

## CONFLICTS OF INTERESTS IN BUSINESS

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This article is especially dedicated to Prof. Raghunath Ghosh, who is retiring from our Department in February, 2015.

Keith Davis<sup>1</sup> rightly says business is not something self-enclosed world but its activities have profound ramification through society. Business, though an economic institution, cannot exist in isolation with society because a society in which business functions is equally important as it is integrated with the rest of a society. A society is a network of human relationships that link people together through various elements including ideas, values, cultural habits, geographical proximity, and various institutions. Business activities are socially related activities having various stakeholders within the realm of society and, thus, create a certain world view that requires to establish a norms or principles by defining what is generally considered as conducive, good, right which may be acceptable to all the stakeholders in guiding and coordinating different business activities that involves variously different interests. Businesses are bound to have interests variously different from one another which are conflicting and antagonistic if not utterly paradoxical. Taking this point in mind, this paper attempts to examine issues related with conflicts of interests with an object to bring new insight from the Kantian perspective.

This paper deals with certain issues like, is the conflict of interest a conflict between the employers and the employees? Or is it a conflict between the professional ethics or code of conducts and the moral laws? Or still could it be a conflict of interest between the business firms and the society at large? In a conflict of interest, either two duties conflict or a duty conflicts with self-interest; in either case one ought to determine which interest serve the best interest of all by appealing to one's own reason. It is strongly believed that duty to society or humanity in general ethically supersedes duty to stockholders. However, it does not mean to depreciate the significance of duty one has towards the employing firm. There are duties or obligations to be observed and performed in accordance with the interests of the employing firms but such adherence to duties ought to be rooted in right motives. Conflicts of interests appear to have been associated with various elements such as

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<sup>1</sup> Shaw, William, H., (1990) *Business Ethics*, Wadsworth Publishing Company, Canada.p-158

moral laws, legal laws, professional codes of conduct, etc. There are possibilities of having conflicting opinions, ideas, beliefs, etc. To this end, an attempt should be made to explain what conflict of interest is and how such conflict arises in business activities and how they adversely affect business behavior. One should try to strike balance between the welfare of the corporation and the welfare of the society at large on an objective basis.

Business as an economic institution is conglomeration of different groups of individuals from different culture, religion, language, nationality, race, etc., and hence, it is not devoid of issues. Different groups of individuals are often (if not always) confronted with conflicts of interest. Sometimes one's own personal interest conflicts with one's professional obligation. The decisions on which humans act upon do not go without any effect on others; be it positive or negative. Conflict of interest often presents itself in the form of self-promotion and can occur in any form and in any setting, be it in government, society, business, etc. Therefore, the extent to which conflicts of interests can occur must be viewed in a wider perspective in order to have a comprehensive understanding of the concepts and its effects thereto.

In the words of Boatright, "a conflict of interest is a conflict that occurs when a personal interest interferes with a person's acting so as to promote the interests of another when the person has an obligation to act in that other person's interest."<sup>2</sup> It is not untrue to state that a conflict of interest is not just merely a conflicting interest but rather it is a conflict that arises due to intentional divergence of interest purposely for some personal or group selfish benefit contradictory to one's actual obligation. It is important to take a serious note that an agent having an obligation as agreed upon to do an assigned instruction commits a conflict of interest in case of deviating away from performing the main principal's obligation. In short, it is a breach of obligation. Conflict of interests need not necessarily be associated with only pecuniary issue but it can also be non-pecuniary issues. It is to be stated that accepting bribes, actions of fraud, and unauthorized distribution of confidential information are not conflict of interests, but considered as improper acts. Hence, conflict of interest can be viewed

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<sup>2</sup> Boatright, R. J., (2003) *Ethics and the Conduct of Business*, Pearson Education Inc., Delhi, p. 152

from different angles. The most common forms of conflicts of interests can be briefly stated below as follows:

1. With respect to direct financial interests of public servants whose fortunes may be affected by a decision that he or she has a role in making.
2. With respect to personal conflicts of interest pertaining to non-financial issues such as personal relationships, business associations, and membership in political or other groups which might make it difficult for an individual to consider policy questions without bias.
3. With respect to ideological conflict which include conflicts on many work related issues among different perspectives of management and labor.

Conflicts of interests need not be necessarily financial but it may be conflicts of interest which are not necessarily financial and thus conflicts of interests can be categorized in two ways, namely, financial and non-financial. Financial interest or pecuniary interest<sup>3</sup> can be understood as an act that involves an actual or potential financial gain at the cost of the interest of others. They may result from an employee taking or accepting gifts or kickbacks. For instance, there is a potential conflict of interest if a person makes a donation before the board of selection committee for a job along with an application because such donation may influence the members and thus created a risk that the committee's interest in the organization could conflict with their public duty to assess the application on its merits.

Non-pecuniary interests do not have a financial element in the sense that the act is done with an intention to influence others in the decision making body in order that his chosen candidate be a choice of the body. The most obvious example of this is family interest - for example, the recruitment officer may have an interest in influencing hiring procedures to secure a position for his closest ones or relatives, without ever benefiting financially. Moreover, there are also other interests which are not directly personal yet may be subject to conflict of interest. With the idea of reelection in mind, elected officials generally pursue the interests of their constituents and of their party, and attempt to influence the relevant administrative process which is usually against the public interest.

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<sup>3</sup> ICAC Practical Guide, 1996, <http://www.icac.nsw.gov.au/files/html/pub2i27cp.htm>.

According to Garrett and Klonoski, “conflicts of interest may be actual or potential.”<sup>4</sup> A conflict is actual when a personal interest leads a person to act against the interests of an employer or another person whose interests the person is obligated to serve. Mr. X is in an actual conflict of interest with the employer if his personal interest directed his acts in performing certain duties against the interest of the management because his acts is not in agreement but rather antagonistic with the purpose for which Mr. X has been appointed for. Mr. X by virtue of having a duty to serve the interests of the management has failed to comply with the obligation he has to the management. What can be expected of an employee whose mind is divided between two crucial decisions? Can a servant serve two masters equally? It is hard to find an affirmative answer to the question. A servant whose loyalties towards two masters cannot possibly be balanced will either do more favor to the one in exclusion of the other. In a situation like this where one is placed in a dilemma a decision taken in favor of one affects the others because one’s loyalty is being divided between multiple groups.

On the other hand, a conflict is potential when an interest or motive of an individual or professional or employee is likely to or is sufficient enough to influence or appear to exert influence in the working of business transaction which may be contradictory to the best interest of the employers or owners. However, a potential conflict of interest is something which is merely a sort of motivation or temptation that is yet to be actualized in the real sense of the term and hence can be taken care of. Now, as far as conflict of interest is concerned, self-interest plays a paramount role. It is the motive that drives an individual to performing certain thing in consonant with what has already been thought of. But, it is to be noted here that conflict of interest may not be necessarily bad or unethical. The reason being that a conflict of interest may be directed towards leading a substantial improvement or refinement of ideas or plans or it may be for worse and therefore, conflict of interest in itself is neither completely unethical nor completely ethical.

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<sup>4</sup> Garrett, M. T., and Klonoski, K. J., (1986) *Business Ethics*, Prentice-Hall, Englewood Cliff, NJ, p. 55

Conflicts can also be in the form of personal and impersonal conflict of interest. This type of conflict arises when a professional, for example, a legal consultant who works for two different companies is in a conflict of interest when he is obligated to act in the interest of the two conflicting interest. It can also be in the form of either individual or organization. In the agency relationship, an agent is a hired employee or an organization who is obligated to act in the interest of the principal. For example, Arthur Anderson accounting firm offers multiple services to companies. The firm provides management services to the companies and also does audit of the same companies.

Boatright<sup>5</sup> in *Ethics and the Conduct of Business* made relevant distinctions in understanding the concept of conflict of interest in terms of actual and potential conflict of interest, personal and impersonal conflict of interest, and individual and organizational conflict. He states that the concept of conflict is complex as it encompasses various distinct moral failings that are run together. He classifies conflict of interest into four kinds in order to have full understanding of the definition and of the reasons that it is morally wrong for a person to be in conflict of interest. The classifications are as follows:

1. Biased judgment
2. Direct competition
3. Misuse of position
4. Violation of confidentiality

All the professions irrespective of any field have certain rules, principles, standards and guidelines which govern the professionals in the professional duties in order to perform the specific job. Professionals are experts in their particular areas, for example, lawyer. A lawyer is a trained professional who has the theoretical knowledge of the concerned area and has the mastery over using the skill in a practical situation. Their knowledge and judgments are reliable and trustworthy by virtue of being an expertise in that particular area. Similarly, business professionals like MBA's are experts in the domain of business. It is expected that professionals working within a particular firm or business must support their own company's codes of conducts as they are to be followed by all the professionals. Professionals go

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<sup>5</sup> Boatright, R. J., (2003) *Ethics and the Conduct of Business*, Pearson Education Inc., Delhi, p. 151

above and beyond what is required both by the law and by their professional code of ethics. Duty to the community, or social responsibility, is a common professional responsibility. Performing a profession can lead to a situation when the regulations are not sufficient to make decisions to which the professionals have to use their knowledge, competence, skills and experience. In other words, they have to exercise their professional judgment. The exercise of judgment is characteristic of professionals whose stock in trade is a body of specialized knowledge that is used in the service of clients. Not only are they paid for using this knowledge to make judgments for the benefit of others but also part of the value of their services lies in the confidence that can be placed in a professional's judgments.<sup>6</sup> They are expected to be transparent and sincere in making a decision in order to avoid bias judgments. They are expected not to involve in accepting bribes, kickbacks, etc., because such acceptance can exert influence on their decision making or making judgments. Purchasing agent, for example, often have considerable latitude in choosing among various suppliers of a given product.

The judgment of purchasing agents in all matter, however, should be used to make decisions that are in the best interests of the employing firm. For a purchasing agent to accept a bribe or kickback in return for placing an order constitutes a clear conflict of interest. The reason is simple. Bribes and kickbacks are usually intended to induce an employee to grant some favor for a supplier at the expense of the employer. Other factors that could influence the judgment of an employee include outside business interests, such as an investment in a competitor or a supplier, or dealings with businesses owned by family members.<sup>7</sup> There are many situations when experts express their opinion without the possibility to argue their decision. To ensure both business and social welfare confidence and security, the professional should develop himself or herself professionally by seizing business opportunities and using them to improve his or her personal expertise as well as to showcase his or her efforts. Professionals must be dedicated, passionate, and knowledgeable about their jobs because consequences of an incorrect application of the professional judgment can

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<sup>6</sup> Boatright, R. J., (2003) *Ethics and the Conduct of Business*, Pearson Education Inc., Delhi, p. 156

<sup>7</sup> Ibid., 156

lead to serious problems with negative economic, financial and social implications. We have had little to say about the second, technical competence, what makes honest judgment professional. We have, it seems, simply taken it for granted. Yet, an engineer without engineering judgment, a lawyer without a lawyer's judgment, or any other professional without the particular form of judgment distinguishing his or her profession from all others, would be an incompetent "layman" who could not honestly practice the profession in question. A professional who does not follow the company code of ethics may be punished by management.

Conflict of interest may likely to take place when there is a conflict between primary interest and secondary interests in any activity or profession. Primary interest is concerned with the principal goals of any profession or activity. For example, the protection of customers, health of patients, integrity of research, and the duties of public office are primary interests. Secondary interest is concerned with seeking financial gain, desire for professional advancement, favoritism for close relations, etc., which are considered objectionable when secondary interests have greater weight over primary interests. The imbalance between primary interest and secondary interests can be, thus, defined as conflicts of interests.

Conflict of interests when detected in any activity or profession that breaches a person's duty of loyalty to his profession is unethical and punishable in some cases; while in other cases it is not considered as unethical. For example, in the practice of law, a judge can be disqualified if his judgments are found to be prejudicial. In the case of corporation, for example, if a director makes a decision for the corporation that profits his interest over that of the corporation then he will be subject to legal liability because such partial activity impairs his ability to perform his duties and responsibilities objectively. On the other hand, in some cases although someone is accused of a conflict of interest, he or she may deny that a conflict exists because he/she did not act improperly. This shows that a conflict of interest can exist even if there are no improper acts as a result of it. For example, a person with two roles—an individual who owns stock and who is a government official may experience situations where those two roles conflict. The conflict can be made less severe but it still exists. In and of itself, having two roles is not illegal, but the different roles will certainly provide an incentive for improper acts in some circumstances. Another

example of such kind exist in the realm of the private sector providing services to the Government, where a corporation provides two types of services to the Government that have conflicting interest or appear objectionable (i.e., manufacturing parts and then participating on a selection committee comparing parts manufacturers). Corporations may develop simple or complex systems to mitigate the risk or perceived risk of a conflict of interest. These risks are typically evaluated by a governmental office to determine whether the risks pose a substantial advantage to the private organization over the competition or will decrease the overall competitiveness in the bidding process.

Competition is one of the important characteristics in business externally as well as internally. Externally, in the sense that most business companies are in competition with at least one other firm over the same group of customers and, internally in the sense that competition inside a company is usually stimulated for meeting and reaching higher quality of services or products that the company produces or develops.

Within a market businesses are often encountered with direct competitors. The direct competitors are those firms that produce the same or very similar goods that appeal to the same group of consumers, for example, soap. The crucial question here is: is it unethical to engage in direct competition with his/her employer? According to Boatwright, for an employee to engage in direct competition with his or her employer is a conflict of interest; the reason being that the employee has divided his or her loyalty and thus the quality of the employee's work might get reduced by the time and effort devoted to other activities. An employee who works as an agent of an employer is obliged to abide by rules and regulations and the principal responsibilities of an agent is to proceed in agreement with the interest of the employers. But it does not by any means endorse that an agent does not have any rights to disagreement in case of unethical interest from the employer. Both employer and employee (agent) have rights and obligations as the relationship between the two are based on expertise and trust.

As far as direct competition is concerned, it is prohibited by companies even though it is being informed and there may not have been any foreseeable danger of

impaired judgment or reduced quality performance. Boatwright cites a case taken from a policy statement issued by the Xerox Corporation which goes thus:

“The wife of a Xerox tech rep inherits money. They decide it would be profitable to open a copy shop with her money and in her name in a suburban city. The territory they choose is different from his. However, there are several other copy shops and an XRC (Xerox Resource Centre) in the vicinity. She leases equipment and supplies from Xerox on standard terms. After working hours, he helps his wife reduce costs by maintaining her equipment himself without pay. He also helps out occasionally on weekends. Her job’s performance at Xerox remains as satisfactory as before. One of the nearby competitive shops, also a lease of Xerox equipment, writes to his manager complaining that the employee’s wife is getting free Xerox service and assistance.”<sup>8</sup>

Is the act of the employee unethical thus amounting to direct conflict of interest with his employer? Isn’t he morally right in supporting his wife as such brings no adverse effects to his performance as an employee of the Xerox corporation? Is the act a clash between husband’s responsibility towards one’s wife and the responsibility he has towards the employer?

Firstly, it is to be noted here that, direct competition is generally prohibited by companies even though it is being informed and there may not have been any foreseeable danger of impaired judgment or reduced quality performance. An employee who works as an agent of an employer is obliged to abide by the rules and regulations and the principal responsibility of an agent is to proceed in agreement with the interest of the employers. Now, in the case given above, the conflict of interest consists mainly in the fact that the employee’s investment and work outside of his employment at Xerox place him in direct competition with the company. Though, his service as an employee remains unaffected and uninfluenced by his wife’s business. Nevertheless, on the assumption that the husband benefits from his wife’s business venture, the employee who also happens to be a husband who runs the business is competing directly with the employer for the reason being that Xerox operates an XRC in the vicinity and such free service rendering outside of his

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<sup>8</sup> Boatright, R. J., (2003) *Ethics and the Conduct of Business*, Pearson Education Inc., Delhi, p. 156

employment in and within the vicinity where XRC operate brings a direct competition with his employer. Secondly, the employer is also harming the interests of Xerox Corporations by upsetting the relation between the company and other lessees of Xerox equipment and moreover, by maintaining the equipment in his wife's shop himself, the employee harms the company by depriving it of the potential for additional business.

In business setting, more than often issues are related to misuse of position surface. A person of position or authority could be a friend, family members, service personnel or a company employee but he/she is not expected to use his/her position for one's own private gain or for that of persons or organizations with which he is associated personally. Boatwright in his book, *Ethics and the Conduct of Business* quotes in the newspaper's code of ethics that reads as follows: 'It is not enough to be incorruptible and act with honest motives. It is equally important to use good judgment and conduct one's outside activities so that no one- management, or editors, an SEC investigator with power of subpoena, or a political critic of the company- has any grounds for even raising the suspicion that an employee misused a position with the company.' It implies that to be a good and trusted employee not only demands doing one's assigned duty but also doing one's duty continuously out of a sense of duty with sincerity, honesty, integrity and commitment by taking into account the ethical aspects of his profession devoid of favoritism or acts against his profession or employer.

Let us take an example. Supposing, an employee of the business firm AB was asked by a friend to determine why his firm's leasing license had not yet been granted by another office within the department. If an employee who has a position and authority raised the issue as a matter for official inquiry the delay in approval of the particular license at an official business meeting and asked that the particular license be expedited. Such act amounts to violation or misuse of position or authority as the employee used his/her official position in an endeavor to benefit his/her friend and, in acting as her friend's agent for the purpose of pursuing the leasing license with the business firm.

Does the professional or employee in a position and authority reflect morality of commitment and integrity towards himself/herself and the employer? It is quite

obvious that such act of misusing position and authority is a conflict of interest because he/she is advancing his/her personal interest while acting in his/her capacity as an official of the employing firm. An employee's position should not be used to coerce another person into providing a benefit to the employee or others; to endorse any product, service or enterprise; or to give the appearance of governmental sanction to personal activities. An employee or professional should as much as possible avoid taking bribes, kickbacks, etc., as these may exert influence in the process of taking decision which in turn may conflict with the best interest of the employing firm. The duty of a professional or any agent working as a representative, be it a lawyer, accountant should maintain and sustain the confidential information acquired from his/her client. Supposing if a lawyer who has promised to represent as defended of his/her client uses the acquired information from his/her client to advance his/her personal interest is a breach of violation of confidentiality even though the interest of the client is unaffected.

The conflict of interest that Boatwright talks about is not a kind of conflict which is merely a conflicting interest between two or more individuals but rather a conflict coupled with an obligation to serve the interests of another. For example, an agent who has an obligation to carry out the interests of the principle by virtue of being an agent even though the duty to perform is not in consonant with the interest of the agent because he has the fiduciary duty towards the principal. Agents have a duty to abstain from conducting business, financial or other interests or relationships that may be antagonistic to the interests of company or conflict with the interests of the Company or that divide the employee's loyalty to the Company. Any activity or business transaction which seemingly appears to present a conflict must be averted unless company determines the activity is not harmful to their business or otherwise wrong. It arises in a number of situations, such as taking or offering commercial and personal bribe, kickbacks, gifts and insider information for personal gain. However, it is difficult to identify conflicts of interest because it may not always be clear-cut and easy to define.

Now, the issue here is the possibility of having conflicting interests because of having the dual functions of providing management services as well as auditing of

the same firm. Briloff<sup>9</sup> apprehends that there is a great concern in the profession that this dual function endangers the independence and objectivity of accountants.

Is conflict of interest always negative? It is important to distinguish between conflict of interest in the negative sense and conflict of interest in the positive sense. As mentioned above, there are conflicts of interest which are not harmful or the existence of it does not deteriorate the existent condition of a situation. For example, an employee working in company X faces a conflict of interest with the manager in the matter of disclosing the fact finding about the account of the company that the employee who is responsible for the accounting is willing to expose the anomalies present in the account as it thought to be in the best interest of the company as a whole. Whereas the managers are firm in its decision that the said anomalies found in the account should not be exposed as it can imprint an impression of mistrust in the mind of the shareholders or employers which ultimately may harm their future relationship. This kind of situation can have a potential conflict which may bring negative aspect but does not rule out the possibility of the other, that is, positive aspect. Conflicts can bring wonders and do wonders; it can also do heinous distortions.

The conflict between the two, that is, the accountant and the managers can be positively taken as a step to proactively deal with issues that people or groups need to be addressing rather than keeping beneath the carpet. Dealing with the issue in an ethical manner may bring more positive result and such initiative can be a beginning to a new perspective, can initiate change, promote understanding among themselves, foster self-esteem, and also reinforce abilities and adaptability towards new challenges. On the contrary, conflict of interest as just stated can bring more harm than good such as creating more confusion and conflicts, loss of confidence in the credibility of morals, create distrust and loss of respect, skeptical in decision making, destabilize the entire business set, etc., if such conflict is not remedied in a positive ways. A person with integrity and dignity would normally try to resolve the conflict by looking into the possibility for pacifying the matter rather than making the issue as

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<sup>9</sup> Briloff, J. A., (August 1987) "Do Management Service Endanger Independence and Objectivity?" *CPA Journal*, 57, p. 22-29

it is, if not make it worse to the point where eventual leading to a serious ethical and legal issues.

Why be so concerned about a conflict of interests? The concept of conflict of interest is complex as it covers several issues such as social, political, economic issues. It is not an issue to be wished away without attempting to pacify because it involves failing of integrating what is moral in human activities in relation with different individuals, groups, society, etc. Although conflicts of interest do not ineluctably lead to unethical conduct, they raise the probability that it will occur. A conflict of interest expresses conditions favorable to unethical decisions. Interests conflicting in a conflict of interest oppose an obligation against either another obligation or self-interest. It is the question of how a selfish motive can eventually erode the whole system of a business firm, social relation and also political stability if not properly dealt with. It is a concern to explore how and when an individual's private interests compromise or unduly influence their public decision-making, creating the possibility that such selfish interest motivated actions may bring conflict that may pose ethical and social issues such conflicts tend to involve deontology and egoism. Conflicts of interest as has been mentioned above raise an ethical dilemma when the private interest is sufficient to influence or appear to influence the exercise of official duties where possibility of creating a conflict or having the potential to create a conflict which may bring deterioration to the best interest of the company.

Kant believed that morality in all spheres of human life should be grounded in reason. His categorical imperative states that people should act only according to maxims that they would become universal norms and should never treat another human as a means to an end. The categorical imperative can be understood and demonstrated. It would be unethical for an employee to commit himself in gaining selfish personal profit against the best interest of the employing firm, because if everyone does the same business, he cannot run successfully.

Kant's theory emphasizes the necessity of trust, adherence to rules, and keeping promises. When people fail to be committed, they risk being punished by the business community or by government enforcement of laws as there are rules and regulations maintained and implied in all the professional code of conduct. Kant suggested that human beings are rational beings and have the capacity to reason and

the possession of which make them to rise above purely animalistic behavior. By virtue of being a rational being having the rationality to distinguish between good and bad one has to make a choice as to whether they will or will not follow universal norms. As far as Kant is concerned there is a logical contradiction in the conflict of interest because one cannot represent both at the same time. One has to either vote for one or the other. An employee A who is representing his/her employing firm cannot just promote his selfish personal interest because he/she stands as a representative of the employing firm and hence, endorsing his/her selfish personal gain stands against with the best interest of the employing firm and thus unethical. Kant held that one's maxim is ethical only if it can be universalized without logical contradiction. In trying to determine how conflict of interest is unethical, it is important to refer back to Kant's Formula of Universal Law. Kant<sup>10</sup> says the Formula of Universal Law is a test of the sufficiency of the reasons for action and choice to motivate a rational being which are embodied in our maxims. Kant's ethical aim is to prove that perfect rationality includes conformity to the categorical imperative. For a maxim to be ethical, it must be founded with reason, which is necessary and thus capable of being held universally. Rational nature assigns values, including ethical values, and such assigning cannot take place outside of the domain of reason. Hence, maxims that are ethical must be capable of being universalized.

There is no doubt in it that in any business enterprises there are bound to be both employers and employees. Over the years, the relationship between employer and employee was governed by the assumption that employers were like kings, and were free to offer any terms of employment and treat their workers in any way they desire, and the employees were free to either accept or reject those terms. However, the old system no longer prevails in the contemporary business economy. Both employers and employees have certain responsibilities towards each other and the society. Success and achievement of business enterprises depend on how they co-exist, co-operate and mutually understand one another. When employees do not trust, show respect and not fair to the company, several problems occur. Loyalty to the

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<sup>10</sup> Kant, I., (1964) *Groundwork of the Metaphysic of Moral*, trans. H.J. Paton, Harper & Row, Publishers, New York, p. 88

company obviously reduces in such business environment. Farnham<sup>11</sup> says that several negative effects result from the trust gap, including employee cynicism about whether management understands or cares about employees or their opinions and comes to a conclusion that there is very little common ground between the average worker and top management, a situation that tends to produce a disconnect and cynicism between the two. He has also provided examples in which applying the tenets of trust, fairness, and a basic respect for the individual has worked to the advantage of companies. The acknowledgements of Preston Trucking and Southwest Airlines that practicing fairness and respect led to company loyalty, which produced employee behaviour above and beyond the norm. Robert A.P. and Ferrell C.O. also hold the similar view. They say without trust, cost typically goes up and efficiency often goes down; but with trust, cost are likely to go down and efficiency usually goes up.<sup>12</sup>

So, employees must exercise reasonable care and skill in the performance of his work; must be loyal to the employer and obey all reasonable orders and directives; must report for work as appropriate; must not reveal confidential information to outsiders, such that they could use it to the disadvantage of the employer; and employees must not be negligent and dishonest in handling the employer's assets. Employers are the group individuals or firms that hire men or women to work for the employers' firm. Basically, the main concern of the employers is to have the right to manage, the ability to plan for the future in order that the firm can continue to sustain and prosper, make profit for its shareholders, and to keep its employees 'motivated'. Though employers have objectives of their own they too are not devoid of responsibility and obligation towards employees. Employers must provide work for his employees; must remunerate employees in accordance with the contracts of employment; must allow employees right to basic and necessary freedoms; employees must ensure the safety of the employees in the work place, etc. The gap between the two arises when both neglect to comply with their respective obligations.

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<sup>11</sup> Farnham, A., (1989) "The Trust Gap" *Fortune*, December 4, p. 56-78

<sup>12</sup> Robert, A. P., & Ferrell, C. O., (2007) *Business Ethics: New Challenges for Business Schools and Corporate Leaders*, Prentice-Hall of India Private Limited, New Delhi-110 001

The relationship between employer and employee in the United States has evolved from the employment-at-will doctrine. The employment-at-will doctrine asserts that, when an employee does not have a written employment contract and the term of employment is of indefinite duration, the employer can terminate the employee for good cause, bad cause, or no cause at all. Employment-at-will means that an employee can be terminated at any time without his/her consultation or explaining the reason for which he/she is being terminated. It also means that an employee can quit without a prior notification or offering a reason for quitting the job. Employers are not required to give notice while terminating an at-will employee. The employment-at-will doctrine reflected the belief that people should be free to enter into employment contracts of a specified duration, but that no obligations attached to either employer or employee. If a person was hired without such a contract, employees were able to resign from positions they no longer cared to occupy; employers also were permitted to discharge employees at their whim. Under this legal doctrine: "any hiring is presumed to be "at will"; that is, the employer is free to discharge individuals "for good cause, or bad cause, or no cause at all," and the employee is equally free to quit, strike, or otherwise cease work."<sup>13</sup> Both the employers and the employees seem to have equal right but the appearance is not always what the fact lies beneath the principle. Both employers and employees have rights, duties and obligations to each other. The employers are obligated to give employees fair wages, safe work place environment condition, etc. Employees are also obliged to reciprocate by fulfilling their responsibilities to the employers by following the goals, procedural rules and work plans of the employers. However, the working environment and condition keep fluctuating in a market economy and moreover, employer/employee rights and obligations are based on contrasting and conflicting assumption of values and thus in the relationship between the two conflicts of interest are bound to arise and in such situation more disadvantages can be posed especially to the employees whose job securities are not at all certain and is bound to have uncertainties as far as employee's job security is concerned.

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<sup>13</sup> Rothstein, A., Mark, Knapp, S. A., & Liebman, L., (1987) "Cases and Materials on Employment Law", *Foundation Press*, New York: p. 738

As far as the nature of the relationship is concerned the employee's principal duty and responsibility is to work towards the goals of the business firm as they have been employed or hired for carrying out the tasks that have been aimed for. The employees in a business firms are expected to avoid any activities that might harm those goals or conflicts with the interest of the employers. Business firms have a shared set of values, beliefs, norms, goals and codes of ethics which guides and regulate the activities in the work places. Employees do not operate in a vacuum and therefore their decisions and activities and also personal values are affected by the environment in which they work. There are possibilities that an employees might have opinion differed from the officially approved opinion or interest of the employers. But this is not to say that the differed opinion of the employee is unethical just because it conflicts with the interests of the employers; the reason being that the employee's opinion or interest of an employee might have a better ethical factor and the induction of such opinion may have more constructive prospects. From the employee's point of view, wages are the principal means for satisfying the basic economic needs of the worker whereas from the employer's point of view, wages are a cost of production that must be kept down lest the product be priced out of the market and thus the two seems to have a conflict. Every employer faces the dilemma of setting fair wages. Can it be taken as a conflict of interest as the opinion of the employee varies from the opinion generally and officially adopted by the employers? What makes an interest ethical and unethical? The presence of varying ideas or opinion alone is not sufficient to be called a conflict of interest. What then is conflict of interest all about?

#### **MANAGING CONFLICT OF INTEREST**

How do we manage conflicts of interest? Are there any models which can take care of conflict of interest? Boatwright<sup>14</sup> gives seven approaches to deal with conflict of interest such as, objectivity, avoidance, disclosure, competition, rules and policy, independent judgment and structural changes. He states that conflict of interest is not merely a matter of personal ethics. A person in a conflict of interest,

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<sup>14</sup> Boatright, R. J., (2003) *Ethics and the Conduct of Business*, Pearson Education Inc., Delhi, p. 160-162

either potential or actual, may be in the wrong, but conflicts usually occur in the course of being a professional or a member of an organization. Often these conflicts result from structural features of a profession or an organization and must be managed through carefully designed system. In order to deal with conflict of interest a commitment to be objective serves to avoid being biased by an interest that might interfere with a person's ability to serve another and such attitude towards objective commitment, avoid actions that may influence in one's decision making, keeping oneself transparent in one's behavior and business dealing etc. But manifestation of such acts which can be acceptable to one or the other simply does not happen by itself. It has to be nurtured with continuous commitment towards achieving those virtues. It is to be rooted in the right motive or goodwill in Kantian sense. In a conflict of interest, either two duties conflict or a duty conflicts with self-interest; in either case one ought to determine which interest serve the best interest of all. A duty to society or humanity in general is considered to ethically supersede a duty to stockholders. However, it does not mean to defy the significance of the duty one has towards the employing firm. There are duties or obligations to be observed and performed but such adherence to duties ought to be rooted in right motives. Morality's general requirements are based on what reasonable and "conscientious" agents would support.<sup>15</sup> Kant develops this point by arguing that it is the nature and orientation of one's will that confers moral value on her actions rather than the rewards, outcomes, social approval or happiness that they produce. Kant says that everything in nature works in accordance with the laws. But only a rational being has the power to act in accordance with his idea of laws, that is, in accordance with principles and only so has he a will.<sup>16</sup> The will is a faculty of choosing only that which reason, independently of inclination, recognises as practical necessity. For Kant having two contradictory interests itself is contradictory because one cannot represent both at the same time, one has to either vote for one or the other. An employee who is representing employing firm cannot just promote his selfish personal interest because he/she stands as a representative of the employing firm and

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<sup>15</sup> Hill, T. E., (2000) *Respect, pluralism and justice: Kantian perspectives*, Oxford, New York

<sup>16</sup> Kant, I.,(1964) *Groundwork of the Metaphysic of Morals*, trans. H.J. Paton, Harper & Row Publishers, New York, p. 80

hence endorsing one's selfish personal gain stands against with the best interest of the employing firm and thus unethical.

## **CONCLUSION**

Business enterprise as an integral part of the modern society has a crucial role in provisioning and meeting the needs of the people. Hence, business is expected to have public responsibility and accountability. Pursuing private interest at the cost of profit for themselves undermine public interest and trust. They make the public lose faith in the integrity of business transaction. Conflicts of interest involves a conflict between public duty and private interests, whereby a private interest which could improperly influence the public interest, activities and decisions. In conflict of interest, private interest includes any advantage to himself or herself, to his or her family, close relatives, business firm with whom he or she has or has had business or personal relations. It includes also any liability, whether pecuniary non-pecuniary. Making sure that moral agents are well attuned to the circumstances in which they render practical judgments is undoubtedly important. This is no less true for business ethics as any other area of applied ethics. Moral judgment is necessarily an endeavor tied to a careful awareness and assessment of the complicated features of specific situation like conflict of interest. As stated above conflict of interest is a situation in which an individual in a position of responsibility and power has personal interests which conflicts with the interest of his/her professional duties. In relation to professional's expertise service, a conflict of interest involves a conflict between the professional duty and the private interest in which the professional's private-capacity interest could improperly influence the performance of one's duties. An improper influence of the public official due to his/her private interest may result in corruption any way. Essentially, in a conflict of interest situation, the private interest of the public official can or could influence the objective and impartial performance of his/her official duties.

Moral agents ought to be well attuned to the circumstances in which they render practical judgments as it is undoubtedly important. Moral judgment is necessarily an endeavor tied to a careful awareness and assessment of the complicated features of specific situations. Thus, although it is job of business ethicists and practitioners to identify principles of business conduct pertaining to

honest contracting, limitations on deceptive communication in sales, transparency in financial reporting, prohibitions on bribery and corruption, fair treatment of employees, respect for human rights and the like, they inevitably recommend or make decisions based in large part on the particularities of actual cases. Kantian morality demands that agents detach themselves from their various personal motives, relationships and commitments in answering moral questions in favor of an appeal to general principles that enforce rational uniformity in all human activities. What justifies moral rules is that having them is in everyone's interest and not only for someone's interest and this makes moral rules significant.

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