

## Report

### Inaugural Workshop

### “Laboratory Experiments in Quantitative Corporate Governance Research”

Paderborn, April 23 -24, 2009

Organizers: René Fahr, University of Paderborn & Bernd Irlenbusch, London School of Economics

Kindly supported by



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**The Inaugural Workshop "Laboratory Experiments in Quantitative Corporate Governance Research" on April 23 -24, 2009 celebrated the opening of the "BaER Lab", the Business and Economic Research Laboratory in Paderborn.**

The workshop not only initiated the experimental economic research at the University of Paderborn but also contributed to the recognition of experiments related to questions in the field of Corporate Governance as an own sub-area. Thus, one aim of this workshop was to create a productive atmosphere for researchers who work with the method of economic laboratory experiments on issues related to the field of Corporate Governance.

Thus, the discussions during the workshop helped not only to improve the papers presented but also inspired new projects in this field.

The workshop organized by René Fahr, University of Paderborn and Bernd Irlenbusch, London School of Economics, was opened by the President of the University, Nikolaus Risch and the Dean of the Faculty of Economics and Business Administration Peter F.E. Sloane.

On the first day, two papers about choice and risk taking were pre-

sented. Matthias Sutter (with coauthors Simon Czermak and Francesco Feri, all University of



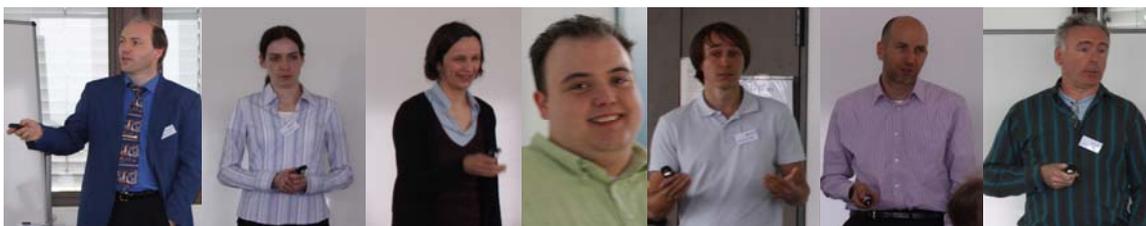
Innsbruck) demonstrated the difference between choices of individuals and small groups. The second paper "Risk taking in winner-take-all competition", by Petra Nieken, Matthias Kräkel and Judith Przemeczek (all University of Bonn) focused on risk choice in asymmetric tournaments. In the following, the findings of "Why votes have a value?" were presented by Dorothea Kübler and discussed by Elmar Janssen. Kübler (Technical University of Berlin), Dittmann (University Rotterdam), Maug (University of Mannheim) and Mechtenberg (Technical University of Berlin) found that subjects are willing to pay a voting premium which cannot be explained by instrumental voting. Non-instrumental theory states that individuals pay that higher premium to be part of a powerful group. Janssen (University of Paderborn) discussed these results. The paper called "A behavioral approach to electoral competition and campaigns" by Sebastian Kube

(University of Bonn, Max Planck Institute for Research on Collective Goods) presented evidence that electorates are better off due to competition in electoral campaigns and higher promises made by the candidates. Martin Kocher (University of Munich), Ganna Pogrebna (HU Berlin) and Matthias Sutter (University of Innsbruck) dealt with "Other regarding preferences and leadership styles" and illustrated that autocratic leaders earn higher payoffs, have consistent choice patterns, and are selfish, efficiency-oriented and more likely women. Joep Sonnemans (joint work with Jona Linde, both University of Amsterdam) gave us an idea about how choices under risk can be affected by social comparison and that backwardness leads to risk aversion.

Thursday evening's keynote on "Incentives and voluntary cooperation" ("Leistungsanreize und freiwillige Kooperation") by Simon Gächter



was held in German because university members as well as interested citizens were invited. Gächter discussed to what extent the provision of material incentives crowds out voluntary cooperation. He pointed out that if this is the case efficiency might also decrease. During this keynote, Simon Gächter presented an overview of



**Lecturers Day 1, April 23, 2009**

Matthias Sutter, Petra Nieken, Dorothea Kübler, Elmar Janssen, Sebastian Kube, Martin Kocher and Joep Sonnemans

the literature dealing with economic incentives, both from the economic as well as from a social psychology background and stated that the economics literature has largely neglected the claims made by psychologists. Subsequent to the lecture a vivid discussion was held with the audience.

The lecture was followed by a



reception which celebrated the official opening of the laboratory and participants had the possibility to inspect the cubicles and participate in one of the experiments themselves.

After that, a conference dinner took place at the hotel "Campus Lounge" which was a successful rounding-off of the first day.

The second day of the Inaugural Workshop began with two papers concentrating on cross-cultural affinities and confrontations. Abdolkarim Sadrieh (University of Magdeburg) presented the results of an experimental study with Fan Wu and Birgitta Wolff (both University of Magdeburg) which found that in joint ventures a balance of cultural affinity must be emphasized. Furthermore, better regulations on intangible assets to reduce uncertainty can encourage

foreign investments. In an intercultural trust game involving Germans, Israelis and Palestinians the actions and beliefs were studied by Heike Hennig-Schmidt (University of Bonn) and Reinhard Selten, Gari Walkowitz (both University of Bonn) and Eyal Winter (University of Jerusalem). Hennig-Schmidt concluded that potential conflicts arise due to false perception of

intentions. Discrimination as well as specific social standards within different societies and ethnocentric biases in beliefs and actions can cause conflicts. Bernd Irlenbusch (London School of Economics) and René Fahr (University of Paderborn) addressed the question "Who follows the crowd – groups or individuals?" In the context of economically relevant information cascade situations Irlenbusch presented evidence that small groups behave more rationally than individuals. Michael Kosfeld (University of Frankfurt a.M.) investigated trust and incentives with motivated agents. He summed up that the agents' mission has a strong effect on the functioning of incomplete contracts. Incomplete contracts might outperform complete contracts with motivated agents. Christine Harbring, Dirk Sliwka and Johannes Berger (all University of Cologne) found in their paper „Performance appraisals and the impact of forced dis-

tribution systems" evidence for leniency bias (i.e. the tendency to provide only above average grades). Harbring pointed out that different ratings which were not forced in homogenous groups increase productivity in subsequent rounds. But top grades lead to a reduction in effort by the non-top performers in the preceding round. In addition, forced distribution is accepted neither by subordinates nor by supervisors. Dirk Sliwka (University of Cologne) and Bernd Irlenbusch (London School of Economics) were devoted to "Goals and incentives". With their presentation Sliwka and Irlenbusch tried to broaden the attention paid for goals in the economic literature. Therefore, they analyzed situations with abstract as well as real efforts and varied different components of the setting. Empirical evidence showed that the subjects behaved quite in line with the economic model.

**The Workshop pointed out the different aspects of laboratory experiments in Corporate Governance Research. The organizers were enthusiastic about the quality of the presentations and the articles and the brisk discussions afterwards. The attendees were convinced that future conferences with regard to the topic should take part in the improvement of this research field.**



**Lecturers Day 2, April 24, 2009**

Abdolkarim Sadrieh, Heike Hennig-Schmidt, Bernd Irlenbusch, Michael Kosfeld, Christine Harbring and Dirk Sliwka