

Incentives for accuracy in analyst research*

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Abstract

This paper proposes a model to analyze the dynamic relationship between incentives contracts and analysts' effort in providing accurate research when both long term reputational concerns and short term incentives matter. We show that the analyst's compensation contract reflects his contribution to the firm's profits: full financial (performance based) incentives contracts are used to attract talented analysts while lower human capital analysts are offered a mix of monetary and non monetary (ethic based) incentives. Yet, high human capital analysts are tempted to prefer high short term rewards compared to long-run benefits of increasing reputation.

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Keywords: Motivation, Reputation, Reporting, Investment analysts.

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