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 reduce 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 oversee corporate management has become far more widespread in the last two decades. The assumption behind independence requirements is that objective and unbiased decision-making can be achieved by separating the interests of managers and controlling shareholders. This project examines whether the independence of independent directors actually reduces conflicts of interest. We plan to conduct a laboratory experiment with actual directors to test our hypothesis that independence can backfire and actually make them more susceptible to conflicts of interest. Our project empirically explores how striving for independence and objectivity can inadvertently undermine one’s intellectual humility—a person’s awareness of their own cognitive biases and their impact—makes one more susceptible to falling prey to conflicts of interest. We plan to publish our findings in legal, management, psychology, and academic journals. The results should contribute to the integrity of capital markets and improve corporate governance by reducing public firms’ reliance on independent directors. The wider potential implications of this research on decision-making in the medical, accounting, and political spheres will be the subject of 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 act out of self-interest than are non-independent directors. Independent directors do not have strong incentives to appease management, as they neither work within the company nor have close relationships with management. Yet they still have some conflict of interest, albeit attenuated, as they indirectly owe their position to management, and while they do not nominate directors, they nevertheless exercise a strong influence over the selection process of potential candidates. We plan to carry out a laboratory experiment, administering a detailed survey based on a sample of dependent and independent directors in the United States. Participants will be asked to estimate the money value of coin-filled jars (based on Cain et al., 2005). There will be two types of participants. 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 estimate. The monitors will be aware that they will be chosen by the CDM from a pool of potential monitors. Monitors and CDMs will be informed that the monitors will be given twice as much time as the CDMs to examine the jar, thereby providing them with an advantage in assessing its value. There will be two varying parameters, and two conditions for each: 4 cells in total (2x2). The first parameter is the monitor’s payment as either a percentage of the CDM’s estimation—a financial COI —or a flat fee. The second is the monitor’s title, either with no title or with the title of “independent monitor”/“non-independent monitor,” reflecting the respective payment system. We will structure the experiment as a repeated game, with the CDM having three chances to nominate a monitor. Contrary to expectations, we predict that there will be a higher approval rate of higher estimations on average among flat-fee monitors than among monitors with a financial COI. We also predict that the effect will be intensified by their independent label, this title justifying approving the CDM’s estimation to advance their (weak) interest of increasing their probability of renomination.**

**Our second study will involve an experimental survey of a sample of actual dependent and independent directors. We will present them with two detailed scenarios. The first describes a case in which a manger wants the board to approve a transaction with a company in which he or she has a COI by virtue of wholly owning the company. In the second scenario, the director will be requested to approve an executive compensation package that is 25% higher than the average package for managers with equivalent skills. Half of the participants will be designated as dependent directors and the other half as independent directors. Both types of directors will face the same scenarios.**

**We expect a higher approval rate among those 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



**Behavioral ethics literature notes that individuals with professional or morally responsible roles are more prone to promote illegitimate self-interest (Effron & Conway, 2015; Sah, 2022). The case of independent directors is extremely salient to this issue. Their prevalence has grown exponentially—from comprising 20% of public company boards in 1950 to 85% in 2020 (Spencer Stuart Board Index, 2020). This context is ideal for examining the impact of a title suggesting objectivity regarding COI. Lacking direct ties to the company or its management, independent directors do not have a “strong” interest in the company’s decisions. Yet, as scholars have observed (e.g., Bebchuk & Hamdani, 2009), these directors have a “weak” interest in appeasing management due to their influence on the nomination process for 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 regarding the usefulness of independent directors. If the results imply that the “independence” of directors only exacerbates wrongdoing, perhaps the position should be altered or even used less frequently.**

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 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. Here, 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 we will edit on the impediments to intellectual humility in various contexts and how to overcome them. 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. First, to increase awareness in academic, legal, and political circles of impartiality’s ambiguity. We should be wary of assuming we are impartial and consider that “objective” roles and titles suggesting objectivity may have an adverse effect on the self-awareness of impartiality and its impact. Success will be evident if our study’s findings (and those of other studies included in the book resulting from our conference) are published by journals and newspapers such as *The Atlantic*, *First Things*, *The Economist*, and *The Wall Street Journal*, and broadcast in podcasts such as *The Hidden Brain*, *Virtue Talk*, and *Freakonomics*. The second goal is to influence 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 influence 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. She recently 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 with Professor Feldman an article on the interface of corporate governance and behavioral ethics.**

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 self-perception and actual ability to self-regulate COIs arises from insufficient intellectual humility, a central element of Sir John Templeton’s donor intent. Our project fosters better “understanding of the nature, cause and effects of this epistemological virtue,” empirically studying how a title and some COI may affect intellectual humility levels. To “discover more about the factors that enhance and inhibit intellectual humility,” our project asks whether eliminating a director’s title’s “independent” label may foster intellectual humility. Directors with more intellectual humility may be less prone to COI’s influence than those with a stronger COI but less intellectual humility due to their “objective” label. Professor Sah has initiated research into intellectual humility in the professional domain (Sah, 2022), particularly financial advisors (Sah, 2018). Our project extends her study of intellectual humility 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) 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**