



**Program : MMS(F/M/H/O) Semester : III**  
**Duration : 2 hours**  
**Course: International Business**

**Seat No: \_\_\_\_\_**  
**Month & Year : November 2020**  
**Marks: 40**

**Instructions: -**

- 1) All questions are compulsory in case study
- 2) Each question carries 10 marks:  
(10marks \*4 questions = 40 marks)



**Case Study in International Business-Hyundai MotoCorp**

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 General Motors, 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 facilitating more exports and setting up 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 the Hyundai Motor Company (HMC).

Hyundai Overview Based in Seoul, South Korea, HMC was founded in 1968 and initially served as a complete knock down assembler for Ford Motors. Growing from its humble beginnings, 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.<sup>115</sup> The firm currently owns and operates not only its automotive division, but also possesses a 32.8 percent 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 elicited ridicule for its shoddy construction, underpowered engines and boring designs.<sup>116</sup> 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 made the chief executive officer. 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 U.S. product warranty that was dubbed "America's Best Warranty" for its extensive coverage and other manifestations of quality aspirations.

### **Global Growth**

Another major contributor to Hyundai's spectacular growth has been its 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, Russia, and the United States. Foreign annual vehicle production has far outstripped domestic capabilities, producing 57 percent of its 4.4 million vehicles outside of Korea.<sup>118</sup> 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 strengthen or support 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.

#### **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 widely known for his "Bulldozer" leadership style,<sup>119</sup> could often be seen at surprise, on-site visits to Hyundai plants, pulling executives from their offices to directly show them issues. He was reported to have conducted monthly meetings, pounding on tables and generally being a fastidious boss. Furthermore, the decision-making style of the Hyundai CEOs could 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 HMC's commitment towards quality. Regarding the quickness of the decision, it was widely believed that Koreans were cowboys unlike the Japanese, and that at the rival Japanese firm Toyota, a similar warranty policy might have taken at least eighteen months to get past consensus.

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. Critics of the centralized control note Seoul's propensity for micromanagement, unwillingness to listen to country level managers and an intolerance for any disagreements to Hyundai's often "feudal" approach to management. Reports from many of HMC's foreign operations, such as Russia, India, and the U.S., reveal 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. One example of this intelligent usage of non-Korean employee assets has proven to be one of the success factors for the Chinese market. Understanding the essence of Chinese culture has allowed them to better anticipate which designs, products, and equipment would appeal to their target audience in that country.

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 the host country official's authority and made commitments for all management staff to become Indian nationals by 2014.<sup>122</sup> 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, whereas Russians got 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 its competitive, team-based approach in 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 is 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 and 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 their frantic pace and long hours (often working without extra compensation) as is the norm with most



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 unquestioned, and executed instantly. The term "Hyundai Speed" became part of HMC culture when the chairman stressed the importance of reaching operational status during the 2002 setup of Hyundai's first operation plant in China.<sup>126</sup> Only after Herculean efforts by the Korean and Chinese workers, the plant began manufacturing. Another cultural area that often makes little sense to foreigners is the virtual cult of leadership and control that surrounds the Chung family's grip on the firm. When Chung Mong-koo, the founder's eldest son and CEO from 1987, was convicted by the South Korean government for embezzling \$106 million from the company in a securities transaction, he was not only able to professionally survive the conviction, but he was granted a presidential pardon by President Lee, a former Hyundai executive, and continues to maintain the CEO position today with the blessings of most Hyundai managers and workers. The Chung family leadership of HMC is also expected to continue into the future as the CEO's only son, Chung Eui Sun, now 41 years old, is being groomed as the heir apparent.

A third 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.<sup>127</sup> These strikes have often caused spillover effects with work slowdowns or stoppages in other international plants due to parts shortages, but have also encouraged a greater amount of localized part production in some markets. International facilities show similar patterns as workers resorting to a strike in protest of practices like obligatory overtime, management harassment and intimidation, and poor working conditions. Despite the historically poor track record with labor groups however, Hyundai has seen some progress in terms of improving its overall relationship with its unions.

### **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 the company is overreaching itself by continuing to develop its luxury brands, while others observe that Japanese car firms are quickly learning by following HMC's examples. Additionally, there is constant debate about the firm's growing emphasis on hydrogen fuel cell technology and whether this green technology is taking the firm in the correct direction. However, through the firm's focus on quality, innovation and the growth and maintenance of its strong structural, cultural, and organizational strengths, HMC hopes to maintain its continued growth and profitability in the world market. Eventually, HMC might just reach the goals outlined in its management philosophy of realizing the dream of mankind by creating a new future through ingenious thinking and continuously challenging new frontiers.

**Questions:**

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? (10 marks)
  
2. Would it have been possible to resolve Hyundai's initial quality issues without the use of a strong, central figure making the decisions?  
(10 marks)
  
3. Identify two Competitors of HMC . In 5 bullet points explain the strategy the HMC would adopt to stay ahead of competition.  
(10 marks)
  
4. Hyundai management always has issues with unions. What five things could be done to promote a more cooperative and mutually beneficial working environment?  
(10 marks)

