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STRATEGY

The Transformation of Hyundai Motor Company to a "Big Three" (American) Automobile Company

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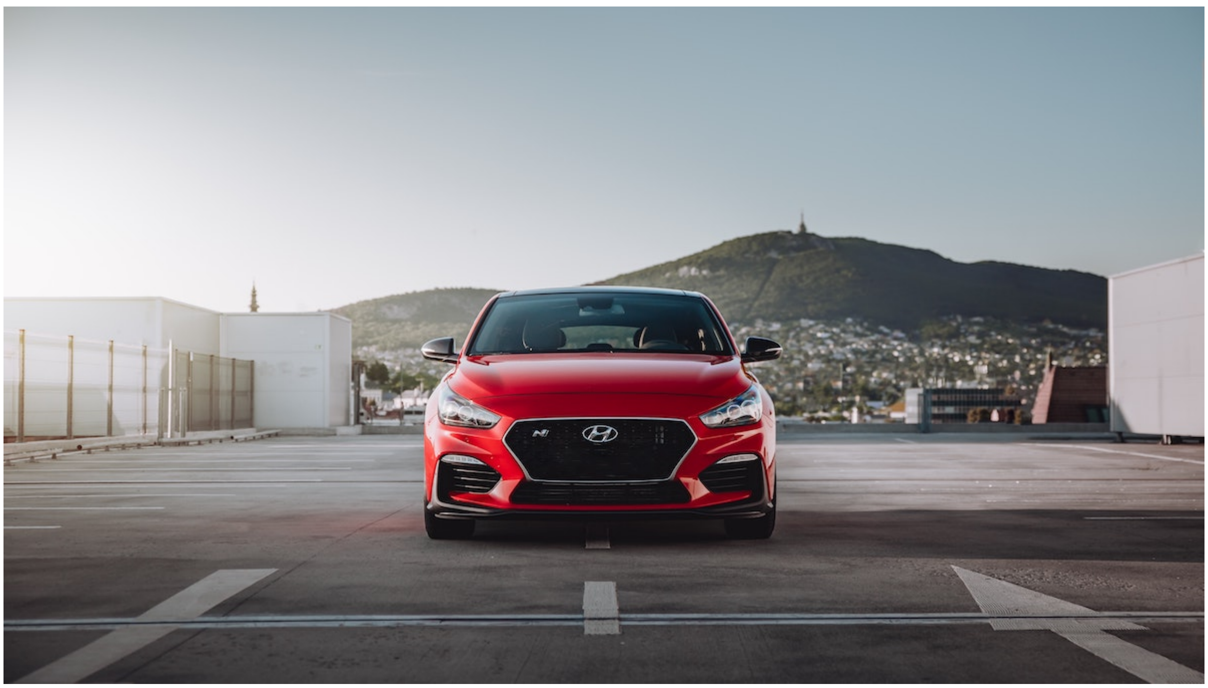

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Insights into the Dynamic Capabilities of Jose Munoz, President and CEO, Hyundai

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I. Introduction

Hyundai Motor Company entered the automobile industry in Korea in 1967 with the launch of the Pony. Almost 20 years later, it entered the US market with the Hyundai Excel. In 2022, Hyundai had climbed to the top three behind Toyota and VW. Just as importantly, it is clear that not long after the appointment of former Nissan executive Jose Munoz, Hyundai's image as a manufacturer of cars that were "good value" was changed to that of a company offering well designed and technologically advanced cars. This transformation allowed the company to begin delivering strong profitability to its owners and dealer partners. Hyundai became the fastest growing volume brand in USA in the past 3 years, behind only Tesla in the industry growth metrics.

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Hyundai Motor Company's transformation is of interest to industry analysts as well as to anyone interested in management. As I sat down to interview Munoz, I wanted to better understand how this remarkable transformation had come about.

My interest stemmed in part from wishing to appreciate the cultural differences of organizations but even more fundamentally from my desire to understand better the role of management in the success of the business enterprise. In particular, the Dynamic Capabilities framework that I have developed over the past 30 years highlights three broad classes of activities which top execs must get excellent at if they are to succeed: sensing (and sensemaking); seizing (execution); and transforming. I was interested in seeing whether Munoz's success could be understood using the lens of Dynamic Capabilities. Companies with strong dynamic capabilities are good at sensing, seizing, and transforming. That's what lets them achieve competitive advantage.

II. Sensing & Sensemaking

Munoz is President and CEO of Hyundai Motor Company. He joined the company in 2019. As he explained it, he joined because he was “inspired by Chairman Euisun Chung’s vision and wanted to help bring it to life.”

Munoz inherited a company that had a compelling vision and a great line up of cars. Kia at the bottom end, Hyundai in the middle, and Genesis at the top. Alfred P. Sloan at General Motors in the 1920s and 30s was the first to create such a differentiated product line up in the industry. Perhaps Sloan had inspired Hyundai to build a tripartite brand strategy; but there was unfinished business with respect to branding and brand presentation. Furthermore, Hyundai had also become a technological leader… with autonomous driving features well advanced and hydrogen cars already in the market… but this was not reflected in brand values. At the Consumer Electronics Show in Las Vegas, Hyundai Motor Company’s Chair Mr. Euisun Chung had given the world a futuristic glimpse of Hyundai’s technological prowess and commitment to “mobility as a system.”

However, the dynamic capabilities framework tells us that the best vision (the result of sensing and sensemaking) without good execution (and restructuring if necessary) will not be enough to enable a company to be great. Hyundai Motor Company’s management had work to do, and Chairman Chung chose a seasoned and analytically savvy, and emotionally mature but demanding automotive industry operator to lead the team that would get the job done. However, this was not a “cherry on top” invitation. There were significant problems that Munoz had to solve:

- The company had grown in size and there was poor coordination and integration amongst business units.

- Great (technology and design-wise) models (e.g., Genesis) were earning accolades from car enthusiasts and the media but were poorly positioned in the market and were not selling well. Branding issues had not been thought through and the existing dealer network was ill-suited to represent luxury brand.

- A dealer network that was heterogeneous and poorly capitalized.

- There was insufficient autonomy for US management; all big decisions still needed to pass through Korea.

- The company's profitability was not where it needed to be.

One problem that Hyundai didn't have was a shortage of semiconductor chips. Whereas other US auto execs, intimidated by the pandemic and initial sales softness, shed purchase commitments for semiconductor chips, the longer term perspective of Hyundai management, coupled with good access to their own locally produced chips in Korea meant that production constraints were not as binding at Hyundai Motor Company's as they appear to have been at GM, Ford, and Chrysler.

III. "Seizing" (Execution)

a. Attack the problem, not the people

Hyundai needed a new leader with "high bandwidth" and cross-cultural experience. The 2018 intrigue as Nissan around Carlos Ghosn and Hiroto Saikawa had given Hyundai Motor Company a chance to recruit a top exec who might well have become CEO of Nissan.

Munoz was Chief Performance Officer at Nissan. The very title reflects familiarity with a metrics-based approach to management. Indeed numbers and metrics are necessary to achieve great results… but Munoz was well aware that they by no means guarantee it. As Edward Deming, the father of quality and metrics-based management once remarked:

> *"He who would run his business with visible figures alone will soon have neither a business nor visible figures to work with."* [1]

And Jeff Bezos at Amazon likewise reminds us that:

> *"there are decisions that can be made by analysis…unfortunately, there's a whole other set of decisions that you can't ultimately boil down to a math problem."* [2]

Munoz is a PhD nuclear physicist, and his analytical chops are unusual and undisputed. In fact, I had spoken to him soon after he accepted the Hyundai job, and it was apparent that he had downloaded the financial model of Hyundai onto his laptop, and was exploring "what if" scenarios himself. This direct "hands on" numbers driven approach is quintessential Munoz.

Munoz quickly figured out what needed to be done to effectuate a turnaround and power the forward growth of Hyundai in North America.

Hyundai was not Nissan. And in this regard, important cultural differences come into play: Nissan was a much more hierarchical firm than Hyundai [this was not so much a Japan v Korea difference; Hyundai management style was just a lot more participatory… both in Korea and in the USA].

The restructuring challenge required Jose to employ his considerable stock of untapped Emotional Intelligence (E.I.). Chairman Chung knew that Munoz was not one to stand on ceremony. Munoz knew right away how to move forward: "First understand the problem; then attack the problem, not the people." Of course, people often appear to be the problem; and sometimes they are; but often they are not. Good people will help solve the problems; those that cannot or won't tend to self-identify quickly. They leave or action can be taken.

b. Use the soft power and partner with the chairman

A good chairman is a grand visionary; and Hyundai Motor Company's Chairman Euisun Chung is exactly that. That vision and good sensing and sensemaking about the multiple futures had to be combined with execution excellence. Xerox CEO Jack Goldman was persuaded that computing was the future of Xerox, and set up Xerox's Palo Alto Research Center (PARC). However, while PARC developed all the key elements of personal computing… the GUI interface, the mouse, laser printing, and the ethernet… it was all for naught without proper implementation. Implementation was Xerox's Achilles heel… but Munoz was determined to stop that happening at Hyundai, and he worked closely with Chairman Chung every step of the way to effectuate necessary changes.

c. Lack of planning, alignment, and “integration”

While the dynamic capabilities framework points out that plans are often quickly overturned by changed circumstance, planning…including scenario planning… still needs to be done… even if plans are frequently revised and often discarded.

One of Jose Munoz’s big discoveries at Hyundai was the lack of planning and concomitant “lack of alignment and integration amongst various business units.” When organizations get large, there is often a plethora of semiautonomous business units to integrate. CEO Hank Greenberg at AIG had over 100 (Hyundai Motor Company had scores). It’s often challenging to achieve alignment, since such units are often semiautonomous, yet they are often cospecialized and are codependent on other units. Alignment doesn’t happen naturally. It needs to be engineered, and Munoz did exactly that.

d. Making bold changes “step-by-step”

Effectuating alignment requires a tremendous amount of work. In particular, it requires each unit having a shared vision, and a deep understanding of how each unit activities impact other parts of the organization.

Also, attention to detail matters. How does a top executive do that? He/she (or their staff) has to take notes, and hold people accountable: Follow-up, week by week, day by day. The discipline of a good execution process makes a difference.

Simple methods often pay off. As Jose Munoz advises, go “step by step.” Somewhat paradoxically, incremental methods are often needed to get big things done. While Munoz may be able to make big mental leaps himself, he also knows that “you have to bring the team along. Make them a part of the success.” But as the leader “you first need to be fast at figuring out what needs to be done.”

IV. Transformation… and the Repositioning of the Hyundai (and Genesis) Brand

a. General

As noted, Hyundai had come into the US market in 1986 with the Hyundai Excel. It sold on the basis of price. The Excel was $4995. It was a car ideally suited for my 4’ friend Carsten who could actually reach the foot pedals on the Excel without modifications to the vehicle. What a boost that was to Carsten! It was a dumpy looking car; and it was not roomy enough for most Americans. It was definitely not a head turner.

But when Hyundai began introducing well American designed cars like the Sonata, perceptions began to change. At the same time, Hyundai technology began to improve rapidly. While not powered by the most beefy of engines, Hyundai cars were no longer underpowered; their performance was very good. Quality ratings and customer acceptance burnished Hyundai’s credentials. It had become a technology leader but the brand was still stuck in the 1990s. Jose Munoz began turning that around.

b. The dealer network

Jose Munoz saw the dealer network and the advertising programs as part and parcel of that. The dealer network reflected the low cost/low price image of the past. The luxurious and technologically advanced Genesis brand was sold through dowdy dealers possessing uncommon franchisee rights under US law. Even poor performing dealers can continue. Jose Munoz encouraged the necessary co-investment. The marketplace needed “fewer, bigger, better” Hyundai dealers. The number of Genesis dealers fell to 275 and appears on a trajectory to go lower. Toyota had done better planning and had launched its Lexus brand with up market dedicated dealers from the outset; Hyundai had not, leaving Munoz with a difficult problem to solve. With co-investment from Hyundai, marketplace realities helped sort the situation out.

c. Localization, cross-cultural issues, and using “brain and heart”

It took a Spaniard Jose Munoz to convince the Hyundai leadership in Korea that greater localization was necessary to achieve success. Localization has different meanings to different people: to Jose Munoz it meant basically a "less Korean-centric" approach. "Take the best from Korea and blend it with the best from America… whether its technology or management practices." This also meant expanding the production footprint in America, something Munoz had championed.

After managing in all three cultures… Jose Munoz has some pithy conclusions that are quite insightful:

- "The Koreans are very transparent. You don't have to dig hard and deep to understand what your Korean colleagues are really thinking."
- "You have to be focused not only on the future, but on the here and now" (What Professor's O'Reilly and Tushman call "ambidexterity.")
- Whereas "Korean management might focus more on matters of the heart, American management tends to focus more on matters of the brain." Jose Munoz set out to "use brain and heart together"… adding another dimension to the concept of ambidextrous management.

d. The inverted hierarchy

I have frequently commented that the best managers… or at least those trying to unlock the potential of others… manage through an "inverted hierarchy." Legally of course this is not the case; but when organizations need highly trained and experienced talent to be engaged and committed, top leaders understand, as Jose does, that "the boss works for the employees, and not the other way around."

This is also very true at the University of California. No chancellor can last long without the support of the faculty… Chancellor Dirks is widely believed to have left once it was apparent that he had lost the support of the faculty senate, even though the faculty senate cannot, as a matter of law, dismiss a chancellor. Only the U.C. regents can do so. Wherever top talent is mobile… like at Google or Amazon or at the Berkeley Research Group… the situation is similar.

Hyundai was traditionally not run in this "decentralized" manner; but part of Jose Munoz's leadership success is communicating (through action, not just words) that he is "working for the success of Hyundai and for all his employees," less so the other way around.

Such an approach requires a high degree of both humility and emotional intelligence. Having both is the hallmark of a great leader. Loyalty becomes revered and reciprocated. Respect for hard work is of course very much a part of the equation too, and has historically been a part of the Korean culture. It is also a part of what traditional American management was all about too.

Nothing lackadaisically. No "mañana" culture. As Jose Munoz put it "It's not the big who eat the small but the fast who eat the slow. Everything needs to be done 'now'.

Munoz has increased the tempo of decision making and action. He is not loquacious. He is a man of action… action according to a plan and consistent with the vision of the chairman.

Hyundai and the world are beginning to see the results. There is much more to come. "The low hanging fruit may be gone; but much more needs to be done. More electric and hydrogen powered cars and fully autonomous cars are just around the corner".

V. Reflections

Munoz is a very "get to the point early" interviewee. He has strong dynamic capabilities with respect to each component of the triad: (1) Sensing (2) Seizing and (3) Transforming. He has shaped and led the organization and transformed its dynamic capabilities. He had walked into Hyundai Motor Company, a company that was strong on Sensing but weak on Seizing. It needed and still needs significant transformation.

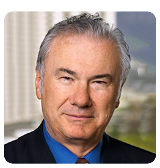
Within just three years Munoz has transformed Hyundai Motor Company's operations, achieving dramatic performance improvements that have surprised the industry. Nevertheless, the transformation was "step by step," according to a plan and driven by passion and mission, not ego. That is of course the only way to achieve sustained peak performance.

The vision of Hyundai's Chairman has now come alive in America. Such transformations are rarely seen in the auto industry… and they warrant attention. Munoz brought to Hyundai deep knowledge of the auto sector so he could "hit the ground running." The speed of change is still impressive; and the market leadership position Munoz and his team have secured for Hyundai is salutary… perhaps not seen since Lee Iacocca turned around Chrysler in the early 1980's.

References

1. See "Out of the Crisis," by W. Edwards Deming.

2. Alan Dentschman "Inside the Mind of Jeff Bezos" Fast Company. Aug 1, 2004.



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