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 use of independent directors to monitor management has proliferated in the last two decades. The assumption regarding its use is that objective and unbiased decision making could be achieved by detaching y from the interests of managers and controlling shareholders. In our project, we explore the question whether the independence of independent directors actually curtails COI. We plan to conduct of lab experiments with real directors to explore our hypothesis that the independence may backfire and cause such directors to be more affected by COI. Our project explores how titles of “independence” and “objectivity” can inadvertently impede intellectual humility—human awareness to their own partial thinking. It will provide empirical results regarding the impact of the title of ‘independent’ on one’s susceptibility to be influenced by her conflict-of-interest, which we intend to publish in psychological, management and legal academic venues. These results can contribute to the integrity of capital markets and the improvement of the corporate governance of public firms by decreasing its reliance on independent directors. It may have wider implications on decision-making in the medical, accounting and political spheres, connections we will pursue in an international conference.** (200 over the limit)

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 a strong self-interest to appease management—they do not work in 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, that even though do not nominate directors, have strong influence over the selection process of the potential candidates. We plan to execute a laboratory experiment and a detailed experimental survey based on a sample of dependent and independent directors in the US. In the laboratory experiment participants will attempt to estimate the money value in the jar full of coins (based on Cain et al, 2005). It will consist of two types of actors. The first is the chief decision maker (CDM) that has to estimate the value of money in the jar, and his compensation is a percentage (10%) of his estimation—the higher his estimate the more he personally gains. The second is a monitor who has to approve or reject the estimation of the CDM. The CDM will nominate the monitor from a pool of potential monitors, and this will be known to the monitors. The monitors would be given twice as much time to examine the jar, providing them better ability to assess the money in the jar. This fact will be known both to the monitor and to the CDM. We will have two varying parameters, and for each two conditions, 4 cells altogether (2X2). The first varying parameter would be the compensation for the monitor: a direct financial COI— (compensation based on a percentage of the estimation of theCDM) or a flat fee. The second would be the title of the monitor: having no title or a title of an ‘independent monitor’ / ‘non-independent monitor’ in accordance with the compensation structure. We will structure the experiment as a reoccurring game: the CDM will nominate 3 times a monitor. Contrary to what may be expected from the prism of the financial COI, we predict that the flat-fee monitors will generate a higher approval rate of higher estimations in average than monitors with a financial COI. We also predict that the effect will be exacerbated by their labeling as independent: their definition as independent will permit them to further their weak interest—increasing their probability of renomination by approving the CDMs’ 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. One describing a case in which the 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 a compensation package for executives which is 25% higher than the average packages of 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, which the manager has suggested his candidacy. Both types of directors will receive the two conditions.**

**We expect a higher approval rate among those who were defined as independent directors. We also expect the gap between the approval rates to be lower in the condition of the compensation package relatively to the conflicted transaction condition. The COI is more salient in the case of compensation (the benefit of officers is clearly at the expense of the company) and thus we expect that the title of the director will have less of an impact(harder to overlook such conflict of interest).**

We will concluding our project with an international conference on intellectual humility and decision making, in which similar studies examining the impediments of intellectual humility and how to overcome 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 that individuals with a professional role or being morally responsible, are more prone to promote illegitimate self-interest (Effron & Conway, 2015; Sah, 2022). The case of independent directors is both the ideal setting for examining the question and of high importance. Their prevalence has grown exponentially—from comprising 20% of boards of public companies in 1950 to 85% in 2020 (Spencer Stuart Board Index, 2020). The case of independent directors provides fertile ground for examining the impact of a title of objectivity on COI: they do not have “strong” interests in the decisions of the company—they do not have a direct tie to the company and the management. 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 hypothesizes that the identification of the directors as independent makes them more prone to be influenced by their self-interest, even though it is weaker than non-independent directors. Such finding may have far-reaching implications on the desirability of independent directors: It implies that the “independence” of directors only exacerbates wrongdoing and 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 output would be the results of both the lab experiment and the survey. We hope to publish our results in a behavioral ethics / psychology journal with respect to the theoretical contribution of our finding and in a law review with respect to the practical ramifications of our findings in the context of corporate governance. We would also like hold an international conference intellectual humility and the dangers of self-conception of impartiality, in which we will present our work and connect it to other projects which emphasize various settings and biases which cause individuals to perceive themselves as impartial while in fact they are more susceptible to promote their own illegitimate interests. The international conference would lead us to the final output of our project: a book on the impediments for intellectual humility in various contexts and how to overcome them, which we will edit. The book will be mostly based on, but not limited to the presentations in the conference, and would include impediments for intellectual humility in various context such as 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 widen the 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 may have an adverse effect on the awareness of our impartiality. The indication for success of this goal is if the findings of our study together with other studies in the same vain included in the book our conference would generate would permeate into 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 is to impact policy in the field of corporate governance leading to restructuring the institution of independent director or limiting the reliance on independent directors. The indication of success would be that the SEC would adopt some of our recommendations or at least discuss them. Our study and other studies included in our edited book can impact also other regulatory spheres, such as regulations of doctors and accountant that suffer from a similar “objectivity bias.” Any regulatory reforms in these fields caused 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 the 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 the Bar-Ilan University. Professor Feldmans’ expertise include experimental and behavioral analysis of regulation, enforcement, and compliance.**

**Adi Libson is a corporate law associate professor at the law faculty of the Bar-Ilan University. His research focuses on corporate governance and shareholder activism. Recently, he has headed together with Professor Feldman 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 together 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 ones’ self-perception and actual ability to self-regulate conflict of interests is driven by the lack of sufficient intellectual humility, which is at the center of Sir John tempeleton’s donor intent. Our project fosters the “understanding of the nature, cause and effects of this epistemological virtue” by exploring empirically how ones’ title combined with the degree of conflict of interest may impact the level of intellectual humility. The empirical findings may have the potential to “discover more about the factors that enhance and inhibit intellectual humility.” In our project we examine the possibility that the elimination of an objective title such as “independent” may foster intellectual humility. As a result, such individual with enhanced intellectual humility may be less prone to be affected by COI than an individuals with a stronger COI but less intellectual humility due to his “objective” title. One of us has already initiated such exploration of intellectual humility in the context of professionals (Sah, 2022) and financial advisors (Sah, 2018). Our project deepens and widens 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) 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**