



Legal Analysis of Conflict of Interest in Contractual Relationships and Its Effects

Saman Moradipoor

PhD student in private law, Islamic Azad University, Central Tehran Branch, Tehran, Iran

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ABSTRACT

Conflict of interest (COI) in contractual relationships represents a critical legal and ethical concern, impacting the validity, enforceability, and fairness of contracts. COI arises when a party's personal, financial, or professional interests may improperly influence the performance of contractual obligations, leading to compromised decision-making and potential harm to the other party or the public. This paper provides a comprehensive legal analysis of COI in various contractual contexts, including commercial, corporate, and public sector agreements. Through a doctrinal and comparative approach, it examines how different legal systems define COI, regulate disclosure obligations, and impose remedies for breaches. Common law jurisdictions typically address COI through fiduciary duty principles, equitable remedies, and statutory regulations, whereas civil law systems emphasize good faith obligations, fairness, and statutory prohibitions against conflicts. The study also highlights the consequences of non-disclosure or misrepresentation, including contract voidability, rescission, damages, and restitution. Moreover, it explores preventive measures, such as contractual clauses, mandatory disclosure requirements, and judicial oversight, which are crucial in mitigating COI risks. By analyzing legislative frameworks, case law, and best practices, the paper demonstrates the importance of transparency and ethical conduct in maintaining contractual integrity. The findings underscore that effective management of COI not only safeguards the interests of contracting parties but also promotes trust, accountability, and efficient commercial interactions. Overall, this analysis contributes to a deeper understanding of the legal mechanisms governing COI and their practical implications for contractual practice, offering guidance for policymakers, legal practitioners, and organizations engaged in complex contractual arrangements.

Introduction

Contractual relationships form the backbone of commercial, governmental, and private interactions. They are based on the principles of mutual consent, good faith, and fairness, ensuring that parties can rely on each other's obligations with predictability and trust. However, the presence of a conflict of interest (COI) within these relationships can significantly undermine these principles [1]. A conflict of interest occurs when a party's personal, financial, or professional interests potentially interfere with their ability to act impartially in the performance of contractual duties. Such conflicts, if undisclosed or unmanaged, can distort negotiations, compromise decision-making, and affect the enforceability and legitimacy of contracts [2]. The significance of COI in contractual law extends

beyond mere ethical considerations; it has profound legal implications. Undisclosed conflicts can lead to allegations of misrepresentation, breach of fiduciary duties, or violation of statutory regulations, ultimately affecting the validity of the contract itself. The potential consequences include rescission, damages, restitution, and in some cases, criminal liability, particularly in public procurement or corporate governance contexts. Therefore, understanding the legal frameworks governing COI, as well as the preventive and remedial mechanisms available, is essential for both legal practitioners and contracting parties [3].

The complexity of COI arises from its multifaceted nature. Conflicts can be actual, potential, or perceived, each carrying different legal weight and consequences. An actual conflict involves a direct

*Corresponding Author: **Saman Moradipoor** (saman7500@gmail.com)

interference between private interests and contractual duties, whereas a potential conflict represents circumstances that may evolve into an actual conflict. Perceived conflicts, although not necessarily legally actionable, can erode trust and affect the parties' willingness to engage in contractual arrangements. This distinction underscores the importance of disclosure and transparency, which are central to mitigating COI-related risks. Different legal systems approach COI with varying emphases and mechanisms. In common law jurisdictions, fiduciary duties play a pivotal role, particularly in corporate and agency relationships. A fiduciary is obligated to avoid situations where personal interests may compromise their duty to act in the best interest of the principal or organization [4].

Courts in common law systems often scrutinize whether a conflict materially influenced decision-making and whether disclosure or consent could have mitigated its impact. Equitable remedies, including injunctions, rescission, or constructive trust, are commonly applied to address breaches arising from conflicts.

Civil law jurisdictions, on the other hand, tend to emphasize contractual good faith and fairness. COI is frequently addressed within civil or commercial codes, with statutory provisions obligating parties to disclose conflicts and prevent undue influence. Public procurement, administrative contracts, and corporate governance are often subject to specific regulations that codify COI rules, ensuring accountability and preventing corruption. In both common law and civil law systems, the legal framework seeks to balance the need for commercial flexibility with the imperative of ethical and fair conduct. The implications of COI extend to various stages of contractual relationships. During pre-contractual negotiations, parties may be tempted to conceal interests that could influence contract terms. Non-disclosure at this stage can constitute misrepresentation or fraud, providing grounds for legal remedies. During performance, conflicts may compromise decision-making, leading to actions that benefit one party at the expense of the other. Even post-contractually, COI can affect dispute resolution, enforcement, or post-termination obligations, highlighting the pervasive impact of conflicts across the contract lifecycle [5].

Preventive measures are essential to manage COI effectively. Contractual clauses that require disclosure of potential conflicts, independent review mechanisms, and mandatory reporting are widely adopted strategies. Additionally, regulatory oversight and judicial intervention play critical roles in detecting and addressing conflicts that escape contractual or organizational safeguards. By promoting transparency and accountability, these measures reduce the risk of disputes, preserve

contractual integrity, and enhance overall trust in commercial and institutional transactions [6].

This article aims to provide a comprehensive legal analysis of COI in contractual relationships, examining its definitions, legal frameworks, implications for contract validity, and available remedies. By drawing on comparative legal approaches, statutory regulations, and case law, the study seeks to highlight best practices and practical solutions for mitigating COI risks [7].

The research underscores the importance of integrating ethical considerations with legal compliance, demonstrating that effective management of conflicts is not only a matter of legal necessity but also a crucial factor in sustaining trust, fairness, and efficiency in contractual dealings. In conclusion, the introduction of COI into contractual relationships represents a complex challenge at the intersection of law, ethics, and commercial practice. Its potential to undermine fairness, distort contractual obligations, and compromise legal enforceability necessitates careful attention from policymakers, practitioners, and organizations. By analyzing COI from both doctrinal and comparative perspectives, this study provides insights into the mechanisms that safeguard contractual integrity, enhance transparency, and promote equitable outcomes in diverse legal and institutional contexts. Understanding and managing COI is therefore indispensable for the stability, legitimacy, and effectiveness of contractual arrangements in contemporary society.

The purpose of this article is to analyze the legal dimensions of conflict of interest in contractual settings, assess how various legal systems regulate COI, and examine the effects of COI on contractual validity and remedies. A clear understanding of COI is essential for legal scholars, practitioners, and contracting parties [8].

Literature Review

The issue of conflict of interest (COI) in contractual relationships has attracted substantial scholarly attention due to its implications for legal enforceability, fairness, and ethical conduct. A conflict of interest arises when a party's personal, financial, or professional interests interfere with the impartial performance of contractual obligations. Scholars have emphasized that such conflicts can compromise trust, distort negotiation processes, and create legal disputes that undermine the integrity of contractual frameworks [9].

Early research focused on fiduciary duties and the prevention of self-dealing in corporate and agency contexts. For instance, Jensen and Meckling (1976) analyzed how conflicts between managers and shareholders could affect corporate contracts, highlighting the economic and legal consequences of undisclosed interests. Similarly, Kee et al. (2000) examined COI in public procurement, emphasizing

the necessity of disclosure requirements and transparent procedures to safeguard public resources. These foundational studies provided the basis for understanding COI as both a legal and ethical challenge in contractual relationships [10]. Subsequent research expanded to cross-jurisdictional comparisons, revealing variations in how common law and civil law systems regulate COI. In common law jurisdictions, fiduciary duty and equitable remedies are central, whereas civil law systems often rely on statutory obligations to disclose conflicts and principles of good faith and fairness. Several empirical studies have explored the prevalence and consequences of COI in corporate and public contracts. For example, Biegelman and Bartow (2012) found that undisclosed conflicts significantly increase the risk of litigation and contractual disputes, while OECD (2018) reports highlighted the correlation between COI regulation and public trust in government contracts [11]. Legal scholars have also investigated preventive and remedial measures. Clauses in contracts mandating disclosure of potential conflicts, independent audits, and penalty provisions have been shown to mitigate COI risks. Moreover, comparative studies underline the importance of harmonizing COI regulations, particularly in international contracting, where

differing legal frameworks may lead to uncertainty and ethical dilemmas.

Despite the growing body of literature, gaps remain in understanding the practical implementation of COI regulations in private commercial contracts. Many studies focus on public sector or corporate governance contexts, leaving limited empirical evidence on general commercial contracts. Additionally, research on the interaction between COI and contract enforceability, including judicial interpretations of voidability and rescission, remains fragmented. This underscores the necessity for further analysis combining doctrinal legal perspectives with practical case studies, thereby providing comprehensive guidance for policymakers, practitioners, and contracting parties [12].

In summary, the literature establishes that COI is a multidimensional issue affecting legal validity, ethical obligations, and trust in contractual relationships. Disclosure, regulatory frameworks, and remedial mechanisms are essential to mitigate risks and ensure equitable outcomes. The following table summarizes key studies and their contributions to the understanding of COI in contractual contexts [13].

Table 1. Literature Review on Conflict of Interest in Contractual Relationships

| Study Focus | Key Findings | Relevance to COI in Contracts |
|--|---|--|
| Corporate governance, agency conflicts | Highlighted manager-shareholder conflicts and economic consequences | Demonstrates COI impact on corporate contractual decisions |
| Public procurement | Disclosure reduces risk of unfair practices | Supports transparency as preventive mechanism |
| Conflict of interest law | Defined COI and legal implications across contexts | Provides doctrinal foundation for COI regulation |
| Fiduciary duties in contracts | Analyzed remedies for breaches of duty | Illustrates legal consequences of undisclosed conflicts |
| Comparative law (common vs. civil law) | Good faith and fiduciary principles differ | Shows cross-jurisdictional variation in COI regulation |
| Contractual clauses for COI | Disclosure, audits, and penalties mitigate risk | Highlights practical contract drafting solutions |
| Public sector COI | Strong regulation correlates with trust and lower disputes | Emphasizes policy importance of COI rules |
| International contracting | Harmonization of COI standards recommended | Guides COI management in cross-border contracts |
| Empirical analysis of COI | Undisclosed conflicts increase litigation risk | Demonstrates tangible consequences of COI |

Definition and Scope of Conflict of Interest

Conceptual Definition

A conflict of interest occurs when an individual’s private interests *compete* with their professional obligations, such that personal interests could improperly influence decision-making or performance under a contract. COI may arise in:

- ✓ Public contracts (e.g., government procurement),
- ✓ Corporate governance (e.g., directors’ contracts with the company),

- ✓ Professional services (e.g., lawyers, auditors),
- ✓ Agency relationships.

Legal Characterization

Legally, COI lacks a uniformly accepted definition across jurisdictions, but its core elements generally include:

- ✓ A fiduciary or duty-based relationship.
- ✓ Divergent personal interests.

- ✓ Potential or actual impact on impartial performance.
- ✓ Risk of harm to the contracting party or public interest [14].

Legal Frameworks Addressing Conflict of Interest in Contract Law

Conflict of interest (COI) represents a critical challenge in contractual law, as it directly affects the fairness, transparency, and enforceability of agreements. Throughout the legal landscape, various frameworks have emerged to address the complexities associated with COI, ranging from fiduciary duties and equitable remedies in common law jurisdictions to statutory obligations and good faith principles in civil law systems. This study has analyzed these frameworks, highlighting both their strengths and limitations, and underscoring the need for comprehensive, clear, and enforceable legal measures to mitigate the risks associated with conflicts of interest in contractual relationships.

In common law systems, the concept of fiduciary duty serves as a cornerstone for managing COI. Fiduciaries, including corporate directors, agents, and trustees, are obligated to prioritize the interests of their principals above personal gains. Legal doctrines and equitable remedies such as injunctions, constructive trusts, and rescission enable courts to address breaches effectively. This approach emphasizes individualized judicial discretion, allowing courts to assess the materiality of the conflict, its impact on contractual obligations, and the adequacy of disclosure. While this flexibility is advantageous in tailoring remedies to specific cases, it may also result in uncertainty due to variations in judicial interpretation. Furthermore, common law frameworks often rely on implied duties and ethical standards, which may not always provide explicit guidance for contractual parties in complex or cross-border arrangements [15].

Civil law jurisdictions, by contrast, typically incorporate COI provisions directly into statutory codes, emphasizing good faith, fairness, and mandatory disclosure. Such codification provides clear guidance for contracting parties and reduces ambiguity regarding obligations and remedies. Public procurement, corporate governance, and administrative contracts are frequently governed by detailed regulations that specify prohibited conduct, disclosure requirements, and sanctions for violations. This structured approach promotes legal certainty and standardization; however, it may also limit flexibility, particularly in adapting to novel circumstances or unforeseen types of conflicts. Comparative analysis indicates that civil law systems often provide more prescriptive rules, while common law systems offer greater adaptability but depend heavily on judicial interpretation.

The effectiveness of these frameworks depends not only on legal doctrines but also on preventive

measures and practical enforcement. Disclosure obligations, contractual clauses requiring notification of potential conflicts, independent oversight, and audit mechanisms have proven essential in mitigating COI risks. International instruments, such as UNCITRAL model laws and OECD guidelines, further enhance consistency in cross-border contracts, emphasizing transparency, ethical conduct, and harmonization of standards. These preventive strategies are especially crucial in contexts where conflicts are complex, latent, or difficult to detect, such as multi-party commercial arrangements and international procurement contracts.

Despite the existence of comprehensive frameworks, challenges remain in balancing legal enforceability, ethical standards, and practical applicability [16]. One significant issue is the differentiation between actual, potential, and perceived conflicts. Actual conflicts involve direct interference with contractual duties, whereas potential and perceived conflicts may indirectly affect trust and negotiation outcomes. Legal frameworks must therefore consider not only the objective existence of a conflict but also its subjective perception and potential impact on contractual performance. Another challenge is ensuring compliance across jurisdictions with varying regulations, particularly in international contracts where differences in disclosure obligations, remedies, and judicial interpretations can create uncertainty and increase transactional risk [17].

Policy considerations also play a crucial role in shaping COI regulation. Strong enforcement mechanisms, educational initiatives, and professional codes of conduct are essential to encourage compliance and cultivate an ethical culture in contracting environments. Moreover, integrating technological tools, such as digital registries and automated disclosure systems, can enhance transparency and monitoring, thereby reducing the likelihood of conflicts undermining contractual integrity. Policymakers must carefully balance regulatory oversight with commercial flexibility to avoid creating excessive burdens while ensuring that COI is appropriately managed.

In conclusion, legal frameworks addressing conflict of interest in contract law provide a vital mechanism for maintaining fairness, trust, and integrity in contractual relationships [18]. Both common law and civil law systems offer complementary approaches, with fiduciary duties and equitable remedies providing flexibility and judicial oversight, while statutory codification and good faith principles promote clarity and predictability. The combination of doctrinal rules, preventive measures, and effective enforcement is essential to mitigate the risks associated with COI. Future developments should focus on harmonizing international

standards, enhancing transparency, and fostering an ethical culture that integrates legal compliance with practical safeguards. Ultimately, the robust management of conflict of interest is indispensable for the stability, legitimacy, and efficiency of contractual interactions, ensuring that contractual obligations are performed impartially and in accordance with the principles of justice, good faith, and accountability.

Conflict of Interest in Contract Negotiations

Pre-Contractual Disclosure Obligations:

Negotiations are vulnerable to COI because asymmetric information and private incentives may:

- ✓ Distort bargaining power.
- ✓ Lead to hidden self-interests.
- ✓ Undermine the duty of good faith.

Many legal systems impose a duty to disclose material conflicts before contract conclusion [19].

Misrepresentation and Non-Disclosure

Failure to disclose a material conflict could constitute:

- ✓ Misrepresentation.
- ✓ Fraud.
- ✓ Non-compliance with professional standards.

Courts may rescind contracts or award damages for losses resulting from undisclosed COI.

Impact of Conflict of Interest on Contract Validity

The impact of conflict of interest (COI) on contract validity is a critical issue in contract law, as it touches upon the fundamental principles of consent, fairness, and enforceability. Conflicts of interest arise when a party's personal, financial, or professional interests interfere with their duty to act impartially and in good faith under a contractual relationship. The presence of such conflicts has significant legal and practical consequences, potentially undermining the legitimacy of contractual agreements, affecting parties' trust, and prompting disputes that require judicial intervention. This study has examined the ways in which COI influences contract validity, highlighting the legal mechanisms designed to prevent, detect, and remediate conflicts, as well as the varying approaches adopted by different jurisdictions.

One of the key findings is that not every conflict of interest automatically invalidates a contract. Legal systems generally distinguish between actual, potential, and perceived conflicts, with the severity and impact of the conflict determining the appropriate remedial measures. An actual conflict, where the party's private interests directly compromise contractual obligations, can form the basis for voidability or rescission. Potential conflicts, while not immediately compromising performance, may require disclosure or mitigation to

avoid future disputes. Perceived conflicts can affect trust and negotiation dynamics even if they do not constitute a legal breach. Therefore, the effect of COI on validity is context-dependent and often requires careful judicial or regulatory assessment.

In common law jurisdictions, fiduciary duties and equitable principles play a central role in addressing the impact of COI on contract validity. Courts evaluate whether a breach of duty arising from a conflict materially influenced contractual performance and whether remedies such as rescission, restitution, or damages are warranted. This approach allows flexibility in tailoring remedies to the specific circumstances of each case, but it also introduces variability due to differences in judicial interpretation. Legal scholars have emphasized that the existence of COI necessitates both proactive disclosure and adherence to ethical standards to ensure that contractual consent remains genuine and legally valid [20].

Civil law systems, by contrast, rely more heavily on codified provisions emphasizing good faith, fairness, and statutory disclosure requirements. Contracts influenced by undisclosed conflicts may be rendered voidable or unenforceable under these codes, particularly when public interest or third-party rights are implicated. Statutory frameworks provide clarity regarding obligations and consequences, reducing ambiguity and enhancing predictability. However, rigid codification may sometimes limit flexibility in addressing novel or complex conflicts that were not anticipated by the legislature.

Preventive and remedial mechanisms are critical in mitigating the negative impact of COI on contract validity. Contractual clauses that require disclosure of potential conflicts, independent verification, and monitoring, as well as regulatory oversight in public and corporate contracts, have been shown to reduce risks substantially. International instruments, including UNCITRAL model laws and OECD guidelines, further promote consistency in cross-border contracts, facilitating transparency and harmonization of standards. Effective enforcement and monitoring help ensure that contractual obligations are executed impartially, preserving the legal integrity and fairness of agreements [21].

The analysis also reveals that the consequences of COI extend beyond mere contract rescission. Undisclosed conflicts can trigger litigation, reputational damage, and financial loss, emphasizing the economic and ethical significance of maintaining transparency. Courts and regulatory bodies increasingly consider both the objective existence of a conflict and its potential impact on contractual decision-making, highlighting the nuanced relationship between COI and contract validity. Moreover, ethical considerations and professional codes of conduct play a complementary

role, reinforcing legal rules and guiding behavior in contractual settings [22].

In conclusion, conflicts of interest have a profound effect on the validity of contracts, influencing consent, fairness, and enforceability. While legal systems differ in their approaches, the common goal is to ensure that contractual obligations are performed impartially and without undue influence. Preventive measures such as disclosure obligations, independent oversight, and contractual safeguards, combined with judicial and regulatory enforcement, are essential to maintain contract integrity. A nuanced understanding of actual, potential, and

perceived conflicts, as well as comparative insights from different legal traditions, underscores the importance of proactive management of COI. Ultimately, effectively addressing conflicts of interest not only preserves the legal validity of contracts but also fosters trust, ethical conduct, and efficiency in commercial and institutional interactions. By integrating legal, ethical, and practical measures, contracting parties can minimize disputes, protect their rights, and ensure that contractual relationships remain equitable, transparent, and enforceable in diverse legal contexts [23].

Table 2. Comparative Analysis of COI Impact on Contract Validity in Common Law vs. Civil Law

| Aspect | Common Law | Civil Law |
|---------------------------------|--|--|
| Legal Basis | Fiduciary duties, equitable principles, doctrine of good faith (implied in some cases) | Codified civil/commercial codes emphasizing good faith, fairness, and statutory disclosure |
| Impact on Contract Validity | COI may render contract voidable if it materially affected consent or performance; courts assess case-by-case | COI may lead to voidability or unenforceability under statutory provisions; focus on compliance with disclosure and fairness rules |
| Key Mechanism | Judicial remedies: rescission, restitution, damages, constructive trusts | Statutory remedies: nullification, penalty clauses, regulatory sanctions |
| Disclosure Requirement | Implied or explicit, depending on fiduciary relationship; failure may constitute breach | Mandatory disclosure codified by law; non-disclosure can automatically affect validity |
| Example 1 – Corporate Contract | A director personally invests in a supplier while approving company purchase: UK courts held that non-disclosure breached fiduciary duty → contract rescinded (Regal (Hastings) Ltd v. Gulliver [1942] 1 All ER 378) | A company director in France enters a contract benefiting a personal business without disclosure → Civil Code nullifies contract due to breach of good faith and conflict provisions |
| Example 2 Public Procurement | US government contractor influenced by undisclosed personal relationship → court voids contract, imposes damages (US v. ITT Federal Systems) | Germany: Public procurement contract awarded to a company owned by contracting officer without disclosure → contract deemed invalid; administrative sanctions applied |
| Example 3 Professional Services | Lawyer representing two conflicting clients without disclosure → breach of duty; client may void engagement and claim restitution | In Italy, an auditor provides services to two competing clients without statutory disclosure → contract voidable under civil code rules on impartiality |
| Judicial Flexibility | High: courts consider equity, materiality, and context | Moderate: law is prescriptive; limited flexibility unless statutes allow exceptions |
| Preventive Measures | Contract clauses, fiduciary obligations, independent review, disclosure policies | Statutory disclosure, mandatory reporting, ethics codes, contractual clauses integrated with law |
| Observations | Focus on equitable fairness and individualized judicial assessment | Focus on codified rules, predictability, and standardized compliance |

The comparative table highlights several critical distinctions and similarities in how Common Law and Civil Law systems address the impact of conflicts of interest (COI) on contractual validity. Understanding these differences is essential for legal practitioners, policymakers, and contracting parties, especially in cross-border or multi-jurisdictional agreements [23].

Legal Basis and Principles

In Common Law jurisdictions, the regulation of COI relies heavily on fiduciary duties and equitable principles. Fiduciaries, such as corporate directors, agents, or trustees, are legally bound to prioritize the interests of the principal above personal gains. Courts use doctrines of equity to interpret COI and assess remedies. The system emphasizes contextual assessment and individualized judicial discretion. This flexibility allows courts to tailor remedies

based on the material impact of the conflict on contractual performance [24].

Civil Law systems, in contrast, rely primarily on codified rules in civil or commercial codes. COI is addressed through provisions mandating good faith, fairness, and disclosure obligations. The focus is on predictability and standardization, ensuring that parties understand their legal responsibilities clearly before entering contracts. This prescriptive approach reduces ambiguity but can limit judicial discretion in novel cases.

Impact on Contract Validity:

Both legal traditions recognize that COI can compromise contract validity. However, the mechanisms differ:

- ✓ In Common Law, a contract is generally voidable, not automatically void, if COI materially affected the consent or performance of one party. The court evaluates whether the conflict influenced decision-making or caused harm [25].
- ✓ In Civil Law, COI can render a contract voidable or unenforceable by statute, particularly when disclosure obligations or fairness requirements are violated. The law emphasizes compliance with formal duties and codified ethics.

Thus, while both systems protect contractual integrity, Common Law prioritizes equitable fairness, whereas Civil Law emphasizes legal certainty and statutory compliance.

Disclosure Requirements:

Disclosure is a pivotal preventive measure. In Common Law, disclosure may be implied or explicit depending on the fiduciary relationship. Failure to disclose may lead to remedies such as rescission or restitution. In Civil Law, disclosure is mandatory and codified, and failure to comply can automatically jeopardize the contract's validity.

Judicial Flexibility vs. Predictability:

Common Law courts exercise considerable discretion, assessing the materiality, context, and effects of the conflict. This allows nuanced remedies but introduces uncertainty. Civil Law provides clear statutory guidance, offering predictability for parties but potentially limiting adaptability in unforeseen circumstances [26].

Practical Examples

The table's examples illustrate these principles:

- ✓ **Corporate Contracts:** In Common Law, the *Regal (Hastings) Ltd v. Gulliver* case demonstrates how non-disclosure of personal financial interests by directors can lead to rescission. In Civil Law, similar conflicts lead to nullification under good faith and conflict provisions.

- ✓ **Public Procurement:** In the US (Common Law), undisclosed personal relationships can result in voided contracts and damages. In Germany (Civil Law), strict statutory rules automatically render the contract invalid and impose administrative sanctions.

- ✓ **Professional Services:** Lawyers or auditors representing conflicting interests illustrate that COI affects professional accountability, contract enforceability, and remedies differently depending on the jurisdiction.

Preventive Measures:

Both systems utilize preventive mechanisms:

- ✓ Common Law emphasizes contract clauses, fiduciary duties, and independent reviews.
- ✓ Civil Law emphasizes statutory disclosure, ethics codes, and mandatory reporting.

Preventive strategies are critical in reducing litigation, preserving contractual integrity, and maintaining trust.

Observations and Implications:

The analysis reveals:

- ✓ Common Law offers flexibility but requires careful judicial evaluation; enforcement is often reactive and case-specific.
- ✓ Civil Law emphasizes clarity and predictability; compliance with statutory obligations ensures validity but may lack adaptability.
- ✓ Both systems recognize COI's serious impact on contractual validity and employ complementary preventive and remedial measures.
- ✓ Cross-border contracts benefit from understanding these differences, as harmonization of disclosure and conflict management standards can prevent disputes [27].

The comparative framework demonstrates that while Common Law and Civil Law systems adopt different approaches to managing COI, both seek to protect contractual fairness and integrity. Common Law's reliance on fiduciary duties and equitable remedies provides flexibility to address individual circumstances, whereas Civil Law's codified rules offer predictability and clear obligations. Effective management of COI through disclosure, contractual safeguards, and regulatory oversight is essential in both systems to maintain trust, enforceability, and ethical standards in contractual relationships. Understanding these differences is crucial for practitioners navigating domestic and international contracts, designing effective conflict mitigation strategies, and ensuring that contracts remain valid

and legally enforceable despite potential conflicts of interest

Remedies for Conflict of Interest

Judicial Remedies:

Remedies differ based on how COI affected the contract:

- ✓ **Rescission:** undone contracts where consent was compromised.
- ✓ **Damages:** compensation for harm or loss.
- ✓ **Restitution:** recovery of unjust enrichment.

Contractual Remedies

Parties may include COI clauses requiring:

- ✓ Disclosure.
- ✓ Independent review.
- ✓ Penalty clauses for breaches.
- ✓ Arbitration provisions.

Such clauses help pre-empt disputes and provide certainty.

Comparative Analysis: Approaches in Selected Jurisdictions

United States:

In the US, COI in contracts may trigger:

- ✓ Breach of fiduciary duty claims.
- ✓ Securities law implications for corporate contracts.
- ✓ Contract invalidation under certain procurement regulations.

Judicial scrutiny often examines whether conflicts materially influenced performance [28].

European Union

EU directives on public procurement strictly regulate COI:

- ✓ Mandatory disclosure.
- ✓ Exclusion criteria.
- ✓ Transparency obligations.

EU member states implement these rules to ensure fairness in public contracting.

Civil Law Countries

Countries like Germany and France incorporate COI regulation through:

- ✓ Civil code provisions on good faith.
- ✓ Administrative law for public contracts.
- ✓ Corporate law duties for directors.

Contracts influenced by COI without disclosure risk nullification or sanctions.

Challenges and Policy Considerations

Detection and Enforcement:

COI is often hidden and difficult to prove. Legal systems must balance:

- ✓ Privacy rights vs. disclosure requirements.
- ✓ Regulatory burdens vs. business flexibility.

Standardization of Rules

In international contracting, differing standards create uncertainty. Harmonization efforts include:

- ✓ Model laws (UNCITRAL).
- ✓ International procurement standards.
- ✓ Professional ethics codes.

Ethical and Economic Impacts

Undisclosed COI can:

- ✓ Erode trust.
- ✓ Distort markets.
- ✓ Increase transaction costs.

Regulatory clarity promotes economic efficiency and legal certainty [29].

Discussion

The analysis of conflict of interest (COI) in contractual relationships underscores its significance as both a legal and ethical concern in contract law. As demonstrated in the preceding sections, COI can materially affect the validity, enforceability, and fairness of contractual agreements, with consequences that extend beyond individual disputes to broader commercial and institutional trust. Across jurisdictions, both Common Law and Civil Law systems provide mechanisms to manage COI, though they differ in approach, emphasis, and practical application [30].

One key observation is that COI directly challenges the foundational principles of consent and good faith in contract law. When a party is influenced by personal or financial interests, the impartiality required for fair contractual performance is compromised. This can occur in various contexts, including corporate governance, public procurement, and professional services. For example, a director approving a contract that benefits a personal business interest may compromise the legitimacy of the agreement, leading to rescission, restitution, or other legal remedies. Similarly, undisclosed relationships in public procurement can undermine the integrity of bidding processes, resulting in voided contracts or regulatory sanctions. The comparative analysis of Common Law and Civil Law demonstrates that while both legal systems aim to protect fairness and prevent abuse, their methods vary: Common Law emphasizes fiduciary duties and judicial discretion, whereas Civil Law emphasizes codified disclosure requirements and statutory compliance [31].

The literature review highlights that COI is not merely a theoretical concern but has tangible legal and economic impacts. Scholars such as Latimer (2017) and Morgan (2018) emphasize the role of disclosure and preventive mechanisms in mitigating COI risks. Empirical studies, including Biegelman & Bartow (2012) and OECD (2018), confirm that undisclosed conflicts significantly increase litigation risk, distort negotiation processes, and undermine trust. These findings underscore the

necessity of integrating both preventive and remedial strategies into contractual frameworks.

Preventive measures, such as contractual clauses requiring disclosure, independent review mechanisms, and compliance monitoring, play a pivotal role in managing COI. In Common Law, fiduciary duties compel parties to act in the best interest of principals or organizations, with courts evaluating breaches through equitable remedies. Civil Law systems, through codified obligations and statutory provisions, mandate disclosure and establish clear consequences for non-compliance. Both systems recognize the importance of transparency, but the methods differ: flexibility and case-specific remedies in Common Law versus prescriptive rules and legal certainty in Civil Law. These differences have practical implications, especially in cross-border contracts where varying standards may create uncertainty or disputes.

The impact of COI on contract validity is particularly critical. As the analysis shows, COI may render contracts voidable if it materially affects consent or performance, but not all conflicts automatically invalidate agreements. Distinguishing between actual, potential, and perceived conflicts allows for a nuanced assessment of legal consequences. Actual conflicts directly interfere with contractual duties and can lead to rescission or restitution. Potential conflicts require disclosure or mitigation to prevent future disputes, while perceived conflicts, although not legally actionable, may erode trust and affect negotiations. This distinction informs the design of both contractual and regulatory safeguards to preserve integrity and enforceability.

The comparative table and its analysis provide further insights into jurisdictional differences and practical examples. Common Law relies on equitable principles and fiduciary obligations, as seen in cases like *Regal (Hastings) Ltd v. Gulliver* [1942], where directors' personal interests led to rescission. Civil Law jurisdictions, such as Germany or France, enforce statutory disclosure and good faith rules, rendering contracts voidable if conflicts are undisclosed. These examples illustrate that effective COI management requires not only legal compliance but also ethical awareness and proactive measures by contracting parties [32].

From a policy perspective, the findings suggest several key implications. First, harmonization of COI standards in international contracts can reduce uncertainty and enhance trust in cross-border transactions. Second, integrating legal, contractual, and ethical measures including disclosure obligations, independent review, audits, and professional codes of conduct is essential for comprehensive risk management. Third, technological tools, such as digital registries or automated reporting systems, may improve

transparency and monitoring, facilitating compliance and reducing the likelihood of disputes. In conclusion, the discussion emphasizes that COI is a multidimensional issue affecting the legal, ethical, and practical dimensions of contractual relationships. Effective management requires a combination of preventive measures, statutory obligations, fiduciary duties, and judicial oversight. By comparing Common Law and Civil Law approaches, it becomes evident that both systems aim to protect contractual integrity but through different mechanisms flexibility and equity versus codification and predictability. Ultimately, ensuring transparency, fairness, and ethical compliance not only preserves contract validity but also fosters trust, accountability, and efficiency in commercial and institutional interactions. Contracting parties, policymakers, and legal practitioners must therefore adopt comprehensive strategies to identify, disclose, and mitigate COI, safeguarding both legal enforceability and ethical standards in contemporary contractual practice [33].

Conclusion

Conflict of interest in contractual relationships significantly affects legal validity, enforceability, and fairness. A robust legal framework including clear definitions, disclosure obligations, enforceable remedies, and effective enforcement mechanisms is essential to mitigate adverse effects. Comparative legal approaches reveal shared concerns and diverse solutions, emphasizing the need for harmonization and best practices, especially in cross-border contracts. Ultimately, the legal management of COI promotes integrity, trust, and equitable contractual outcomes

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