

Tips for NPOs: How to deal with conflicts of interest

By [Feryal Domingo](#)

7 May 2024

Nonprofit organisations (NPOs) play a vital role in South African society by addressing numerous social, environmental, and humanitarian issues.



[Image by zinkevych on Freepik](#)

Public trust in these organisations is based on their integrity, so how they manage potential conflicts of interest is central to maintaining the status of both individual NPOs and the sector as a whole.

A conflict of interest occurs when someone's personal interests or loyalties clash with their professional obligations or responsibilities. This conflict may compromise their ability to act in the best interests of the NPO, leading to ethical or even legal concerns.

Directors, staff, trustees, board members and volunteers should understand that an NPO's purpose is public service, not financial gain. They cannot benefit financially from its activities, and any funding for the NPO must be used to further its aims.

Conflicted interests

Our exposure to the sector has given us insights into examples of conflicting interests such as the following:

1. **Educational NPO and tech provider:** An NPO that provides educational resources to schools has a board member who owns a company selling educational tech products. This board member could encourage the NPO to endorse, or buy, their company's products, even if better options are available.
2. **Environmental advocacy group and consulting firm:** An environmental advocacy group lobbies for stricter regulations on polluters. A board member also works for a consulting firm that helps companies comply with environmental regulations. They might be hesitant to support stricter regulations that could make it harder for their

firm's clients.

3. **Healthcare NPO and research funding:** An NPO, focused on a specific disease, awards research grants to scientists studying potential treatments. A researcher on the board also has a patent on a potential treatment. This researcher might be biased toward their treatment when evaluating grant proposals.
4. **Arts organisation and donor benefits:** A nonprofit arts organisation offers prominent donors exclusive access to events or merchandise. A board member, a wealthy donor, is also an artist wanting to exhibit their work. There's a potential conflict if the board member uses their influence to showcase their art.



#BizTrends2024: NPOs face increasing regulatory pressure

Feryal Domingo and Soraya Joonas 22 Jan 2024



5. **International aid and local businesses:** An aid organisation delivers food and supplies to a disaster zone. A local aid worker, who helps distribute supplies, has a family-owned business selling similar supplies. This worker might be tempted to divert some aid resources to the family business.
6. **Finance and accounting services:** A financial expert can be a great asset, but there are risks, especially if this expert provides related services. The board member's loyalty could be divided between serving the NPO's best interests and promoting their own company.

This could restrict the NPO's ability to explore competitors and get the best deal. The board member's financial expertise could, in the end, be viewed sceptically and stakeholders may question the organisation's financial transparency.

7. **Fundraising consultancy services:** A fundraising expert on an NPO board can be a double-edged sword. While their fundraising skills are valued, their loyalty could be divided. The NPO could miss out on better deals, more innovative strategies, or a wider range of fundraising expertise.

Donors and stakeholders might question the transparency and ethics of the NPO's fundraising, which could damage the organisation's reputation and make it harder to attract donations in future.

Safety assurance

Here are some ways to mitigate these risks:

- **Clear conflict of interest policy:** NPOs should establish clear policies and procedures regarding conflicts of interest. These policies should define what constitutes a conflict of interest, and provide guidelines for identifying, disclosing, and managing them.
- **Training and education:** Ensure that directors, staff, board members, and volunteers understand their responsibilities and know how to identify and address conflicts of interest.
- **Disclosure requirements:** Mandate board members to disclose any potential conflicts, including financial interests in firms and consultancies, and external relationships of influence.
- **Competitive bidding:** Ensure all potential service providers, including a board member's company, go through a competitive bidding process.

- **Expertise, not self-promotion:** Encourage board members to contribute their knowledge and expertise to enhance the NPO's overall strategy, rather than promoting their services.
- **Visibility:** Be transparent about board members' affiliations and potential conflicts. Communicate how the organisation manages such situations, and its commitment to ethical practices.
- **Policy review:** Regularly update conflict of interest scenarios and policies to ensure they remain relevant.
- **Disclosure:** Stakeholders should disclose any potential conflicts promptly. This enables the NPO to assess the situation objectively and take steps timeously.
- **Lead by example:** This may involve recusal from decision-making, putting safeguards in place to prevent undue influence, or requesting independent advice or review.



Feryal Domingo, acting executive director of Inyathelo

Finally, it's vital to keep in mind that government, companies and individuals entrust NPOs with funding, which is often a considerable sum, to implement programmes on their behalf. Furthermore, most programmes are implemented in under-resourced communities, where every cent counts.



10 tips to writing effective funding proposals for NPOs

Feryal Domingo 29 Mar 2023



Failure to address conflicts of interest not only jeopardises public trust in an NPO, but could undermine the mission they strive to fulfil, and bring the sector into disrepute.

On the other hand, by establishing robust policies and procedures to identify, disclose, and address potential conflicts, NPOs can safeguard their reputations, and advance their objectives with integrity and credibility.

Ready resources

Inyathelo was a lead in developing [The Independent Code of Governance for Non-profit Organisations in South Africa](#), published in 2012. This code is not a legal requirement for NPOs, but is comprehensive, and includes a section for an NPO to record its voluntary commitment to core values and principles of good governance.

ABOUT THE AUTHOR

Feryal Domingo is the acting executive director of Inyathelo

For more, visit: <https://www.bizcommunity.com>