Dispersion and Aggregation of Signals in Relational Contracts*

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Abstract

We consider a relational contracting model with multiple agents where a principal chooses the unverifiable performance measure to be individual-based (signal dispersion) or to be aggregated (signal aggregation). In general, the optimality of the choice of the signal structure depends on the informativeness of the performance measurements and whether the agents can monitor each other's action or not. We demonstrate that if the agents are relatively patient, peer monitoring makes the signal aggregation preferable while independent signal is preferable without peer monitoring.

Keyword: Relational Contracting, Signal Aggregation, Tournament, Peer Monitoring
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