PROCEEDINGS THE 5th INTERNATIONAL CONFERENCE ON ECONOMICS, BUSINESS, AND MANAGEMENT RESEARCH (ICEBMR)
"Digital Economy, Human Dignity, and Inclusive Transformation in Asia"
https://econference.usd.ac.id/index.php/ICEBMR | ISSN: 3032-596X | Vol 5, 2026

ORGANIZATIONAL RESTRUCTURING AS A TURNAROUND STRATEGY IN RESPONSE TO ORGANIZATIONAL DECLINE IN FAMILY-OWNED COMPANIES: AN ANALYSIS OF THE MCKINSEY 7S FRAMEWORK FROM THE PERSPECTIVE OF SOCIOEMOTIONAL WEALTH (A CASE STUDY OF THE LEGO GROUP)

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DOI: https://doi.org/10.24071/icebmr.v5i1.338

ABSTRACT
This study examines organizational restructuring as a turnaround strategy at the LEGO Group, a Danish family business that experienced organizational decline in the early 2000s due to uncontrolled diversification that eroded its core competencies. Using a qualitative descriptive analytical approach with literature review methods, this research analyzes LEGO's transformation through three primary lenses: the Socioemotional Wealth (SEW) perspective, external CEO succession, and the McKinsey 7S Framework. The findings reveal that the strategic decisions of the Kristiansen family including the appointment of Jørgen Vig Knudstorp as the first external CEO in 2004 were not driven solely by economic considerations, but also by the desire to protect the family's socioemotional wealth, encompassing control, identity, reputation, emotional attachment, and dynastic succession. The restructuring undertaken included divesting non-core businesses, simplifying the product portfolio, improving supply chain efficiency, and renewing organizational culture. As a result, LEGO successfully reversed a loss of DKK 888 million in 2003 to a profit of DKK 1.028 million in 2007, while restoring overall organizational alignment. This study introduces the concept of the Socioemotional Wealth Umbrella (SEWU) as a novel framework illustrating how SEW dimensions function as a strategic umbrella that guides and constrains the restructuring process in family firms.
Keywords: *Organizational Restructuring, Corporate Turnaround, Organizational Decline, Socioemotional Wealth, McKinsey 7S Framework*

1. Introduction

In an ever-changing and uncertain business environment, organizations face the risk of organizational decline, which can lead to financial crises or even bankruptcy. A systematic literature review conducted by Hariyani et al. (2024) identified at least 40 factors contributing to organizational failure, ranging from weak managerial competence to expansion beyond the company's core competencies. Under these conditions, the concept of corporate turnaround—that is, efforts to restore an organization from a crisis situation to a more stable state—has become a key focus in the study of organizational change and development.

Nevertheless, successfully executing a turnaround is no easy feat. Management literature often states that approximately 70% of organizational transformation efforts fail. However, recent research by Waal (2026) indicates that this figure is not fully supported by strong empirical evidence and depends heavily on the definitions and measurement methods used. Some factors that influence the success of a turnaround include leadership changes, cost efficiency (retrenchment), and realignment of market strategy.

One of the most significant and widely studied examples of a turnaround is the case of the LEGO Group. As reported in the mainstream media outlet MarkHub24 (2025), in the early 2000s, the company suffered massive losses and was on the brink of bankruptcy due to an uncontrolled diversification strategy that strayed from its core competencies. This situation increased operational complexity and undermined the company's performance. The appointment of Jørgen Vig

Knudstorp as CEO in 2004—the first leader from outside the founding family—marked the beginning of significant changes within the organization.

Under his leadership, Knudstorp implemented a comprehensive organizational restructuring that included divesting non-core businesses, streamlining the product portfolio, improving supply chain efficiency, and shifting the organizational culture from an "unlimited innovation" approach to a more focused and controlled approach to innovation. The results of this transformation demonstrated significant success, as LEGO was not only able to emerge from a crisis but also grew to become one of the world's leading toy companies. In 2012, LEGO surpassed Hasbro to become the world's second-largest toy manufacturer and achieved a high profit margin of approximately 28%, comparable to that of global premium brands.

Although studies on LEGO have extensively discussed turnarounds, restructuring, and performance recovery strategies, most research still emphasizes business, financial, and corporate strategy aspects. These studies have not yet highlighted how emotional dimensions, family identity, and the non-financial interests of family owners influence the direction of organizational change. In the context of a family-owned company like LEGO, the decision to retain or change leadership is determined not only by economic performance but also by efforts to preserve socioemotional wealth—such as family control, reputation, emotional bonds, and the continuity of the founder's legacy.

Furthermore, research linking the SEW perspective to the appointment of an external CEO in the LEGO turnaround case remains relatively limited. Some studies have merely viewed the appointment of Jørgen Vig Knudstorp as an effective managerial decision, but have not sufficiently explored how the owner family responded to the crisis through a compromise between the family's emotional interests and the organization's need for professionalization. Thus, there remains a gap in the literature for examining LEGO as a case of family business transformation explained through the interaction between SEW, external CEO succession, and the organizational restructuring process.

This research is important because family-owned companies often face a dilemma between maintaining family control and making economically rational strategic decisions, especially during crises. In this context, the ability to manage leadership transitions and restructure the organization becomes a key factor in the success of the turnaround. The case of The LEGO Group demonstrates that a turnaround is not only about improving business performance but also involves emotional considerations, family identity, and the continuity of the company's legacy.

From an academic perspective, this study contributes to enriching the field of family business and organizational change research by positioning Socioemotional Wealth (SEW) as a key perspective, while also providing practical implications for other organizations in designing recovery strategies that strike a balance between economic and non-economic aspects.

Based on the above discussion, this study aims to analyze the organizational transformation and restructuring at the LEGO Group in response to the crisis, with a focus on the role of Socioemotional Wealth (SEW) in family-owned companies, the appointment of an external CEO during the organizational recovery process, and organizational changes analyzed using the McKinsey 7S Framework.

2. Literature Review

Based on this background, this literature review was prepared to explain the concepts of organizational decline, corporate turnaround, and the dynamics of change in family-owned companies, using the LEGO Group as a case study. The discussion also adopts the Socioemotional Wealth (SEW) perspective as the main theoretical framework, supported by the theory of external CEO succession, in order to provide a relevant conceptual foundation for analyzing the LEGO Group's transformation and restructuring processes.

2.1 Organizational Decline

Organizational decline occurs when a company loses its competitive edge, experiences internal inefficiencies, or fails to respond to changes in the environment. In the book Organizational Effectiveness: A Comparison of Multiple Models, organizational decline is defined as a condition in which an organization experiences a decline in competitiveness, weakened internal coordination, and a reduced capacity for innovation in response to environmental changes. This decline is generally caused by a combination of internal and external factors, such as non-adaptive leadership, outdated strategies, market changes, and competitive pressures. In the literature on organizational decline, early symptoms often manifest as a diminished focus on core competencies, increased organizational complexity, and weakened adaptive capacity; if not addressed promptly, these conditions can escalate into an organizational crisis (Cameron & Whetten, 1983).

A recent systematic review conducted by Hariyani et al. (2024) identified at least 40 causes of organizational failure, indicating that a decline in performance is rarely caused by a single factor; a combination of strategic, managerial, and environmental weaknesses also plays a role. In the turnaround literature, the initial problems are often not merely a decline in profits, but a loss of focus on core competencies, increasing complexity, and a deterioration in adaptive capacity (Zou et al., 2025).

2.2 External CEO Succession

External CEO succession is the process of replacing a company's top leadership by appointing an individual from outside the owner family or the company's internal structure. In family-owned companies, this decision typically arises when the organization faces performance pressures, a crisis, or the need for a more professional strategic overhaul. The appointment of an external CEO is often viewed as a way to bring in a fresh perspective, enhance managerial objectivity, and accelerate the organization's recovery process (Finkelstein, Hambrick, & Cannella, 2009, as cited in Carpenter, 2011).

In the context of family businesses, the appointment of an external CEO is also linked to efforts to ensure business sustainability without completely relinquishing the family's ownership control. Appointing a leader from outside the family can be a solution when the company needs more specialized expertise to address changes in the business environment and market demands. Furthermore, this decision reflects a compromise between the family's interest in preserving the company's identity and the organization's need to act more strategically and rationally (Chua et al., 2018; Zahra & Sharma, 2004). In the case of the LEGO Group, the external CEO succession—marked by the appointment of Jørgen Vig Knudstorp—was a crucial step in the company's restructuring and performance recovery.

2.3 Transformational Leadership

According to Widayati et al. (2017), transformational leadership is a leadership style that is oriented toward a future vision, capable of interpreting environmental dynamics, and transforming those changes within the organization. Leaders with this style serve as pioneers of change, provide encouragement, and inspire employees to be more adaptive, creative, and innovative. The goal is to bring about renewal in management performance through courage and responsibility in guiding and steering the organization. A leader's success can be measured by the extent to which they are able to influence their subordinates to work together toward achieving the organization's goals. Additionally, motivation from others is a key factor that drives both individuals and organizations to achieve their desired objectives.

Although organizational change is very important, not all organizational changes lead to progress; this necessitates that organizational leaders exercise strong oversight over the implementation of change to prevent organizational regression (Dewi et al., 2021). Management acts as a mediator between the organization's direction and employee

performance and also has a significant influence on their success or failure (Suryani & John, 2018). Transformational leadership plays a crucial role in the context of family-owned businesses because it maintains the commitment of organizational members while driving the changes needed to navigate crises. In the context of the LEGO Group, visionary and adaptive leadership is manifested through restructuring measures and the streamlining of corporate strategy.

2.4 Socioemotional Wealth (SEW)

The Socioemotional Wealth (SEW) theory emphasizes that the sustainability of the business for future generations is viewed as the primary goal of family businesses, making the involvement of family members in the business a crucial aspect (Andriyani et al., 2022). According to Chua et al. (2015) as cited in Mintarza & Pratono (2024), the Socioemotional Wealth (SEW) theory provides a framework for understanding the distinctive behavior of family businesses, which often prioritize non-financial goals such as family control, identity, and legacy over economic performance alone. This focus on SEW drives decision-making that may seem irrational from an economic perspective but makes sense when viewed through the lens of the family's desire to preserve its socioemotional assets.

The SEW theory explains why family businesses are willing to sacrifice short-term financial gains in order to protect the legacy, reputation, and long-term emotional ties associated with the family business (Mintarza & Pratono, 2024). In the context of the LEGO Group, the SEW perspective is relevant because, according to The LEGO Group (2016), the owner family has retained ownership control through Kirkbi A/S, even as the company undertook a major restructuring and appointed an external CEO to restore performance.

According to Reina et al. (2023), Socioemotional Wealth (SEW) is a set of non-economic resources derived from family involvement in the firm and serves as the primary foundation for family business decision-making. To operationalize this concept, SEW research often draws on the FIBER model, which consists of five main dimensions: Family Control and Influence, Identification of Family Members with the Firm, Binding Social Ties, Emotional Attachment, and Renewal of Family Bonds Through Dynastic Succession.

2.4.1 Family Control and Influence

The Family Control and Influence dimension represents the family's desire to maintain control and influence over the company. From the SEW perspective, family control serves not only as a mechanism for overseeing business activities but also as a means of protecting the family's values, goals, and identity embedded within the organization. Therefore, the owner family often prioritizes the continuity of control over the achievement of short-term economic gains.

2.4.2 Identification of Family Members with the Firm

This dimension describes the extent to which family members view the company as part of their identity. In this context, the company's reputation and the family's reputation become intertwined. The company's success is perceived as the family's success, while the company's failure may be viewed as a social failure for the family.

Because of this identity connection, the owner's family tends to pay closer attention to the company's image, product quality, customer relationships, and social legitimacy. Research summarized in the article shows that family identification often drives innovation, commitment to the business, and behavior aimed at preserving the family's reputation in the eyes of the public.

2.4.3 Binding Social Ties

This dimension relates to the social relationships that family-owned businesses

build and maintain with various stakeholders, such as employees, suppliers, customers, local communities, and the broader family network. These relationships are considered a valuable part of the company's emotional capital and must be nurtured.

Social ties often encourage family-owned businesses to place greater emphasis on employee well-being, social responsibility, and long-term relationships with the community. Therefore, business decisions are not always based solely on economic efficiency, but also on the social consequences that may affect relationships built over many years.

2.4.4 Emotional Attachment

Emotional attachment refers to the affective bond that family members have with the company. The company is viewed as part of the family's history, a symbol of previous generations' struggles, and a source of family pride. Therefore, various business decisions are often influenced by emotions, a sense of ownership, and interpersonal relationships among family members.

This dimension can have varying effects. On the one hand, emotional attachment can strengthen the family's commitment to the company's sustainability. On the other hand, excessive emotional attachment has the potential to lead to less rational decisions or family conflicts that affect business operations. Several studies included in this review indicate that emotional attachment influences entrepreneurial orientation, innovation, and the performance of family businesses.

2.4.5 Renewal of Family Bonds Through Dynastic Succession

This dimension reflects a family's desire to sustain the business across generations. For many family businesses, success is measured not only by current profits but also by the company's ability to be passed down to the next generation.

A focus on succession fosters a long-term perspective in corporate management. Families tend to prioritize business continuity, the development of successors, and the preservation of family values. Therefore, strategic decisions are often evaluated based on their impact on the company's future sustainability.

2.5 McKinsey 7S Framework

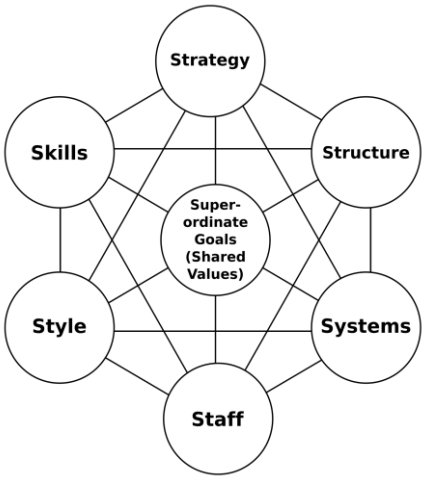


Figure 1. McKinsey 7s Framework

The McKinsey 7S Model is a framework used to analyze a company's organizational design through seven key internal elements: strategy, structure, systems, shared values, leadership style, staff, and skills. This model helps determine whether these seven elements are

effectively aligned so that the organization can achieve its goals.

In this model, the seven elements are divided into two categories: hard elements and soft elements. Hard elements include strategy, structure, and systems, which are easier to identify and manage. Meanwhile, soft elements encompass shared values, leadership style, staff, and skills—which are more difficult to manage because they relate to culture and human resources. Nevertheless, soft elements serve as a crucial foundation for creating sustainable competitive advantage for an organization (Ravanfar, 2015).

2.6 Organizational Restructuring

According to Nulipta et al. (2019) as cited in Muharyono & Wibowo (2023), organizational restructuring is the process of reorganizing work units, departments, tasks, and functions that involves all stakeholders, including employees, because bureaucratic restructuring has a direct impact on everyone within the organization. As organizations evolve, they are highly likely to undergo changes as a consequence of the dynamics of the times and social conditions in society. These changes do not occur without reason but are triggered by powerful factors that force organizations to adapt. Factors driving restructuring include the environment, goals and values, technology, organizational structure, individual behavior, and the role of consultants.

According to Hellriegel and Slocum (1998) as cited in Muharyono & Wibowo (2023), organizational restructuring has five main characteristics, namely tasks, technology, organizational structure, human resources, and organizational culture. Meanwhile, Stoner et al. (1996) as cited in Muharyono & Wibowo (2023), suggest that there are three approaches to implementing organizational restructuring: through structural changes, technological changes, and human resource changes. In the case of the LEGO Group, restructuring is evident through the divestiture of non-core businesses, the simplification of the product portfolio, and the reorganization of the supply chain and work culture.

2.7 Corporate Turnaround

A corporate turnaround is a situation in which a company that had previously experienced a decline in economic performance and a period of decline successfully achieves a significant recovery, thereby turning around its financial condition and returning to optimal levels of success and performance (Rahimah & Ahmar, 2022). According to Dolz et al., (2019), in family-owned firms, turnaround is also influenced by family ownership and non-economic considerations; studies on family firms indicate that recovery measures are chosen not only based on efficiency but also on what the family, as owners, wishes to preserve.

According to O'Neill, H.M. (1986) as cited in Rahimah & Ahmar (2022), there are four main approaches to implementing a turnaround strategy. First, the management strategy, which emphasizes not only drastic staff turnover but also efforts to boost the motivation of the remaining management team and rediscover the company's identity. Second, the restructuring strategy, which requires fundamental changes in the organizational structure, the implementation of new production methods, and a more effective distribution system. Third, a cost-cutting strategy, which focuses on immediately addressing the company's declining performance through cost reductions and the elimination of unproductive inventory. Fourth, a growth strategy, which involves steps to revitalize the company by promoting business expansion and development. In the case of the LEGO Group, the turnaround was achieved through an organizational restructuring approach.

2.8 Conceptual Framework

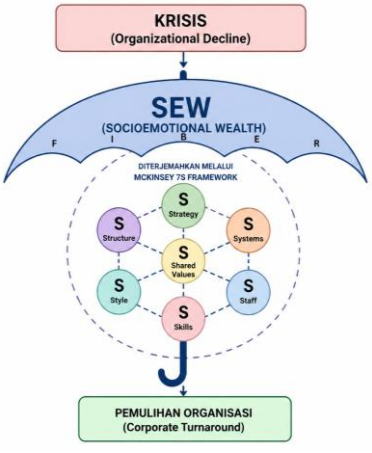


Figure 2. Conceptual Framework

This conceptual framework explains that organizational decline serves as a catalyst for family-owned companies to implement strategic changes in order to achieve a corporate turnaround. In a crisis, a company may take the significant step of appointing an external CEO when internal leadership is deemed incapable of addressing the complexity of the problems at hand. The presence of an external CEO fosters transformational leadership, which plays a role in establishing a new vision, driving organizational change, and fostering commitment to the company's recovery process. However, in family-owned companies, this change process is not based solely on economic considerations but is also influenced by Socioemotional Wealth (SEW), which reflects the values, identity, control, reputation, and sustainability of the owner family. SEW values are translated into adjustments to various organizational elements through the McKinsey 7S Framework, which are then implemented through organizational restructuring as a strategy to achieve a corporate turnaround.

In the conceptual framework diagram above, the authors illustrate the SEW theory in the form of an umbrella that we call the Socioemotional Wealth Umbrella (SEWU). The Socioemotional Wealth Umbrella (SEWU) is a conceptual framework that explains how the dimensions of socioemotional wealth (FIBER) function as a strategic umbrella that shelters and influences the organizational restructuring process in family businesses as they face organizational decline to achieve a corporate turnaround. In this context, SEW is not one of the elements being restructured but rather a factor that guides, constrains, and influences how the restructuring is carried out. This means that when family businesses face a crisis, they will not pursue a turnaround based purely on economic considerations, as non-family businesses might.

In the Socioemotional Wealth Umbrella (SEWU) concept, the umbrella handle in the conceptual framework diagram represents the *"guiding principles"* that family businesses use to maintain their direction and business continuity amid various pressures and environmental changes. Just as the handle allows a person to hold, control, and direct the umbrella, SEW serves as the primary guiding principle that helps family businesses make strategic decisions without losing their family identity and values.

3. Research Methods

This study employs a qualitative approach with a descriptive-analytical nature. The qualitative approach was chosen because this study aims to gain an in-depth understanding of the phenomenon of organizational transformation at The LEGO Group, particularly regarding the role of Socioemotional Wealth (SEW), the appointment of an external CEO, and the corporate turnaround process in addressing organizational crises. Meanwhile, according to Ratna (2012) as cited in Fitrah (2016), the descriptive-analytical approach is used to describe the phenomena

occurring while simultaneously analyzing the interrelationships among the concepts employed in the study.

The method used was a literature review, which involves collecting data by examining various relevant sources, such as scientific journals, books, company reports, and articles related to organizational change, corporate turnaround, family businesses, and the case of The LEGO Group. The selection of references was based on the relevance of the topic, the credibility of the sources, and their connection to the research focus.

Data analysis is conducted in several stages: searching for and collecting relevant literature; reading and understanding the content of the references; noting down important information and findings; grouping the data by topic; and then synthesizing these findings into a systematic and integrated discussion. Through this process, the author can construct a well-structured argument and avoid plagiarism by processing and rephrasing the information in their own words (Sugiyono, 2019).

4. Research Findings and Discussion

4.1 Crisis and Organizational Decline at the LEGO Group

The LEGO Group is a family-owned toy manufacturer based in Denmark. The company was founded by Ole Kirk Kristiansen in 1932, with LEGO as its flagship brand. In conducting its operations, the company firmly upholds the business motto *"det bedste er ikke for godt,"* which means "only the best is good enough" (The LEGO Group, n.d.). This principle is instilled in all employees to ensure they remain committed to creating the highest-quality toys on the market.

Since 1998, the LEGO Group has faced a sustained decline in revenue, culminating in a loss of US$400 million in 2004, which brought the company to the brink of bankruptcy. This situation was exacerbated by the failure of its production innovation and creativity strategies, which actually eroded the brand's original identity. According to Priyono et al. (2021) in Rose & Junaidi (2024), this failure stemmed from the fact that the initial changes implemented by LEGO did not take into account the brand's historical context or the design enthusiasm that had long been deeply ingrained in the public's hearts. What LEGO experienced is a form of organizational decline, which is a decline in organizational performance that occurs when a company loses its competitiveness, experiences internal inefficiencies, or fails to respond to environmental changes (Cameron & Whetten, 1983). In this case, it was caused by the company's over-diversification, which led to a loss of focus on its core business.

4.2 The Role of Socioemotional Wealth (SEW) in Decision-Making

Socioemotional Wealth (SEW) is a set of non-economic resources stemming from family involvement in the company and serves as the primary foundation for family business decision-making (Reina et al., 2023). The concept of SEW is often explained through the FIBER model, which consists of family control and influence, identification of family members with the firm, binding social ties, emotional attachment, and renewal of family bonds through dynastic succession. These five dimensions illustrate that the owner family not only seeks to maximize the firm's profits but also to maintain family control, the identity associated with the firm, strong social relationships, emotional attachment, and the continuity of the business across generations (Reina et al., 2023).

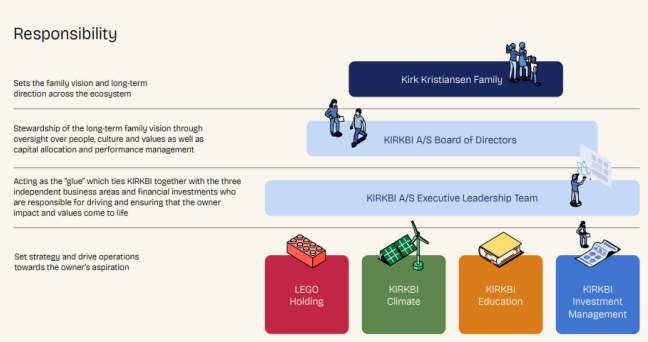


Figure 3. Governance Structure
Source: KIRKBI Annual Report 2025

In the context of the LEGO Group, SEW's values are reflected in KIRKBI's governance structure, which places the Kristiansen family at the highest level of the company's ownership and oversight system. This demonstrates that the professionalization of the organization does not eliminate family control but is carried out within a framework designed to preserve the family's influence over the company's strategic direction. In the context of LEGO, the Kristiansen family seeks to maintain control, identity, legacy, and the sustainability of LEGO as a family-owned company. Therefore, when the company faces a crisis, the strategic decisions made are not only aimed at restoring financial performance but also at preserving the family's socio-emotional values (KIRKBI, 2025). The Kristiansen family did not appoint an external CEO because they wanted to relinquish control over LEGO, but rather because they wanted to protect and preserve their socio-emotional wealth through the company's turnaround.

The Kristiansen family's involvement is evident not only through their shareholding but also through the practice of active family ownership. During the fourth-generation succession process, Kjeld Kirk Kristiansen explained that each generation will designate one family member as the "most active owner," whose role is to maintain the family's close ties with the LEGO Group, the LEGO Foundation, and KIRKBI (The LEGO Group, 2016). This mechanism demonstrates that the family remains involved in the company's oversight and strategic decision-making, ensuring that the professionalization of the organization does not diminish the family's influence over the direction of LEGO's development.

Knudstorp's statement that *"the family's values are more important"* indicates that the Kristiansen family is not solely pursuing financial gain. From a SEW perspective, business decisions are influenced by efforts to preserve the family's values, identity, reputation, and sustainability. Therefore, the decision to appoint an external CEO can be understood not as a relinquishment of family control, but rather as a strategy to protect family values threatened by the company's crisis (The LEGO Group, 2016).

The Kristiansen family's involvement is evident not only through their share ownership. Thus, the crisis faced by LEGO was viewed not only as a threat to business performance but also as a threat to the Kristiansen family's socioemotional wealth. These circumstances prompted the family to pursue professionalization by appointing an external CEO as a strategy to safeguard the company's sustainability while preserving the family values and legacy that form the core of socioemotional wealth.

4.3 Appointing an External CEO as a Strategy for Professionalization

External CEO succession is the process of replacing a company's top leadership by appointing an individual from outside the owner family or the company's internal structure. In family-owned companies, this decision typically arises when the organization faces performance pressures, a crisis, or the need for a more professional strategic overhaul (Finkelstein, Hambrick, & Cannella, 2009, as cited in Carpenter, 2011)

In the case of the LEGO Group, the move toward professionalization was marked by the appointment of Jørgen Vig Knudstorp as CEO in September 2004. This appointment was a significant milestone because Knudstorp was the first CEO from outside the Kristiansen family since the company was founded by Ole Kirk Kristiansen in 1932. Before becoming CEO, Knudstorp earned a degree in economics from the University of Aarhus and worked as a management consultant at McKinsey & Company. He joined LEGO in 2001 as Director of Strategic Development, then served as Senior Vice President of Corporate Affairs in 2003 before being entrusted with leading the company in 2004 (Hollar, n.d.).

Knudstorp's appointment came at a time when LEGO was in the midst of a serious crisis. In 2003, the company suffered losses of more than USD 300 million and faced a threat to its business continuity. This situation prompted the Kristiansen family to appoint a professional leader who was deemed capable of turning the company around without compromising the family values that formed the foundation of the organization (Hollar, n.d.).

From an Organizational Development (OD) perspective, Knudstorp can be viewed as a change agent leading the organization's transformation process. As the new CEO, he not only brought about a leadership transition but also initiated strategic changes that affected various aspects of the organization. One of the first steps he took was to implement an aggressive cost-cutting policy, sell off business units that were not contributing optimally, and refocus the company on LEGO's core competency as a manufacturer of brick-based construction toys (Hollar, n.d.).

In addition to implementing operational efficiencies, Knudstorp also demonstrated transformational leadership through his ability to establish a clear vision for change. In various interviews, he emphasized that LEGO had lost its focus due to overly rapid expansion and excessive component production, so the organization needed to return to "the famous LEGO system of old." This statement demonstrates his ability to identify the root causes of the organization's problems while steering change toward the company's core identity (Zusammengebaut, 2016).

Knudstorp also strengthened consumer engagement through closer collaboration with the LEGO fan community. Britannica notes that he involved many adult LEGO fans in discussions and the development of new product designs, enabling the company to receive direct feedback from users who have a deep understanding of LEGO products (Hollar, n.d.).

4.4 Corporate Turnaround and Organizational Restructuring

A corporate turnaround is a situation in which a company that had previously experienced a decline in economic performance and a period of decline successfully achieves a significant recovery, enabling it to turn around its financial condition and once again reach optimal levels of success and performance (Rahimah & Ahmar, 2022). LEGO's situation in the early 2000s exhibited the characteristics of an organization in need of a turnaround, as the company was suffering heavy losses, increasing debt, and a loss of strategic focus due to excessive diversification.

According to Zusammengebaut (2016), based on an interview with Jørgen Vig Knudstorp, one of the main causes of the LEGO crisis was overly rapid expansion into various new business areas, which increased organizational complexity and diminished the company's focus on its core competencies. Knudstorp acknowledged that the product development process had spiraled out of control because the company was producing too many parts, thereby straying from the fundamental LEGO concept. Therefore, the turnaround strategy focused on simplifying products and realigning the company with the LEGO System, which had long been the company's defining identity. These findings indicate that the recovery process involved not only operational efficiency but also efforts to realign the organization with the company's core values.

LEGO's strategy can be understood as a combination of retrenchment and strategic refocusing. Retrenchment was carried out through cost reduction, operational streamlining, and the divestiture of less profitable business activities. Meanwhile, the refocusing strategy involved redirecting the company's focus back to LEGO's core competencies as a manufacturer of brick-based construction toys. This combination of strategies is a pattern commonly found in corporate turnaround processes (Rahimah & Ahmar, 2022). Knudstorp explained this situation with the following statement:

"Our development process was a little bit out of control in that we simply produced too many parts. It was no longer the Lego idea. We need to somehow get back to the famous Lego system of old days."

In addition to streamlining its product lineup (refocusing strategy), LEGO also implemented various operational efficiency measures as part of its turnaround strategy. According to Britannica, after being appointed CEO, Knudstorp implemented aggressive cost-cutting measures, accelerated the new product development process, and divested several business units that were not contributing optimally to the company's performance—specifically, selling control of four LEGOLAND theme parks as part of an effort to refocus the company's resources on LEGO's core business (Hollar, n.d.). These steps demonstrate that LEGO's turnaround focused not only on strategic changes but also on improving operational efficiency to improve the company's financial condition. These efforts align with the retrenchment phase of a corporate turnaround, which aims to reduce waste, increase productivity, and restore organizational stability (Rahimah & Ahmar, 2022).

LEGO's turnaround was aimed not only at improving financial performance but also at restoring the company's identity, which had begun to fade due to excessive diversification. In his interview, Knudstorp stated that the product development process had strayed from LEGO's core concept, so the company needed to return to *"the famous LEGO system of old days"* (Zusammengebaut, 2016). This statement indicates that LEGO's recovery is focused on reinforcing the company's core values—rooted in creativity, a modular play system, and the play experience that has defined LEGO since its inception. This commitment to the company's identity and values is also reflected in statements by the owner family, which emphasize the importance of preserving "the LEGO idea" and family values as the foundation for strategic decision-making (The LEGO Group, 2016). Thus, LEGO's turnaround can be understood as an organizational recovery effort that is not only economically oriented but also aimed at reinforcing the company's identity as part of a legacy and set of values to be preserved across generations.

4.5 Analysis of LEGO's Transformation Using the McKinsey 7S Framework

Based on the conceptual framework that has been developed, the LEGO Group's transformation in the face of organizational decline can be understood through the Socioemotional Wealth Umbrella (SEWU) perspective. SEWU illustrates how the dimensions of Socioemotional Wealth (FIBER) function as a strategic umbrella that encompasses and influences the direction of organizational restructuring in family-owned companies when facing a crisis to achieve a corporate turnaround. In the context of the LEGO Group, the organizational changes implemented were not only aimed at restoring economic performance but also at preserving the identity, control, reputation, and sustainability of the owner family. Therefore, the McKinsey 7S Framework was used to identify adjustments to strategy, structure, systems, shared values, leadership style, human resources, and organizational capabilities, which were then interpreted as manifestations of SEWU values in the organizational restructuring process.

Table 1. Implementation of SEWU in Relation to the McKinsey 7S Framework

McKinsey 7S	The SEW Perspective That Influences	Indications on LEGO
Strategy	Family Control and Dynastic Succession	The restructuring strategy is designed to ensure the sustainability of the family business, not merely to generate short-term profits
Structure	Family Control and Influence	The family retains ownership control through Kirkbi despite appointing a professional CEO
System	Family Control and Identification	The management system was overhauled to help LEGO refocus on the company's core values
Shared Value	Identification and Emotional Attachment	The values of creativity, learning, and quality are upheld as the identity of the family and the company
Style	Emotional Attachment and Family Control	The leadership style has become more professional without diminishing the family's influence
Staff	Binding Social Ties	Human resources management focuses on long-term relationships with employees and stakeholders
Skill	Dynastic Succession and Identification	Organizational competency development is carried out to ensure the company's sustainability across generations

4.6 The Impact of a Turnaround on Organizational Recovery

[mDKK]	2007	2006	2005	2004	2003
Income Statement:					
Revenue	8,027	7,798	7,027	6,295	6,770
Expenses	(6,556)	(6,393)	(6,605)	(6,394)	(7,919)
Operating profit before special items	1,471	1,405	423	(99)	(1,149)
Impairment of fixed assets	24	270	86	(677)	(172)
Restructuring costs and other special items	(40)	(353)	(129)	(136)	(283)
Financial income and expenses	(35)	(44)	(5)	(75)	88
Profit before tax	1,464	1,281	329	(987)	(1,515)
Profit, continuing activities	1,028	1,290	214	(1,284)	(965)
Profit, discontinuing activities	–	–	–	(516)	77
Net profit for the year	1,028	1,290	214	(1,800)	(888)
Balance sheet:					
Assets relating to continuing activities	6,009	6,907	7,058	5,160	8,785
Assets relating to discontinuing activities	–	–	–	1,636	–
Total assets	6,009	6,907	7,058	6,796	8,785
Equity	1,679	1,191	563	404	2,344
Liabilities relating to continuing activities	4,330	5,716	6,495	5,160	6,441
Liabilities relating to discontinuing activities	–	–	–	271	–
Cash flow statement:					
Cash flows from operating activities	1,033	1,157	587	720	989
Investment in property, plant and equipment	399	316	237	285	653
Cash flows from financing activities	(467)	597	(656)	(70)	(205)
Total cash flows	592	1,925	1,570	443	(541)
Employees:					
Average number (full time), continuing activities	4,199	4,908	5,302	5,603	6,535
Average number (full time), discontinuing activities	–	–	1,322	1,029	1,160
Financial ratios (in %):					
Gross margin	65.0	64.9	58.0	57.9	54.3
Operating margin (ROS)	18.1	17.0	5.4	(14.5)	(23.7)
Net profit margin	12.8	16.5	3.0	(28.6)	(13.1)
Return on equity (ROE)	71.6	142.1	44.2	(131.0)	(28.1)
Return on invested capital (ROIC I)	69.7	63.6	16.2	(2.0)	(13.5)
Return on invested capital (ROIC II)	77.1	67.4	15.2	(18.9)	(19.1)
Equity ratio	27.9	17.2	8.0	5.9	26.7
Equity ratio (incl. subordinate loan)	46.2	33.2	8.0	5.9	26.7

Figure 4. LEGO Financial Highlights
Source: LEGO Annual Report 2007

LEGO's successful turnaround can be seen in the company's financial recovery following the crisis in the early 2000s. According to the LEGO Annual Report 2007, the company's

revenue increased gradually from DKK 6,770 million in 2003 to DKK 8,027 million in 2007. During the same period, net income—which had previously recorded a loss of DKK 888 million in 2003—turned into a profit of DKK 1,028 million in 2007 (The LEGO Group, 2007).

In addition, the company's profitability also showed significant improvement. Return on Equity (ROE) rose from -28.1% in 2003 to 71.6% in 2007, while the operating margin—which had previously been negative at -23.7% in 2003—increased to 18.1% in 2007. These improvements indicate that the turnaround strategy not only halted the decline in the company's performance but also succeeded in generating sustainable growth (The LEGO Group, 2007).

From an organizational perspective, LEGO's recovery is reflected not only in financial indicators but also in the increasing alignment between the company's strategy, structure, systems, leadership, and values. The refocus on the core business, simplification of the product portfolio, operational efficiency, and strengthening of the brand identity demonstrate alignment among organizational elements that support the success of the company's transformation. From an Organization Development perspective, this situation can be understood as a form of organizational coherence—a state in which the organization's goals, culture, work processes, and strategic direction operate in harmony, thereby supporting organizational performance more effectively (Cummings & Worley, 2019).

Thus, the success of LEGO's turnaround is demonstrated not only by increased profitability and revenue growth, but also by the company's success in reestablishing organizational alignment. This recovery shows that the strategic changes implemented were able to refocus the company on its core competencies while strengthening LEGO's identity as a family-owned, long-term-oriented company.

5. Conclusion

This study concludes that the LEGO Group's successful corporate turnaround was the result of the integration of economic and non-economic considerations grounded in the Kristiansen family's Socioemotional Wealth (SEW). The crisis LEGO faced in the early 2000s—marked by significant losses due to over-diversification—was viewed not only as a threat to business performance but also as a threat to the family's identity, control, and legacy. This prompted the family to make the decision to professionalize the company by appointing an external CEO, Jørgen Vig Knudstorp, as a strategic move to save the company while preserving the family's socioemotional values.

Through an analysis of the McKinsey 7S Framework within the Socioemotional Wealth Umbrella (SEWU) framework, it is evident that all elements of the organization—from strategy, structure, systems, shared values, leadership style, human resources, to capabilities—are undergoing adjustments that are not only oriented toward economic efficiency but are also guided by the FIBER dimensions of SEW. Strategies such as refocusing on core competencies, divesting non-core business units, and renewing the organizational culture are tangible manifestations of a restructuring process imbued with family values.

The success of this transformation is reflected in a significant recovery in financial performance, as LEGO managed to achieve sustained growth in revenue and profitability through 2007, while also rebuilding organizational coherence that strengthened LEGO's position as the world's leading toy company.

Academically, this study contributes by introducing the SEWU concept as a new analytical framework in the study of family businesses, while also affirming that, in the context of family businesses, sustainable turnaround requires a balance between economic rationality and the preservation of socio-emotional wealth. The practical implications of this study are relevant to other family businesses facing crises, as they indicate that effective recovery strategies must

consider not only financial aspects but also the dimensions of identity, values, and the sustainability of the family as owners.

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