

# Can lab experiments help design personnel policies?

## Employers can use laboratory experiments to structure payment policies and incentive schemes

Keywords: laboratory experiments, behavior, incentives, evaluation, peer effects, human resource management

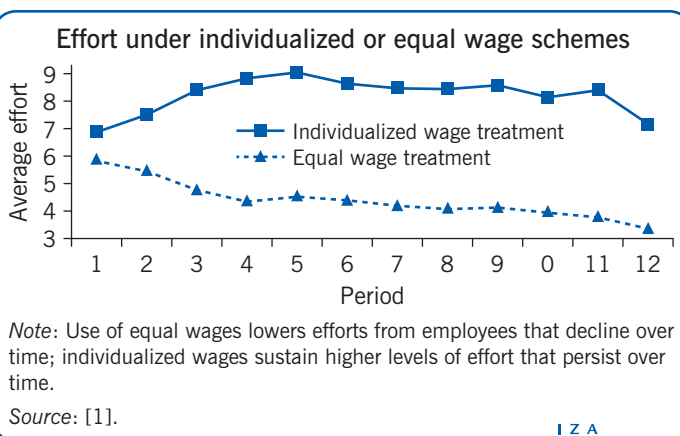
### ELEVATOR PITCH

Can a company attract a different type of employee by changing its compensation scheme? Is it sufficient to pay more to increase employees' motivation? Should a firm provide evaluation feedback to employees based on their absolute or their relative performance? Laboratory experiments can help address these questions by identifying the causal impact of variations in personnel policy on employees' productivity and mobility. Although they are collected in an artificial environment, the qualitative external validity of findings from the lab is now well recognized.

### KEY FINDINGS

#### Pros

- + The laboratory offers a cheap and reliable method to identify causal relationships between incentives and effort, with a high qualitative external validity.
- + The anticipated impact of a change in compensation policies on employees' effort and sorting can be identified in the laboratory.
- + Lab experiments can determine how reference points in terms of fair wage, comparison income, expectations, and goals influence the intensity of effort.
- + The importance of simultaneously studying the monetary and non-monetary sources of motivation to better understand how they interact can be demonstrated in a laboratory context.
- + The laboratory provides clean measures of peer effects on productivity and information on optimal performance feedback policies.



#### Cons

- Subjects are observed only during a brief period of time; it is thus difficult to design lab experiments that are able to capture the long-term effects of a change.
- Subjects participating in lab experiments self-select and may feel scrutinized, with consequences on their behavior.
- Students and CEOs very probably have a number of different and important characteristics, but it is difficult to involve CEOs in lab experiments.

### AUTHOR'S MAIN MESSAGE

Many companies try to improve their human resources management as a way to increase productivity and offer a working environment that is able to attract and retain the best employees. Estimating the potential impact of a new incentive scheme is, however, very difficult. Laboratory experiments can help anticipate the costs and benefits of a change by investigating the economic, social, and psychological aspects of human reactions to positive and negative incentives. While there are legitimate questions about the extent to which laboratory findings are applicable to the wider population, recent evidence is reassuring.