is also impossible because the conflicting interests cannot always be identified or anticipated. For example, law firms generally screen new clients for any conflicts they might bring, but undiscoverable conflicts might arise in the course of representing a client. For investment banks, whose business involves large numbers of clients, some conflicts of interest are inevitable.

Alignment

When conflicting interests cannot be avoided for whatever reason, they can be countered by incentives that align the person's interest with the interests of those to be served. High executive compensation is often justified as aligning the executive's interest with that of shareholders. Although lower pay is usually sufficient to induce executives to act generally in the shareholders' interest, they still have personal interests in perquisites such as power and prestige that might lead them to make some tradeoffs with profitability. Higher pay linked to performance, especially in the form of stock grants and options, thus creates a strong personal interest in profitability so that their interests are aligned more closely with those of shareholders.

Objectivity

A commitment to be objective serves to avoid being influenced by a conflicting interest. Virtually all professional codes require objectivity as well as independence (which is generally understood as avoidance of or freedom from any undue influence). Thus, a physician with an investment in a lab might still be able to make the patients' interest paramount, as prescribed by the Hippocratic Oath. To be effective, however, objectivity requires both a strong character that resists the temptation to earn more and a reputation for such a character.

Disclosure

Disclosing a conflict of interest to those who would be affected is a common means of managing conflict of interest. Government officials are generally required to disclose all financial investments on appointment and to make annual reports. Managers of pension and mutual funds have similar disclosure requirements. In legal ethics, a conflict of interest is acceptable if an attorney discloses the conflicting interest and affirms that he or she can be objective, and if the client, being fully informed, consents. The rationale behind disclosure is that whoever is potentially harmed by a conflict of interest has the opportunity to disengage or at least to be on guard against any harm from the conflict. In short, forewarned is forearmed. However, research has demonstrated that disclosure can have perverse effects that make conflicts of interest more harmful. Advisers who inform clients of conflicts sometimes feel licensed to pursue personal interests more aggressively, and the clients who receive advice from conflicted advisers often do not discount the advice enough.

Independent Judgment

A commonly employed remedy when one's judgment is impaired by a conflict is to seek the judgment of an independent third party. The standard response of a judge in a case involving a family member is to recuse, that is, to step aside and turn the case over to another judge with no conflicting interest. An executive who is selling personal assets—a piece of land, for example—to the company that employs her or him might seek an independent appraisal of the value of those assets. Such third-party appraisal assures that the price paid is fair and not inflated due to the executive's potentially biased judgment.

Competition

Strong competition provides a powerful incentive to avoid conflicts of interest, both actual and potential.

Insofar as conflicts of interest make organizations less efficient, they pay a price in the market that they may not be able to afford. For example, at one time commercial banks gave their brokerage business to firms that were already bank customers. This practice, know as reciprocation or "recip," has virtually disappeared because of the need for returns on trust accounts to compare favorably with alternative investments. Competition thus dictates that the allocation of brokerage commissions be based on the "best execution" of trades and not on satisfying brokers who are also bank customers. Of course, no firm would use increased competition as a means for managing conflict of interest, but industry regulators should recognize that the power of competition to reduce conflict of interest is another reason to encourage competition.

Rules and Policies

Most professions and organizations have various rules and policies concerning conflict of interest. Many of the restrictions imposed employ other means, such as avoidance and disclosure. Most company codes either prohibit