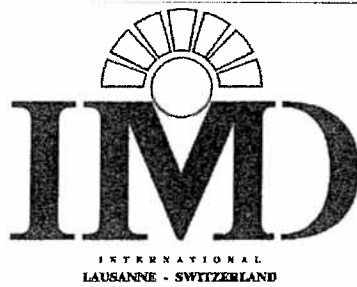


# **ASSIGNMENT**

**NAME :**

**Please read the real-life business success story of  
LEGO GROUP from Denmark and:**

- 1) Write up your personal INSIGHTS on the story.**
- 2) Spell out your 3 specific personal LEARNING POINTS from the story.**



## The LEGO Group

IMD Distinguished Family Business Award Winner 1996

*by Jonathan Pellegrin\**

Founded in 1932, the LEGO Group, with close to 9,000 employees all over the world, has consistently blended business and family interests successfully. There are many lessons family businesses can learn through reviewing the following best practices identified by IMD's Distinguished Family Business Award selection panel during their research of the LEGO Group:

- **Prudent risk taking and conservative financial management**

During the Great Depression of the 1930s, financial catastrophes faced by the fledgling carpentry company's customers nearly forced the founder and his business into bankruptcy. Recognizing that people could not afford to build houses, Ole Kirk Christiansen reinvented his business and began producing stepladders, ironing boards and wooden toys. Demand for the well-made toys (called LEGO - a combination of two Danish words "leg godt" meaning "play well") was strong, and new products were developed. Ironically, the diversification that was created to save the company, in fact, became the company. Christiansen believed that producing very high quality, less expensive products with more stable consumption levels would protect his company against future economic downturns.

The financial problems caused by the depression, along with some early management difficulties, persuaded the family to embrace a conservative attitude toward their balance sheet. The family felt a deep sense of responsibility to both their employees and vendors and early on developed a reputation for honoring their financial obligations.

- **Concentration and focus on full exploitation of core product line**

In 1949, the company introduced a primitive forerunner of what was to become the revolutionary plastic building bricks. These toy construction components were popular and represented an opportunity for significant growth.

In 1955, the founder's son, Godtfred Kirk Christiansen recognized that the children's toy market was primarily comprised of "one-off" products. He filled what was perceived as a market gap by launching the "LEGO System of Play" based on the building bricks. The concept involved development and packaging of a starter kit followed by the systematic addition of new elements and play themes. This product development cascade was designed to stimulate greater retail commitment of shelf space and more time spent with the product and additional purchases by consumers.

Considering that just six of the original eight studded bricks of the same color can be put together in 102,981,500 different ways, the opportunities for creative play are virtually limitless. Every year, more than 100 new LEGO sets are added to the range, and around the same number are withdrawn. New elements, play themes and sets result from the hundreds of ideas that come out of six product development departments in Denmark, the USA and Japan.

- **Engender interest of next generation in the family business at an early age**

Godtfred Kirk Christiansen, the founder's son, began working in the company when he was only 12 years old and literally grew up in the company. By the age of 18, he was designing new toy models. At age 24, he had become his father's right-hand man, responsible for product development, sales and finance. He gradually assumed more and more responsibility for managing the business as his father's health declined.

From an early age, GKC's son, Kjeld Kirk Kristiansen developed a reputation as a skilled and imaginative LEGO builder. GKC looked to young Kjeld as a great source of product development ideas. Upon completion of his upper-secondary education, Kjeld joined the staff of the Group's German subsidiary as a trainee. He then took a commercial degree in Denmark, followed by an MBA in 1972. During his studies, he gradually realized what role he wanted to play in the family business.

The first two generations, Ole and then Godtfred Christiansen, did **five** important things in developing their sons for the business:

1. They exposed their sons to the business at a very early age.
2. They provided their sons with opportunities to work on meaningful projects as soon as they began working in the company.
3. After giving their sons actual working experience in the company, the sons went away to school for further education and training.
4. They gave their sons significant responsibilities and allowed them to succeed or fail in a visible way.
5. They gave their sons the opportunity to increase their responsibilities at a rapid rate and grow professionally while still very young and full of enthusiasm for the business.

- **Hire a non-family executive to assist with generational management transitions**

Vagn Holck Andersen, a seasoned Danish executive, was consulting with Godtfred about the possible sale of the LEGO Group following the tragic death of his daughter in an automobile accident. Holck advised GKC not to sell the company, and was consequently hired as senior vice-president, reporting to GKC, responsible for maintaining control over the rapidly growing organization.

Andersen's role over his entire career became one of being the "buffer" between father and son. Throughout his involvement with the **LEGO** Group, Andersen was a key contributor to the decision making processes and facilitated the dialogue between father and son so decisions were made objectively, not emotionally. He retired in 1996 as Chairman of the parent company.

- **Global expansion should begin close to home with familiar products**

The globalization of the LEGO Group was nearly as systematic as the development and expansion of the product line. Beginning in neighboring Norway, distribution was expanded

throughout Europe. Subsequently, captive sales companies were established around the world. By the early 70s, the LEGO Group had truly become a well-known global brand.

- **An outside, professional board stretches and challenges the CEO**

When Kjeld Kirk Kristiansen received the IMD Distinguished Family Business Award, he said, "To have a strong and active board was not even considered in my grandfather's time, and as to my father, he wanted to have a board, although at the same time, he didn't really want to use it. For me, however, it has been very important to work closely together with an active and professional board. Especially when it comes to involving the board members as sparring partners for discussing new concepts and strategies."

Today, the Board of Directors of LEGO Group A/S includes two executives from large, multi-national public companies, one of which is family controlled, the non-family CEO of a very large multi-national family-owned company, the Kristiansen family lawyer and Kjeld's brother-in-law representing the family ownership outside of Kjeld's family.

- **Good corporate citizenship creates a better business environment**

All of the LEGO Group's business activities have followed the guiding principle that it must be a good corporate citizen. The company has been recognized throughout the world for the positive contributions it has made to the development of young people through LEGO products as well as the contributions it has made to the communities in which it operates.

Billund, Denmark has a modern, efficient international airport served by commercial airlines thanks to the LEGO Group, which donated it to the community. It is the second largest airport in Denmark. In 1985, the LEGO Group founded an annual international prize which now awards DKr. 1 million to individuals and/or groups which have: developed a wider knowledge of the conditions under which children live and grow up; promoted children's welfare and development; made an outstanding educational effort for the benefit of children or helped generate a broader understanding of children, their situation and conditions.

The company carries out regular educational initiatives dedicated to preserving the environment, and it has been recognized and honored for developing and adopting environmentally sensitive manufacturing and production processes.

- **Take time for a sabbatical; it can renew and refresh the company**

An effective way for a family CEO to get refreshed and renewed is to periodically get away from the business and take a sabbatical. In Kjeld Kristiansen's case, after 15 years as President of the LEGO Group, a prolonged illness *resulted* in an unplanned sabbatical.

It proved, however, to be fortunate. Having sustained growth for more than four decades and continuous improvement in its systems approach, the company had nearly "written the book on success." There were, however, many things going on in the LEGO markets to which it was not reacting because of its tradition of success and bureaucratic management.

While Kjeld was convalescing, he realized that as LEGO markets were undergoing major changes due to globalization, information technology, the media revolution and related new life styles, the approach of LEGO management would also have to change. The historic drive for consensus had led to a very system-and plan-oriented organization which had lost the necessary dynamism and entrepreneurship to effectively compete in the new world order.