Symposium on
Evidence-Based Management

Editorial Preface
by
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1 Introduction

Evidence-based management (EBM) is more than yet another buzz word of management gurus. Rather, it constitutes a major progress in economists’ work on organizations, in the fields of research, teaching, and transfer of knowledge alike. Through the combination of various empirical approaches and a close interaction between theory and empirical work, EBM aims to identify the causal effects of management practices and organizational choices, thereby lending its recommendations relevance and methodological rigor.

Studying organizations and management has a long-standing tradition in economics. Much progress on these issues has been made through the contributions of, among others, Coase, Barnard, Williamson, the Carnegie school, team theory, contract theory, and more recently behavioral economics. The state of economics research on organizations and management is presented and discussed comprehensively in the recent Handbook of Organizational Economics, edited Gibbons and Roberts (eds.) (2013), and the economics profession has acknowledged the relevance of this research through a number of Nobel prizes. Also, the usefulness of an economic approach for understanding organizations has been brought to the public’s attention by best-selling books, such as Freakonomics (Levitt and Dubner, 2005) or The Org (Fisman and Sullivan, 2014).

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Over the last two decades, the study of management and organizations has opened itself to empirical analyses, thus allowing for causal inference. Today, there are numerous initiatives to bridge the gap between research and practice, for example through the use of randomized field experiments, structural econometrics, insider econometrics, and laboratory experiments.

The increasing importance of empirical analyses has been made possible by the development of new theoretical tools in incentive theory and behavioral economics as well as by econometric and experimental innovation. While traditional empirical analyses of management practices and organizational patterns have focused on providing correlational evidence, in the past two decades experimental economists and econometricians have developed new tools to identify causal effects. Moreover, in the recent past, new data sources have become available (e.g., the World Management Survey (see Bloom and Van Reenen, 2007); the managerial time use project (Bandiera, Prat, and Sadun, 2013); or, more generally, access to “big data”). Last but not least, the presence of organizational economists in leading business schools and universities, and increasing openness of organizations to collaboration with researchers, have further spurred the field.

The research program of EBM aims to apply and further develop these methods in order to better understand the mechanisms that govern economic decision-making in organizations and to properly evaluate the costs and benefits of interventions. Like evidence-based medicine, it is not content with mere speculation about the possible effects of an intervention, but seeks to generate clean evidence (e.g., from randomized experiments) to identify the mechanisms that actually cause an effect. In a quest for a deeper understanding, there is growing interaction between economists and neighboring disciplines such as psychology, sociology, and management studies.

We are pleased to bring together four papers (Englmaier and Schüßler, 2016; Bellemare, Marchand, and Shearer, 2016; Kampkötter and Sliwka, 2016; Gil and Zanarone, 2016), each of which, in a specific context, lays out the potential and methodology of EBM. Each paper has been evaluated by several anonymous referees and has benefited from their insightful comments, for which we are very grateful. We hope that readers find this symposium as interesting to read and discuss as we did in putting it together.1

2 Contributions to this Symposium

Englmaier and Schüßler’s (2016) point of departure is the well-established observation that in many industries there are persistent productivity differences, which

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1 The symposium intends to spark interest in the area of EBM, and it focuses on a limited number of challenging aspects. It cannot, and does not aim to, provide a comprehensive overview of this rapidly evolving field. A good starting point for such a broader endeavor is the respective chapters in the Handbook of Organizational Economics (Gibbons and Roberts (eds.), 2013) or the recent survey by Bloom et al. (2014).
are rather pronounced even in well-developed countries. Building on the literature on strategic human resource management (HRM), they discuss how complementarities in HRM practices might be able to explain such productivity differences. In particular, Englmaier and Schüßler (2016) argue that behavioral phenomena and heterogeneity among workers are an important explanation for the occurrence of such complementarities in the first place. For example, suppose that the pool of potential workers consists of two groups: reciprocal workers and workers with standard preferences. In this case, Englmaier and Schüßler (2016) illustrate that two sets of firms with rather distinct sets of HRM practices might emerge: a first set of firms that hire predominantly from the set of reciprocal agents, delegate decision-making, monitor little, and provide only muted explicit incentives, and a second set of firms that hire “standard” agents, delegate little, and provide strong explicit incentives. Both of these two types of firms might be comparably successful, thereby potentially explaining observed within-industry heterogeneity. In line with the paradigm of EBM, Englmaier and Schüßler (2016) argue for a close interaction of (behavioral) theory and empirical work that aims to identify the causal links between behavioral phenomena, complementarities between HRM practices, and persistent productivity differences. For example, survey evidence on management practices can lead to the development of new theories, which in turn can be tested and refined by the help of experimental methods.

In their contribution to this symposium, Bellemare, Marchand, and Shearer (2016) argue that, for a better understanding of incentive contracts and performance schemes, combining structural estimation and experiments within the same study can be very fruitful, and they call for more empirical work along these lines. Bellemare, Marchand, and Shearer (2016) demonstrate the potential benefits of combining these two methods by means of two examples (Bellemare and Shearer, 2011, 2013). For example, Bellemare and Shearer (2011) study gift-exchange within a firm. They conduct experiments that vary the magnitude of gifts and study workers’ responses. However, as they convincingly argue, from a practical perspective not all possible contracts can be tested experimentally. Hence, from their experimental data, they structurally estimate reciprocity and effort cost parameters in order to predict the profitability of hypothetical contracts. Thereby, they illustrate how, by using structural estimation, experimental findings from a given context can be extended to other (labor market) settings. In a nutshell, Bellemare, Marchand, and Shearer (2016) point out that in (field) experiments, running treatments on all parameter constellations of interest is in general not feasible, while structural estimation might not be possible with naturally occurring data. Combining the two approaches can help to overcome both types of problems. However, Bellemare, Marchand, and Shearer (2016) also highlight potential pitfalls, e.g., they caution that this approach, in general, requires selected subject pools.

Kampkötter and Sliwka (2016) also argue that the complementary use of instruments may enhance our understanding of the effects of management practices. They observe that lab experiments allow researchers to measure mechanisms with precision, but do so at the expense of a lack of external validity of the results. Field
experiments, on the other hand, allow inference on the effects of HR policies in the field, but only offer the possibility of varying a small number of policies in a given context. Using the example of subjective performance evaluations, an HR instrument that is widely used in many organizations, they show how different types of experiments, economic modeling, and the use of survey data can be combined to generate knowledge about the behavioral mechanisms through which subjective performance evaluation affects outcomes and about the causal effects of subjective performance evaluation on performance.

Kampkötter and Sliwka (2016) reveal some robust patterns. In particular, differentiation in evaluation tends to increase performance provided the interdependence between the assessed employees is not too strong. However, this may come at the expense of counterproductive behavior, especially when cooperation and teamwork are important. Furthermore, using an excessively fine-grained differentiation without objective performance information may harm performance because it shifts employees’ reference points and triggers negative reciprocal reactions, which tends to outweigh the potential positive incentive effects.

Gil and Zanarone (2016) discuss evidence-based research in the context of relational contracts. Neoclassical economics assumes court enforcement to be available at nonprohibitive costs. Frequently, however, we observe that informal arrangements play an important role in facilitating efficiency-enhancing exchange, for instance, in buyer–seller or employer–employee relations. An important strand of literature on relational contracts (see, e.g., MacLeod and Malcomson, 1989; Levin, 2003) has argued that two or more parties may use the threat of dissolving an efficient relationship as a sanctioning device, which helps to provide both sides with incentives to provide efficient levels of effort.

Gil and Zanarone (2016) discuss recent developments in the literature, and suggest a framework in which the insights from the relational-contracting literature can be tested empirically. They argue that two assumptions must be relaxed for the literature to address real-world situations. Firstly, in many situations, parties are not symmetrically informed about the value of relationships. Secondly, parties may be constrained in using discretionary payments in order to share the long-term rents from cooperation. Taking these relaxed assumptions into account leads to the possibility that optimal informal contracts are not stationary. What seems as a complication at first glance, though, gives rise to interesting opportunities: For example, theories taking these limitations into account provide the opportunity to explain how contractual relationships are built and gradually evolve, and how their evolution may be subject to path dependence.

Gil and Zanarone (2016) then focus on how two of the most prominent contributions to this new literature can be brought to the data. They show that Halac’s (2012) paper that allows for asymmetric information gives rise to a number of testable predictions, in particular that at the onset of a contractual relationship, the bonuses in an informal incentive contract should be higher than the ones in an optimal formal contract. Moreover, informal bonus payments and the probability of defaulting on them should increase over time, but only if the principal as the in-
formed party has bargaining power. The second paper the authors discuss in detail is Board (2011), where parties may be constrained in their ability to make transfers between them. Among the testable predictions of this model are that a buyer’s loyalty to its suppliers should be higher in countries characterized by lower court quality, i.e., when contracts tend to be informal. Moreover, buyers who decide to become disloyal and switch to new suppliers should use more formal contracts in their future dealings with inside suppliers, as they can no longer rely on informal agreements to prevent holdup. The authors then discuss the available data sets that could be used to test these predictions, and they review a number of other papers tackling the challenges posed by relaxing the constraints of symmetric information about the value of a relationship and of unlimited ability to transfer long-term rents.

3 Conclusion and the Way Ahead

This symposium on EBM presents a collection of papers that are meant to exemplify a number of common themes. While all the papers are of an empirical nature, they are also well grounded in economic theory. The authors agree that a sound theoretical basis and, where possible, microeconomic modeling are a prerequisite of EBM. The presented empirical methods and data sources cover a broad range, from field and laboratory experiments to the use of survey, accounting, and personnel record data. The interest of economists in managerial and organizational questions has been spurred considerably by the availability of such data, and as a result the theories on management and organizations have been broadened and deepened. To a similar extent, economists are examining a plethora of organizational policies.

The challenges ahead do not just involve methodological aspects, in particular how to connect clean causal inference with relevance and external validity. While in development economics the literature has made use of controlled field experiments for some decades, these methods are still relatively new in the economics of management and organization. From our own and the authors’ experience, we believe, however, that in many corporations and public organizations, a culture of EBM is beginning to emerge in a way comparable to that among development economists and practitioners. This opens the door for a multitude of opportunities for projects between researchers and managers, in mature and developing economies alike.

From a practical perspective, some obstacles need to be overcome. In particular, the type of research discussed in this issue requires – in general – the collaboration of firms and other organizations. While management scholars have been pushing for an evidence-based management style for some time (see, e.g., Pfeffer and Sutton, 2006; Rousseau, 2006) some stakeholders in organizations may resist such an approach. For example, they may see their position jeopardized when transparency is increased or take issue with the transfer of proprietary data to researchers. This requires that researchers be sensitive to their counterparts’ perspective and concerns. Building mutual trust and making data available for analysis takes time and commitment, but it can lead to deep insights into the functioning of
management and organizations, leading to win–win situations for both managers and researchers. The Committee for Organizational Economics to be established within the German Economic Association (Verein für Socialpolitik) aims to provide institutional support – and training opportunities – for researchers interested in establishing such relationships. We are convinced that in the years to come, EBM will have a deep impact in the study of organizations. We are looking forward to witnessing this development.

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