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*Document version:*

Early version, also known as pre-print

*Publication date:*

2018

[Link to publication](#)

*Citation for published version (APA):*

Bouma, J. A., Nguyen, B., van der Heijden, E., & Dijk, J. J. (2018). Analysing Group Contract Design Using a Lab and a Lab-in-the-Field Threshold Public Good Experiment. (CentER Discussion Paper; Vol. 2018-049). Tilburg: CentER, Center for Economic Research.

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No. 2018-049

**ANALYSING GROUP CONTRACT DESIGN USING A LAB AND  
A LAB-IN-THE-FIELD THRESHOLD PUBLIC GOOD  
EXPERIMENT**

By

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22 November 2018

ISSN 0924-7815  
ISSN 2213-9532

## **Analysing group contract design using a lab and a lab-in-the-field threshold public good experiment\***

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### **Abstract**

This paper presents the results of a threshold public goods game experiment with heterogeneous players. The experiment is designed in close collaboration with the Dutch association of agri-environmental farmer collectives. Subjects are recruited at a university (“the lab”) and a farm management training centre (“lab-in-the-field”). The treatments have two different distribution rules which are varied in a within-subjects manner. After subjects have experienced both, they can vote for one of the two rules: either a differentiated bonus that results in equal payoff for all, or an undifferentiated, equal share of the group bonus. In a between-subjects manner, subjects can vote for a (minimum or average) threshold or are faced with an exogenous threshold. The results indicate that exogenous thresholds perform better, possibly because the focal point they provide facilitates coordination. With regard to the two distribution rules, the results are mixed: average contributions and payoffs are higher in the lab under the ‘equal-payoff’ rule, but there is no significant difference between the two in the lab-in-the-field, possibly because contributions in the lab-in-the-field are much less efficient. Overall, our results suggest that environmental payment schemes should not only consider farmer heterogeneity in the design of group contracts, but pay explicit attention to coordination problems as well.

### **JEL Codes:**

H41, C92, C93, D70, Q57

### **Key words:**

Threshold public goods games, endogenous choice, lab-in-the-field experiment, collective agri-environmental management, group contracts, distribution rules, heterogeneous subjects

\* We thank participants of WCERE 2018, BIOECON 2018, 13<sup>th</sup> NCBEE, Majelle Verbraak and Daan van Soest for helpful suggestions and discussions, and Bowie Goossens for programming the lab-in-the-field experiment.

## 1. Introduction

To reduce the spatial scattering of agri-environmental interventions and decrease administration costs, agri-environmental management in the Netherlands has recently been re-organized to target farmer collectives (Westerink et al. 2015). Individual farmers can no longer receive subsidies or payments for environmental services but instead have to organize themselves in collectives to become eligible. These collectives formulate a joint plan for agri-environmental management on the basis of which a group contract is negotiated with the regional government. The collective is responsible for meeting the targets of the group contract, and it pays individual farmers for the contributions made.

In defining the size and scope of the group contract, farmer collectives face the difficulty of reaching consensus in a heterogeneous group (Finus 2008). Collectives are heterogeneous in terms of farmer types (e.g. dairy vs. crop farmers) and scale of activities (e.g. small part-time vs. large commercial farmers), which results in significant differences in opportunity costs. As payments are currently uniform across farmers, in most collectives only a limited group of farmers participates in group contracts and group ambition levels remain low. The literature indicates that differentiated payments may increase both the number of farmers participating and the level of contributions (Kesternich et al. 2014). Collectives are reluctant to differentiate payments, however, as they argue that ‘what's sauce for the goose is sauce for the gander’.

Experimenting is an effective tool to discover how different payments may affect contribution levels and group ambitions in different settings (Ledyard 1995). Hence, in close collaboration with the association of agri-environmental farmer collectives, we developed a threshold public goods game with heterogeneous players to examine if and how different payoff distribution rules and endogenous choices (of the distribution rule and the ambition level) affect group outcomes. We decided on a *threshold* public goods game as this most closely resembles the agri-environmental conservation scheme: only when the collective manages to provide a certain level (or threshold) of environmental services will the subsidy be paid. Our experiment builds on Kesternich et al. (2014) who find that, in a linear public good game, the distribution rule that equally distributes payoffs among heterogeneous players (‘equal-payoff-rule’) maximizes payoffs for all player types. In addition, we build on the finding of Gallier et al. (2017) that endogenous choice of the distribution rule improves group outcomes, and more generally on Dal Bó et al. (2010) who show that exogenously imposed policies yield lower cooperation levels than the same policy when it is endogenously (democratically) chosen.

Our paper contributes to this literature by assessing whether the findings on benefit sharing and endogenous choice in standard public good games are transferable to a threshold public good setting. Compared to standard linear public good games, *threshold* public goods games are fundamentally different in incentive structure as the threshold turns the game into a coordination game (Ledyard 1995). In such a threshold public good game setting, Rapoport and Suleiman (1993) find that heterogeneous groups, where players have different endowments, are less successful than homogenous groups. Introducing endogenous choice may further exacerbate the coordination problem, while at the same time it may reduce the incentive to free-ride (Dal Bó et al. 2010). The expected impact of various burden sharing rules and of endogenous choice in a threshold public good setting with asymmetric players is thus unclear, and we try to provide some insights by running a lab experiment. To test whether the findings are applicable outside a conventional lab setting, we take the lab to the field. In particular, we conduct sessions among farm management students, who have no

experience at all in economic experiments, but share a number of characteristics with the farmer population, to which most of the agricultural management students also belong.

Strictly speaking, our lab-in-the-field is more a lab than a field experiment, but by engaging farm management students, we aim to see whether these subjects with no previous lab exposure perform differently from standard experimental subjects, while controlling for differences in preferences, game understanding and other characteristics in the analysis.

## 2. Background

Compared to standard linear public good games, *threshold* public goods games are fundamentally different in incentive structure as the threshold turns the game into a coordination game (Ledyard 1995). Whereas in standard public good games the Nash equilibrium in dominant strategies is to contribute nothing to the public good, threshold public goods games typically have multiple Nash equilibria: contributing zero is one of them, but all strategies in which total group contributions are equal to the threshold are equilibria too. The threshold acts as a reference or focal point and several studies have found a positive relation between a reference point and agents' effort provision and performance (Fiegenbaum et al. 1996, Koszegi and Rabin 2006, Abeler et al. 2009). Higher thresholds typically increase contributions but also increase the probability that the target is not met (Rapoport and Suleiman 1993, Finus 2008). Generally, the success rate of threshold public good games ranges from 40 to 60 percent (Alberti and Cartwright 2016), but settings and parameters matter a lot. For example, higher *Step Returns*<sup>1</sup> lead to higher individual contributions and success rates (Croson and Marks 2000), and the same holds for higher rewards (bonuses) when the target is met or a money-back guarantee when the target is not met (Cadsby and Maynes (1999). Subject heterogeneity increases the coordination problem. Rapoport and Suleiman (1993, for instance find that adding heterogeneity (via different endowments) reduces success rates: with heterogeneity, the threshold is less often reached.

One way to improve performance in games with heterogeneous players is the introduction of rules: Benefit sharing or burden sharing rules facilitate coordination by reducing heterogeneity in payoffs. In the public good games literature, there is ample attention for the impact of different burden or benefit sharing rules on contribution levels (Balafoutas et al. 2013; Gallier et al. 2017; Kesternich et al. 2018; Walker et al. 2000; Kesternich et al. 2014) and the impact of minimum contribution rules (e.g. Kesternich et al. 2014; Dannenberg et al. 2014; Kocher et al. 2016; Martinsson & Persson 2016; Sutter and Weck-Hannemann 2003, 2004). In the threshold public good game literature, attention for burden sharing and minimum contribution levels is limited. One of the few exceptions is a recent study by Brick and Visser (2015), who study burden sharing rules in a threshold public good game with a climate change framing. They find that in the choice of the burden sharing rule subjects use equity principles in a self-serving way, resulting in lower contributions and lower success rates.

In our study we compare performance in a threshold public good game under two distribution rules. In addition, we examine whether it matters if the distribution rule is exogenously imposed or chosen by the subjects. Dal Bó et al. (2010) report an "endogeneity premium" effect: individuals may behave differently when a game or policy was chosen by them or imposed, and thus treatment effects may depend on whether the treatment is endogenous or exogenous. In line with this, Gallier et al. (2017)

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<sup>1</sup> Similar to the Marginal Per Capita Return (MPCR) in a standard public good game (see Isaac et al. 1984), the Step Return measures the value of the public good relative to that of the forgone private good for threshold public goods games.

find that subjects who can vote for a burden sharing rule in a linear public good experiment receive on average higher payoffs than subjects who face an exogenous rule.

As mentioned before, we conducted the experiment in a standard lab setting, using a standard subject pool, as well as in a more lab-in-the-field type of setting, using a more targeted group of subjects. We are interested to see if these different subject groups behave similarly or not. Subject pool characteristics may influence game outcomes in several ways. Cooper et al. (1999, 2006) indicate that professionals may perform better than students because of experience, for example in overcoming coordination failure at the work floor. Similarly, List (2003) and Potters and van Winden (2000) show that experience explains why senior managers or traders are more rational in their decisions than subjects without such experience. When comparing student subject pools, students of economics often perform different from non-economic students. Here, the analysis has focused on economics students being less generous and more self-interested (Bauman and Rose 2011), which has turned out not be caused by the content of the study but rather by self-selection effects (Cipriani et al. 2009). Finally, Cadsby and Maynes (1998a,b) indicate that female students, and female professionals, are better at coordinating efforts, although they suggest that this does not necessarily improve game efficiency.

### 3. Methodology

#### 3.1 Experimental design

As mentioned in the introduction, the experiment has been designed in close collaboration with the Dutch association of agri-environmental farmer collectives. In each experimental session, groups of four subjects play 12 rounds of a threshold public goods game. Group composition remained the same throughout the session, *i.e.* we used partner matching. In each round, subjects receive an endowment  $e$ , equal to 20 points, which they can use to make a contribution  $q_i$  to the public good. If total group contributions are at least as high as a threshold level  $T$ , a bonus is paid to the group members. This bonus is 1.6 times the threshold, corresponding to a Step Return of 0.4 (Croson and Marks, 2000). If the threshold is not met, no bonus is paid, and subjects' contributions are not returned. In the standard condition, the bonus is divided equally among the group members, *i.e.* we apply the so-called equal-sharing-of-the-bonus rule. The payoff  $\pi_i$  of group member  $i$  in a round in this condition is thus as follows:

$$\pi_i = e - c_i q_i + 0.4T \quad \text{if } \sum_i q_i \geq T;$$

$$\pi_i = e - c_i q_i \quad \text{otherwise.}$$

The parameter  $c_i$  represents the cost of contributing, and it is used to introduce heterogeneity among the subjects. In most experiments, heterogeneity is introduced via endowments (rich and poor players, *e.g.* Tavoni et al. 2015, Kesternich et al. 2018, Levati et al. 2007), and sometimes via the MPCR (Kesternich et al. 2014). We introduce heterogeneity in costs since this best mimics actual group decision-making in the agri-environmental setting we consider. In each group two group members are of the low-cost type, with  $c_i = c_L = 0.6$ , and two group members are of the high-cost type, with  $c_i = c_H = 1.2$ . Types are randomly assigned, and subjects do not change their cost-type throughout the game. Note that the above setting represents a social dilemma as  $c_H > c_L > 0.4$ . Not contributing is a Nash equilibrium, as well as most combinations of contributions with  $\sum_i q_i = T$ . Note also that in our set-up the reward (bonus) for reaching the threshold is not fixed, but it depends on the level of the

threshold. This level may or may not be set by the subjects, depending on the treatment. Note also that group contributions above the threshold do not affect the bonus and are not compensated.<sup>2</sup>

In addition to this ‘equal-sharing-of-the-bonus’ rule subjects also play a condition with another distribution rule, the ‘equal-payoff’ rule (Kesternich et al. 2014). As explained above, the equal-sharing-of-the-bonus rule implies that if the threshold is met, each group member receives an undifferentiated, equal share of the group bonus, namely  $1.6T/4$ . Under the equal-payoff rule, there is differentiation in bonus payments. Group members receive different shares of the group bonus in such a way that every group member receives in principle the same payoff, namely  $\pi_i = (4e - 2c_l q_l - 2c_h q_h + 1.6T)/4$ .<sup>3</sup>

The 12 rounds are divided in three phases of four rounds. In phases 1 (rounds 1-4) and 2 (rounds 5-8), all subjects play with the two exogenously determined distribution rules (so within-subjects).<sup>4</sup> In line with Putterman et al. (2011), after having experienced both rules in phases 1 and 2, we let subjects choose their distribution rule. That is, before phase 3 (rounds 9-12) commences, the group chooses which distribution rule will be implemented for their group in phase 3. This decision is made through majority voting (with the computer randomly deciding the outcome in case of a tied vote). All subjects play with an endogenously determined distribution rule in phase 3.

We run several variations of this set-up in a between-subjects setting (see Table 1). Besides the distribution rule (varied within subjects), we vary two other factors between subjects: the threshold origin (whether the threshold is determined exogenously or endogenously), and – within the endogenous threshold treatments – whether the threshold is based on the average or lowest (minimum) proposed threshold in the group. In total this yields six different treatments, see Table 1.

In each round of the endogenous threshold treatments, group members (simultaneously) propose a group threshold before making a contribution. Depending on the treatment, the group threshold is then based on the average or the lowest (minimum) proposed threshold, and subjects are informed about the resulting group threshold  $T$  before making their contribution choice. In each round of the exogenous threshold treatments, the group threshold is just imposed (no proposals). To ensure comparability between the exogenous and endogenous threshold treatments, we first conducted the endogenous treatments, and based the exogenous thresholds in each round on the median of the thresholds proposed (per round and per group). This is a common approach in the literature (see for instance Sutter and Weck-Hanneman 2003, 2004). Finally, inspired by Kallbekken et al. (2011), we pay explicit attention to learning in game design: in all treatments we ask subjects at the start of the experiment which of the two distribution rules they prefer, and measure their preference again after they have experienced both distribution rules.

### 3.2. Experimental procedures

We conducted the lab experiment with a total of 204 participants at Tilburg University’s CentERLab in March 2017. The lab-in-the-field experiment was conducted with a total of 148 participants<sup>5</sup> at Van

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<sup>2</sup> In our view, this best mimics the situation with the farmers in the Netherlands, in which the bonus is based on the level (ambition) as specified in the contract (and not on total contributions or a fixed amount).

<sup>3</sup> In some rare cases with a very extreme contribution distribution, equal payoffs may not be feasible. In those cases, the equal-sharing-of-the-bonus rule is automatically implemented. Subjects are informed about this in the instructions.

<sup>4</sup> Subjects play either equal-sharing-of-the-bonus rule in phase 1 and the equal-payoff rule in phase 2, or equal-payoff rule in phase 1, and equal-sharing-of-the-bonus rule in phase 2, see Table 1.

<sup>5</sup> In total, 160 students participated, but we had to exclude 3 groups from the analysis as we did not fully succeed in preventing communication between them.

Hall Larenstein University of Applied Sciences in Leeuwarden in November 2017. The lab experiment in Tilburg was programmed and conducted with z-Tree software (Fischbacher 2007). For the lab-in-the-field experiment in Leeuwarden, we implemented the oTree open source platform (Chen et al. 2016) using the Internet Explorer browser in the students' computer labs (Goossens 2017). Table 1 summarizes the experimental design, the treatments and treatment names, and the number of groups per treatment. To account for potential ordering effects, we alternated the order of the distribution rules within a treatment. For instance, treatment ESPM implements the equal-sharing-of-the-bonus rule in rounds 1-4 and the equal-payoff rule in rounds 5-8, whereas treatment EPSM implements the rules in the reversed order.

Table 1. *Experimental design*

Threshold origin	Threshold based on	Distribution rule order (phase 1 - phase 2)	Treatment name	Lab no. of subjects (groups)	Lab-in-the-field no. of subjects (groups)
Exogenous	Minimum*	Equal sharing - equal payoff	XSPM	48 (12)	
Exogenous	Minimum*	Equal payoff - equal sharing	XPSM	40 (10)	
Endogenous	Minimum	Equal sharing - equal payoff	ESPM	60 (15)	28 (7)
Endogenous	Minimum	Equal payoff - equal sharing	EPSM	56 (14)	20 (5)
Endogenous	Average	Equal sharing - equal payoff	ESPA		48 (12)
Endogenous	Average	Equal payoff - equal sharing	EPSA		52 (13)
Total number of subjects (groups)				204 (51)	148 (37)

\* The exogenous thresholds were based on the median of the thresholds proposed under the ESPM and EPSM treatments.

As Table 1 shows, we did not conduct all treatments in both locations. The exogenous threshold treatments were only implemented in the lab, and the treatments with thresholds based on average proposals were conducted only in the lab-in-the-field. In fact, the average threshold treatments were only included after the lab experiment, at the request of the association of farmer collectives, as they argued that although most collectives indeed take the lowest ambition level, other collectives use the average. Given that the lab experiment indicated no significant differences between the endogenous and exogenous threshold treatments, we dropped the exogenous treatments in the lab-in-the-field.

Apart from the difference in treatments, the lab and the lab-in-the-field experiment were identical except that a minimum level of framing was added to the instructions of the lab-in-the-field experiment, in order to clarify game design. Framing was added at the request of the association of farmer collectives, for whom the lab-in-the-field was a pre-test for conducting the experiment with farmers at a later stage. We minimized framing to ensure that results remained comparable: The experimental instructions, with the framing highlighted, are provided in Annex A. Note that whereas the lab experiment was in English, the lab-in-the-field experiment was in Dutch.

Finally, we did not pay a show up fee to subjects in the lab-in-the field as their participation was mandatory: the experiments were scheduled by the school administration requiring mandatory attendance. Students at the lab participated voluntarily and were recruited through a mailing list. They were paid a 5 euro show up fee. Both in the lab and the lab-in-the-field, students were paid earnings from three rounds, the computer randomly selecting one round per phase to be paid out. In all sessions, the value of each point was 0.10 eurocent.

In both locations, the experimental sessions were run by the same experimenters. Each experimental session lasted approximately one hour, and on average subjects earned about 11 euro (including the show up fee) in the lab and 6 euro in the lab-in-the-field. After the experiment subjects filled in a short questionnaire to collect information about their game understanding, social preferences and some



background characteristics. We used this information to analyse game behaviour, and the differences in behaviour between the lab and the lab-in-the-field.

### 3.3. Expected results and statistical methods

First, in line with Kesternich et al. (2014), we expect the equal-payoff rule to result in higher average contributions and payoffs than the equal-sharing-of-the-bonus rule. We do not expect the change in game incentives resulting from having adapted the experiment to a threshold public goods game to affect this result. Second, we are ambiguous about the effect of endogenous choice. With regard to the endogenous choice of the threshold, Dal Bó et al. (2010) find that an institution or policy that is exogenously imposed, such as a threshold, yields lower cooperation levels than an endogenously (democratically) chosen one. However, their finding reflects a public goods setting, whereas in a threshold public goods setting an exogenous threshold may improve coordination by providing a clear focal point. With regard to the endogenous choice of the distribution rule, we have no reason to expect a different result from Gallier et al. (2017) who observe that any distribution rule that is endogenously selected is an improvement upon an exogenously imposed rule. Still, in our case the coordination problem of having to decide on the preferred distribution rule may again reduce the advantage of endogenous choice. Third, given the differences in exposure to experiments between the two subject pools, and the general notion that conducting lab-in-the-field experiments introduces heterogeneity and potential noise (Schram 2005, Levitt and List 2007), we expect subjects in the lab-in-the-field to encounter more coordination problems than students in the lab.

To analyse the experimental data, following Gallier et al. (2017), Kesternich et al. (2014), and Croson and Marks (2000) we perform non-parametric tests and random-effects regressions (adjusted for group clusters). We use Mann–Whitney U (MW-U) tests to compare results between different treatments (between subjects), and Wilcoxon matched-pairs signed-ranks (W S-R) tests to compare results across phases in a treatment (within subjects). Game efficiency indicators are the group threshold, the group contribution, the frequency of threshold met (or success rate), the over-contribution rate, and the group payoff. The frequency of threshold met is the ratio between the number of times that groups meet their threshold and the total number of rounds played, and the over-contribution rate is an indicator that measures the efficiency of group contributions in a particular round, determined by  $(\sum_i q_i - T)/T$ . The higher the ratio, the more inefficient the group has played, while a negative ratio means that the group has not met the threshold.<sup>6</sup> Unless indicated otherwise, we run all tests using group averages as units of observations. In addition to the non-parametric tests, we run ordinary least square random-effects regressions on individual contributions and individual payoffs. We focus mostly on phase 1 as subjects' behaviour is less affected by previous rounds' results, and hence, the potential impacts of game factors and institutions can be estimated in a cleaner way.

## 4. Results

### 4.1 Summary statistics

Table 2 presents summary statistics for the group threshold, the group contribution, the success rate, the over-contribution rate, and the group payoff as the average over all rounds of each treatment.<sup>7</sup>

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<sup>6</sup> This ratio is not defined for  $T = 0$ . However, in total there only 24 cases (out of 1056, about 2% of all observations) where  $T = 0$ , and it is restricted to 10 groups. When presenting results these 24 cases are deleted, but results do not change substantially if we included these with value 0. Annex B also shows the average over-contribution rates when defined as  $(\sum_i q_i - T)/\sum_i q_i$ .

<sup>7</sup> Table 2A in Annex B presents the summary statistics for these variables per phase.

The table indicates that average group contributions range between about 26 and 44 points, and that realized group thresholds vary between approximately 22 and 42 points across treatments. The exogenous threshold treatment (XSPM) in the lab has the highest average group payoff (87 points), while the endogenous average threshold treatment (ESPA) lab-in-the-field treatment has the lowest average group payoff (74 points), which is below the total group endowment. On average, group contributions seem to be lower in the lab than in the lab-in-the-field, and the standard deviations of group thresholds and group contributions show that variation between groups is higher in the lab than in the lab-in-the-field. By definition, the realized group thresholds are higher for the average threshold treatments (ESPA and EPSA) than for the minimum threshold treatments, but differences in group contributions between these treatments are much smaller.

Table 2. Summary statistics for each treatment

Treatment	Average group threshold	Average group contribution	Average success rate (%)	Average over-contribution rate	Average group payoff
<b>Lab results</b>					
XSPM	22.28 (15.62)	25.78 (16.97)	76 (26)	0.32 (0.40)	87.42 (12.22)
XPSM	26.63 (12.48)	29.13 (11.24)	76 (16)	0.31 (0.38)	84.24 (7.69)
ESPM	24.65 (13.57)	28.70 (14.92)	71 (23)	0.42 (0.58)	79.52 (8.71)
EPSM	29.02 (13.76)	32.07 (13.94)	67 (13)	0.19 (0.16)	81.40 (8.14)
<b>Lab-in-the field results</b>					
ESPM	23.62 (10.42)	34.35 (13.64)	80 (12)	1.71 (2.09)	76.71 (6.58)
EPSM	23.85 (4.66)	39.16 (7.08)	90 (11)	1.54 (1.42)	78.09 (11.80)
ESPA	41.90 (10.09)	39.84 (10.43)	48 (22)	-0.01 (0.14)	74.00 (11.12)
EPSA	42.21 (11.72)	43.85 (12.15)	63 (28)	0.95 (0.34)	83.66 (12.13)

Standard deviations of groups' average values over 12 rounds are given in parentheses.

Success rates (based on the 'frequency of threshold met') range from slightly below 50 to about 90 percent. Compared to the literature, the upper bound of this range is relatively high: Croson and Marks (2000) and Alberti and Cartwright (2016) report success rates of 40 to 60 percent, which corresponds to the success rates observed in the treatments with average proposed threshold.

Table 2 indicates that a high success rate does not always translate into high payoffs. Specifically, payoffs in the endogenous minimum threshold treatments ESPM and EPSM in the lab-in-the-field are lower than in the corresponding lab treatments even though the success rates are higher. This is mainly due to high over-contribution rates. Indeed, over-contribution rates are especially high in the lab-in-the-field treatments (often even more than 100 percent), while in the lab this rate is about 30 percent (we will elaborate on this in more detail below). So even though most groups in the endogenous minimum threshold ESPM and EPSM lab-in-the-field treatments reach the threshold, the inefficiency of their choices results in relatively low payoffs. The negative sign of over-contribution rate in treatment ESPA explains the low average success rate in this treatment: on average groups 'under-contribute' and thus do not meet the threshold.

Figure 1 shows the average round by round development of thresholds and group contributions in all treatments in which the threshold was endogenously determined. The top panels show that average thresholds in the lab and in the lab-in-the-field (LITF) are rather close and seem to increase somewhat across rounds. Contributions are largely consistently above the thresholds and apart from the last phase of the top right panel, contributions are higher in the lab-in-the-field. Coordination seems to improve over time, as suggested by the decreasing gap between contributions and thresholds.

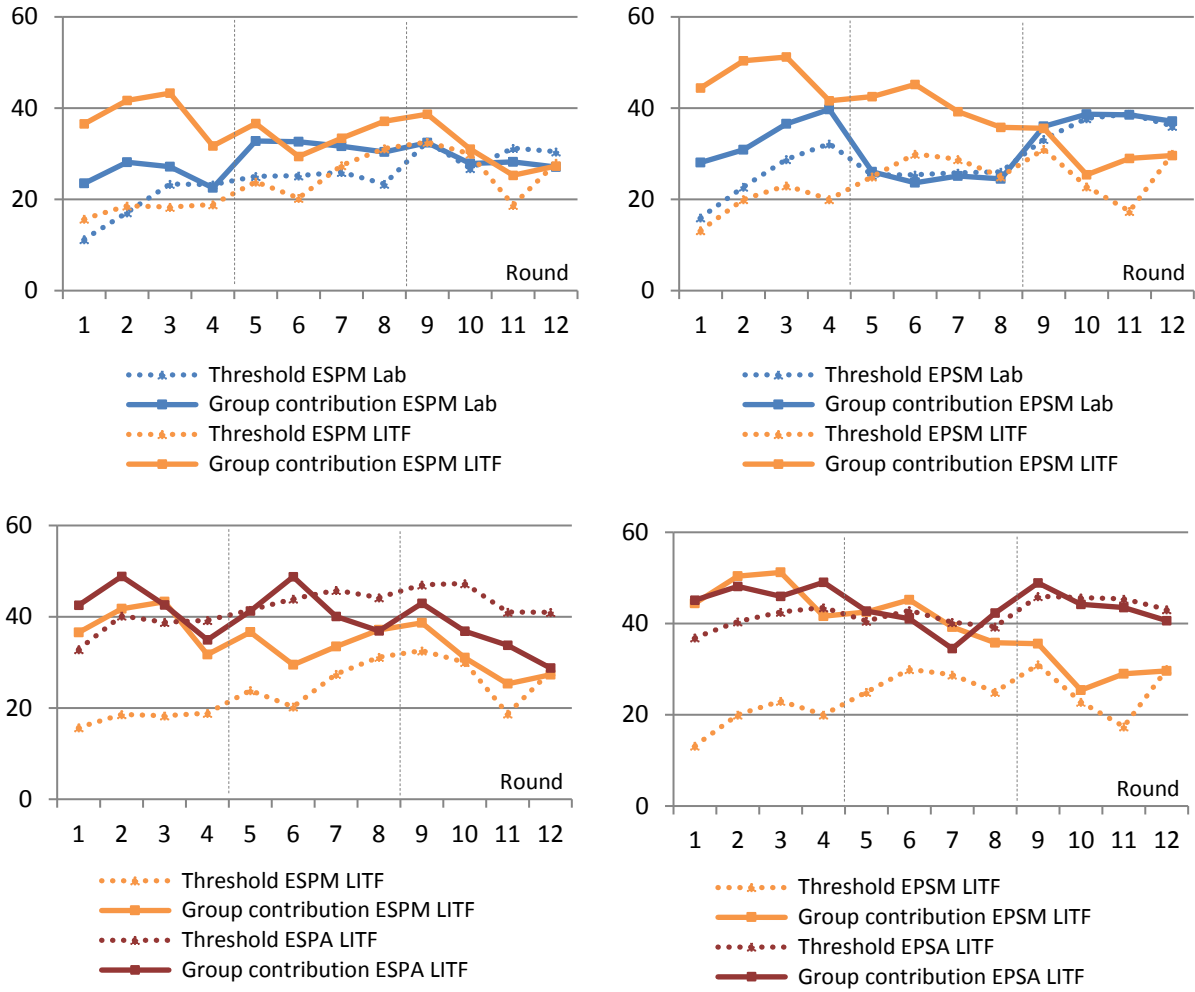


Figure 1. Average threshold and group contribution over time in all endogenous threshold treatments

The bottom panels of Figure 1 show that although the resulting thresholds in the average threshold treatments are higher than in the minimum threshold treatments (almost by definition), the difference in contributions between treatments with average and minimum threshold is small, irrespective of the order of the distribution rule. This pattern is rather persistent and explains the high success rates and over-contributions rates in the two treatments with a minimum threshold. In the following, we perform pairwise comparisons of related treatments to test the effects of the variables of interest: distribution rule, threshold origin, endogenous choice of distribution rule, and subject characteristics.

#### 4.2 Equal-payoff rule versus equal-sharing-of-the-bonus rule

To evaluate the impact of the two distribution rule on group performance we compare group outcomes in phase 1 between (pairs of) treatments: the endogenous minimum threshold treatments ESPM versus EPSM (in both the lab and the lab-in-the-field), the exogenous threshold treatments XSPM versus XPSM in the lab, and the average threshold treatments ESPA versus EPSA lab-in-the field. Moreover, within each treatment, we carry out tests between phase 1 and phase 2 as these phases differ only in distribution rule imposed (see Table 2A in Annex B for summary statistics). Test results are presented in table 5, Annex B. We discuss the key observations here.

The equal-payoff rule seems to perform weakly better in between-subject comparisons. Between the two endogenous threshold treatments in phase 1 in the lab, groups in ESPM treatment (which first play with the equal sharing of the bonus rule) make significantly lower group contributions ( $p = 0.0636$ , MW-U test), and obtain significantly lower group payoffs ( $p = 0.0145$ , MW-U test) than groups in the EPSM treatment (which first play with the equal-pay-off rule). There are no differences in the group threshold, the frequency of threshold met, or the over-contribution rate ( $p \geq 0.1192$ , MW-U tests). All other pairwise comparisons between treatments, do not yield a significant difference in any of the factors (all  $p \geq 0.1229$ , MW-U tests), except for the threshold level between XSPM and XPSM treatments in the lab. However, these thresholds were selected exogenously based on the median threshold in comparable endogenous treatments. Therefore they do not reflect subjects' behaviour in the game.

In the lab, within-subject comparisons show that the equal-payoff rule performs better than the equal-sharing-of-the-bonus rule. It does not matter whether the equal-payoff rule is played in phase 1 or in phase 2. In both phases, groups playing under the equal-payoff rule, in at least half of the treatments, generate significantly higher average group thresholds, make significantly higher group contributions, and receive significantly higher group payoffs ( $p \leq 0.0937$ , W S-R tests). In the rest of the treatments, there is no significant difference ( $p \geq 0.2115$ , W S-R tests). Success rates and over-contribution rates do not differ considerably between treatments in the lab ( $p \geq 0.2277$ , W S-R tests), except for the EPSM treatment. In this treatment, under equal-payoff rule (in phase 1), groups have significantly higher success rates ( $p = 0.0038$ , W S-R test), but also significantly higher over-contribution rates ( $p = 0.0063$ , W S-R test). However, group payoffs are still higher under the equal-payoff rule. Therefore, playing under the equal-payoff rule is better or at least not worse than under the equal-sharing-of-the-bonus rule in all treatments in the lab.

In the lab-in-the-field, however, distribution rules do not have the same (systematic) impact on group performance. Comparing the impact of different distribution rules within treatments yields no difference in group contribution in any treatment ( $p \geq 0.2249$ , W S-R tests). Group threshold are either higher ( $p \leq 0.0796$ , W S-R tests) or about the same in phase 2, and over-contribution rates are always significantly higher in phase 1 ( $p \leq 0.0431$ , W S-R tests). In fact, groups in the lab-in-the-field slightly increase their thresholds in phase 2 but keep group contributions at the same level, thus reducing over-contribution rates. This happens in all lab-in-the-field treatments no matter which rule is played first. Thus, it is hard to say which rule performs better. Success rates do not change significantly between the two phases, except for the endogenous average threshold EPSA treatment where the success rate decreases in phase 2 under equal-payoff rule ( $p = 0.0755$ , W S-R tests), which results in significantly lower group payoffs ( $p = 0.0712$ , W S-R tests). Finally, in the endogenous minimum threshold EPSM treatment, group payoffs are lower under the equal-payoff rule ( $p = 0.0431$ , W S-R tests), which is due to the fact that group payoffs in phase 1 suffer from higher over-contribution rates and low thresholds. Overall, if anything, the equal-sharing-of-the-bonus rule seems to result in better game performance in the lab-in-the-field.

#### *4.3 Endogenous versus exogenous choices*

In our experiment, endogenous choice has two dimensions: (i) subjects vote for a (minimum or average) threshold in the endogenous threshold treatments, and (ii) subjects vote for one of the two distribution rules before the start of phase 3 in all treatments. Here, we examine if either of these dimensions has an effect on subjects' behaviour in the game.

#### 4.3.1 Endogenous choice of the threshold

Table 2 already showed that the success rates of the exogenous threshold treatments in the lab were higher than those of the corresponding endogenous threshold treatments. Also in terms of group payoffs the endogenous threshold treatments do not perform better: Average group payoffs in the exogenous treatments XSPM and XPSM are about 87 and 84 points, respectively, while they are lower in the endogenous treatments ESPM (almost 80 points) and EPSM (81 points).

To test whether the endogenous threshold choice has a significant effect, we compare group contributions, success rates, over-contribution rates and group payoffs of the exogenous and endogenous treatments both over all rounds and in phase 1 of comparable treatments (*i.e.* ESPM versus XSPM, and EPSM versus XPSM), see Table 2A in Annex B. Note that in phase 1, the data are again ‘cleaner’ because subjects’ decisions have not been affected by previous experiences in the game. The test results show that the exogenous threshold treatments weakly dominate the endogenous ones: outcomes do not differ significantly ( $p \geq 0.1370$ , MW-U tests) except for group payoffs, which are significantly (but not substantially) higher for the XSPM exogenous threshold treatment, both in phase 1 and over all three phases ( $p < 0.05$ , MW-U tests). Details are presented in table 6, Annex B. Thus, we find no evidence that endogenous choice of the threshold improves group performance.

#### 4.3.2 Endogenous choice of the distribution rule

Subjects vote for their preferred distribution before the start of phase 3, after having experienced the exogenously imposed distribution rule in phases 1 and 2. Figure 2 illustrates that the trend in average group payoff is not significantly and positively affected by the introduction of a new distribution rule, neither between phase 1 and phase 2, nor in phase 3. It also shows that although group payoffs are not significantly different between treatments, they are typically higher in treatments with exogenous thresholds as compared to those with endogenous thresholds.

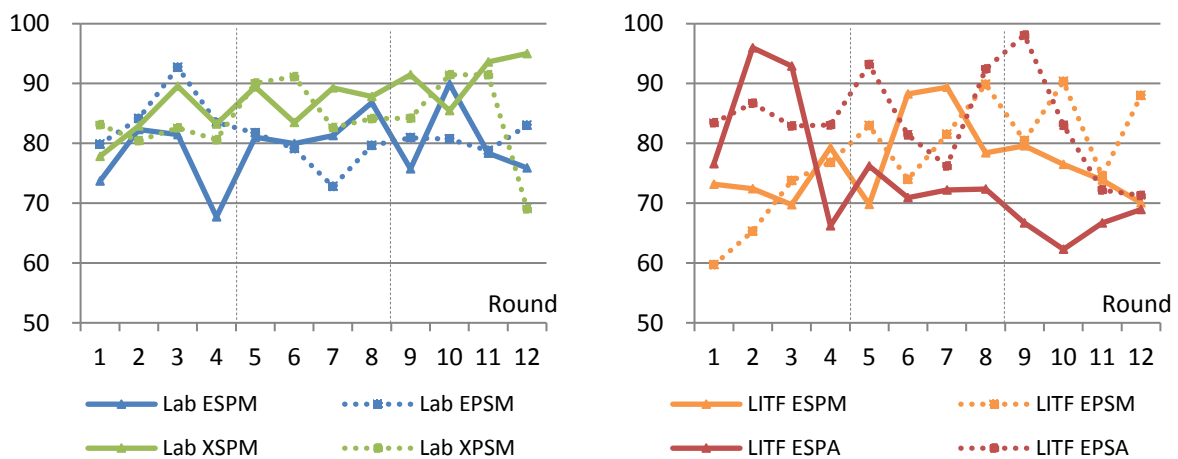


Figure 2: Average group payoffs, lab (left) and lab-in-the-field (LITF; right)

Table 7 in Annex B presents the results for within-treatment tests of phase 1 and 2 averages (the first 8 rounds) versus phase 3 averages (the last 4 rounds). We find that in phase 3: (i) group thresholds are not lower (they are significantly higher in three treatments in the lab,  $p \leq 0.0257$ , W S-R tests, but two of those are exogenous treatments where thresholds are not selected by subjects, and are thus not significantly different from the group thresholds in other treatments,  $p \geq 0.1730$ , W S-R tests); (ii) group contributions are only significantly higher in the lab XPSM treatment ( $p = 0.0743$ , W S-R test); (iii) both

success rates and over-contribution rates are significantly lower ( $p \leq 0.0469$ , W S-R tests) or not different than in phase 1 and phase 2 ( $p \geq 0.1599$ , W S-R tests). The lower over-contribution rates can probably be attributed to learning. However, lower over-contribution rates only result in significantly higher group payoffs in the lab XSPM and the lab-in-the-field EPSM treatments.

Summarizing, there is no treatment where playing the game under the distribution rule that subjects voted for before the start of phase 3 significantly increases performance in term of group contribution, success rate, or group payoff. The results thus offer no support for the hypothesis that endogenous choice would improve game outcomes.

Note that one explanation for not finding a strong positive endogeneity premium effect for the distribution rule choice could be that a substantial number of groups (about 25 to 50 percent in each treatment) ended up with a tied vote. In those cases, the computer randomly selected the distribution rule. Hence, it could be that subjects that got to play with a rule they did not vote for started contributing less, and subjects that got the rule they voted for contributing more, the two effects cancelling out. Hence, as a robustness check, we performed additional within-treatment tests of phase 1 and 2 versus phase 3 averages excluding those groups for which the votes were tied (see Table 8, in Annex B). The results indicate that the earlier conclusion does not change: endogenous choice of the distribution rule has no significant impact on game outcomes. Group payoffs and success and contribution rates also do not show major differences compared to the results in which groups with tied votes are not excluded from the data.

#### 4.4 Influence of subject characteristics

Earlier, we observed different group outcomes between the lab and the lab-in-the-field sessions. Here, we use the post-experiment survey results to check whether subject characteristics and perceptions could explain some of these differences. The 204 subjects that participated in the lab sessions in Tilburg were BSc and MSc students at Tilburg University with different nationalities and academic backgrounds (economics, legal studies, management, social sciences). The 148 students that participated in the lab-in-the-field sessions in Leeuwarden were Dutch BSc students at the Van Hall Larenstein University of Applied Sciences, half of which were students dairy farm management, the other half being students of business administration. Of the Leeuwarden students, 72 percent indicated that their family was in the agricultural business, and another 15 percent indicated that their family worked in agriculture supply services. For the Tilburg students we have no information about family background. Table 3 presents an overview of the survey findings.

Table 3. Summary statistics of subjects' game perceptions

	Lab results	Lab-in-the-field results
% wanted distribution of payoffs to be fair <sup>i</sup>	63	41
% wanted to maximize earnings <sup>ii</sup>	86	65
% found game explanation clear <sup>iii</sup>	94	86
% found the game complicated <sup>iv</sup>	12	38

<sup>i</sup> Question whether respondent agrees with statement "I wanted the distribution of pay-offs (in the experiment) to be fair". We combined the answers of those that "Totally agree" and "Agree".

<sup>ii</sup> Question whether respondent agrees with statement "I wanted to maximize my earnings (in the experiment)". We combined the answers of those that "Totally agree" and "Agree".

<sup>iii</sup> Question whether the respondent believed the explanation of the experiment was clear. We combined the answers "Very clear" and "Clear".

<sup>iv</sup> Question whether the respondent found the game complicated. We combined the answers "Very complicated" and "Complicated".

Note that the distribution of answers between the two groups differs: subjects in the lab-in-the-field were less outspoken, with more neutral answers, possibly because they were less used to answering questions about their fairness considerations and motivations in playing the game. Students in the lab are more experienced participants and generally perceived the game as less difficult. Test results show that all four game perception indicators in Table 3 are significantly different across subject pools ( $p = 0.000$ , Fisher's exact tests).

To determine the impact of subject's characteristics on individual contribution and individual payoff, we run regression models on individual contribution and individual payoffs in phase 1 (rounds 1-4):

$$contribution_{it} = \alpha_0 + \alpha_1 threshold_{it} + \alpha_2 min\_threshold_i + \alpha_3 endogenous_i + \alpha_4 equal\_payoff_{it} + \alpha_5 low_i + \alpha_6 X_i + \epsilon_{it} \quad (1)$$

$$payoff_{it} = \beta_0 + \beta_1 threshold_{it} + \beta_2 threshold\_met_{it} + \beta_3 min\_threshold_i + \beta_4 endogenous_i + \beta_5 equal\_payoff_{it} + \beta_6 low_i + \beta_7 X_i + \epsilon_{it} \quad (2)$$

We run equations (1) and (2) for both subject pools. The lab experiment includes the *endogenous* threshold dummy variable and the lab-in-the-field experiment has the additional *min\_threshold* dummy variable. Variables included in both regressions are: *threshold* (threshold level), *equal\_payoff* (dummy variable for the distribution rule, equal payoff is 1), *low* (dummy variable for player low cost type), and *threshold\_met* (dummy variable for achieving the threshold).  $X_i$  is the vector of personal characteristics of player  $i$  (see also Table 3), including: *earn\_much* (subjects' wish to earn as much as possible), *fair\_distribution* (subject's preference for fair payoff), *explanation\_clear* (subjects' understanding about the instruction for the game), and *game\_complexity* (subjects' perception about the game's complexity). The personal characteristics in  $X_i$  are dummy variables that are split based on the median value of each subject pool. Finally, to control for group correlation we cluster standard errors at the group level. The regression results are presented in Table 4.<sup>8</sup>

We find that among the four game perception indicators, none has a significant effect on individual payoffs in phase 1. For individual contributions in phase 1, only *earn\_much* has a significantly negative impact in the lab-in-the-field, and *game\_complexity* has a negative impact in the lab. Cost type and threshold levels do have significant impacts on both individual contributions and individual payoffs in the experiment. Contrary to Brick and Visser (2015) we do not find that subjects use equity principles in a self-serving way: although insignificant, subjects that find fairness important contribute more, not less, thus reducing their individual pay-offs.

As expected, low cost subjects contribute about 2 points more but still also earn significantly more than high-cost subjects (payoffs are about 1 point higher in the lab and 3 points higher in the lab-in-the-field, averaged over all treatments). Higher thresholds seem to lead to higher individual contributions and higher payoffs. Even though the impact is not very large, the results are significant and in line with the broader literature (Croson and Marks 2000). Under the equal-payoff rule, subjects in the lab-in-the-field contribute significantly more compared to when they play under the equal-sharing-of-the-bonus rule. This confirms the earlier test results in section 4.2. However, the impact of the distribution rule on individual contributions and individual payoffs in the lab sessions is not as

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<sup>8</sup> Note that the regression is based on data from phase 1 only. A dummy variable for the distribution rule vote (phase 3) is thus not included, but see section 4.5 for an analysis on distribution rule preferences.

significant as the group contribution and group payoff test results shown before. Finally, having an endogenous threshold does not significantly affect contributions or payoffs in the lab sessions.<sup>9</sup>

Table 4. Individual contribution and individual payoff regressions (phase 1 only)

	Individual contribution			Individual payoff		
	Lab	LITF	Both locations	Lab	LITF	Both locations
Threshold level	0.180*** (0.014)	0.130*** (0.027)	0.158*** (0.014)	0.133*** (0.021)	0.102*** (0.039)	0.133*** (0.021)
Threshold met or not				6.963*** (0.884)	12.170*** (1.245)	8.813*** (0.829)
Minimum threshold treatment		1.939* (1.028)	0.028 (0.571)		-3.976* (1.109)	-0.075 (0.562)
Endogenous threshold	0.433 (0.487)		1.448*** (0.559)	-0.487 (0.493)		-1.356** (0.562)
Equal-payoff rule	0.804 (0.489)	1.244** (0.667)	0.910* (0.465)	-0.118 (0.534)	-1.058 (0.724)	-0.407 (0.527)
Low-cost type	2.192*** (0.406)	1.922*** (0.614)	1.972*** (0.351)	0.987*** (0.323)	3.342*** (0.549)	2.038*** (0.324)
Fair-distribution	0.768 (0.522)	-0.015 (0.610)	0.386 (0.417)	-0.464 (0.385)	0.290 (0.624)	-0.102 (0.404)
Earn-much	-0.112 (0.715)	-1.334** (0.602)	-1.344*** (0.498)	0.196 (0.524)	0.642 (0.619)	1.176** (0.466)
Explanation-clear	-0.252 (0.550)	-0.856 (0.998)	-0.119 (0.484)	0.348 (0.352)	0.796 (0.916)	0.159 (0.424)
Game-complexity	-0.939* (0.488)	-0.221 (0.653)	-0.651* (0.388)	0.244 (0.384)	0.556 (0.600)	0.407 (0.329)
Constant	1.728 (1.086)	6.270*** (1.538)	3.257*** (1.090)	11.63*** (1.076)	5.398** (2.187)	8.781*** (1.341)
N	816	592	1408	816	592	1408
R-squared	0.319	0.164	0.296	0.383	0.533	0.389
Standard errors in parentheses	*p < 0.10, **p < 0.05, ***p < 0.01					

#### 4.5 Distribution rule preferences

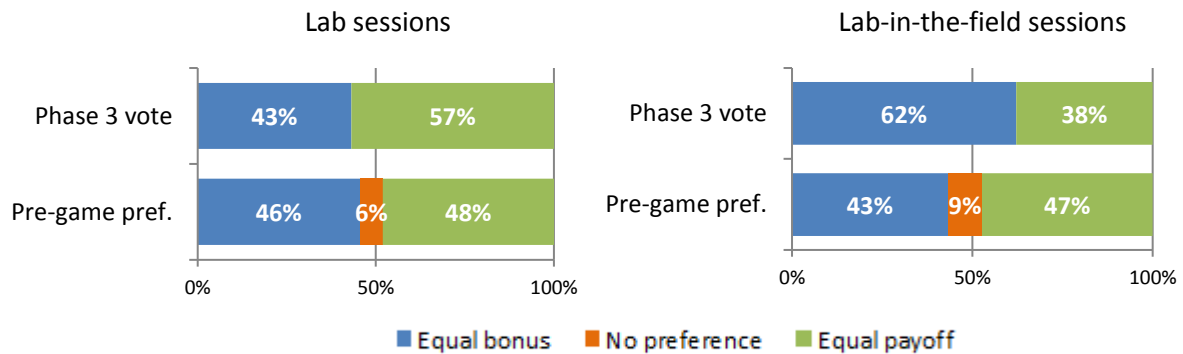
Finally, we consider the individual preferences for the two distribution rules. Before the start of the game (after having read the instructions), we asked subjects which rule they preferred, and again when we asked them to vote before the first round of Phase 3 (round 9). We find that subjects seem to adapt their preferences on the basis of their game experiences. Figure 3 shows that across treatments there is no clear preference for either of the distribution rules at the start of the experiment, in both the lab and the lab-in-the-field ( $p > 0.65$ , binomial tests, using individual voting decisions as independent observations). At round 9, preferences have shifted: the equal-payoff rule is chosen significantly more often in the lab, whereas in the lab-in-the-field this is the equal-sharing-of-the-bonus rule ( $p < 0.10$ , binomial tests, votes at group level as independent observations). This is in line with the finding that,

<sup>9</sup> Note that the coefficients for endogenous treatment are significant in the regressions for both locations. This is due to the fact that the dummy variable is always 1 for the lab in the field sessions (no exogenous threshold). The estimated coefficient for endogenous threshold thus includes part of the constant term.



in the lab, payoffs were higher under equal-payoff, whereas in the lab-in-the-field, payoffs were higher under the equal sharing-of-the-bonus rule.

Figure 3. Distribution rule preferences, pre-game vs. phase 3 vote



## 5. Conclusion

Inspired by recent developments in agri-environmental management in the Netherlands, we have analysed several types of group contracts in an experimental setting. This paper assessed in particular whether findings related to the sharing of benefits and endogenous choice from public good experiments carry over to a threshold public goods game experiment. The latter is more relevant from the perspective of environmental policymaking as payment schemes generally require individuals or groups to reach a certain threshold provision level before a payment is made.

The analysis considered three questions: i) does a differentiated bonus (that results in equal payoffs for heterogeneous subjects) lead to higher group payoffs and contribution levels than offering an undifferentiated, equal share of a group bonus; ii) does endogenous choice of thresholds and distribution rules enhance individual contributions and group payoffs and iii) do the results of the lab setting carry over to the lab-in-the-field environment?

Regarding the effect of an exogenous bonus sharing rule (first two phases, rounds 1-8), we find that the differentiated bonus rule improves game outcomes, but only in the lab sessions. In the lab-in-the-field sessions there are no significant differences between treatments, and we argue that one of the reasons why outcomes between the lab and the lab-in-the-field differ is that contributions are much less efficient in the lab-in the-field: over-contributions are significantly higher in the lab-in-the-field setting and although thresholds are met more often, payoffs are generally lower because of the failure to coordinate.

Endogenous choice has two dimensions in our experiment: (i) subjects vote for a (minimum or average) threshold in the endogenous threshold treatments, and (ii) subjects vote for one of the two distribution rules. For either of the two dimensions, we find no significant impact on game outcomes, and thus no support for an endogeneity premium, contrary to the results of Gallier et al. (2017), Dal Bó et al. (2010) and Haigner and Wakolbinger (2010). Subjects in the endogenous threshold treatments did not perform better than in the exogenous benchmarks, most possibly because the exogenous threshold offers a clear focal point. This interpretation seems to be backed by the significantly negative treatment effect of the endogenous threshold on individual payoffs.

With regard to the transferability of findings, we find that game coordination failures were especially significant in the lab-in-the-field. Although subjects in the lab-in-the-field more often considered the

experiment to be complicated, this did not explain game behaviour substantially. Interestingly, most participants of the lab-in-the-field sessions that perceived the game as complicated were students of the dairy farming and management track. In fact, these students indicated that they had found the game abstract and difficult to follow, whereas the students of the business administration track believed the game to be a good representation of agri-environmental management schemes. This could be an indication that exposure alone is not the key difference, but rather experience with abstract reasoning. Whereas the students of farm management were generally looking for cues how to behave (trying to look at each other's screen, asking for suggestions and advice) the students of business administration did not ask for advice and played the game individually.<sup>10</sup>

Finally, and in line with the broader literature, our results show that, on average, higher thresholds lead to higher contributions and higher payoffs. As environmental payment schemes are typically conditional on reaching a certain threshold of group effort, this suggests that setting higher exogenous thresholds may improve outcomes overall. This is an important finding from the perspective of agricultural policy making, but further testing is required to assess whether these results hold in the field (among real farmers). For this, it may be necessary to introduce more context in game explanation. Also, it may be worthwhile to introduce communication: Tavoni et al. (2011) find that non-binding pledges can overcome barriers to provide threshold public goods, particularly in heterogeneous settings, although Palfrey et al (2017) observe that significant efficiency gains are only realized if players can engage in unrestricted forms of communication in the experiment. Although this comes at the cost of increased noise and heterogeneity (Schram 2005), from a policy perspective it is important to be able to use lab experiments to test policy mechanism design (Ludwig et al. 2011). Ideally, this would involve the actual stakeholders, like in our case the farmers participating in collective agri-environmental management, but for the actual stakeholders to be willing to participate, the experiment needs to be made less abstract and more in line with the actual decision-making problem at hand.

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<sup>10</sup> Clearly, no advice was given and we made sure group members could not look at each other's screen.

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## **Annex A: Game protocol (with framing in bold) Endogenous minimum threshold treatment (ESPM)**

Translated from Dutch to English

### **WELCOME**

**We are about to start with a simulation game, or experiment about collective decision-making. We have developed the experiment to resemble collective agri-environmental management: from the 1<sup>st</sup> of January 2016 onwards, farmers can only receive a subsidy for agri-environmental management when they are part of a collective. Collectives of farmers jointly prepare a plan for agri-environmental management, including a certain ambition level, for which they can receive a subsidy. In the experiment we will talk in more abstract terms about the key elements of the collective decision-making process.**

The instructions of the experiment will be read out aloud now, and you are invited to read along. You are about to participate in an experiment. Before we start, we would like to ask that you do not communicate with other people during this session. Please also turn off your mobile phone. You receive a show-up fee of €5 for being here today. You can earn additional money depending on your decisions and the decisions of other participants. The additional payoff in the experiment will be calculated in points, where the exchange rate is 1 point = €0.10.

### **INSTRUCTIONS**

In this experiment, you decide how you want to spend an endowment that will be given to you. In each round, the endowment you and all other participants receive is 20 points, the value of which corresponds to 2 euro. All the decisions that you make during the experiment will remain anonymous.

In the experiment, you will form a group with three other participants. The group composition will remain the same in the entire experiment, so you will be in a group with the same participants. The choice you and your group members will make is whether you want to contribute (part of) your endowment to a group project. If sufficient contributions are made to the group project, that is, if total contributions in the group are equal to or higher than a group threshold contribution level, the group receives a bonus that is shared between the group members. However, if the threshold contribution level is not met (that is, total group contributions are below the group threshold level), the group project will not be executed and your contribution to the group project will not be transferred back to you.

**You may consider the group project as collective agri-environmental management, the threshold as the group ambition level for agri-environmental management and the group bonus as the subsidy paid when the collective reaches its ambition level, e.g the agreed targets for agri-environmental management.**

In total, the experiment has 3 phases, with each 4 rounds, hence a total of 12 rounds. In each round you have to make two decisions: a voting decision and a contribution decision.

### **THRESHOLD VOTING**

First, you and your group members will be asked to vote for a threshold contribution level for your group project. You can vote for a level of 0, 1, 2, 3, ... up to 80 points (which is the sum of the endowments). The lowest threshold proposed by yourself and your group members will be the group threshold level. The group bonus is equal to 1.6 times the group threshold.

For example, if you vote for a threshold of 40, two group members vote for a threshold of 20 and one group member votes for 10, the group threshold contribution level will be 10 points. If the threshold is met, the group bonus will be  $1.6 \times 10 = 16$  points, and this group bonus will be shared among the group members.

### **CONTRIBUTION CHOICE**

Once all votes for the threshold contribution level have been collected, you and your group members will be informed about the result: the threshold that will represent the group's ambition level. Next, you will be asked to decide how much of your endowment you want to contribute to the group project. Remember, each player has an initial endowment of 20 points. 1 point in the experiment is worth €0.10. You can contribute between 0 and 20 points to your group project.

If the group threshold is met, you receive your share of the group bonus. Recall that the group bonus is equal to 1.6 times the group threshold. If the group threshold is not met, you lose your contribution to the group project, and no bonus is paid. The same rules apply to your group members.

### **PAYOFFS**

For every player, payoffs are calculated as follows.

*If the group threshold is not met, then your*

Payoff =  $(20 - \text{"cost parameter"} \times \text{your contribution})$

*If the group threshold is met, then your*

Payoff =  $(20 - \text{"cost parameter"} \times \text{your contribution}) + \text{your share of group bonus.}$

### **COST PARAMETER**

In each group, two players face a relatively high costs of contributing to the group project and two players face a relatively low cost of contributing to the group project. The "cost parameter" represents this difference: for the two high-cost players the cost parameter = 1.2 and for the two low-cost players the cost parameter = 0.6. The computer will randomly assign two low-cost and two high-cost players in each group. You and your group members will be informed about this at the beginning of the experiment.

Throughout the experiment, all players remain the same player type (high-cost or low-cost).

### **DISTRIBUTION RULE**

For the sharing of the group bonus there are two different distribution rules. You will play the first phase of 4 rounds with one distribution rule, and the next phase of 4 rounds with the other distribution rule. In the last phase of the experiment you can vote for the distribution rule you prefer. The two distribution rules are:

- *Equal-sharing-of-the-bonus rule (phase 1, rounds 1 - 4):* There is no differentiation in group bonus share. If the group threshold level is met, each group member receives an equal share of the group bonus;
- *Equal-payoff rule (phase 2, rounds 5 - 8):* There is differentiation in group bonus share. Group members receive different shares of the group bonus in such a way that every group member receives in principle the same payoff.

### EXAMPLES

Suppose the group threshold is 50 and total group contributions are equal to or higher than 50 such that the threshold is met. The group bonus is equal to 80 points ( $= 1.6 \times 50$ ).

#### Example 1: Equal-sharing-of-the-bonus rule.

Under this rule each group member receives the same share of the group bonus, 20 ( $=80/4$ ).

- If a *low-cost player type* has contributed 5 points, then her payoff will be:  
Payoff =  $(20 - 0.6 \times 5) + 20 = 37$  points.
- If a *low-cost player type* has contributed 20 points, then her payoff will be:  
Payoff =  $(20 - 0.6 \times 20) + 20 = 28$  points.
- If a *high-cost player* has contributed 9 points, then his payoff will be:  
Payoff =  $(20 - 1.2 \times 9) + 20 = 29.2$  points.
- If a *high-cost player* has contributed 17 points, then his payoff will be:  
Payoff =  $(20 - 1.2 \times 17) + 20 = 19.6$  points.

#### Example 2: Equal-payoff rule.

Under this rule, the group bonus of 80 points is distributed in such a way that each group member receives in principle the same payoff.

Suppose a low-cost player type has contributed 20 points, the other low-cost player contributed 10 points, one high-cost player contributed 14 points and the other 8 points. The group bonus of 80 points will then be divided as follows: 20.9, 14.9, 25.7, and 18.5 points, such that payoffs will be equal for all group members.

The resulting payoffs will be:

Payoff low-cost player 1 =  $(20 - 0.6 \times 20) + 20.9 = 28.9$  points.

Payoff low-cost player 2 =  $(20 - 0.6 \times 10) + 14.9 = 28.9$  points.

Payoff high-cost player 1 =  $(20 - 1.2 \times 14) + 25.7 = 28.9$  points

Payoff high-cost player 2 =  $(20 - 1.2 \times 8) + 18.5 = 28.9$  points

Note: Under the equal-payoff rule it may happen (but chances are very slim) that the group threshold level is met, but it is not possible to distribute the group bonus such that all group members receive exactly the same payoff. If this happens the group bonus will be shared equally among the group members. This implies that you always receive at least  $20 - \text{cost parameter} \times \text{your contribution}$ .



### **DISTRIBUTION RULE VOTING**

In the first two phases of the experiment the distribution rule is pre-determined: in phase 1 (rounds 1-4) the distribution rule is Equal-sharing-of-the-bonus rule, and in phase 2 (round 5-8), the distribution rule is Equal-payoff rule.

At the beginning of phase 3, in round 9, players are allowed to vote on the distribution rule they prefer in phase 3 (rounds 9-12). In each group, the distribution rule outcome will be based on majority rule voting. So if the majority in your group votes for Equal-sharing-of-the-bonus rule, the Equal-sharing-of-the-bonus rule will apply in rounds 9-12, if the majority in your group votes for Equal-payoff rule, the Equal-payoff rule will apply in rounds 9-12. In the case that two group members vote for the "Equal-sharing-of-the-bonus rule" and two group members vote for the "Equal-payoff rule", the vote is tied and the computer will randomly determine the distribution rule for your group. You will be informed about the voting outcome in your group and about the distribution rule that will be applied in phase 3.

### **EXPERIMENTAL EARNINGS**

If the experiment is complete, the computer will randomly select three rounds to be paid, one in each of the three phases. You will receive the payoff of these three rounds in Euros. This payoff will be added to the show-up fee of €5.

Are there any questions at this point? Please raise your hand, and we will come to you to answer your questions in private. If there are no further questions, we now continue with a short test. Please answer the questions on the following page. When you have problems answering them, please raise your hand and we will come by to check your answers.

### **TEST QUESTIONS**

- 1) What will be the threshold contribution level if you vote for a threshold of 50, one group member for a threshold of 35, another group member votes for a threshold of 20, and the last group member votes for a threshold of 80 points?  
..... points
- 2) If the threshold contribution level is not reached, will your contribution to the group project be transferred back to you? YES / NO
- 3) If you don't contribute, but the threshold contribution level is reached, do you receive a share of the group bonus? YES / NO
- 4) Suppose you are a low-cost type. What will be your payoff under the equal sharing of the group bonus rule if the threshold contribution level of 50 points is reached and you contributed 10 points?  
..... points
- 5) Suppose you are a high-cost type. What will be your payoff under the equal payoff rule if the threshold contribution level of 50 points is not reached and you contributed 10 points?  
..... points

## Annex B: Summary statistics by phase and overview of non-parametric test results

Table 2A: Summary statistics for each treatment by phase

### Phase 1:

Treatment	Average group threshold	Average group contribution	Average success rate (%)	Average over-contribution rate (on contribution)*	Average over-contribution rate (on threshold)**	Average group payoff
Lab results						
XSPM	17.91 (9.85)	22.71 (11.71)	79 (28)	0.11 (0.38)	0.57 (1.19)	83.37 (9.42)
XPSM	23.75 (9.68)	29.75 (8.68)	80 (31)	0.19 (0.23)	0.40 (0.55)	81.70 (13.43)
ESPM	18.75 (9.82)	25.33 (8.97)	73 (20)	0.17 (0.33)	0.89 (1.40)	76.29 (6.42)
EPSM	24.93 (11.23)	33.80 (14.73)	84 (23)	0.22 (0.21)	0.47 (0.77)	85.05 (9.65)
Lab-in-the field results						
ESPM	17.86 (4.37)	38.32 (8.20)	96 (9)	0.50 (0.19)	2.22 (4.15)	73.66 (9.31)
EPSM	19.05 (3.42)	46.90 (9.58)	100 (0)	0.58 (0.12)	2.16 (2.30)	68.89 (13.35)
ESPA	37.76 (11.24)	42.21 (12.04)	69 (16)	0.04 (0.15)	0.16 (0.37)	82.91 (9.23)
EPSA	40.83 (11.94)	47.08 (9.31)	73 (39)	0.12 (0.19)	0.21 (0.34)	84.03 (21.51)

### Phase 2:

Treatment	Average group threshold	Average group contribution	Average success rate (%)	Average over-contribution rate (on contribution)	Average over-contribution rate (on threshold)*	Average group payoff
Lab results						
XSPM	20.00 (12.92)	25.15 (15.67)	83 (34)	0.10 (0.39)	0.37 (0.86)	87.51 (10.61)
XPSM	20.30 (9.42)	23.98 (10.37)	85 (13)	0.15 (0.14)	0.54 (1.51)	87.00 (5.58)
ESPM	24.92 (14.35)	31.88 (17.35)	82 (29)	0.18 (0.31)	0.59 (1.45)	82.28 (12.24)
EPSM	25.68 (13.31)	24.84 (14.39)	50 (24)	-0.11 (0.20)	-0.06 (0.42)	78.31 (10.88)
Lab-in-the field results						
ESPM	25.68 (15.17)	34.16 (17.25)	82 (24)	0.22 (0.21)	0.77 (1.37)	81.46 (15.42)
EPSM	27.20 (8.75)	40.69 (12.78)	90 (22)	0.31 (0.18)	0.62 (0.65)	82.08 (12.85)
ESPA	43.84 (11.05)	41.73 (13.20)	48 (34)	-0.24 (0.43)	-0.01 (0.34)	72.93 (16.10)
EPSA	40.77 (13.90)	40.16 (15.83)	62 (30)	-0.17(0.66)	0.03 (0.41)	85.80 (11.74)

### Phase 3:

Treatment	Average group threshold	Average group contribution	Average success rate (%)	Average over-contribution rate (on contribution)	Average over-contribution rate (on threshold)*	Average group payoff
Lab results						
XSPM	28.92 (24.10)	29.50 (25.69)	67 (34)	-0.11 (0.27)	0.00 (0.29)	91.38 (18.39)
XPSM	35.85 (18.58)	33.65 (16.73)	63 (38)	-0.14 (0.30)	-0.01 (0.31)	84.04 (15.74)
ESPM	30.28 (23.11)	28.88 (25.23)	58 (36)	-0.15 (0.43)	-0.07 (0.48)	79.98 (17.07)
EPSM	36.45 (21.23)	37.57 (21.06)	68 (30)	-0.12 (0.70)	0.08 (0.38)	80.84 (18.31)
Lab-in-the field results						
ESPM	27.32 (16.20)	30.55 (19.79)	61 (20)	0.11 (0.16)	1.59 (7.49)	75.00 (13.89)
EPSM	25.30 (5.49)	29.90 (5.19)	80 (21)	0.18 (0.35)	1.32 (3.18)	83.31 (12.32)
ESPA	44.09 (10.69)	35.56 (12.66)	27 (33)	-0.40 (0.37)	-0.17 (0.29)	66.15 (18.92)
EPSA	45.03 (13.98)	44.31 (19.84)	56 (38)	-0.03 (0.28)	0.04 (0.61)	81.16 (18.66)

Standard deviations of groups' average values in the phase are given in parentheses.

\*: Defined as  $(\sum_i q_i - T)/\sum_i q_i$ ; \*\*: Defined as  $(\sum_i q_i - T)/T$ . Excluding 24 cases where group threshold is 0

Table 5: Non-parametric test results, distribution rule comparison

p-value	Group threshold	Group contribution	Success rates	Over-contribution rates	Group payoff
Phase 1 Lab ESPM vs Lab EPSM	0.1494	0.0636	0.1192	0.6312	0.0145
Phase 1 Lab XSPM vs Lab XPSM	0.0134	0.1469	0.7699	0.8951	0.7920
Phase 1 LITF ESPM - LITF EPSM	0.4143	0.1229	0.3980	0.9353	0.8075
Phase 1 LITF ESPG - LITF EPSG	0.9566	0.2647	0.1518	0.2534	0.1917
Phase 1 vs Phase 2 Lab ESPM	0.0937	0.2115	0.2277	0.9547	0.0884
Phase 1 vs Phase 2 Lab EPSM	0.8753	0.0354	0.0038	0.0023	0.0843
Phase 1 vs Phase 2 Lab XSPM	0.0455	0.4098	0.7098	0.6098	0.0712
Phase 1 vs Phase 2 Lab XPSM	0.0039	0.0248	0.9121	0.2845	0.3329
Phase 1 vs Phase 2 LITF ESPM	0.2367	0.5534	0.1573	0.0180	0.4990
Phase 1 vs Phase 2 LITF EPSM	0.0796	0.2249	0.3173	0.0431	0.0431
Phase 1 vs Phase 2 LITF ESPA	0.0060	0.7536	0.0755	0.0150	0.0712
Phase 1 vs Phase 2 LITF EPSA	0.7007	0.2484	0.1978	0.0231	0.9721

Table 6: Non-parametric test results, endogenous-exogenous threshold comparison

p-value	Group threshold	Group contribution	Success rates	Over-contribution rates	Group payoffs
Phase 1 Lab ESPM vs Lab XSPM	0.6205	0.3798	0.3017	0.9223	0.0454
Phase 1 Lab EPSM vs Lab XPSM	0.9059	0.4641	0.9473	0.7697	0.6605
Three phases Lab ESPM vs Lab XSPM	0.8063	0.5582	0.4013	0.8836	0.0318
Three phases Lab EPSM vs Lab XPSM	0.5181	0.4823	0.1370	0.7253	0.2695

Table 7: Non-parametric test results, endogenous-exogenous distribution rule comparison

p-value	Group threshold	Group contribution	Success rates	Over-contribution rates	Group payoffs
Phase 1,2 vs Phase 3 Lab ESPM	0.3201	0.9547	0.0204	0.0007	0.3942
Phase 1,2 vs Phase 3 Lab EPSM	0.0257	0.1240	0.7764	0.7299	0.8753
Phase 1,2 vs Phase 3 Lab XSPM	0.0087	0.3078	0.1743	0.0229	0.0843
Phase 1,2 vs Phase 3 Lab XPSM	0.0046	0.0743	0.2192	0.0469	0.8785
Phase 1,2 vs Phase 3 LITF ESPM	0.1763	0.1282	0.0299	0.0425	0.7353
Phase 1,2 vs Phase 3 LITF EPSM	0.6858	0.0431	0.1599	0.0431	0.0796
Phase 1,2 vs Phase 3 LITF ESPA	0.1823	0.0994	0.0073	0.0096	0.0414
Phase 1,2 vs Phase 3 LITF EPSA	0.1730	0.7797	0.3057	0.3109	0.5525

Table 8: Non-parametric test results, endogenous-exogenous distribution rule comparison (excluding groups with tied votes)

p-value	Group threshold	Group contribution	Success rates	Over-contribution rates	Group payoffs
Phase 1,2 vs Phase 3 Lab ESPM	0.1420	0.5337	0.0084	0.0033	0.9292
Phase 1,2 vs Phase 3 Lab EPSM	0.2328	0.5754	0.3598	0.4838	0.2626
Phase 1,2 vs Phase 3 Lab XSPM	0.0192	0.3139	0.1325	0.0077	0.1097
Phase 1,2 vs Phase 3 Lab XPSM	0.0173	0.0904	0.6089	0.3105	1.0000
Phase 1,2 vs Phase 3 LITF ESPM	0.5930	0.2850	0.1573	0.2850	1.0000
Phase 1,2 vs Phase 3 LITF EPSM	0.2850	0.1088	0.3173	0.1088	0.2850
Phase 1,2 vs Phase 3 LITF ESPA	0.4838	0.0116	0.0138	0.0117	0.0173
Phase 1,2 vs Phase 3 LITF EPSA	0.0277	0.4631	0.3441	0.1730	0.3454