



ITS 835

Chapter 6

Strategic Risk Management at the LEGO Group
Enterprise Risk Management

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Introduction

- LEGO Group history
- Strategy
- Legacy risk management
- Enterprise risk management at LEGO
 - Initial ERM
 - Monte Carlo simulation
 - Active Risk Assessment of Business Projects (AROP)
 - Preparing for Uncertainty
- The PAPA model
- Risk management ROI

LEGO Group History

- Headquarters in Billund, Denmark
- Family owned
- Second largest toy manufacturer (globally)
- Founded in 1932
 - Iconic bricks first introduced
 - Bricks manufactured since 1958 fit with one another
- 2400 different brick shapes
 - Manufactured in plants across four countries

LEGO Strategy

- LEGO mission
 - *"Inspire and develop the builders of tomorrow"*
- LEGO vision
 - *"Inventing the future of play"*
- Growth strategy
- Innovation strategy

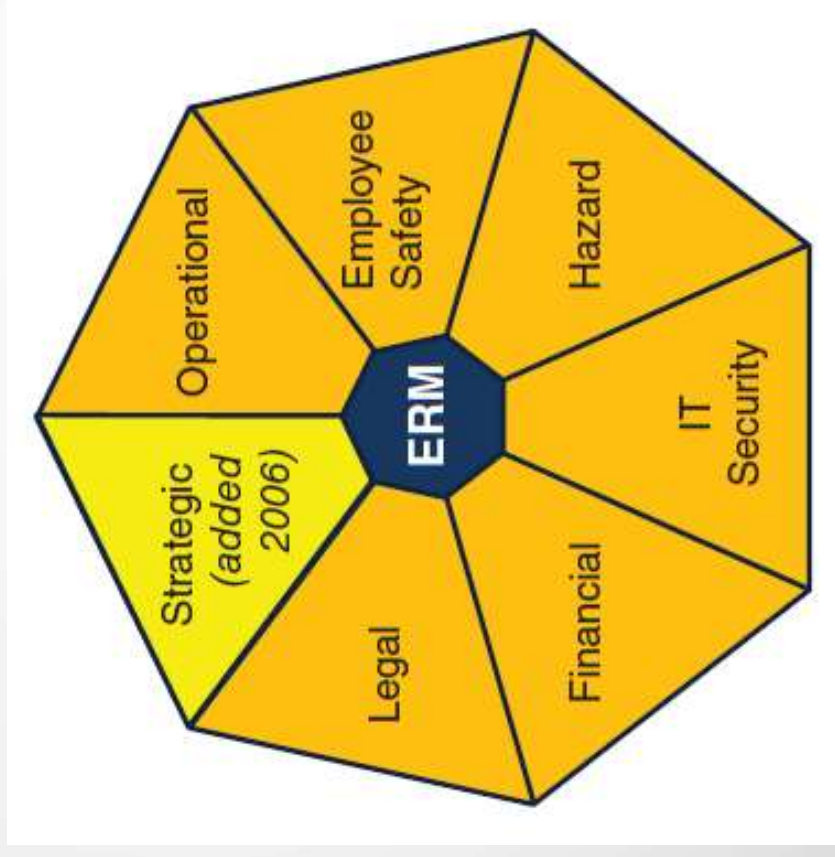
ERM at LEGO

- Risk management developed in 4 stages
 - Step 1: Enterprise risk management
 - Step 2: Monte Carlo simulations
 - Step 3: Active Risk & Opportunity Planning (AROP)
 - Step 4: Preparing for Uncertainty
- Order is by initiation sequence
 - Steps 1 & 2 are damage control
 - Steps 3 & 4 are proactive



Exhibit 6.1 Four Elements of Risk Management at the LEGO Group

ERM Step 1: Enterprise Risk Mgmt



ERM Step 2: Monte Carlo Simulations

- Monte Carlo simulation
 - Method of evaluating the effect of input variances on a model of a complex system
 - In short, it helps to see how input variances affect outcomes
- Helps to define risk tolerance
- Implemented in three areas
 - Budget simulation
 - Credit risk portfolio
 - Consolidation of risk exposure

ERM Step 3: AROP

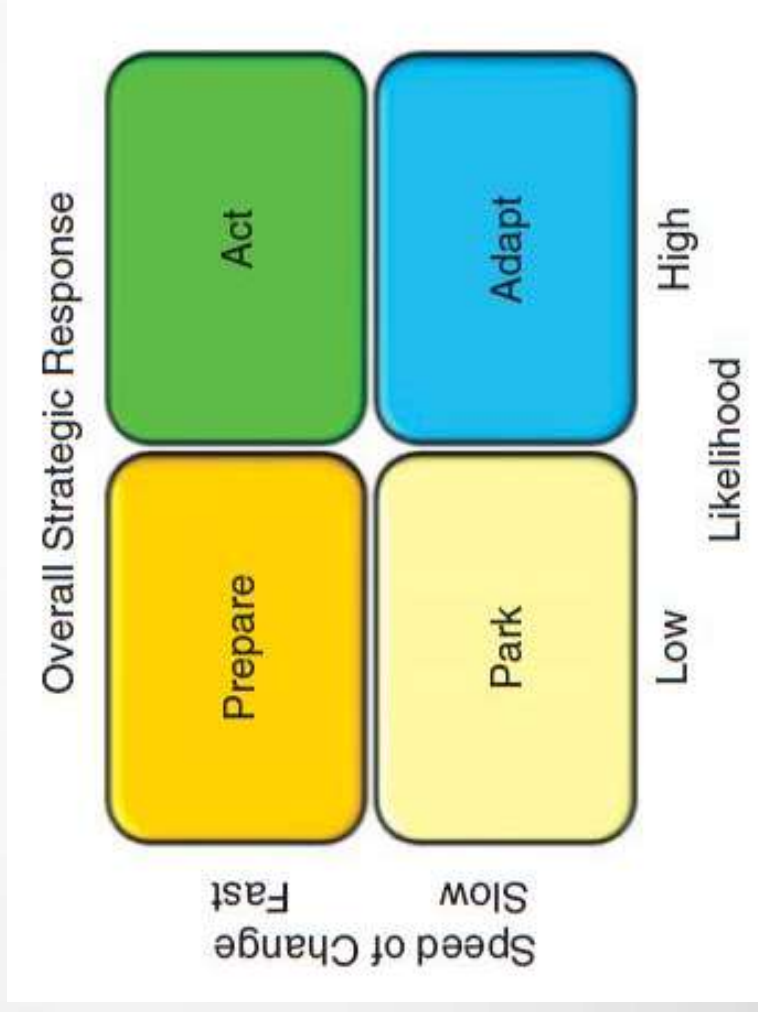
- Active Risk Assessment of Business Projects (AROP)
- Formal approach to defining and handling project risk
- Includes multiple steps
 - Identification
 - Assessment
 - Handling
 - Reassessment
 - Follow-up
 - Reporting

ERM Step 4: Preparing for Uncertainty

- Preparing for Uncertainty
 - Defining and Testing Strategies
- Workshops precede strategic planning sessions
- Four scenarios
 - Agree on two key drivers of uncertainty
 - Describe each of four quadrants of 2x2 matrix
 - Define strategic issues
 - Actions to take
 - “who is doing what by when?”

The PAPA Model

- Park, Adapt, Prepare, Act: PAPA
- Park
- Adapt
- Prepare
- Act



Risk Management ROI

- Strong support from upper management
- Efforts have resulted in value
- Many LEGO key planning processes now include risk management
- More visibility of enterprise risk
 - More opportunity to address risk

Summary

- Risk management is not risk aversion
- ERM allows LEGO to take risks when appropriate
 - Grow
 - Create value
- LEGO strategic risk management mission
 - *"Drive conscious choices"*