come into recognized use until about 1950. No popular English dictionary included the term until 1971, and it first appeared in a law dictionary in 1979. In both cases, the definitions are confined to the public officials in the performance of their duties. Conflict of interest in professional practice started attracting attention in the early 1970s, especially in legal ethics, and the concept began to be included in company codes around the same time. Why the concept came into use when it did and why it has become so prominent are questions that invite speculation. One possible answer is that in the second half of the 20th century, society became much more dependent on fiduciaries and agents, especially those in the professions, while, at the same time, market forces have come to play a larger role in their activities. When the professions—most notably, medicine, law, accounting—began to be practiced more and more in a market economy based on financial incentives, both the benefits and the harms of this development were recognized. To enjoy the benefits, it was necessary to develop a concept that identified the source of the potential harms and to devise means for reducing the harmful consequences.

WHAT IS WRONG WITH CONFLICT OF INTEREST?

The moral wrong in conflict of interest is simple: A person in a conflict of interest—a fiduciary, agent, or professional—has failed to fulfill an obligation, one for which he or she has accepted an engagement and, usually, compensation. If such a person acts contrary to the other person's interest or fails to perform up to the expected or required standard because of a conflicting personal interest, then the service that has been contracted and paid for is not being provided. Thus, if a physician orders an unnecessary test to increase his return from the lab he or she owns, then he or she is failing in his or her duty to the patient; he or she is not delivering the service for which he or she is being paid.

Even if the service is up to an acceptable standard, a person in a conflict of interest has failed to deliver a service with the confidence that is expected and, in some cases, demanded of persons in positions of trust. A judge in a case involving a family member might render impartial justice, and an auditor might perform a thorough audit of a company in which he or she owns stock. In each case, though, the confidence that we have a right to expect is eroded. Not only is this confidence part of the service that a person in a conflict of interest has agreed to provide, but when this confidence is compromised, the service itself is diminished. A decision by a judge with a conflict of interest, for example, cannot produce the desired effect of ensuring that justice has been done. Similarly, an audit by a compromised accountant is less effective as an attestation of the company's financial statements.

A further wrong is committed when, as is usually the case, the people who rely on the services of fiduciaries, agents, and professionals are unaware of the conflict of interest. They are deceived with respect to the quality of the service or the confidence they can place in it. The beneficiary of a trust, for example, may be wronged twice if the trustee invests in a company he or she owns. The person is wronged once if the investment is not the best that could be made, and yet again by being deceived about the reliability of the trustee.

MANAGING CONFLICT OF INTEREST

Conflict of interest is an ever present feature of professional and organizational life and cannot be easily eliminated. It is not only unreasonable to expect that people in positions of trust would have no conflicting interests, but in some cases, it would be undesirable to avoid such conflicts entirely. For example, medical research, which produces great benefits for everyone, would be severely hampered if practicing physicians were not involved, even though the financial incentives they receive create conflicts of interest. Similarly, auditing and consulting by accounting firms arguably benefits everyone despite the conflicts involved.

Nevertheless, it is important for professions and organizations to manage conflicts of interest to ensure that the harms are minimized and offset by any benefits. Fortunately, there are many means for managing conflict of interest.

Avoidance

The most direct means of managing conflict of interest is to avoid acquiring any interests that would bias one's judgment or otherwise interfere with fulfilling any obligations to serve the interest of others. Federal law prohibits public accountants from holding stock in companies they audit, and company policies often have similar prohibitions on employees' ownership of stock in suppliers or competitors. However, complete avoidance might impose an undue burden on some individuals. It is unreasonable to prevent the manager of a pension or mutual fund from trading for a personal portfolio, for example, since doing so would deprive that person of the ability to accumulate wealth. Complete avoidance