

## Article

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# How Interconnected Organizational Architecture Drive Long-Term Competitiveness: Comparative Case Study of Puig and Janus Henderson

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**Abstract:** This comparative study explores how organizational architecture influences long-term competitiveness through two contrasting cases. The Spanish family firm Puig successfully addressed intergenerational succession challenges by adopting family self-disempowerment — decentralize family control, integrate professional managers, and enforce talent selection process. In contrast, Janus Henderson's structural flaws — centralized family control, excessive focus on quantifiable short-term incentives, and fragmented evaluations resulted in prolonged inefficiencies and capital outflows. Therefore, the analysis identifies three critical success factors: balanced allocation of decision rights to reduce information asymmetries, incentive systems bridging individual and organizational goals, and performance evaluations emphasizing collaboration over narrow metrics.

**Keywords:** organizational architecture; assignment of decision rights; rewards and incentives; performance evaluation

## 1. Introduction

Organizational architecture serves as the foundation for aligning overarching objectives and achieving sustained competitive advantage. By integrating decision-making mechanisms, incentive structures, and performance outcomes, it profoundly influences a company's operational coherence and effectiveness [1]. Consequently, organizations often implement structural changes or innovations designed to address ever-changing challenges. However, these transformations are seldom without risk, and the success or failure of these efforts provides valuable lessons in organizational design and governance. This essay will draw on two recent articles: the first examines how the Spanish family enterprise Puig undertook a process of family self-disempowerment, successfully mitigating incomplete contracting challenges associated with intergenerational succession and power distribution. In contrast, the second article critiques Janus Henderson, where misaligned performance evaluation methods undermined organizational effectiveness and increased inefficiencies in the workplace [2]. This comparative analysis highlights the complex interrelationships between organizational design and economic outcomes, offering insights into how firms can strategically address structural challenges.

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## 2. Case Study 1: Puig's Family Self-Disempowerment

### 2.1. Basic Overview

Puig, a global family enterprise headquartered in Barcelona, Spain, specializing in fragrance, fashion, and beauty products, has initiated a significant organizational innovation. The company has implemented a process of family self-disempowerment, aiming to diminish the influence of family members on day-to-day operations by restructuring the family council and preparing for a public listing. This strategic shift has yielded remarkable financial outcomes. Puig reported a revenue increase of 40% in 2022, reaching €3.6 billion, accompanied by a 71% surge in net profit to €400 million compared to the previous year [3]. It also successfully debuted on the Madrid Stock Exchange, raising €2.6 billion through its initial public offering, with the company achieving a valuation of nearly €14 billion. Additionally, during the pre-IPO phase, Marc Puig's brothers and two cousins resigned from the board, making way for two independent directors. This transition was intended to separate ownership and managerial authority, thus enhancing the effectiveness of the fiduciary model and leveraging the comparative advantages of professional managers. Furthermore, Puig has enforced a rigorous talent selection process. Marc Puig articulated that fourth-generation family members who wish to engage in the company's governance must overcome numerous obstacles and cannot easily attain managerial roles. This mechanism ensured the management team's professionalism and competence [4].

### 2.2. Rationale for Puig's Governance Restructuring

The rationale behind this strategic transformation originates from Marc Puig's initial period as CEO, during which the organization was governed by a four-member family committee. Despite ostensibly distributing decision-making authority, this governance model exacerbated intra-family disputes and introduced considerable complexity into management processes. Furthermore, Puig's aspirations for global expansion underscored the urgent need to integrate external expertise to enhance the firm's competitiveness in international markets. Absent the reduction of family influence, there existed a significant risk of impeding organizational growth [5]. Therefore, this initiative of family self-disempowerment was deemed indispensable for securing its market leadership.

### 2.3. Addressing Incomplete Contracting in Succession

Leveraging this critical organizational transformation, Puig has effectively tackled the incomplete contracting issues associated with intergenerational succession, which arise from the unpredictability of successors' capabilities and intentions of family successors, as well as shifts in market conditions. Some family members may lack the requisite managerial expertise, while others may pursue goals incongruent with those of the preceding generation, precipitating conflicts of interest. By restructuring the family council, integrating external professional managers, and implementing rigorous selection mechanisms for family members, Puig has institutionalized and formalized the decision-making framework for succession. This strategic approach mitigates governance complexities induced by unpredictability and misaligned interests, thereby ensuring a more systematic and resilient succession process. Furthermore, the governance transformation also mitigates the incomplete contracting issues in previously centralized family power. Under the prior model, decision-making power was dominated by family members, often leading to pronounced information asymmetries stemming from their insufficient knowledge of operational complexity and external market dynamics, which increased the possibilities of errors in contract negotiations. By curbing family involvement and integrating external experts into the decision-making process, Puig has substantially narrowed these informational gaps [6]. This integration facilitates access to specialized market intelligence and minimizes errors arising from informational deficiencies during contract execution. However, this transformation may also exacerbate information asymmetry in a different di-

mension. External managers, motivated by short-term performance objectives, might engage in decision-making that conflicts with the family's long-term strategic interests, but due to a lack of professional knowledge in contract negotiations and a lack of direct supervision in operational execution, family members may be unable to detect managerial deviations from corporate goals driven by self-serving motives. This misalignment heightens the potential for moral hazard, thereby exacerbating the underlying information asymmetry.

#### *2.4. Enhancing Incentives and Performance Systems*

Although the strategy of family self-disempowerment is inherently imperfect, it is a crucial component that makes it possible to enhance other essential dimensions of Puig's organizational framework, specifically incentive mechanisms and performance appraisal systems. This strategic realignment necessitates the establishment of comprehensive and rigorously structured evaluation and reward systems, designed to discern and incentivize top-performing individuals and teams, thereby enabling the selection of exceptional external managers to wield decision-making authority effectively and eliminate underperforming personnel [7]. Indeed, empirical evidence reveals that employees overwhelmingly favor a comprehensive compensation package that includes both competitive salaries and substantial benefits, rather than a singular focus on one component [2]. In line with these insights, Puig has implemented a well-structured compensation model, beginning with fixed salaries determined based on executive committee members' roles and current market standards to attract and retain the top talent. It also provided annual variable compensation, typically ranging from 100% to 120% of the fixed salary, which was tied to corporate performance, with provisions for increases up to 200% under exceptional circumstances. To align managerial incentives with the company's long-term strategic objectives, Puig also employed stock options as a pivotal component of remuneration. Additionally, the firm offered a wide range of fringe benefits, including pension schemes, health insurance, and vehicle access, to ensure financial security for executives beyond their tenure. To further enhance Puig's incentive and performance appraisal framework, it is advisable to integrate the Objectives and Key Results (OKR) methodology, a bottom-up performance assessment approach that actively involves employees in goal-setting processes, thereby fostering autonomy and accountability [3]. Given that family enterprises like Puig often prioritize legacy and continuity, which can occasionally stifle innovation, the adoption of OKR would encourage employees to establish challenge-driven targets. This approach not only drives continuous innovation and improvement but also places Puig in a competitive position in the rapidly changing global luxury market [3]. Moreover, performance outcomes derived from the OKR framework could provide information for salary adjustments, reinforcing the authority of high-performing external managers while heightening the cost of non-compliance and mitigating moral hazard risks.

#### *2.5. Comparative Insight: LVMH's Hybrid Governance Model*

Ultimately, unlike many traditional family enterprises, Puig has distinguished itself by promoting family self-disempowerment, facilitating a dynamic adjustments in decision-making authority, incentive structures, and performance appraisal systems [8]. This strategic effort has promoted the coordinated optimization of various management functions, ensuring that the organizational framework remains both adaptive and robust. Such a unique transformation within a family business context is seldom observed in non-family firms. Nevertheless, other family enterprises pursuing global expansion have historically succeeded in delegating managerial authority, minimizing direct familial involvement, and thereby enhancing organizational efficiency. For instance, LVMH, the renowned French luxury conglomerate, has adeptly integrated family supervision with professional leadership. Under the leadership of Bernard Arnault, the firm intentionally

placed non-family executives in pivotal roles, driving its global expansion and streamlining operations.

### 3. Case Study 2: Janus Henderson's Structural Deficiencies

#### 3.1. Basic Overview

However, not all organizational structures prove to be effective in practice. Unlike the well-coordinated framework implemented by Puig, which achieves a balance between professional management and family supervision, some companies encounter structural deficiencies that hinder collaboration and efficiency. Janus Henderson, a global asset management firm formed through the 2017 merger of Janus Capital Group and Henderson Group, exemplifies this issue. Rather than fostering synergies, the merger led to enduring coordination challenges, ultimately resulting in 18 consecutive quarters of net capital outflows and when Dibadj initially took over, the assets under management decreased to approximately \$275 billion [9]. As Masters highlighted, Janus Henderson persisted with a traditional performance evaluation model that emphasized short-term metrics and cost-cutting without effectively promoting inter-departmental collaboration. This approach fostered an 'island effect', where employees operated without shared objectives and departmental communication was limited. Consequently, this evaluation model intensified intra-organizational competition, undermining cohesive goal alignment, which in turn diminished team efficiency and weakened managerial oversight.

#### 3.2. Lessons from Bain & Company's Evaluation Reform

Indeed, insights from other sectors, particularly Bain & Company, have offered valuable cautionary examples of the risks associated with an unbalanced organizational structure focused narrowly on short-term outcomes. Bain's early performance evaluation framework concentrated primarily on indicators related to customer engagement and direct revenue generation, emphasizing short-term client satisfaction and rapid project completion [4]. This model, while effective in driving repeat business and demonstrating client value, led to a scenario where consultants, focused on maximizing individual revenue contributions, operated in silos. It greatly discouraged cross-departmental collaboration and inhibited knowledge sharing. Recognizing the limitations in this model, Bain adopted a corrective "third way" performance evaluation approach, aiming to create a more balanced and multidimensional framework. This revised system evaluates consultants across three core dimensions: client outcomes, which emphasize value creation for clients beyond immediate deliverables; employee outcomes, which foster leadership skills and teamwork among consultants; and contributions to intellectual property and innovation, recognizing efforts toward advancing the firm's knowledge base and competitive edge. Bain's research elucidated that organizations implementing this approach demonstrated a significant correlation between decision-making efficacy and business performance, with a confidence interval of at least 95% [10]. Therefore, by diversifying its performance evaluation metrics, Bain not only addressed the detrimental effects of isolated work practices but also improved the decision-making efficacy. It also encouraged consultants to balance individual performance with collaborative contributions, fostering an organizational culture that values both innovation and sustainable, long-term growth.

#### 3.3. Fundamental Contractual Failures

Despite such cautionary example highlighting the risks of a narrowly focused performance evaluation model, Janus Henderson failed to heed these lessons, allowing similar organizational deficiencies to emerge. These structural shortcomings stemmed largely from a disregard for fundamental contractual issues. Firstly, the company's incentive contracts overlooked a holistic assessment of employee contributions, focusing predominantly on easily quantifiable short-term metrics such as capital inflows, while neglecting vital but less tangible aspects like cross-departmental collaboration, innovation, and client

relationship management. It created significant holes in the contractual framework, leading to inaccuracies in evaluating the full scope of employee contributions. Consequently, employees became more focused on overcoming the shortcomings of an incomplete performance evaluation system to minimize personal risk, rather than aligning their efforts toward the company's long-term objectives. Secondly, the pronounced isolation among departments fostered significant information asymmetry within Janus Henderson. This departmental fragmentation hindered senior management's capacity to comprehensively assess employee performance across diverse market conditions. Consequently, the lack of comprehensive insights compromised the effectiveness of contract design, making contract terms difficult to adapt to the dynamic realities of the workplace, particularly in aspects requiring interdepartmental collaboration and innovation. This misalignment also weakened employee motivation, as the contracts failed to recognize and reward their broader contributions to organizational goals.

### *3.4. Impact on Decision Rights and Incentive Alignment*

The missteps in performance evaluation also directly impacted the allocation of decision-making authority and incentives within Janus Henderson. Specifically, the evaluation framework's emphasis on short-term financial metrics and departmental autonomy created substantial obstacles to power allocation. With management unable to access comprehensive and cross-departmental data, senior leadership faced difficulties in distributing decision-making power effectively among middle and base-level employees. The concentration of decision-making authority in the hands of a small number of top managers has led to a lack of understanding of the company's strategic goals across departments, prioritizing their own objectives over the organization's broader strategic objectives, which would exacerbate internal divisions. Furthermore, the incentive structure, skewed heavily towards short-term gains, failed to adequately recognize and reward contributions in areas like cross-functional collaboration and long-term innovation. As a result, employees who played integral roles in fostering teamwork and innovation were often overlooked in reward distributions, leading to a perceived inequity in incentives. It would stifle their motivation and discouraged employees from aligning themselves with the company's long-term growth ambitions.

## **4. Conclusion**

In conclusion, the different organizational architecture of Puig and Janus Henderson underscore the profound impact of organizational design on fostering long-term stability and growth. Puig's strategic approach, characterized by a balanced distribution of decision-making authority, a comprehensive incentive framework, and a well-structured performance appraisal system, facilitated a cohesive and collaborative culture. This alignment between authority, rewards, and evaluation not only mitigated intergenerational governance challenges but also effectively aligned employee contributions with the company's long-term strategic objectives. Conversely, Janus Henderson's reliance on a fragmented structure — marked by centralized decision-making, short-term financial incentives, and a narrowly focused evaluation model — contributed to isolated departmental operations and weakened organizational cohesion. For sustained long-term growth, organizations should create an adaptive framework that integrates decision-making, incentives, and performance evaluation. To empower employees, companies should actively distribute decision rights, enabling teams to respond swiftly and take ownership of outcomes, thereby fostering a proactive and invested workforce. Incentive systems are advised to recognize both individual accomplishments and collaborative efforts, ensuring that personal goals are connected to the broader organizational mission. Furthermore, implementing a comprehensive performance evaluation approach that emphasizes teamwork and lasting contributions over narrow short-term gains can help cultivate a culture



of continuous improvement and adaptability. Together, these strategies will foster a cohesive structure that remains resilience and strategic flexibility in the rapidly changing market.

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