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