Goal of Templeton

In this strategic priority, we aim to extend recent efforts to improve empirical methods and measures of intellectual humility and to increase understanding of the nature, causes, and effects of this epistemological virtue.

* **Consolidating theoretical foundations**. We will support efforts aimed at consolidating and otherwise improving our theoretical and empirical understanding of intellectual humility.
* **Investigating aids and impediments**. We will fund research that aims to discover more about the factors that enhance and inhibit intellectual humility, as well as research that identifies practices and interventions that foster such humility.

**Project Information**

1. Project Title (150 Character Limit including spaces and punctuation): \*

***Who protects the public? Does the independence of independent directors curtail conflicts of interest?***

2. Executive Summary (1,300 Character Limit including spaces and punctuation): \*

The Executive Summary should briefly address the following questions:

* (a) What specific questions will your project answer?
* (b) What activities will you carry out to answer those questions?
* (c) Why is this project needed?
* (d) What concrete deliverables will you produce by the end of the project?
* (e) What impact will your project have?

1300 characters remaining

**The appointment of independent directors to monitor corporate management has become much more prevalent in the last two decades. The assumption behind independence requirements is that objective and unbiased decision-making can be achieved by removing the focus from the interests of both managers and controlling shareholders. This project addresses the question of whether the independence of independent directors actually curtails COI. We plan to conduct a laboratory experiment with real directors to test our hypothesis that independence can backfire and cause such directors to be more affected by COI. Our project empirically explores how the title of “independent” can inadvertently impede intellectual humility—a person’s awareness of their own cognitive biases—and impact on one’s susceptibility to the influence of conflicts of interest. We intend to publish our findings in psychological, management, and legal academic reviews. The results should contribute to the integrity of capital markets and improve corporate governance of public firms by decreasing their reliance on independent directors. This research may have wider implications on decision-making in the medical, accounting, and political spheres, connections we will pursue at an international conference.**

3. Project Description (4,000 Character Limit including spaces and punctuation): \*

Please describe the work/activities you will undertake in your project.

4000 characters remaining



Maximum File Size: 10MB
Allowed extensions: pdf, txt, rtf, doc, docx
The following characters must be excluded from the filename: " ' , \* > < ? : ~ ` ! @ # $ % ^ & + = { } [ ] ; / | \

UPLOAD

**First, we plan to examine whether directors who are defined as independent are more likely to be impacted by their self-interest than non-independent directors. Independent directors do not have strong motives to appease management—they do not work within the company and do not have familial relationships with management—yet they still have a weak conflict of interest: they indirectly owe their position to the management, and even though they do not nominate directors, they nevertheless have a strong influence over the selection process of potential candidates. We plan to carry out a laboratory experiment and administer a detailed survey based on a sample of dependent and independent directors in the United States. Participants will be asked to estimate the amounts of money contained in jars filled with coins (based on Cain et al, 2005). There will be two types of actors. The first is the chief decision maker (CDM) who will estimate the value of money in the jar; their payoff will be a percentage (10%) of their estimation—the higher the estimate the more they personally stand to gain. The second is a monitor whose role will be to approve or reject the CDM’s estimation. The CDM will nominate the monitor from a pool of potential monitors, and this will be known to the monitors. The monitors will be given twice as much time to examine the jar. This fact will be disclosed to both the monitor and the CDM. There will be two varying parameters, and two conditions for each: 4 cells altogether (2X2). The first varying parameter will be the payment given to the monitor: either a percentage of the CDM’s estimation, thus representing a financial COI, or a flat fee. The second will be the title of the monitor: no title or the title of ‘independent monitor’/‘non-independent monitor’ in accordance with the payment system. We will structure the experiment as a repeated game: the CDM will nominate a monitor three times. Contrary to what may be expected, we predict that the flat-fee monitors will generate a higher approval rate of higher estimations on average than monitors with a financial COI. We also predict that the effect will be intensified by their independent label: their definition as independent will permit them to further their (weak) interests—increasing their probability of renomination by approving the CDM’s estimation.**

**Our second study will consist of an experimental survey, focusing on a sample of real dependent and independent directors. We will present them with two detailed vignettes, the first describing a case in which a manger wants the board to approve a transaction in which he has a COI (a transaction with a company wholly owned by the manger). In the second scenario, the director will be requested to approve an executive compensation package which is 25% higher than the average package for managers with equivalent skills; half of the participants will be given the role of a dependent director, the other half will be given the role of independent directors. Both types of directors will be subject to the two conditions.**

**We expect a higher approval rate among those who are defined as independent directors. We also expect the gap between the approval rates to be lower in the COI condition. The COI is more salient in the case of payment (when benefits are clearly at the expense of the company) and thus we expect the title of director to have less of an impact (it is harder to overlook such a conflict of interest).**

**We will conclude our project with an international conference on intellectual humility and decision-making, in which similar studies examining impediments to intellectual humility (and solutions for overcoming them) will be presented and discussed.**

4. Statement of Significance (1,300 Character Limit including spaces and punctuation): \*

Describe the current conditions in the field(s) relevant to the project, identify the problems that the project will address, and articulate the specific opportunity that your project presents.

1300 characters remaining



**The behavioral ethics literature points out that individuals with a professional or morally responsible role are more prone to promote illegitimate self-interest (Effron & Conway, 2015; Sah, 2022). The case of independent directors is extremely pertinent in view of this question. Their prevalence has grown exponentially—from comprising 20% of public company boards in 1950 to 85% in 2020 (Spencer Stuart Board Index, 2020). The context provides fertile ground for examining the impact of a title suggesting objectivity on COI: without any direct ties to the company or the management, independents do not have a “strong” interest in the decisions of the company. Yet, as scholars have pointed out (e.g., Bebchuk & Hamdani, 2009 ), they have a weak interest to appease management due to their influence on the nomination process of directors. We hypothesize that identifying directors as independent makes them more prone to being influenced by their self-interest, even though it is weaker than that of non-independent directors. Our findings may have far-reaching implications for the desirability of independent directors, if the results imply that the “independence” of directors only exacerbates wrongdoing, in which case the institution should be reduced or altered.**

5. Outputs (1,300 Character Limit including spaces and punctuation): \*

Outputs (sometimes called "deliverables") are important events and work products that your Project activities (described in #3, above) will lead to, and which are necessary in order for you to make progress towards your proposed Outcomes (#6 below). Please provide a list of the outputs you intend to produce.

1300 characters remaining



**Our main outputs would be the results of both the laboratory experiment and the survey. We hope to publish our results in a behavioral ethics/psychology journal with respect to the theoretical contribution of our findings and in a law review with respect to the practical ramifications of our findings in the context of corporate governance. We would also like to hold an international conference on intellectual humility and the dangers of self-concept regarding impartiality, in which we will present our work, linking it to other projects which focus on various settings and biases which cause individuals to perceive themselves as impartial when in fact they are more susceptible to promoting their own illegitimate interests. The international conference will lead us to the final output of our project: a book on the impediments to intellectual humility in various contexts and how to overcome them, which we will edit. The work will be mostly based on, but not limited to, the presentations given at the conference, and will discuss the obstacles to intellectual humility in various contexts such as the accounting, medical, and political spheres.**

6. Outcomes (1,300 Character Limit including spaces and punctuation): \*

Outcomes (sometimes called goals, results, or impacts) are the specific and identifiable changes that you expect your Outputs will bring about (or contribute to bringing about) within 5 years of your project's end date. These should describe what the success of your project would look like. Please provide a list of the outcomes you expect to come about as a result of your outputs.

1300 characters remaining

**Our project has two central goals. The first is to increase awareness in academic, legal, and political circles of the impracticality of impartiality. We should be wary when we think of ourselves as impartial and take into account that “objective” roles and titles suggesting objectivity may have an adverse effect on the awareness of our impartiality. The success of this goal will be evident if the findings of our study (together with those of other studies in the same vein included in the book resulting from our conference) are included in magazines such as The Atlantic, First Things, The Economist, and Wall Street Journal and podcasts such as The Hidden Brain, Virtue Talk and Freekonomics. The second goal is to impact policymaking in the field of corporate governance with a view to restructuring the institution of independent directors or limiting reliance on independent directors. An indicator of success would be the SEC’s adoption (or at least discussion) of some of our recommendations. Our study, along with the other studies included in our edited book, may also impact other regulatory spheres, such as regulations governing doctors and accountants who suffer from a similar “objectivity bias.” Any regulatory reforms in these fields inspired by our project will be a clear indicator of success.**



7. Capacity for Success (1,300 Character Limit including spaces and punctuation): \*

Explain why your team and/or organization is positioned to be successful in this project.

1300 characters remaining



**Sunita Sah is an Associate Professor of Management and Organization at the Johnson Graduate School of Management and the Director of Academic Leadership at Cornell University. Professor Sah runs both laboratory and field experiments investigating various sources of institutional corruption. Recently she examined how a high self-concept of professionalism could corrupt managers and other professionals.**

**Yuval Feldman is the Mori Lazarof Professor of Law at the law faculty of Bar-Ilan University. Professor Feldmans’ expertise includes experimental and behavioral analysis of regulation, enforcement, and compliance.**

**Adi Libson is a corporate law associate professor at the law faculty of Bar-Ilan University. His research focuses on corporate governance and shareholder activism. Together with Professor Feldman, he has recently headed a group at the Israel Institute for Advance Studies on the interface between corporate governance and findings in the behavioral ethics literature. He has co-authored, again with Professor Feldman, an article on the interface of corporate governance and behavioral ethics.** **(31 under the limit)**

8. Relation to Sir John Templeton's Donor Intent (1,000 Character Limit including spaces and punctuation): \*

To learn more about the Foundation's Funding Areas please visit our [Funding Areas](https://www.templeton.org/funding-areas) page.

(additional 195 words)

1000 characters remaining



**The gap between one’s self-perception and actual ability to self-regulate conflict of interest is caused by a lack of sufficient intellectual humility, which is at the center of Sir John Templeton’s donor intent. Our project fosters better “understanding of the nature, cause and effects of this epistemological virtue” by empirically exploring how one’s title combined with a certain degree of conflict of interest may impact intellectual humility levels. The empirical findings may have the potential to “discover more about the factors that enhance and inhibit intellectual humility.” In our project, we shall consider the possibility that eliminating the label of “independent” in a director’s title may foster intellectual humility. As a result, such individuals with enhanced intellectual humility may be less prone to being affected by COI than those with a stronger COI but less intellectual humility due to their title labeling them as “objective”. One of us has already initiated research into intellectual humility in the context of the professional domain (Sah, 2022) and in particular financial advisors (Sah, 2018). Our project deepens this exploration of intellectual humility by extending it to the realm of independent directors.**

9. Project Relationship to Previous Grants: \*

To the best of your knowledge, is the work of your proposed project similar to, a continuation of, or an expansion of an active or completed grant you or your organization received from either the John Templeton Foundation, the Templeton Religion Trust, or the Templeton World Charity Foundation? If "Yes," please explain your answer in the text box. Be sure to include the previous project's Title, Grant ID#, Grant Amount, end date, and a very brief synopsis of the project activities.

 Yes

 **No**

10. Proposed Project Start Date: \*

Please review the Foundation's [grantmaking calendar](https://www.templeton.org/grants/grant-calendar%22%20%5Ct%20%22_blank) to determine how long the review process will take and when your project could begin.

Format: mm/dd/yyyy

Date:

E.g., 06/16/2022

**06/01/2023**



11. Proposed Project End Date: \*

For most organizations recognized as public charities, the project cannot exceed 36 months in duration. For all other organizations and grants to individuals, the project cannot exceed 33 months in duration.

Format: mm/dd/yyyy

Date:

E.g., 06/16/2022

**04/01/2022**