Hyundai Motor Company: Expanding through Organizational Excellence

The global automobile industry includes more than 50 different companies that produced a record 84 million vehicles in 2012. This industry, dominated by firms such as Toyota and GM, has changed considerably since the first modern car was built in 1885. Instead of the initial manufacture of automobiles for the local market, firms today have been expanding their operations to span the globe through export and international production factories in key regional markets. This expansion has forced companies to come to grips with unique structural, cultural and control issues. One firm that has risen from obscurity to preeminence by successfully overcoming these challenges is Hyundai Motor Company.

Hyundai Overview
Based in Seoul, South Korea, the Hyundai Motor Company (HMC) was created in 1968 and initially served as a complete knock down assembler for Ford Motors. Growing from its humble beginnings, the HMC, with its sister company, Kia Motors, has become the largest automaker in South Korea and the fifth largest automaker in the world based on 2012 car sales totaling 1.26 million units. The firm currently owns and operates not only its automotive division, but also possesses a 32.8% stake in Kia Motors as well as a full spectrum of vertically oriented subsidiaries that supply Hyundai with goods and services ranging from raw materials and parts to logistics and financing. The company employs over 75,000 people worldwide.

Establishment and Growing Pains
Founded in 1968 by the Hyundai business group, one of Korea’s largest chaebols or family-owned conglomerates, HMC initially served as an automotive assembler for Ford Motor Company. However, Chung Ju-Young, the founder of Hyundai had big plans for the future direction and growth of the firm in hopes that it would help the chaebol to both diversify and to maximize its economies of scale and scope. In 1974, HMC took the next step and began producing and selling its first wholly designed model, the Pony. The following year, Chung firmly set his company’s future in motion by beginning the export of the Pony to Ecuador and the Benelux countries and eventually exported worldwide utilizing a low cost strategy. Despite the growing international sales of the Pony and subsequent models, these times were not without their issues. Some of Hyundai’s early models gave rise to ridicule due to “shoddy construction, underpowered engines and boring designs”.

Recognizing the barriers before them, HMC went on to expand its range of market offerings and especially worked on improving vehicle quality, which, over time, began to bear fruit by greatly improving sales. Perhaps the greatest impact on Hyundai was felt when Chung Mong-koo, the founder’s eldest son, was given the position of chief executive office. “The Chairman” contributed his relentless drive to push HMC into world class status by adopting flashier designs and driving quality improvements necessary to stand behind a US product warranty that was dubbed “America’s Best Warranty” for its extensive coverage and other manifestations of its quality aspirations.

Global Growth
Another major contributor to Hyundai’s spectacular growth is their efforts to expand overseas through both export and the push to produce vehicles in key foreign markets. Although its first attempt at an international assembly plant built in Canada failed, HMC internalized and implemented the new knowledge they gained in the form of new ventures. Today, the company runs three domestic assembly plants in South Korea and other facilities in Brazil, Czech Republic, China, India, Turkey and the United States. Foreign annual vehicle production has far outstripped domestic capabilities, producing 57% of its 4.4 million vehicles outside of Korea. This growth is expected to continue for the foreseeable future as Hyundai continues to add additional overseas facilities as well as refine its approach to the global market and its quality capabilities.

Organizational Success Factors
There are several organizational pillars that have proven to be sources of Hyundai’s ability to continue to adapt to and overcome often adverse market conditions. However, in some cases, these same success factors have also created issues when applied to foreign operations. These factors refer to Hyundai’s unique yet locally-responsive centralized organizational structure, the control methods used both domestically and especially in its expansive overseas production facilities, and HMC’s highly developed and strong corporate culture.

Hyundai: Centralized yet Locally-Responsive
Although HMC assembly plants and subsidiaries are spread out across the world, the organizational structure and approach remains similar throughout the company footprint. Like many Korean firms, Hyundai is a top-down, hierarchical company which employs a very hands-on authoritative management style. CEO Chung was widely known for his “Bulldozer” leadership style, could often be seen at surprise, on-site visits to Hyundai
plants, pulling executives from their offices to directly show them issues. “He held monthly meetings, he
pounded on tables, and people were afraid to disappoint him,” reported one country manager. Furthermore, the
decision making style of the Hyundai CEOs can also be characterized as quick and decisive. Se-young Chung,
the second CEO of the company, made a snap decision on an aggressive, new warranty policy during a car ride
that would fundamentally revolutionize the commitment that HMC had towards quality. Regarding the
quickness of the decision, it was commented that, “The Koreans are cowboys and very different from the
Japanese. At Toyota, it would have taken 18 months to get the idea through the consensus process.”
Beyond the direct control of the president, Hyundai’s Seoul executives maintain full control over all of their operations,
which has implications regarding the ability for local country executives to autonomously operate. Reports from
many of HMC’s foreign operations, such as Russia, India, and the US, report similar situations.

However, despite the high degree of centralization, Hyundai has learned the necessity of relying on their
international non-Korean teams to pick up on local market needs and opportunities and rapidly turn them into
tangible products. The firm goes as far as encouraging the local teams to take risks in the form of ambitious
schedules, designs and unconventional solutions. This reliance and trust can be seen especially in HMC’s older
and more established assembly plants. In India, one of Hyundai’s oldest international operations, headquarters
realized the need for host country official’s authority and has made commitments for all management staff to be
Indian nationals by 2014. Despite this practice in India, however, it appears that HMC management does not
lightly award trust. As of 2012, their Russian operations were still stratified into “…Koreans representing
management…, while Russians get positions of manual workers and clerks.”

Control Systems
HMC’s competition-based and bureaucratic control systems make up the second organizational success factor.
Hyundai is well known for their competitive, team-based approach to the marketplace. Different teams regularly
vie against each other to determine product or feature designs or even technology to identify the most effective
or innovative solutions to the firm’s challenges. The output of these internal competitions are said to often
produce some of Hyundai’s most spectacular results. However, they often engender mistrust and disunity
amongst the personnel.

HMC’s bureaucratic controls can be equally beneficial and disruptive. Working alongside the managers in
Hyundai’s international plants are Korean coordinators. These coordinators are typically young, western-
educated Korean workers whose job is to bridge the language and cultural gaps with the international managers
and help them operate with their Korean counterparts. Decisions made in the Korean headquarters are relayed
through these coordinators to be followed without exception. It has been noted that coordinators often possess
even more decision making power than the foreign executive that they serve. This degree of hands-on, long
distance supervision has often been a serious issue between home and local offices.

Culture
HMC is well known for its vibrant corporate culture that heavily focuses on traditional Korean cultural attitudes
such as collectivism and paternalism. Due to its history of Confucianism, Korea possesses a culture still highly
aligned with collectivism which is embedded in the core of HMC beliefs. This belief has imbued HMC with a
very strong work ethic and intolerance for deviation from the group. Workers at Hyundai facilities around the
globe are known for the frantic pace and long hours, often without extra compensation, that are expected from
employees of the HMC family. Like Hyundai’s collective approach, the firm’s paternalistic focus has also both
benefited and hurt the company. Decisions by management, and especially the chairman, are “often carried out
with unquestioning reverence, without hesitation or argument,” and achieved with breakneck speed. The term
“Hyundai Speed” became part of HMC culture when the chairman stressed the importance of reaching
operational status during the 2002 setup of the first operation plant in China. Only after Herculean efforts by the
Korean and Chinese workers was the plant able to begin manufacturing.

One area of constant contention in HMC’s global organization that is contrary to the cultural approach
management has tried to install regards the creation of independent employee unions. Most of the firm’s global
operations are periodically affected by labor talks and strikes. Labor strikes in Korea alone in 2012 resulted in
$1.5 billion in lost production and have affected domestic production in 23 of the last 27 years. International
facilities show similar patterns as workers strike in protest of practices like obligatory overtime, management
harassment and intimidation and poor working conditions.

Next Steps
The future of Hyundai is far from determined. Although sales are fairly constant and well distributed worldwide
and the organization appears to be well-prepared for most contingencies, many factors are yet unknown. Some
believe that the company is overreaching itself by continuing to develop its luxury brands and others see that
Japanese car firms are learning by following HMC’s examples. However, through the firm’s focus on quality, innovation and the growth and maintenance of its strong structural, cultural and organizational strengths, Hyundai Motor Company hopes to maintain its continued growth and profitability in the world market.

Questions
16-1. Is it possible for Hyundai to retain its core culture and structure as it continues to expand? Is it even desirable for HMC to try?
16-2 Would it have been possible to resolve Hyundai’s initial quality issues without the use of a strong, central figure making the decisions?
16-3 Evaluate the dangers of HMC’s centralized approach versus a more decentralized path?
16-4 Identify the issues with using a competition-based control mechanism. Is there an alternative?
16-5 Often times, Korean culture doesn’t lend itself to being easily understood by members of other cultures. What could Hyundai do to better communicate its core beliefs?
16-6. Hyundai management always possesses issues with unions. What could be done to promote a more cooperative and mutually beneficial working environment?
16-7 Which organizational shortcomings do you feel are the most necessary for Hyundai to address? How would you address the issues?

Sources