

Governance and leadership of project management commerce essay

[Engineering](#), [Project Management](#)



The purpose of this document is to describe and evaluate the governance structure and leadership approaches currently adopted by the LEGO Group; suggest new or additional governance structures and leadership approaches that could improve the company's performance; and a reflection on the propositions made in the latter half of this document.

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Background[1]

The LEGO Group is a family owned toy manufacturing company founded by a Danish carpenter-turned-toymaker Ole Kirk Kristiansen during the great depression in 1932. The company manufactured wooden toys because of the declining demand for building houses and furniture. In 1934 Ole combined the Danish words ' leg' & ' godt' meaning " play well" to form LEGO. Ole founded LEGO with the motto " Only the best is good enough" (he produced toys using high quality materials and workmanship) which is still used by the LEGO Group as a guiding principle.

In 1947, after World War II, LEGO acquired a plastic mould injection machine, which allowed LEGO to expand its business operations to produce a relatively large volume of plastic and wooden toys, resulting in the production of the first LEGO bricks. In 1954, Godtfred Kirk Kristiansen (one of Ole's sons), found an opportunity to create toy products that were able to connect with products in the toy manufacturing industry, resulting in the birth of LEGO play-sets. In 1958, LEGO patented the improved LEGO brick design, also the year when Godtfred took over the company due to the death of his father.

Between the 1960s and 2000s LEGO continuously grew into one of the world's top largest toy manufactures, by expanding; with international sales, new innovative play-sets, sports and media licence acquisitions (i. e. franchise films, basketball, hockey, soccer), LEGO magazine subscriptions, erecting a LEGOLAND theme-park, launching a LEGO website, and LEGO videogames. However, in the early 2000s, the company experienced a decline in sales and profit: in 2003 revenues dropped 30% and continued another 10% in 2004. To overcome this crisis LEGO underwent a governance change to resolve the problems in the pre-existing management.

In 2004, Jørgen Vig Knudstrop (the director of strategic development) replaced the CEO at the time, and in his first action as CEO he arranged a team to analyse the company's supply chain operations, from product development to production and distribution. The team discovered that although the newer products represented a large portion of annual revenues, newer generation play-sets were more elaborately designed and generated less profit; product designers were creating products without total consideration for material and production costs; designers used their own vendors resulting in LEGO having to deal with over 11, 000 suppliers; inefficiencies in the organisation of the plastic mould injection machines, since each machine was capable of producing every type of LEGO brick retooling was required, causing downtimes resulting production facilities operating at 70% capacity.

To bring the company back on track the team: reduced their product line where necessary as well as reduce the selection of colours for designs by

half; used production costs of each brick to reduce expensive products, in turn reducing the amount of suppliers needed by 80%; designers were shown the impact of using existing bricks over creating new ones for future designs; certain plastic mould injection machines were assigned specific LEGO bricks on scheduled cycles to reduce downtimes and retooling costs. These changes to product development, production and distribution – implemented by Knudstrop’s leadership – resulted in the LEGO Group earning a profit of \$72 million in 2005, with profits increasing by 240% in 2006.

Introduction[2]

The LEGO Group is a privately held company based in Denmark. The company is currently owned by the 3rd and 4th generations of the Kirk Kristiansen founding family: Kjeld Kirk Kristiansen (Ole’s grandson) and his three children. Ownership of the company is handled through KIRKBI (an investment company) and the LEGO Foundation: KIRKBI owns 75% while the remaining 25% is held by the LEGO Foundation. As of 2012, the LEGO Group manufactures toys in more than 130 countries, has approximately 10, 000 employees and is the third largest manufacturer of toys in the world (in terms of sales) after Mattel and Hasbro.

Governance[3]

The LEGO Group’s approach to governance is focused on combining the strengths and benefits of private ownership with “ the applicable elements from good corporate governance for listed companies” (Jensen, 2012). The certain requirements from listed companies (from the Danish Stock

Exchange) are not all compatible for a family-owned company (Kjeld Kirk Kristiansen is majority shareholder) while recommendations of corporate governance structure and board composition still apply.

The LEGO Group maintains the importance of having a strong and competent board of directors, especially because of family-ownership. To support this, the company elects a chairman among independent board members to ensure professional board management. This process is regulated via: ensuring a diverse and complementary board composition; regular board self-assessments; competitive compensation; and clear & specific rules mandated for each management body.

Being a family owned company, the LEGO Group is exposed to risk through the handover of ownership across generations. The mediation strategy is to highly involve the next generation in company matters pertaining to ownership.

Organisational Structure

The LEGO Group uses a hierarchical top-down structure with five separate departments (see Appendix A, pp. 8), this structure centralises the company's management to a functional management structure which rests the authority with corporate management - the corporate management consists of the CEO, the CFO and four Executive Vice Presidents (The LEGO Group, 2010, pp. 7). The centralised functional management structure ensures consistency in organisations, as a limited number of persons are in charge causing jobs to be simplified allowing employees to be highly

specialised in their work since “ specialisation leads to operational efficiencies where employees become specialists within their own realm of expertise” (BusinessMate, 2010).

This form of governance however, can result in slow decision-making processes as decisions must pass through bureaucracy in order to get through to corporate management (Riley, 2012). A disadvantage of functional management structures is that it facilitates rigid communication between employees and corporate management: employees can feel unheard and excluded from decisions that directly affect them. This lack of involvement can be detrimental to the job satisfaction, motivation and productivity of the employees (Jones and George, 2006, pp. 53-54).

Leadership

The current CEO (Knudstorp) emphasises a decentralised and innovative-oriented approach in contrast to the existing structure. To implement this combined strategy Knudstorp uses a ‘ managing at eye level’ approach, which he defined as “ being able to talk to people on the factory floor, to the engineers, to marketers – being at home with everyone” (O’Connell, 2009). Knudstorp achieves this through a relaxation of the top-down management style, allowing responsibility and decision making to be pushed as far down the hierarchy as possible (O’Connell, 2009), much like McGregor’s (1960) Theory Y where collaboration within the company relies on leaders recognising the potential of their resources and how to realise that potential. Through the realisation of the Knudstorp’s leadership style the LEGO Group moved away from a hierarchical organisational structure to a flatter one

with: cross-functional teamwork, employee involvement, more open communication lines and styles. With open communication – where all the members of the company are in contact with each other in some way or another – the company is able to have a stronger sense of community. The LEGO Group communicates its attitude to the responsibility of its employees through communication, health & safety, people and culture policies and promises.

Link between Project and Corporate Strategy[4]

The LEGO Group uses an innovation matrix – a tool developed within the company – to help identify, allocate resources and coordinate different innovation activities (projects) for developing new products. The strategic coordination of innovation activities is led by a cross-cultural team: the Executive Innovation Governance Group (EIGG), they determine LEGO's innovation goals and strategy; define the new product portfolio; coordinate innovation activities ensuring they are mutually reinforcing; delegate authority; allocate resources; and evaluate results to ensure that all innovation activities support the corporate strategy. Using the innovation matrix allows LEGO's management to understand what; resources to allocate, risks to monitor; and selecting who is responsible for reviewing the innovation activities.

The company divides its innovation activities into eight distinct types, and distributes the responsibility for them across four different areas of the company: functional groups; concept lab; product and marketing development; community, education, and direct. Overseen by the EIGG, the

four areas work to achieve innovation activities (projects) that mutually reinforce each other while providing different degrees of innovativeness back to the company.

Relationship with Stakeholders/Shareholders

The LEGO Group emphasises a strong focus on ensuring the balance of the value created for the owners in comparison to the value creation for the remaining stakeholders such as: consumers, employees, customers and other partners. The company believes that creating value for the company's stakeholders will result in long term value creation for the owners.

“ It is important for us to engage in respectful stakeholder dialogue by being transparent and ensuring an open and honest dialogue. It is fundamental to us that the relationship between our company and our host communities are based on trust, mutual respect, and a cooperative spirit.” (Jensen, 2012).

Shareholder Relationship

The CEO is the head of the company, but it is a family-owned company controlled by Kjeld Kirk Kristiansen, the majority shareholder of KIRKBI: the investment company with 75% control of the LEGO Group (The LEGO Group, 2012). Due to this power structure, the central management does not have full control, meaning that final decision do not rest solely on the CEO, but with influence from the family shareholder.

Internal Stakeholders

Due to the organisational structure, employees have to report back to their respective managers. However, under Knudstorp's leadership the looser

control system provides employees more influence – a factor which can work as a motivator. “ The employees in the LEGO Group are the building blocks of our success today. We strive to improve the well-being and job satisfaction of our employees.” (Jensen, 2012).

External Stakeholders

In 2005, Knudstorp identified the significance of customer involvement in the product development process. Knudstorp found that the adult enthusiasts could “ articulate the product strengths and weaknesses that young children may sense but can’t express” (O’Connell, 2009). The LEGO Group actively engages customers to participate in the design and creation of new products and ideas. Although they lose some control over its system, the company gains knowledge from its most valued consumers.

Suggested Governance and Leadership

In 2009, Knudstorp stated that the company was pursuing organic growth, and needed to change leadership style again to continue building sales volume. Knudstorp asserted that the change is necessary as the company had become “ risk averse while focusing on survival”, and that they needed to become “ opportunity driven, which requires taking greater risks” (O’Connell, 2009). In 2011, Hasbro, one of the company’s major competitors planned to launch a new product called the ‘ Kre-O’, which was designed to be compatible with LEGO bricks (Anderson, 2011). This poses a significant threat to the company due to the size and brand power of Hasbro. To mitigate threats such as competition from new/existing sources, it is important for the LEGO Group to change its governance structure to help the company

formulate a corporate strategy that allows the company to maintain market dominance and financial stability/success in the future.

Governance

Currently the LEGO Group has combined the behaviour and outcome oriented approach in the overall governance of the company: behaviour oriented organisations are indifferent to whether projects are managed in-house or externally so long as the process conforms with the company's policies; outcome oriented organisations manage projects internally through employees with a wider skillset (Müller, 2009). The LEGO Group works with both internal and external designers as well as customers in product development (behaviour orientation) while having a board member or the EIGG overseeing the project management, and ensuring it fits in with the corporate strategy (outcome orientation).

According to Müller (2009) there are four governance paradigms, the: flexible economist, versatile artist, conformist and agile pragmatist. The LEGO Group currently falls under the versatile artist paradigm where the company prioritises the diverse user needs using project management methods to realise the requirements of a variety of stakeholders, as well as promoting high productivity. However, the company needs to migrate to a more behaviour oriented agile pragmatist paradigm, which also accounts for the needs of the diverse stakeholders, but allows for products to develop from core functionality; to include additional features; to enhance the flexibility and user-friendliness, especially when dealing with the gaming and computer entertainment products which include successful franchises such

as LEGO Star Wars™, LEGO Batman™ and LEGO Harry Potter™ (The LEGO Group, 2012).

Leadership

Although the current leadership style within the company is flatter with more open communication lines, the leadership is still quite bureaucratic, albeit the authority for decision making has been pushed down the hierarchy as much as possible, the structure remains top-down. The LEGO Group needs to be more flexible in their leadership approach, which according to Frame (2003) and Müller (2009) bureaucratic leadership is the least flexible leadership style of the four: laissez-faire, democratic, autocratic and bureaucratic. The company may experience better performance if a democratic approach was adopted, as it allows for additional flexibility and builds on the existing flatter communication style.

Reflection