



# Organisation as an Incentive Structure

Integrating Economics and Data Science

A network diagram on a white background. It consists of several nodes, each represented by a pushpin of a different color (green, white, red, yellow, blue, red). These nodes are interconnected by a dense web of thin black lines, forming a complex network structure. The pushpins are arranged in a roughly circular pattern, with lines connecting them in various directions, creating a mesh-like appearance.

# The Organisation as an Incentive Structure

**An organisation is an incentive structure that allocates:**

- Effort
- Risk
- Information
- Rewards

**Observed outcomes are responses, shaped by:**

- What is rewarded
- What is risky
- What becomes visible
- Who controls information and narrative

# The Core Problem

**Organisations measure more than ever, yet outcomes fall short**

- Attrition persists despite engagement analytics
- Sales productivity spikes, then falls
- Diversity targets plateau
- Risk, adoption, and efficiency metrics improve locally but deteriorate elsewhere

**Question:**

Why do well-intended, data-driven interventions repeatedly fall short to sustain change?

# What's Missing?

## Economics Informed Incentive Design is missing!

- Organisations deploy advanced analytics and now LLMs
- Leaders refine dashboards, targets, and rules
- Behaviour adapts, metrics degrade, and problems reappear in new forms

### **Key distinction:**

Metrics describe outcomes. They do not explain why those outcomes persist.

**Illustrative Application: Economics-informed incentive design for sales distribution channels. See the corresponding article for details.**

# Economics VS Data Science

## What data science does well:

- Reveals patterns at scale
- Supports computation and prediction
- Investigate factor-based causality
- Suggests general insights and designs

## Can DS alone do well the following:

- Contextually understand the behavioural regularities in proprietary data
- Unravel what more needs to be understood
- Identify reasons for the persistence of design failures
- Design customised holistic incentive systems
- Control experiments and refinement of the incentive systems

# Possible Observations

**When incentives are misaligned, patterns can emerge:**

- Talent pipelines that unintentionally filter out relatively high-potential candidates.
- Informal screening and bias-distorting selection
- Performance systems rewarding controllability and threshold optimisation
- Persistent pay and diversity gaps
- Leadership composition can act as a signal
- Information asymmetry within critical decision-making structures

**These emerge unintentionally, even in well-managed organisations**



# Metrics Are Signals, Not Truths

## From Metrics to Mechanisms

- Dashboards track attrition, sales, risk, adoption, etc.
- Interventions focus on targets, rules, and scorecards
- People adapt to incentives

Metrics should be treated as signals of incentive equilibrium, not ground truth.

### Key questions:

- What behaviours are expected under this system?
- What value-creating behaviour disappears because it is unrewarded or risky?

# Human Capital and Hiring

## Human capital is an incentivised asset

Observed behaviours:

- Recruitment processes often emphasise speed and throughput
- Hiring pipelines are optimised for cost and role alignment
- Informal screening can favour familiarity and existing networks

### System outcome:

Pipelines may prioritise short-term cost efficiency, ease of compliance, and perceived certainty over long-term potential and value creation.

### Implication:

Talent outcomes can be responses to incentive design.

# Incentives, Competition, and Performance Dynamics

## **Economic insight: Tournament dynamics**

- Scarce promotions, bonuses, and recognition create contests
- Subjective evaluation invites rent-seeking
- Collaboration declines under rank-based rewards

## **What is often observed:**

- Rating compression
- Threshold bunching
- Internal competition crowding out value creation

# Information and Resilience

## Information is also incentivised

- Managerial networks can unintentionally shape how information is framed and escalated
- This can result in senior leadership operating with partial signals rather than ground truth

## Risk during stress periods:

- Weakened human capital has a slow response to market challenges
- Reactive restructuring, leadership changes

## Insight:


Resilience also depends on incentives for timely truthful information flow.

# Incentive Design Is a Strategy

## Effective organisations:

- Align risk and reward across roles and levels
- Offer multiple paths to success
- Pilot incentive changes and observe adaptation
- Account for pipelines, power, bias, and information flow
- Recognise that internal incentives shape external market behaviour

**Incentive design is organisational architecture.**



# From Data to Design

An organisation is simultaneously:

- A human capital investment vehicle
- A competition allocating effort, risk and reward
- A network shaping information and power
- A surplus creation and allocation mechanism
- A market-facing signal of priorities and values

Behaviour follows payoffs.  
Data reveals patterns.  
Economics explains persistence.

## Leadership Takeaway:

Sustained performance requires coherent incentive design that makes desirable behaviour rational, visible, and lasting — especially under stress.