

Niels Lunde

The LEGO miracle

Translated from the Danish
By Mark Kline

The spring of 2004 was a difficult time for LEGO. Despite the ups and downs with Poul Plougmann, the company still had its consensus-oriented business culture. The employees may have gone through a round or even several rounds of layoffs, but they had been conducted in an atmosphere influenced by the company showing a profit, or at least in control of the situation, thanks to KIRKBI.

The situation was different now. The leadership talked about how LEGO'S independence was at stake, and they made brutal decisions. Jørgen Vig Knudstorp and Jesper Ovesen were both involved. Knudstorp repeatedly urged employees to think short term when making decisions, and Jesper Ovesen did what he was best at: he cut expenditures, with severe consequences for both the salary account and lesser, though symbolic, expenses. One of the first things to be shut down was the company's costly practice of using three company planes.

Nothing was holy to Jesper Ovesen. He put Ole Kirk Christiansen's house in Billund up for sale, a nearly symbolic maneuver. Kjeld Kirk Kristiansen's mother, Edith, was shocked when she caught wind of this, and she immediately said that if the foundation wouldn't buy the house, she would.

Jesper Ovesen had no plans to make any special considerations for anyone's emotional state. He simply determined that LEGO was vulnerable concerning property in Billund, and in that light it was logical to get rid of as much dead weight as possible. All this ended peacefully, however, when the foundation took over the house, which presently is a museum of LEGO'S history.

Lars Kolind poses two important questions to Jørgen Vig Knudstorp

Kjeld Kirk Kristiansen had taken a big risk when in December 2003 he chose Jørgen Vig Knudstorp and Jesper Ovesen to head the company's new senior management. True, both Knudstorp and Ovesen were talented in business, but they had little experience in management. Jørgen Vig Knudstorp was practically a novice. Previously he had only been in charge of a handful of employees, and Ovesen had never been preoccupied with personnel management, to put it mildly.

Additionally, Jørgen Vig Knudstorp's situation was peculiar in that he wasn't officially the chief executive of the company. Kjeld Kirk Kristiansen

still held the post, though in title only. While Jesper Ovesen had the significant title of CFO, Knudstorp was merely a senior vice president, like the others in senior management. In short: Jørgen Vig Knudstorp's starting point for taking on the role of chief executive of LEGO was weak.

The members of the board of directors found the young Knudstorp to be unsure of himself and without a clear vision of what he wanted to accomplish. It could almost be said that Knudstorp used the board as an interlocutor, and when he held a presentation he relied on numberless slides of graphs and numbers. He took notes during meetings, as he had always done, and it was only when Mads Øvlisen told him that chief executives shouldn't use their time this way, that he assigned note-taking to others.

At first, Kjeld Kirk Kristiansen spent considerable time with Knudstorp. He discussed the company with him, its history, his own life story. They traveled together extensively and used the time to get to know each other, especially during long flights.

Kristiansen also involved Knudstorp in the many inquiries and contacts he received during that time. People from all over the world felt strongly about LEGO, and countless numbers of messages, fans wishing them luck or offering help, were sent because of the crisis. People at all levels. The Danish entertainer, Lotte Heise, sent along good advice from her two sons; Erik Rasmussen from *Monday Morning* offered to sell research; Ralph Heck, the former McKinsey partner, offered to work nearly for free to get his foot in the door at LEGO; and the consulting firm, Boston Consulting Group, did the same.

Kirk Kristiansen knew that Knudstorp needed more than discussions about these types of somewhat eccentric messages, he needed support, but how to give it? And where would it come from? Kirk Kristiansen realized that he wasn't the right person to coach the young chief executive. Because of his own personal history with the company he neither could nor should advise Knudstorp. It would be impossible for Kirk Kristiansen to think independently and with an open mind about LEGO and its culture and future.

During these critical weeks and months an unexpected name popped up: Lars Kolind. He had approached Kirk Kristiansen immediately after the press conference on January 12, 2004, and offered his assistance.

At that time, Kolind was fifty-six years old. He was known for his work at Oticon, the hearing aid firm, where together with his co-director, Niels Jacobsen, he had engineered a famous turnaround in the company. Kolind had left Oticon in 1998 and had since made his living serving on boards. He

shared the Kirk family's Christian view of life and had been together with Kjeld Kirk Kristiansen on several occasions, as he had earlier met the family's father, Godtfred, in YMCA.

When Kirk Kristiansen received Kolind's letter, he invited him to Billund. Already in February 2004, Kolind spent an entire day at LEGO, during which he met Jørgen Vig Knudstorp, and the meeting led to Kolind offering to act as interlocutor for Knudstorp.

The two men met in April 2004, and in the following months they spoke frequently. Lars Kolind knew from experience that before a chief executive begins to downsize a company it is important that he or she has an idea about its future, or rather, about its identity. Ideally the object is to downsize in such a manner that the business forms a platform for future growth, and that requires that the leadership has a sense of the company's core business.

Lars Kolind understood that his task was not to tell Knudstorp what he should do with LEGO, but to be his coach. It was a matter of asking the right questions.

Kolind decided to challenge Knudstorp with two serious, fundamental questions: "What went wrong at LEGO?" and "Why does LEGO exist?" Initially Knudstorp was irritated with the questions, which he believed irrelevant; only as their sessions continued did he realize that the questions led him toward an important understanding of not only LEGO, but himself as well.

The conversations the two men held always revolved around these two questions. Kolind repeatedly challenged the young Jørgen Vig Knudstorp, at times so hard that Knudstorp in an interview several years later characterized Kolind as "irritating as hell", though also "completely loyal" and "good to bounce ideas off of."

The idea behind searching for what went wrong at LEGO was to achieve an understanding of a chief executive's responsibility. All CEO's experience unexpected troubles, or that things out of their control ruin a company's finances. A natural reaction to this can be frustration or helplessness, which can lead to a chief executive feeling that she or he is not responsible.

As the numerous conversations proceeded, Knudstorp gradually came closer to the realization that responsibility basically always rests with the leadership. The responsibility for LEGO's crisis must therefore be placed internally, it could not be explained by external factors as Poul Plougmann had often tried to do, for example when he wrote in the personnel magazine, *Life*. It is senior management's job to create a company able to adapt, and senior management bears the responsibility both for a company's good times and its bad times.

Jørgen Vig Knudstorp's discussions with Lars Kolind concerning why LEGO exists were every bit as demanding. At a time when the company was experiencing a crisis, it wasn't obvious why time and energy should be spent on such philosophical questions. The purpose, however, was to view LEGO in a wider perspective so employees would be able to grasp that the fight for survival was not only about finances and income, but about something bigger, more important, something about helping the world's children. Why does your company have a special reason to exist? It's a question that all companies should be able to answer clearly, but which all companies cannot.

Knudstorp and Kolind discussed the question several times, mostly by telephone and mail. Kolind kept applying pressure; what would the world lose if LEGO died, he asked, and he urged Knudstorp to write an imaginary obituary for LEGO. Step by step, Knudstorp became aware of how the concept behind LEGO is to stimulate the play and learning development of children. Kolind found the young Knudstorp to be inquisitive and inexperienced, but also genuine, a leader who didn't attempt to hide things, who was humble by nature.

Jørgen Vig Knudstorp had conversations in the spring of 2004 with others besides Lars Kolind; he spoke with a number of advisers who helped him each in their own way, both with his role as chief executive and with the company. He spoke also with Ram Charan, who helped him gain an international perspective on the company.

Already in January 2004, Knudstorp spoke with a professor at IMD in Switzerland, Xavier Gilbert. He was one of the developers of the Must Win Battles concept, based on a company's senior management together identifying the crucial goals the company must reach, whatever the cost. They met again in September 2004. Gilbert spoke of an important responsibility for a CEO, that of leading not only those below but those above, in other words the board, thus ensuring that the board always feels well-informed and ready to support the CEO's proposals.

As part of the vital work of re-establishing LEGO's relationship to its retail customers, Knudstorp spoke with, among others, Mike France, who had founded the British chain of toy stores, Early Learning Centre. Mike France had sold the chain and was independently wealthy. He wanted to help the young LEGO leader and schooled him on how a toy retailer thinks.

These conversations with Kjeld Kirk Kristiansen, Lars Kolind, Ram Charan, Xavier Gilbert and Mike France were a free space in which Jørgen Vig Knudstorp's mind could roam. He sought inspiration, and he found it in people with practical experience, who had themselves gone through challenges similar to the ones he was facing.

He used the conversations to come up with his own ideas; he used Jesper Ovesen, to whom he was becoming closer, the same way. Several times Knudstorp told his colleague about a book he had discussed with one of his interlocutors, and Ovesen would order the book and read it. True to his nature, however, Jesper Ovesen's perspective on things was different from Knudstorp's. This talk about people is all well and good, Ovesen said with a laugh, but it's actually all turned around: it's not that behind every number stands hidden a human being, but that behind every human being stands hidden a number.

In the spring of 2004, though, the focus wasn't primarily on learning more about himself and LEGO. For the time being it was all about survival. Despite that, Knudstorp's discussions with Kirk Kristiansen, Kolind, Charan, Gilbert, France, and Ovesen were important. Though they didn't have concrete and immediate consequences, the discussions in the spring of 2004 led him and the rest of senior management to the strategic plan that became known as Shared Vision.

A Dramatic Summer in Billund

Although the spring of 2004 was characterized by hard work and severe actions taken, all of which steered the company away from its life-threatening crisis, the problems weren't solved. On the contrary, in fact. Sales continued to fall, and the parks were an even bigger millstone around the neck of LEGO. It became increasingly clear that LEGO was in danger of losing its vitality. A slow strangulation, the frightening vision that Jørgen Vig Knudstorp had sketched in his memo from June 2003 and Jesper Ovesen had elaborated on in his own memo later that November.

Knudstorp took his summer vacation early that year, already in May, which meant that he worked that summer, following up on an observation Ovesen had made during the spring. The company's liquidity was untenable. As they plunged into the numbers, they increasingly realized that it was necessary to take even more drastic measures than those already set in motion. They had to face up to the fact that a dramatic write-down was approaching.

LEGO was entering a struggle for its existence. That was serious enough in itself, but it also meant that another painful realization was pushing to the forefront; soon it would be necessary to make some very difficult decisions, and that fact once more drew attention to leadership's special structure where Knudstorp and Ovesen had actual, but not formal, responsibility.

The employees were still focused on Kjeld Kirk Kristiansen. He had stated clearly at the press conference in January 2004 that he was back home. That

had provided valuable support to Knudstorp and Ovesen, in regards to a skeptical organization that hardly knew the two new leaders. But as time went on, Kirk Kristiansen's presence also had the opposite effect; he overshadowed them and weakened their effectiveness. If LEGO's young new leadership was to establish the necessary authority within the ranks of the employees, Kirk Kristiansen would have to resign.

By the summer of 2004 it was clear to the senior executives that Kirk Kristiansen was back in name only, but LEGO's employees weren't aware of it. They believed that he was taking part in management decisions, and that weakened their respect for the others in senior management. Knudstorp's and Ovesen's limited clout made it difficult to deal with decisions made in other, earlier times.

In a way it could be seen that Kirk Kristiansen's symbolic presence gave the employees a basic sense of security and aided in winning their acceptance of the tough decisions, but it wasn't a sense of security among workers that LEGO needed given the approaching events. On the contrary. If the company was to survive it was essential that the employees finally understand that their ship was sinking. In that light, the image of Kirk Kristiansen as a sort of guardian was part of the problem, not the solution.

Several people urged Kirk Kristiansen to consider this unpleasant perspective, one of them being Lars Kolind, who on May 21, 2004 wrote a letter in which he pointed out how a more vigorous senior management was needed, and that the actual leadership should be shared between Knudstorp and Ovesen.

At first Kirk Kristiansen's assessment was that the board opposed this. He wasn't ready to relinquish his role as CEO, either, which would end his sense of control over the life's work of his family, but he went along with giving Knudstorp an extra star on his shoulder, a promotion, thereby making his special role formal and thus clear to the rest of senior management.

The idea was that Knudstorp was to be named COO. That is, he would have the same title as Poul Plougmann had enjoyed, with the authority that followed from being the clear number two in the company. Knudstorp was in reality already number two, but because senior management, besides Ovesen, included ambitious men such as Henrik Poulsen, Mads Nipper and Søren Torp Laursen, the appointment wasn't without risk. It could create frustration, not only in senior management but also on the board, which was in doubt about Knudstorp's role and whether he could be a candidate for the future CEO of LEGO.

Kjeld Kirk Kristiansen decided to tell the senior executives about

Knudstorp's promotion at a seminar in June. The company's top sixty executives met for three days, June 8-10, at Hotel Legoland. During the seminar, Knudstorp explained about the new way LEGO would be operating. He reviewed the action plan, in particular the plan's focus on retail and on how one of LEGO's most important tasks would be to understand its customers, such that they could help their customers to succeed.

After the seminar was over and most of the executives had left, the inner circle—the eight or nine senior executives who had been named in the personnel magazine that February—met for dinner that evening, June 10, at the hotel restaurant, Le Petit. During dinner Kirk Kristiansen told the other senior executives that Jørgen Vig Knudstorp would be appointed COO at the end of the summer.

The others received the news in silence. Perhaps also with frustration. At that moment they must have finally realized that their former staff colleague, Jørgen Vig Knudstorp, had definitively passed them by, and that he was positioning himself to take over from Kirk Kristiansen when that day arrived.

Several days later, on June 15, an internal bulletin to LEGO employees contained the bleak message that sales were lagging in relation to the budget, that competition was becoming increasingly stiff, that the action plan would be tightened, and that all initiatives to improve operations were to commence immediately. And just as important: the bulletin was signed by Jørgen Vig Knudstorp, a small but clear signal that he had been given a new role in the company's leadership.

Kjeld Kirk Kristiansen was still important, however. Though he didn't take part in the executive decision-making process, he played a vital role on the inside. He wielded considerable influence that was invisible to employees. Despite being partly responsible for the crisis, he still enjoyed an enormous respect within the company, and he spent much time speaking with the young executives individually to help them feel comfortable with the new circumstances.

Knudstorp and Ovesen fired several executives at this time, among them the head of Asian operations, Arthur Yoshinami, because he wasn't being aggressive, he was merely making sure his section was getting by. Kirk Kristiansen assisted the new leadership with these sensitive maneuvers; he also helped ensure that none of the young, ambitious male executives left LEGO in frustration that their even younger colleague, Knudstorp, had snuck up from behind and passed them.

Later, in Switzerland, Henrik Poulsen was visited by Kirk Kristiansen. They discussed his possible candidacy for the top post, and though Kirk Kristiansen's words on this topic were discouraging, he managed to keep

Poulsen in the company.

On Wednesday, August 18, 2004, LEGO publicized its semi-annual financial report. It was as short and succinct as it possibly could be. It merely reported that the action plan was proceeding on schedule, and that LEGO still expected zero growth for the year 2004. Apparently things were going as planned, LEGO was still experiencing a crisis, but the situation was under control.

The reality behind the laconic press release was quite different. True, the action plan was going okay, but because sales were lagging the plan wasn't sufficient. The pressure on senior management kept growing, and the discussion about the lack of decisiveness within the leadership came up again. But how could it be accomplished?

For obvious reasons it has been difficult to find out what happened within the inner circle at LEGO during these dramatic days. The rest of this section is therefore based on fewer sources than otherwise is the case in this book, and it is the author's interpretation of what happened in LEGO's senior management in late August 2004.

It was Jesper Ovesen who gave the decisive shove that started the snowballing of events. He spoke with Kirk Kristiansen. He explained that the crisis was worsening, and the situation was leading up to more layoffs, the closing of factories, and perhaps even the selling of the parks. Kirk Kristiansen should name Knudstorp as the new CEO, which also would be to his advantage in case the new leadership wasn't up to the task at hand; Kirk Kristiansen would have protected himself and would easier be able to fire Knudstorp and Ovesen.

Ovesen's candidness caught Kirk Kristiansen off guard, but he was calm and in fact also reacted positively to the idea. He was more convinced than ever that Jørgen Vig Knudstorp had the potential to succeed him, though he was taken aback by how the time might already have arrived. He had imagined a longer time frame. And he was hesitant, because he knew the others on the board probably would not support the idea of Knudstorp taking over for him.

Knudstorp at this time didn't sense that Kirk Kristiansen wanted him to take over as CEO. Even as late as January the owner had publicly declared that he would take "the full leadership responsibility", and in June he had contented himself with appointing Knudstorp as the new COO, not chief executive.

He couldn't know that Kirk Kristiansen already early on had hoped that he, Knudstorp, could be his successor, but that it was the rest of the board that

was skeptical. In fact the board hadn't backed Kirk Kristiansen up when in June he had announced Knudstorp's coming promotion.

The mood on the board was bad, and they didn't feel the same urgency because of the crisis as Knudstorp and Ovesen. They took a wait-and-see attitude. Though the board shared the responsibility for the crisis, the members with Mads Øvlisen leading weren't prepared to step down. It wasn't anywhere to be seen on the board's agenda for 2004. The board members wanted to stay and help LEGO out of its crisis, but they were hesitant to follow that up by giving the leaders the greatest possible leeway to take the necessary steps. Possibly contributing to the board's skepticism about Knudstorp and Ovesen was that the two could barely hide their critical views of the board members, who they felt had neglected its responsibilities and now was failing to take an active role in managing the crisis.

Impatient, Jesper Ovesen sent an e-mail venting his frustrations to Mads Øvlisen. It was a typical Ovesen-mail. Long and impulsive, written in haste, to the point. And without capital letters. The mail laid it on the line with two clear messages. One, Jesper Ovesen had never in his life seen so much crap in a business. Two, the board should appoint Jørgen Vig Knudstorp as CEO asap, and Ovesen by the way was not interested in the job himself, should anyone be wondering.

Mads Øvlisen immediately set up a meeting with Ovesen at his home in Holte, and it was first then that Ovesen told Knudstorp about the e-mail. Knudstorp was initially surprised, but he was grateful to know that he wouldn't have to worry about Ovesen wanting the position.

Mads Øvlisen had his doubts about Knudstorp. He was very young, thirty-five at the time, and his experience in management was extremely limited when considering he would be CEO for a company with eight thousand employees, which also happened to be fighting for its independent status. A logical alternative would be to bring in a heavyweight from outside; people from all over the globe would be standing in line for the job of CEO for LEGO. A more concrete worry Øvlisen had was the lack of commercial experience in the team of Knudstorp and Ovesen.

At the meeting on August 20, Øvlisen, Kirk Kristiansen, Knudstorp, and Ovesen discussed various models for a new structure in senior management. Three models were being seriously considered, the one of the three being essentially the status quo. Another model was one in which Øvlisen wished to expand leadership with someone widely experienced in commercial business. In essence it would mean that four people would be running the company. Kirk Kristiansen, Knudstorp, and Ovesen feared that this solution would keep the company's other executives from wielding any influence, and it was

now, during the crisis, that every link in the value chain needed to be represented in senior management. Besides, the crisis prevented the board from using their time searching for an outside candidate. Instead, the three proposed a third model for leadership structure, in which a more active but temporary CEO would be given more powers, and when the crisis was over a permanent CEO could be formally appointed. It remained unspoken that this temporary CEO would be Jørgen Vig Knudstorp, and seeing as this was not meant to be a permanent solution, it was presumably a sign that Kirk Kristiansen, Knudstorp, and Ovesen, the three who had made the proposal, were thinking politically. They knew the board wasn't ready to support Knudstorp's candidacy, and they were hoping in this way to accommodate the board's skepticism. His role as COO was to be made formal and, in addition, strengthened. Mads Øvlisen yielded and accepted the three men's proposal of a temporary CEO.

Meanwhile the pressure grew and time was short, which worked against the idea of a temporary CEO. Jesper Ovesen pressured Øvlisen. His view was that LEGO needed restructuring here and now and strategic leadership in the long run. "I'll take care of the short-term restructuring," Ovesen said, "and Jørgen Vig Knudstorp is the right man for the long haul."

On August 21, Lars Kolind sent another letter to Kirk Kristiansen, in which he repeated his suggestion in the May letter, imploring him to realize that Mads Øvlisen had never been in a critical situation such as this, and that he also should put aside how he might want to stay as CEO until the crisis disappeared.

Today it is unclear what it was that turned the tide. At any rate, a collective perception that Jørgen Vig Knudstorp should be appointed CEO, and that it should be permanent and not temporary as originally proposed, began to take shape. The anxiety-ridden conversations ended with Øvlisen being persuaded, especially by Jesper Ovesen. Øvlisen then asked Knudstorp to have a difficult conversation with Kirk Kristiansen, to tell him that the young leader should be appointed CEO immediately, and that the appointment should be permanent. Very unusual. Normally this task is left to the chairman of the board, but Øvlisen kept out of it. Knudstorp would have to take care of this himself.

On one of the last days in August 2004, Knudstorp had attended a meeting at a factory in Kladno, Czech Republic, and while at Prague's airport he managed to get hold of Kirk Kristiansen on the phone. Kirk Kristiansen was at the Olympics in Athens with his wife, Camilla, sitting and sweating in a stifling hot apartment without air conditioning. It must have been an awkward conversation between the two of them, neither of whom cared for

personal conflicts, and now they were speaking about something that could hardly be more sensitive. Kirk Kristiansen had certainly wished Knudstorp to be his successor, but he had understood that the board and Mads Øvlisen had their doubts. Therefore he was surprised that things had suddenly fallen into place. No doubt he was also emotionally affected by the seriousness of the situation, and perhaps he felt in this time of crisis that history's pendulum was swinging in his family's business. The conversation seems to have gone like this:

Kirk Kristiansen: "Are you saying that I should resign?"

Knudstorp: "Yes."

Kirk Kristiansen: "Will you have the title of CEO?"

Knudstorp: "Yes."

When the conversation was finished, he turned to Camilla, who had been listening. Amazed, she asked, "Did Jørgen just fire you?"

At a special meeting in Copenhagen on August 31, 2004, the board approved Jørgen Vig Knudstorp as the new leader of LEGO.

Nothing is holy any longer at LEGO. Not even the parks.

The board's next meeting took place at the end of September. The meeting was held in the U.S., at the factory in Enfield, Connecticut, and it lasted three days, September 27-29. The formal appointment of Jørgen Vig Knudstorp as CEO took place, and he thanked the board for their support. The atmosphere was awkward. Knudstorp said that it was possible that he wasn't the most qualified for the position, but he hoped the board would back him up. He reminded them that it was a board's responsibility to always have a leader's replacement ready; his purpose in saying this was to force upon the board partial responsibility for a situation of their own creation, where they hadn't found another candidate should they not be satisfied with Knudstorp. Now they had no choice but to appoint the young leader. Under pressure, to boot. The board members listened in silence to Knudstorp. Jesper Ovesen enjoyed himself.

The Enfield board meeting was the gloomiest meeting in LEGO's history. Ovesen laid out the numbers. Though sales had fallen, the company was breaking even due to substantial cutbacks. So far so good. The problem was debt, which was much too heavy, and the lack of liquidity was in fact a threat to LEGO's existence. The solution, Jesper said, was a restructuring that would require a write-down on the order of app. 300 million dollars.

Therefore the board also took up the initial painful discussion of the parks. True, Knudstorp had broached the subject already in the memo from June 2003, but it had never been discussed. Ovesen in particular was convinced that the parks had to be sold if LEGO were to survive. A central element of the action plan was that the company must lower its operational expenses. Keeping the parks would require not only a further infusion of capital, but also a considerable amount of time and energy by senior management, which LEGO would sorely need in its life-or-death struggle to right the company.

The board members were in agreement – except for Kjeld Kirk Kristiansen. He acknowledged that the numbers were horrible, but making the final decision was difficult for him, for the parks were his life-blood. But he had no choice. The board decided, with his acceptance, to put the parks up for sale.

It took a while before LEGO could go public with the terrible numbers. In fact, almost two months went by. Why did it take so long, from the initial discussions in August, through the Enfield meeting in September, to get to the press conference held on October 21, 2004? The explanation lies with a very serious scare that autumn at LEGO.

It started when Ovesen approached his former colleagues at Danske Bank and was refused further help. That was a blow to senior management in Billund, and not only in the financial sense. Kirk Kristiansen had been on Danske Bank's board for several years, and though he recognized the seriousness of the situation, the refusal was an unexpected disappointment. Also personally.

Ovesen tried several times without success to convince the bank that LEGO had a robust strategy to handle the crisis. At a meeting with the bank's top senior executives at the time, Peter Straarup and Jakob Brogaard, he was given the final refusal. Ovesen put together an alternative solution involving Nordea, SEB, Sydbank, and Nykredit, such that the company had a capital structure in place before announcing the press conference.

Kirk Kristiansen contributed to the solution with a personal loan of app. 160 million dollars from KIRKBI, but he emphasized to Ovesen that it would be the last loan he would give. Several months later, on February 21, 2005, the board at Nordea approved an expansion of the bank's involvement with LEGO, from 160 million dollars to 400 million dollars.

The autumn of 2004 was the beginning of the darkest hour of the crisis for Kjeld Kirk Kristiansen.

He feared that it was all about to collapse. Maybe their business model was useless, and the international toy market was weakening to boot. He'd had to bow out as the chief executive, and that in itself was a serious personal blow.

Now his beloved parks were about to be put on the market, and the outlook was that his dreams for LEGO might shatter. Everywhere he looked, all he saw was hopelessness.

The Darkest Hour

October 2004 – December 2005

Jørgen Vig Knudstorp is officially appointed as the new CEO, and the crisis leads to serious conflicts among the young senior executives at LEGO. At a meeting in Switzerland, at Jesper Ovesen's urging, senior management decides to provoke pessimism among the employees to force them to realize the seriousness of the situation. Jørgen Vig Knudstorp meets with Chris Zook from the consultant firm Bain & Co. and is once more inspired to search within the company's identity for an understanding of their core business. The American firm, Morgan Stanley, surprises and irritates Kjeld Kirk Kristiansen with a concrete offer to sell LEGO, but he declines the offer. He can't however prevent the sale of his beloved parks to Merlin, which is owned by the investment firm, Blackstone.

A chief executive at thirty-five

The atmosphere at the press conference on October 21 was more serious than the one back in January. The optimism had disappeared, no more belief in "mildly serious measures", no more "Kjeld is back". Kjeld was gone, also literally; he had left his office in LEGO the day of the press conference and moved into new quarters at KIRKBO on the edge of town.

Kjeld Kirk Kristiansen and Mads Øvlisen delivered three grim messages: LEGO's economy had worsened, and instead of zero growth, senior management now expected a loss of over 300 million dollars; Kirk Kristiansen had resigned as the company's leader, though he would continue as vice-chairman of the board, while Jørgen Vig Knudstorp was the new CEO, effective immediately; and the parks would possibly be sold.

The press was much more critical now than previously, and it didn't help matters that several journalists misunderstood the financial statement. They believed the 300-plus million dollar deficit meant that the action plan wasn't working, when in fact the company's operations were showing a slight surplus, which, however, was overshadowed by the sizable write-down.

At any rate, LEGO was in a deep crisis, that much was clear to everyone. In the October 29 edition of *Berlingske Nyhedsmagasin*, one of Danish industry's leaders, Niels Due Jensen, the chairman of the board at Grundfos, called on Mads Øvlisen to take the consequences: "As he himself admits that the board has made mistakes, he should resign."

This period was an education in communication for Jørgen Vig Knudstorp, both with regards to the company's employees and to journalists. When chief executives communicate, especially during a crisis, the message must be precise. They must say neither too little nor too much, and they should make sure their statements can't be parsed and thereby create unnecessary uncertainty.

On October 23, 2004 he wrote in *Berlingske Tidende*: "It's an objective fact that Denmark's largest companies normally have successors in place, but it's obvious that such was not the case with LEGO."

In an internal bulletin on October 26, Knudstorp told about further budget cuts of over 160 million dollars. This surprised the employees. Some of the cuts mentioned were new, but not all of them, and that confused the workers. Knudstorp's new bulletin a few days later was an attempt to smooth things over.

Problems arose again only a few days later. On November 1, in *Berlingske Tidende*, he wrote that LEGO's cuts would among other things include moving production to Asia. More anxiety followed. Knudstorp was actually trying to be open and prepare the employees for the coming difficult discussion about the relocation. It was meant as an invitation to work together, but it led to a headline on the front page of *Berlingske Tidende* about the shutdown of production in Billund.

Later, when Knudstorp spoke with a media consultant, he learned that he should regard journalists as opponents, not as interlocutors. "You explain too much when you speak to journalists," the consultant said. After a while Knudstorp took to heart an old adage: "Tell the truth, but you don't need to squander it."

In an internal memo from November 17, 2004, senior management reported that 1,381 employees had participated in a poll on the company's internal website, and 531, 38%, had answered "No" or "Don't know" to the question: "Do you believe the action plan will work?"

Maybe people both within and outside LEGO thought the same as the headhunter Jens Horowitz, who wrote in *Børsen* about the choice of Jørgen Vig Knudstorp as CEO:

"If we had suggested a candidate for LEGO's board of directors with similar

qualifications, that candidate would have received zero consideration. No doubt about that. The choice of LEGO's new chief executive is based mainly on a personal sense of trust between the owner and CEO. That's often seen in family businesses – trust carries more weight than objective criteria.”

But okay, no matter how it was viewed, the new leadership had at least succeeded in creating an awareness of a crisis at LEGO. For the first time ever.

Jesper Ovesen sets the agenda at LEGO

The promotion of Jørgen Vig Knudstorp and Jesper Ovesen to the actual two-man leadership of the company created unease among the other top executives, who felt as if they'd been demoted, and even worse, they feared that they would be denied the contact and influence with Kirk Kristiansen they'd enjoyed under Poul Plougmann.

The group of senior executives was already under pressure after Knudstorp and Ovesen had cut their number. Some had left voluntarily, others had been fired. Besides the two men, the senior executives were Lars Altemark in charge of Global Supply Chain, Mads Nipper of Global Innovation & Marketing, Henrik Poulsen of European and Emerging Markets, Søren Torp Laursen of Americas & Australia/New Zealand and, among others, Brand Retail stores, and Mads Ryder in charge of the parks. Informally they were referred to as LC-LT—LEGO Company Leadership Team.

It didn't help that the crisis forced the senior executives to continually cut costs. That led to exhausting clashes where they fought for resources and pressured each other.

There were many conflicts in late 2004 and early 2005. The older and more experienced Jesper Ovesen pressured Henrik Poulsen, Mads Nipper, and Søren Torp Laursen, who he believed shunned responsibility for their problems. Whereas the three of them felt that the financially-oriented Ovesen didn't understand the special circumstances out in the marketplace, and that his lack of experience with creating relationships of trust with customers was a problem.

The former head of the Brand Retail stores, Dominic Galvin, had left after having several heated conflicts with the other senior executives, because he had been asked to investigate LEGO's relationship with retailers and had confirmed that LEGO had acted with arrogance, which hurt the company's people in marketing, such as Søren Torp Laursen.

In short, there were many conflicts, and Jesper Ovesen's general opinion

was that the young executives had never experienced this type of crisis, and that they also were used to having the safety net of a rich uncle. They were all affected by the extraordinary pressure of work and the rapidity of decision-making. They were used to working long hours, but now during LEGO's crisis they were working more than ever, even more than both Knudstorp and Henrik Poulsen had at McKinsey & Co.

Knudstorp and Ovesen were meanwhile both well aware that a company such as LEGO couldn't be led by two people alone. The company was too complex, and it was necessary to include not only other senior executives such as Henrik Poulsen, Mads Nipper, and Søren Torp Laursen, but also a broader group. Therefore this larger group called the Top 60 would exercise wider influence, but how?

Already a few months later, the Top 60 met in Zurich, Switzerland, from January 9-12. The first day was reserved for the senior leadership, but on Monday the 10th the other executives arrived.

The purpose of the meeting was to plan the rest of 2005, and Professor Xavier Gilbert of IMD participated as a type of moderator. He had been a LEGO professor at IMD as early as 1991 and knew the company very well. He was also a coach for Knudstorp, and now his job was to make sure that the broad leadership maintained a realistic understanding of the situation. It turned out to be a difficult task. As was the tradition at LEGO, the program included games and role play, which lifted the mood. In spite of the crisis, they began looking to the future and thinking in terms of solutions. Typical LEGO.

Halfway through the meeting, Knudstorp and Ovesen spoke with each other. In particular, the eternally pessimistic Ovesen was worried that the old spirit of LEGO was returning, that is, that a belief in the product and brand would give the executives confidence and optimism which, given the reality of the situation, was unwarranted and would weaken the resolve to make the painful decisions that lie ahead. Had middle management actually understood the seriousness of the situation?

Senior management, the members of the LEGO Company Leadership Team, held an unplanned crisis meeting, where they made a decision that would have widespread consequences. They chose to trust Jesper Ovesen's intuition, which was clearly more pessimistic than that of Jørgen Vig Knudstorp. They returned to the conference room and consciously created a negative atmosphere among the Top 60.

It was a hairy decision; they risked creating a sense of insecurity, perhaps even fear, and they conveyed a mistrust of the executives who were to execute LEGO's turnaround. But they persevered. They wanted to avoid at

all costs that a misplaced sense of relief would spread out to the employees, which had happened so many times before at LEGO, the most recent being in January 2004. Now the spirit of the employees had to be dampened. It was even possible that their self-confidence had to be broken.

In the weeks and months that followed, Knudstorp endlessly repeated this gloomy message. In the Sunday, March 20, 2005 edition of *Politiken* he wrote:

”I am leading a company that finds itself in a deep, deep crisis. We have been very spoiled, and that is why I constantly use the word 'crisis'. It is necessary that everyone understands the situation we are in. You could even say that we are holding a gun to peoples' heads—also because it is in such circumstances that they are most creative and will deliver the great ideas that will bear us forward.”

Mads Øvlisen sent out the same signals. On April 27 in *Berlingske Tidende*, the board chairman wrote:

”I am convinced that there always will be a LEGO brand. The only question is, who will own it.”

In March, Knudstorp wrote in the personnel magazine:

”With an improved competitiveness and market position, combined with deep budget cuts and write-downs, we have gone far in two of the three main steps of the action plan we created a year ago. For the first, to adjust the company's size to its reduced sales, and secondly, to increase our competitiveness by focusing on retailers' profits, delivery service, and products range. ... but we took the easiest steps first. Unfortunately it is quite easy to make cuts, and it's not all that difficult to rebuild relationships with neglected customers. Now it's time to deal with the tough part Therefore in this quarterly issue I will remind everyone of the third step of our action plan: to form a clear direction for LEGO Company and change the way we do business.”

Knudstorp named these six projects:

- We must make sure that our products are profitable
- Our products must be developed faster

- We must increase productivity in our chain of supply
- We need more transparency in our finances
- We must think more commercially, that is, we must make decisions that are commercially sound, not just because they possibly strengthen the LEGO brand
- We must make quicker decisions and improve our execution of them

The mood didn't improve when the financial statement for 2004 was released at the beginning of 2005. Before taxes, the year ended with a loss of 1,237 billion kroner – approximately 200 million dollars – and LEGO was on the brink.

Why does LEGO exist?

Jørgen Vig Knudstorp's discussions in the spring and summer of 2004 with such a wide assortment of people as Kjeld Kirk Kristiansen, Lars Kolind, Ram Charan, Xavier Gilbert, Mike France, and Jesper Ovesen had set the wheels turning in his head. The most important question, which he constantly mulled over, was still: Why does LEGO exist?

In the fall of 2004, Knudstorp was on a night flight from Boston to Amsterdam and fell into conversation with the man seated next to him, who turned out to be Chris Zook, a long-time employee at the consultant firm, Bain & Co.

Zook had written a bestseller, "Profit From the Core", in which he had analyzed several thousand businesses that had been customers at Bain. The book's conclusion was that the company that understood its core business and which constantly tried to strengthen it, was the company that was most successful. Correspondingly a company should be careful about starting up any new enterprises that lie outside its core business, thus risking neglecting the core by pulling away both leadership and economic resources. In short: Chris Zook's observations sounded like a precise analysis of the rise and fall of LEGO.

Knudstorp was curious; he asked Zook how often a company can start a new venture outside its core business. "Once every five years," he answered. Knudstorp replied that LEGO's leadership must have misread Zook's book; they had done it five times every year.

Knudstorp was inspired by his conversation with Chris Zook. The American's observation that a company should concentrate on its core business was exactly in line with Knudstorp's view of LEGO. Both as an

explanation of what had gone wrong and as a type of confirmation of the action plan he and Ovesen had been following for a year.

The action plan wasn't so much a strategic plan as some hastily composed actions in response to the crisis. Despite this, it was a recipe for a possible future where the focus would be on the core business. Knudstorp's curiosity was piqued. He wanted to know more about this theme. Maybe he sensed that it would be another step toward discovering the reason for LEGO's existence. At any rate, a few months later he hired one of Chris Zook's colleagues, the consultant Niels Peder Nielsen, from the Danish division of Bain & Co. to analyze the situation further.

Niels Peder Nielsen had two main assignments: to investigate what LEGO's core business actually consisted of, and to give some ideas for LEGO's options when its senior management had to choose a path for the future. Was it realistic for LEGO to believe it could survive independently, or should they resign themselves to the fact that it was wiser to seek a partnership or possibly even a buyer?

The reasoning behind the second assignment was that even if they should succeed in zeroing in on their core business, it wasn't certain that it would solve any problem. If LEGO was stuck in a stagnant market for old-fashioned construction toys, the situation could be hopeless despite the leadership's efforts concerning the core business.

Maybe it was a lost cause? Maybe the core business was too small for their company's existence? Maybe it would turn out to be antiquated? Throughout history there were many examples of companies that had to give up when their core business was outmoded. Carriage manufacturers in the 1800's, for example. Or typewriter companies from the 1970's. Today it's difficult to imagine that LEGO's senior management seriously feared such an outcome of the crisis, but there was an enormous amount of uncertainty in Billund in 2004 and 2005.

The first thing Bain & Co. came up with was that LEGO was a manufacturer of plastic. The leadership in Billund was astonished, and it perhaps sounds strange, actually primitive, but the consultants' observation was that LEGO's essence was the work of molding a lot of plastic bricks. The bricks even had to fit together with other LEGO bricks that could be twenty or even thirty years old.

To Jørgen Vig Knudstorp it likely was a surprising but also valuable idea as to what constituted LEGO's core business. It helped him realize that the product LEGO's existence depended upon might not be as primitive and trivial as one might believe, that on the contrary it was an advanced product

that very few if any competitors could match in quality.

Bain & Co.'s observation was insufficient, and it was merely a first stab at formulating their core, but it had another benefit: it was down-to-earth. LEGO, a plastics manufacturer! It was a simple view, totally different from the recent years' efforts to lift the company's brand up into something universal. It brought everything back down to earth after thinking for so long in terms of brand instead of bricks.

In his discussions with Niels Peder Nielsen and the consultants from Bain & Co., Knudstorp gained a deeper understanding of LEGO in a historical perspective. He realized that Godtfred Kirk Christiansen had the same perception of the importance of the core business. A few years later Knudstorp found a Godtfred Kirk Christiansen memo from back in 1992, in which he wrote about and made an appeal for concentration. Christiansen presumably meant that LEGO should keep its focus on its core business. Throughout his entire life he was absorbed with this – he thought deeply, not broadly, he kept to his idea and he never bought new businesses.

In a way, the Godtfred Kirk Christiansen of the past thought in the same manner as the Chris Zook of the present: it's essential that a company is in control of its core business. A company must repeat it, learn from it, improve it and challenge it. It's wrong for leaders to regard their core business as boring. On the contrary, it's important to understand that all the fun, the innovative, and all the potential for product development lie with the core business. Chris Zook calls it 'repetition', and Jørgen Vig Knudstorp latched onto that view. In the blog he later started up, Knudstorp wrote an entry on May 28, 2006 about the strange phenomenon that when rock bands like the Rolling Stones or the Danish TV2 play concerts, audiences prefer hearing their oldest numbers, not their new ones. He put this observation into a LEGO context, where it's all about creating innovation while at all costs holding onto core business:

”One of the things that keeps amazing me is how children accept repetition. If these little creatures are at the frontiers of curiosity and learning, it surprises me how willing they are to see or do the same thing over and over again or to watch a movie several times. (...) When children repeat an experience, it is only apparently. They actually remain just as curious and explorative as the first time they had the experience. Now they are simply searching for new layers or elements in that same experience. (...) It is like a great LEGO model. It may essentially be the same as it was many years ago when it was a completely novel idea, but it remains great, even though it is just a variation over a great idea. (...) We should not fear repetition. Not

mindless, endless repetition, but repetition as in great variations over a wonderful theme and idea. The whole initial success of this company is built on repetition.”

The conversations with Chris Zook and others taught Jørgen Vig Knudstorp that if leadership fails to understand this, if it doesn't perceive the potential in its core business, it will miss its opportunities. Instead a company will expand into new areas outside its natural competencies, where it has no strategic advantage. This is how a company makes itself vulnerable.

These reflections during the winter of 2004-2005 gave Knudstorp an understanding of what made LEGO unique. He came up with these four things:

1. Brand
2. Brick
3. Construction system
4. Community

By construction system he meant the creative system built up around the bricks, and by community he meant the special relationship LEGO enjoyed with young as well as not-so-young fans. In this way Knudstorp found his first answer to the important question Lars Kolind had posed back in the spring of 2004: Why is LEGO unique?

It was no more than a budding understanding in those first months of 2005, and Knudstorp would later find making his observations more concrete a major challenge, such as when he had to explain to the employees that he had determined what the core of LEGO is, and that some but far from all of them were part of the core business. All employees in a company consider themselves to be vital, but if the chief executive is to communicate precisely, he or she has to speak the uncomfortable truth. It turned out that the core was frighteningly small, perhaps too small to bear a profitable business.

At any rate it was clear to Knudstorp that the realization of what the core business consists of was the starting point he needed to develop a strategy. The time was approaching when the temporary action plan he and Jesper Ovesen had formed during Christmas of 2003 had to be developed into an actual strategic plan.

Several years later, Knudstorp read a poem by T.S. Eliot and was amazed how in a very few words it expressed what he had realized about LEGO. Since then he has often quoted the poem when he wished to summarize this

realization:

We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time.

Morgan Stanley wants to sell LEGO

For Kjeld Kirk Kristiansen the fall of 2004 and the first months of 2005 were horrifying. He was in the worst crisis of his life. The life's-work of his family was teetering, and long-time loyal employees feared for their jobs – neighbors, fellow townspeople, schoolmates. And worst of all: the company's disastrous debt made it imperative to consider selling the parks. To stop the crisis from developing into a full-blown catastrophe where LEGO would have to be sold, the parks had to go.

The newspapers were still full of articles questioning whether LEGO was still viable as an independent corporation, and several board members encouraged Kristiansen to consider selling the entire company. The objective view was that if it proved impossible to solve LEGO's crisis, its value would fall steadily, and Kristiansen might just as well sell now than later, when the price would only be lower.

The most resolute attempt to overtake LEGO came from Morgan Stanley, the American investment bank. Through Bent Pedersen at KIRKBI, the bank set up a meeting with Kjeld Kirk Kristiansen on November 30, 2004 at Utoft in Grindsted, where KIRKBI owned a forest house that Kirk Kristiansen used for meetings requiring discretion.

Kirk Kristiansen, Bent Pedersen, and three bank executives from Morgan Stanley were the lone participants at the meeting, which began at 4:30 p.m. It soon became evident that the three guests had prepared an extensive analysis. They went through the toy market in detail, the market's key performance indicators, and LEGO's critical situation, which they had studied carefully. Their gloomy conclusion was that the toy industry lacked potential for growth and that LEGO would not be able to create a durable and profitable business model. Their recommendation therefore was that Kirk Kristiansen sell the company. They wanted to arrange the sale, presumably for an amount around 1.7 billion dollars.

This irritated Kirk Kristiansen. He had been prepared for what his three guests said, but he was surprised that they were so well-prepared, and he more or less regarded their concrete offer as offensive. He told them he

didn't agree with their analysis. Neither of the toy industry nor of his company. He believed in the vitality of his family-owned business, and he believed that LEGO could turn things around.

Kirk Kristiansen was most likely never in doubt, not even here in the company's darkest hour, but he must have felt quite alone in his belief that LEGO had a future as an independent corporation. His answer – no – was a moment of destiny in the company's history, and if Kjeld Kirk Kristiansen had a finest hour in this time of crisis, it was that evening in Utoft.

The threat of a possible sale returned several times. Two American toy companies, Mattel and Hasbro, sent out several feelers; each time their analysis showed that LEGO's value would fall with time, which meant that the company's owner might as well sell at once. Each time Kirk Kristiansen answered no.

Kjeld Kirk Kristiansen lets the parks go

Kirk Kristiansen could say no to selling LEGO because he still had room to maneuver, despite the crisis. Selling off the parks was a different matter altogether. Jesper Ovesen's analysis was clear: if Kirk Kristiansen wished to keep LEGO as an independent corporation, the price would be selling the parks. Otherwise they would ruin LEGO.

The thought of selling the parks was unbearable to Kjeld Kirk Kristiansen. They were his life's-blood. They meant everything to him. They symbolized his dream of creating something greater than just toys.

His feelings for the parks went probably even deeper than that. From the moment the first one opened in Billund in 1968, he and his family loved it. His mother, Edith, was so attached to it that she often contacted the park's head, Mads Ryder, whenever she felt that the flowers were the wrong color. Kirk Kristiansen himself took the initiative to build the parks in Germany, Great Britain, and the USA, partly in disagreement with his father Godtfred, who believed the venture was too risky. Yet Kirk Kristiansen had built them, and selling them now would in every way be a defeat for him, as a son, a person, and a leader.

The leadership saw Kirk Kristiansen with tears in his eyes at least one time, when they spoke of how the unavoidable decision was approaching. He was under extreme pressure to prevent the sale. From his mother, from the employees, from the local community. The family roundly criticized him for building the foreign parks, because it meant that the Billund park now had to be sold.

The story still makes the rounds at LEGO about how Kirk Kristiansen, in

the midst of his life's worst crisis, attempted to convince KIRKBI to take over the parks. The investment company could afford to do it, and in this way his beloved parks would remain in the family. When it was discussed, it turned out that the other branch of the family, which owned half of KIRKBI, wasn't interested. His sister Gunhild and brother-in-law, Mogens Johansen, who for many years had been on the board at LEGO, had other interests. They weren't prepared to put them at risk to save the parks to which they weren't as emotionally attached as Kirk Kristiansen.

It was a big blow to him. He didn't possess the resources to save the parks. Kirk Kristiansen, however, denies that this story is true; he claims that the subject of buying the parks never was discussed by KIRKBI's board.

It was first during a telephone conference among the LEGO senior management that a larger circle heard of the impending sale. Mads Øvlisen did the talking, and Kirk Kristiansen was listening in, which was unusual. Øvlisen used a phrase that surprised the participants; it went something like, "The parks aren't for sale, but they will be sold." The others later guessed that it was expressed this way because Kirk Kristiansen needed time to get used to the idea, and because the board chairman wanted to reassure the principal owner that the parks would not be sold to just anyone.

Kirk Kristiansen gave his definitive acceptance in February 2005. On vacation in Switzerland, he wrote a long mail to Jesper Ovesen in which he said he would consider selling. All he promised was to consider it, but once he had taken that step, everything happened quickly. Ovesen and Mads Ryder chose Morgan Stanley to advise them, and then they formed a sales presentation. Kirk Kristiansen had hoped a so-called industrial buyer would show up, and it turned out that the most eager suitor was Merlin, which admittedly was owned by Blackstone, an investment firm, but was actively seeking so-called "attractions".

Knudstorp and Ovesen preferred to sell everything connected with the parks, simply to lessen the debt pressure. Kirk Kristiansen said no to this. He'd agreed to sell, but he wanted to preserve his beloved brand. That condition surprised Blackstone, but when the investment firm understood that the owner had gone as far as he would go, their leadership gave in. The agreement was that LEGO and Blackstone would jointly own Merlin, LEGO 30% and Blackstone 70%. Merlin received a license to use the important brand, and the price was 465 million dollars. Just as significant was that the agreement obliged Merlin to develop and build new parks.

The news of the sale nearly sent Billund into mourning, but the catastrophe at least had the valuable consequence of removing any doubt from LEGO employees' minds of the seriousness of the situation. If Kjeld Kirk

Kristiansen was willing to take a step of this magnitude, it must be true when the leadership claimed that LEGO's very existence was threatened.

In the internal blog that Knudstorp had begun writing so the employees could follow along with his thoughts, he wrote on July 14, 2005 about his relief that the sale had been made. He called it a milestone, in more than one way. When he appeared on television that same day to explain the sale, it was also a decisive moment for him personally.

It was only then, a year and a half after he and Jesper Ovesen had drawn up their first plan to combat the crisis, that Knudstorp felt secure in his role as chief executive in one of the country's largest companies. He was only thirty-six, but the crisis had matured him. He no longer felt the company's senior executives who had been passed up presented a challenge to him, and he had shown that he could make essential decisions. It was obvious to everyone that he and Jesper Ovesen had been given a clear mandate from the owner.

Shared Vision

March-December 2005

Despite a great deal of uncertainty among the board and the senior executives about the future, Jørgen Vig Knudstorp begins working on a new strategy, Shared Vision. Jesper Ovesen is dubious about the chances for survival of the company, but while traveling in the USA Knudstorp gets to know some of the company's adult fans. He realizes that the toy brick has potential as creative play material, and together with the rest of the executive leadership he composes a memo that becomes the strategic plan, Shared Vision. The mood on the board is terrible, and in a memo they express almost a loss of confidence in Kjeld Kirk Kristiansen and the youthful leadership, but the chairman of the board, Mads Øvlisen, doesn't bring the memo up for discussion with the board members.

”You can always close”

On March 15, 2005, Knudstorp and Ovesen met with the other senior executives at Molskroen, a hotel with conference facilities, in Ebeltoft. The purpose of the meeting was to set up a short workshop where they for the first time would try to look ahead.

The situation was critical. The board was still unsure about the new leaders, in particular the inexperienced CEO, who apparently was making a great effort to destroy the employees' self-confidence by repeatedly telling the press

that the company was in a deep crisis. The board was also alarmed with the continuing fall in sales throughout all of 2004, and no one seemed to have an idea of when LEGO could expect to find a viable platform for the company's continued survival.

Further, the market for construction toys was characterized by stagnation and, consequently, bitter competition. The board members' mood therefore was terrible, especially that of Kirk Kristiansen, who just a month before had made the most painful decision of his life by emailing Jesper Ovesen and agreeing to put into motion the sale of the parks.

In early 2005 Kirk Kristiansen visited an old colleague, Torben Ballegaard Sørensen, the chief executive at B&O in Struer, to ask him to join the board. Sørensen barely recognized Kirk Kristiansen. He looked like a broken man.

It was therefore natural that Knudstorp and Ovesen had set up the meeting. They were aware that the board was frustrated and in doubt, which meant they had all the more need to prepare a presentation to the board to retain any hopes of a future for LEGO as an independent corporation. Prior to the presentation to the board, which was set for sometime in May, the young executives had four meetings: March 15, April 6, April 18, and April 26. Gradually they focused in on the possibilities the future held for LEGO.

During these four meetings they went over the many events of the previous year and a half, and they took up some critical issues: should LEGO be working toward a sale, a fusion, a partnership? How could LEGO realize its various possibilities if, for example, they chose to seek a partnership with Mattel? Or did LEGO dare to believe it could remain an independent corporation?

Jørgen Vig Knudstorp hoped for the latter scenario. His two strongest arguments were that the parks were already being sold and that their debt was being reduced. Jesper Ovesen was more skeptical about the future, and he used most of his time and energy in the spring of 2005 on the sale of the parks. A board member, Gunnar Brock, had made it clear to the board that the sale would be so important and demanding that the two top executives would have to split up their duties. Knudstorp therefore acted as the main impetus in formulating a new strategy.

At the board meeting of May 2, 2005, the two executives, on the basis of their four meetings, brought the board up to date. To open the discussion, Knudstorp and the consultants from Bain & Co. had thoroughly gone over the various options, and among the 87 dismal slides the most important were:

1. LEGO Group has seen a 10 year decline in profits & shareholder value. Management a year ago embarked on an Action Plan to protect

private ownership, but this is almost certainly not enough to generate value

2. LEGO Group competes in the traditional toys business; 'construction toys' is not a defensible business definition. The core of the LEGO Group is the LEGO Brand 'communities'. Of the adjacent businesses, none reinforce the core except Bionicle, Mindstorms, Direct to Consumer and LED

3. The core business is in a weak strategic position & is currently not defensible. LEGO Group cannot compete on price. Furthermore, capabilities are too weak to respond

4. To potentially make the core sustainable, LEGO Group requires ruthless performance improvement simply to stand still, AND a shift to a more premium positioning to create value

5. LEGO Group has four main strategic options, in all of which fixing the core business will be an immense challenge due to lack of capabilities, organisation culture, potential risks. Further there is a strong industry logic for partnership

6. Our view is that LEGO Shareholders either decide they are truly prepared to attempt a highly risky & challenging repositioning & turnaround standalone, or should find a partner. The timing of any partnership is likely to be within the next 12 months

A member of the board asked if there were other possibilities, to which Ovesen answered, "You can always close."

Knudstorp and Ovesen often used that expression privately when something seemed completely hopeless and they needed a shot of black humor. "You can always close."

According to the minutes of the board meeting, it had been said that "the core is rotten", but the meeting ended as the two top executives had hoped. The board gave its approval to senior management acting on the assumption that LEGO would remain an independent enterprise. The concrete decision taken was that an actual plan was to be presented at the next board meeting in September 2005.

The coming plan had in fact already been named. Senior executives had been working with the Bain & Co. consultants. Their idea was to gather

everyone in the company to work on a common problem – everyone meaning the family, the board, executives, employees, fans, and customers. Knudstorp had therefore spoken about a shared vision, and that ended up being the official name.

The name stuck during a presentation by Knudstorp at Molskroen. All the other participants showed up with power point slides, but Ovesen came holding a sheet of graph paper with a title written at the top, Shared Vision, with the rest of the sheet filled with numbers. Everyone was amused by a vision consisting solely of numbers, and from that moment on the unfinished plan had its name.

Two philosophies of life clash at the top

In the weeks and months following the board meeting in May 2005 a plan started to take shape. The work began in San Francisco, where senior management had gathered to meet with Lucasfilm. Two Bain & Co. consultants, Simon Henderson and Niels Peder Nielsen, also came along.

Knudstorp spoke with several people during the work on the new plan. First and foremost with Kirk Kristiansen, who presumably played a crucial role in convincing the young CEO to believe in the commercial possibilities of the toy brick.

Within the company he spoke in particular with Henrik Poulsen and Søren Torp Laursen about the park sale, with Mads Nipper about product development, and with Lars Altemark about Supply Chain. He also had formed a small work team with a head of strategic development, Sarah Fox, who had worked at McKinsey and who later left LEGO for Bain Capital, a sister enterprise to the better-known Bain & Co.

Knudstorp also spoke with his four interlocutors, Lars Kolind, Mike France, Xavier Gilbert, and Ram Charan, and with the company's main customers. Also many internal seminars were held with, among others, designers, heads of product development, and the Supply Chain team. Jesper Ovesen on the other hand was seldom in attendance; in the spring and summer of 2005 all his time was occupied with the sale of the parks. His absence was an obvious handicap, but in hindsight it might have contributed to Shared Vision being finished so quickly. There were signs emerging of how Knudstorp and Ovesen were evolving different views on which direction LEGO should take.

Jørgen Vig Knudstorp's efforts to find what is unique about the company had given him a spark of optimism and a growing determination to lead the company forward. Jesper Ovesen, on the other hand, wasn't convinced that

LEGO could survive as an independent company, or that there was a solid foundation under the core business. In that light an offensive strategy could prove to be risky, he believed, and he was more inclined to view the tough decisions regarding the sale of the parks and the later discussions about moving production as steps toward positioning LEGO to be sold at the highest price possible. Ovesen most likely had a lack of faith in Kjeld Kirk Kristiansen and the board of directors, who had failed to live up to their responsibilities throughout the 1990's.

Knudstorp's and Ovesen's differing philosophies of life colored the men's relationship in the spring of 2005. In a larger perspective, it was all about how a leadership tackles a seemingly hopeless problem in a serious crisis. It was to Ovesen's great credit that he provoked LEGO from top to bottom. He challenged management daily and demanded they act realistically. Without his pressure it's doubtful that LEGO would have channeled the energy to carry them through the crisis.

But there also existed a need for the flip side to Ovesen's realism – a need to believe that this actually could be done. After Torben Ballegaard Sørensen stepped in as a member of the board, at the first meeting he attended in May 2005, he said, "You have to believe in this." It was a typical statement from Sørensen, a man with a special temperament, who occasionally took steep risks but also could inspire enthusiasm in a team.

In the spring several more sharp conflicts occurred within the leadership – again, especially between Ovesen and the other senior executives. Ovesen spoke frankly; he didn't care about the product. It was all about making money. That was a fundamental affront to a corporate culture in which practically everyone loved the company's product.

Ovesen took it even further. When senior executives discussed the core business, he could be scornful, saying, "How can you call it a core business?" He was tough on people like Henrik Poulsen, Søren Torp Laursen, and Mads Nipper, men who had headed sales and product development, and who still were affected by the crisis. This was especially true for the new division head in the USA, Torp Laursen, who had the same fiery temperament as Torben Ballegaard Sørensen and, as a result, had problems with Ovesen's eternal pessimism.

Knudstorp and Ovesen quarreled about whether it was naively optimistic or a lack of faith to believe in the company. Eventually, however, they found a common ground in Shared Vision, wherein Ovesen still had doubts, but such that he also could view the work being done with growing approval as the company gradually moved in the right direction.

In any case, Jesper Ovesen added a clarity of vision to the leadership, a valuable commodity in the debate about Shared Vision. At times LEGO employees discussed the difficult cuts being made, characterizing them as contrary to the spirit and values of the company, and they asked themselves whether Jørgen Vig Knudstorp really could go along with what was happening. Everything points to how the decisions made were necessary, though, and that it was Ovesen in particular who pushed them through when it really hurt.

Jørgen Vig begins to understand LEGO's core business

Kjeld Kirk Kristiansen and Jørgen Vig Knudstorp experienced something in the critical summer of 2005 that proved to be of critical importance to them both. Kristiansen invited Knudstorp to a so-called BrickFest in Washington D.C. Several hundred adult LEGO fans met to celebrate their passion for the Danish toy and to show each other their new models. Knudstorp had heard of these events but had never attended one. Back in Billund he had spoken about them with Tormod Askesen, who was the company expert on adult fans, and it had awoken his curiosity.

BrickFest was an eye-opener for Knudstorp. It was held on a weekend, August 13-14, and he met adults who showed a genuine, spontaneous, and timeless enthusiasm for the brick that the senior management in Billund had almost lost faith in. The emotions that the brick brought out in the people there struck Knudstorp, forcing him to take a new view of the brick's possibilities. Maybe time hadn't passed by the old brick when it could inspire such passion in the hundreds of people who traveled great distances to share their LEGO models.

It wasn't anything new to Kirk Kristiansen, not at all, and he did what he could to make Knudstorp understand what he himself had never doubted yet throughout the years had had difficulty expressing, namely the conviction that the brick embodied a timeless and brilliant product idea.

After the American fans returned home from BrickFest, they wrote about the event on their blogs. One of them, a man called Ben, wrote:

”The LEGO employees and their families were extremely friendly, supportive to the fans, and seemed to enjoy themselves. The talks by Jake, Jørgen Vig, and Kjeld made me think the company is getting back on track and willing to listen to fans for our input.”

Knudstorp's experience in Washington led him to establish a dialogue with

the company's fans, and it turned out that he still had much to learn about LEGO. He knew there was valuable knowledge to be gained from these fans. Previously the leadership at LEGO had tended to regard these people as a bunch of nerds, but they could be the very people who held the answer to the question of LEGO's identity.

While he was in the U.S., Knudstorp received from Tormod Askildsen the results of a paper entitled "The Core Gravity Study". One of the study's questions that adult fans were asked was what they associated with Lego. Knudstorp expected answers such as "fun", "cool", "exciting", or "engaging", but instead the answer was "creativity". It opened his eyes, and he realized that from now on, in his efforts to understand the depth of LEGO, "creativity" would be a crucial theme.

Similarly, many things began to fall in place for Knudstorp with regards to Shared Vision. Most important was securing the company's survival, and that meant new deep cuts and rationalizations. Meanwhile it became evident that his and Ovesen's action plan from Christmas of 2003 had been on the mark when it came to identifying the sale of the parks and relocation of production as the two major options at the time. Now it was a matter of taking the next step in perceiving what LEGO actually was about. Then the crucial question would be, can whatever is unique about LEGO be made profitable enough for the company to survive?

It was vital for LEGO's new strategic plan to be based on the company's core business. If there was any chance for survival, it would have to spring from what LEGO did better than its competitors. The crisis had made it clear that it was fatal to gamble on ventures others could do better. Therefore LEGO had to face the fact that its future lay with the construction toy market. But how? The tough international competition in that particular market made it difficult to spot a solution.

Jørgen Vig Knudstorp immersed himself further in the core business. He dug deeper into the four unique things about LEGO he had identified – the brand, the brick, the construction system, and the community. Especially the construction system.

Unlike its many competitors, LEGO offered its consumers something special. LEGO wasn't just a toy; it gave parents and children more than that. LEGO stimulated children's creativity. It helped them develop new proficiencies, such as motor skills. This realization came gradually, not as an epiphany. Already in the winter of 2005, during a discussion between Knudstorp and Mads Nipper concerning whether or not the product portfolio should be cut down, they had spoken about the construction system

as being a competitive advantage.

That observation had several consequences for Jørgen Vig Knudstorp. Obviously LEGO's identity and construction system was tied closely to the brick. LEGO is the brick. The brick is LEGO. Eventually that observation must be crystal clear to everyone. Despite the digital challenges of the times, it was evident that the future of the company rested on the brick. But certainly in such a way that the brick had to be seen in a new light, where its quality of encouraging creativity was the key to the future.

Building on this insight, Knudstorp determined that LEGO should try to corner a small but profitable niche in a market that otherwise was characterized by intensely ruthless competition, where no one was able to achieve satisfactory results.

It was certainly a dramatic perception, that LEGO should consider itself a niche enterprise, but there was a further condition, a demanding one, to meet: it would be meaningless unless LEGO could translate this insight into value. It's not enough for a company to concentrate on its core business, if the core business is so small or in such dire straits that it's impossible to base a commercial future on it.

For LEGO it meant that the new strategy would involve hard work in developing all the links in the value chain. Practically everything had to be done better and more efficiently: the important production in Supply Chain that would later relocate; the dialogue with major customers: company innovation; employee skills; developing a new business culture; new procedures and a more streamlined decision-making process. And so on.

But it also meant that LEGO should continue its aspirations to be more than just a toy. Even in this life-threatening crisis, it was still the understanding of LEGO's "timeless and brilliant idea" that would rescue the company.

Knudstorp wasn't the only one working on all these considerations. On the contrary. He was constantly discussing the future with the people around him, and he wrote his thoughts down in a memo that in time reached the stature of a living document. Over a long period of time the leadership discussed and made changes in the memo, such that it became more precise. It was a process where the senior executives not only increased their awareness of the company's possible future; they also gained a greater common understanding.

At last Knudstorp ended the work on the memo, which now was fourteen pages in length. Prior to the board meeting in September 2005 he wrote about the idea that led to Shared Vision, and he began with the tough cuts in expenditures and restructuring accomplished since January 2004. He

continued:

”As this short term "survival" mission is being realized with success, the LEGO Group has turned its attention to addressing the very fundamental challenges that caused the Group to stretch the brand and move into new businesses. This time around by renovating the core business rather than migrating from the core. The approach going forward is to some extent at odds with the industry, yet acknowledges the fundamentals driving the toys business. Put differently, LEGO Group will carve out a niche in a deadly competitive marketplace where almost no one in the value chain is making an acceptable return. Needless to say, such an approach is quite different from mere cost cutting/restructuring, and while it involves further restructuring, the important step is setting a clear and shared direction, i.e., it is a business development strategy with the associated strategic risks present, especially in light of earlier failures. This is the Shared Vision.”

Further along in the memo, Knudstorp talks about LEGO's special self-image, where the company would find a path forward by remaining true to the idea it had always held, that it wanted to do more than just manufacture toys:

”It is of great importance that LEGO products must be cool, exciting, fun and engaging, i.e., deliver on all the prerequisites of competing in the toy market, including iconic designs and packaging. Note also that we include play themes (role play) in the LEGO core offering, reflecting how consumers have come to see the LEGO brand. But it is themed play the LEGO way, i.e., with the qualities unique and differentiating to the LEGO brand (as for instance compared to Playmobil role play). This is vastly important. LEGO is primarily a toy that incidentally also is a tool and therefore something that can be learned from and achieved by use of. LEGO is "voluntary" learning, because it is fun, and it is deeply rooted learning because it is learning by actively doing and acting rather than passively listening and repeating.”

In short, Knudstorp's idea was to kill two birds with one stone. He would focus all the company's energy into creating a new, sleeker, more effective core business, and he would strengthen the company's brand, actions which should give a clear, ambitious pledge to customers and consumers.

LEGO had to compete with the best in the toy business, but they should also be able to offer products that were more than toys, that could be used to teach and develop children. Two major challenges that, taken together,

contained the essence of the many considerations he had made in the previous year and a half. The goal was to merge the company's historical self-image, expressed in LegGodt, and the commercial demand for profit.

His proposal for LEGO's new vision: "The vision of the LEGO brand is to be the provider of systematically creative, fun quality tools to foster the shapers of the future by letting them build everything they can possibly – and impossibly – imagine."

Shared Vision was born. The plan was still incomplete, but the idea was hatched, and now there was a scheme concerning how to move forward as an independent corporation. At the end of the memo Knudstorp wrote about the enormous demands the mission would make on the new leadership:

"If the current leadership team does not deliver the Shared Vision, while another team could (e.g., private equity) then the team has cost the company DKK 6-8 billion in value. An amount that is less than but still approaching the value destroyed between 1993 and today. It would beyond any doubt lead to the company's demise, at least as an independent corporation possibly also as a premium brand. The stakes are therefore high, and so should the demands on the leadership be."

The board's frustration boils over

The mood on the board was much gloomier in the spring and summer of 2005 than that of Knudstorp and the people around him.

During the spring of 2005 it was obvious that LEGO's board of directors had misgivings. The board meeting of May 2, 2005 in particular revealed that the board was unsure of which direction the company should take going forward. Perhaps this uncertainty was natural given that the board was responsible for LEGO landing in its worst crisis ever, but it also proved that they had no clear perception of what the company should do. Perhaps the board members simply were in disagreement. Kirk Kristiansen was determined to make certain that LEGO continue as an independent corporation, while the rest of the board was less certain.

The truth was that the mood of the board went far beyond uncertainty. It was the consultants from Bain & Co. who ended up unveiling the deep frustration, internal disagreement, and almost in some cases mistrust with Kirk Kristiansen and the new leadership.

As a wrap-up to the initial work on Shared Vision the consultants interviewed the board members individually. The idea behind that was to get an overall picture of the board's view on the company's situation and options,

but the resulting memo ended entirely differently. Only four pages long, it was finished on August 24, 2005.

The memo was composed by Cyrus Jilla, one of the consultants, and it was sent to four men: Mads Øvlisen, Kjeld Kirk Kristiansen, Jørgen Vig Knudstorp, and Jesper Ovesen. It was scary to read. A short summary:

Vision & Strategy

LEGO as a product and experience has lost its way. LEGO has lost its self-confidence. LEGO needs clarity of purpose and a reason for being. Those among the board members who favour a smaller business (the majority) argue that it is the best route to creating sustainable value for the company.

Business model

The entire business model needs to change to reflect this. LEGO will need to focus on the consumers. It is possible this could require more of a retreat in the U. S. Overall LEGO is too high priced. This is not just a cost problem. We need to fully understand price elasticity. We have been asking for this for years. LEGO does not seem to fully understand what retailers make on their product. Only recently have we begun to consider customer and product profitability. As suspected there are many lines and customers who are not profitable. We should address this urgently. We should cut a lot of product lines and simplify our product portfolio - it is way too complex. LEGO underutilises the internet. LEGO is very weak on product innovation. There is insufficient consumer insight going into product innovation. LEGO does not really like to listen to consumers.

Costs

We all know LEGO is too high cost, and that we should have acted on this earlier. Just fix it. Cost should be absolutely minimised. This means a simpler product portfolio and low cost locations for manufacturing. Supply chain move is the key. This will take time and money, neither of which LEGO has much of. However, if we do not start aggressively now, we will never be profitable.

Governance

Strategy discussions are fine, but the fundamental problems are governance and people. From this perspective this is a disastrous company. As a Board we feel we are not listened to sufficiently.

Kjeld needs to trust his management team and let them do what is truly right for the company. It is important as he sometimes does not realise his own subtle influence at all levels. When he expresses a preference or makes a comment, management listens carefully and this can dilute their own ideas.

If Kjeld is unhappy with this structure, then he should really consider selling the company. This is a very difficult turn-around, management should be able to focus on managing the company and not have to manage the shareholders.

Management

Overall experience levels in tough turn-around situations are limited. The "jury is out" on management, we need to see what they can do. LEGO is too Danish. There does not seem to be the urgency, energy and passion for success you would expect - especially in a crisis situation. Management does not appear open to outsiders. The team needs to move from discussions of vision, strategy, process and barriers to taking decisive and tough actions. The CEO should start putting his guys under a lot more pressure. There is too much consensus building going on. This is a crisis situation, but it does not feel that way with the management.

Organisation

The majority of the Board believe Billund should be partially or completely moved. The priorities are product development, marketing and supply chain. There is no consensus on where to move to, but a couple favour the US to place LEGO close to a critical and challenging market. There is a culture in the walls problem. Often the only way to deal with this is to move. We can't attract the right people to Billund.

Partnership

There is a genuine concern that LEGO will not be turned around with its current ownership and that partnership options should be pursued. Although the Board is not certain this is the right answer, it considers it essential to have a frank discussion of the options. The proponents of partnership are concerned that under the current owner and management team they will not see the tough decisions taken quickly. Without this, LEGO will continue to run hard to stand still or go backwards.

Kjeld needs to ask himself a number of questions: Does he really have the appetite to watch another attempt at a turn-around? Will he continue to step back from the running of the business - including providing management freedom on difficult decisions? Are there strong next generation family ties to the business, or is the emotional attachment principally with him? Why would he wish to retain the business?

The memo was almost a type of vote of no confidence by the board to Kirk Kristiansen and the senior executives, with Knudstorp and Ovesen at the front. When Kirk Kristiansen read the note he was angry and disappointed. In particular he was offended by the questioning of whether he wished to maintain his ownership. Did the board not understand that this was a family-owned company where sense of duty made it unthinkable that he could shun his responsibility? He felt that the board wasn't supporting him and, in particular, that he was alone in his belief that LEGO should not be sold. Also he thought that he still had an important role to play at LEGO.

How could LEGO's board of directors be so critical of the company's owner and the leadership that the board itself had appointed? How could the board have opinions like this and remain as the board?

The most likely explanation is that the board was extremely critical of Kirk Kristiansen, and the members felt they had warned him during Poul Plougmann's tenure. The memo simply reflected their frustration. The board didn't believe he would be tough enough to get through the crisis – on the contrary. During meetings the members witnessed his resigned attitude when the difficult cuts came up, while they knew nothing about the commitment he showed in his conversations with Knudstorp and others.

At the same time, the board was influenced by how Knudstorp and Ovesen had chosen to communicate negatively about LEGO's situation. No matter where they spoke, outside or inside the company, they seemed to put the company in the worst possible light with their attempt to maintain the concept of a burning platform in the minds of employees. Maybe that is why the board had the impression that the leaders were disillusioned. Maybe the board simply was affected by the atmosphere of crisis that was worse than ever now that the parks were about to be sold.

Knudstorp's and Ovesen's attitude toward the board in the summer of 2005 was likewise skeptical. They felt that the board didn't know its mind, and that in particular the board had difficulty in supporting the leadership during the brutal decisions about selling the parks and the necessary but painful

discussion about relocating production.

Should a positive light be thrown on Kirk Kristiansen in reading the memo, it would show him to be quite isolated on the board and that the pressure on him to give up must have been considerable. When he expressed his annoyance to Knudstorp, he received a rather cool reply: "As the owner, you have the board you deserve."

Despite the scathing criticism of Kirk Kristiansen and the leadership, the Bain & Co. memo was not discussed by the board. One would think that a memo that more or less conveyed a complete lack of confidence in the company's top executives would spawn frank discussion and soul-searching, but no. The chairman, Mads Øvlisen, whose name was at the head of the list of those who received the memo, didn't take it up with the board. He was uncomfortable with personal conflicts.

The next board meeting was held in Cobham, close to Windsor Park, on September 19-20, 2005. To everyone's surprise the meeting was positive. In fact it was the first positive board meeting any of them could remember. Two new board members had been appointed prior to that summer. Lars Kann-Rasmussen and Anders Moberg had been replaced by Torben Ballegaard Sørensen, the CEO at B&O who had previously worked at LEGO, and Armin Broger, a senior executive at Tommy Hilfiger Europe. They had taken part in the May meeting, and their fresh energy had helped lighten the mood during the discussions.

Jørgen Vig Knudstorp showed them the work that had been done on Shared Vision, and even though all of them were unsure whether LEGO could grow when cut down to its core, they supported the plan. The two new members gave the board a sense of optimism, which made it easier to see the light at the end of the tunnel.

And perhaps most important of all: the company was on its way to being free of debt, and it looked like they would end the year with a slight operating profit. The meeting was a milestone in LEGO's history. The idea that LEGO should seek a partnership or work toward selling the company was abandoned. LEGO was now pursuing a future as an independent corporation.