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# BUILDING BLOCKS OF ERM AT LEGO

By Russ Banham



## RIMS

Enterprise risk management (ERM) at The LEGO Group is akin to the colorful bricks that interlock to create castles, cars, people and scenes from famous movies like “Star Wars” and “Pirates of the Caribbean.” Different parts of the company’s corporate enterprise are entrusted to manage and oversee risk management in their respective spheres of operation. Where these parts interlock to

manage enterprise exposures is through the company’s strategic risk management organization.

Children in the United States have exercised their imaginations assembling LEGO bricks’ unique connecting tubes since the 1970s, although the company was founded much earlier. Carpenter Ole Kirk Kristiansen launched The LEGO Group in his small workshop in 1932, eventually passing down ownership of the business to his son, who did the same. Kjeld Kirk Kristiansen, the founder’s grandson, now owns the privately held company.

The name LEGO derives from two Danish words: leg and godt, meaning “play well.” Kids (and many adults) continue to play well with LEGOs today, albeit the Billund, Denmark-based organization is now one of the world’s largest toy manufacturers. LEGO tallies more than 18,000 employees in 70 different nations worldwide. Revenues in 2017 were approximately \$5.6 billion.

RIMS sat down with Jette Birkeholm Møller, Senior Manager of LEGO’s Strategic Risk Management organization, to discuss the company’s project-based approach to ERM. Jette (pronounced “yetta”) also is a valuable member of RIMS’ Strategic and Enterprise Risk Management Council and has been involved in several RIMS ERM conference sessions through the years.

**RIMS:** Let’s get right to the point—what is ERM at LEGO?

**Birkeholm Møller:** I’m so glad you asked! What started out here as pretty traditional ERM has transformed over the years to become more strategic in nature. ERM covers a lot of ground. It involves a lot of different functions and departments across multiple territories, particularly if the organization is global. There are also the governance and public affairs aspects to ERM, the risk transfer elements, and the political dimensions—insofar as what do we call this, ERM or strategic risk management? What we have succeeded in doing here is putting each part of the enterprise in charge of their own risk management.

**RIMS:** So ERM is essentially entrusted to these different constituencies? Where does your organization come into the picture?

**Birkeholm Møller:** ERM is owned by the businesses, which must consider risk management in all their business plans. Our role is to ask them how things are going—fine or not so fine? We’re embedded into their project teams as the risk management program directors. We try not to have them dwell too much on the risks, but to clear the risks away so they can focus on the opportunities presented by these risks. That’s why my group is called strategic risk management.

**RIMS:** How is your group structured to provide this crucial service?

**Birkeholm Møller:** I work in our headquarters in Billund, although we don’t call it that since we like to think of ourselves as truly global. I also work for our office in Singapore, which is where the strategic risk management organization resides. Our primary role is to support top management, monitoring the major risks they and our board have agreed need to be monitored closely. However, we don’t ignore our other risks. For competitive reasons, I can’t tell you what the major risks are, as we are a privately held company.

**RIMS:** What is your job specifically?

**Birkeholm Møller:** As the senior manager of the group, my responsibility is to ensure the rest of the team understands what our key risks are, develops strategic plans to mitigate them in the best possible ways and monitors events that may affect our plans. The challenge always is that we may be blindsided by new things that can affect the business, creating new risks or affecting current risks in good and not so good ways.

**RIMS:** Can you provide an example?

**Birkeholm Møller:** A case in point is the recent bankruptcy of Toys ‘r Us. We never hoped that would occur, figuring that some company would come in at the eleventh hour and save them because they’re an institution. We were prepared though and had made a calculated risk. However, it does most likely change the retail landscape.

*(Note: In its September 2017 Chapter 11 bankruptcy filing, Toys ‘r Us had declared an ambitious reinvestment strategy in its stores, only to subsequently announce in March 2018 that it would close all stores in the United States. Analysts were startled by the decision.)*

**RIMS:** Is your concern related to the future of LEGO’s 90 brick and mortar stores in North America?

**Birkeholm Møller:** Obviously, when such a major competitor—one that also sold our products—pulls out of retail stores, we have to examine how this changes the retail landscape and how we as a company should react.

**RIMS:** Many traditional brick-and-mortar retailers are rethinking how to get more value out of their stores. Nordstrom’s, for instance, just opened Nordstrom Local, a 3,000 square-foot showroom in Los Angeles, where fashion stylists provide free advice to shoppers, who then buy online. An average Nordstrom store is about 140,000 square feet. Are these examples of similar opportunities for LEGO stores?

**Birkeholm Møller:** We have long provided advice at our branch stores, helping grandparents, for instance, who aren’t sure which product is best for their grandkid. All our stores are also showrooms, with models on display. But, yes, I would say that all brick-and-mortar retailers are rethinking current models. It’s our job in strategic risk management to make sure all angles are carefully considered before management makes decisions. We constantly ask, “Where are consumers likely to shop for our products in the future?” because that’s where we need to make our long-term investments. This may involve some experimentation. But at the same time, we must protect our value as a premium brand.

**RIMS:** What do you mean?

**Birkeholm Møller:** When you’ve differentiated your brand as a premium product, you cannot risk diluting it. You need to ensure people can experience the uniqueness of our products and the close touch of your customer service. That’s my opinion and it doesn’t preclude us from developing new retail concepts. Working in strategic risk management doesn’t mean we hold all the answers. I’m not a wizard; we can’t predict the future. But we can ask questions to assist marketing, sales and all the other parts of the enterprise. They know their territories better than we ever could. The problem is they know it so well they lose sight of what can go wrong—what might happen that they’ve never considered.

**RIMS:** Makes complete sense. When people are so deeply engrossed in their specific tasks and responsibilities, they often can’t see the forest for the trees. Strategic risk management—your team’s job—is the forest-keeper in a way.

**Birkeholm Møller:** That’s a good analogy. We hover over the landscape looking out for the unplanned things that can affect our consumers. Right now the world is pretty stable, but what might be the outside drivers that could destabilize this environment five years from now?

**RIMS:** Do you sometimes feel like the wet blanket spoiling other people’s fun?

**Birkeholm Møller:** By nature, I’m a pretty optimistic and upbeat person—good traits to have in my job. I try not to be the party pooper. We’re really in the stress-testing business, making sure what appear to be smart plans have in fact accounted for all contingencies. Risk management is always a moving target. ■