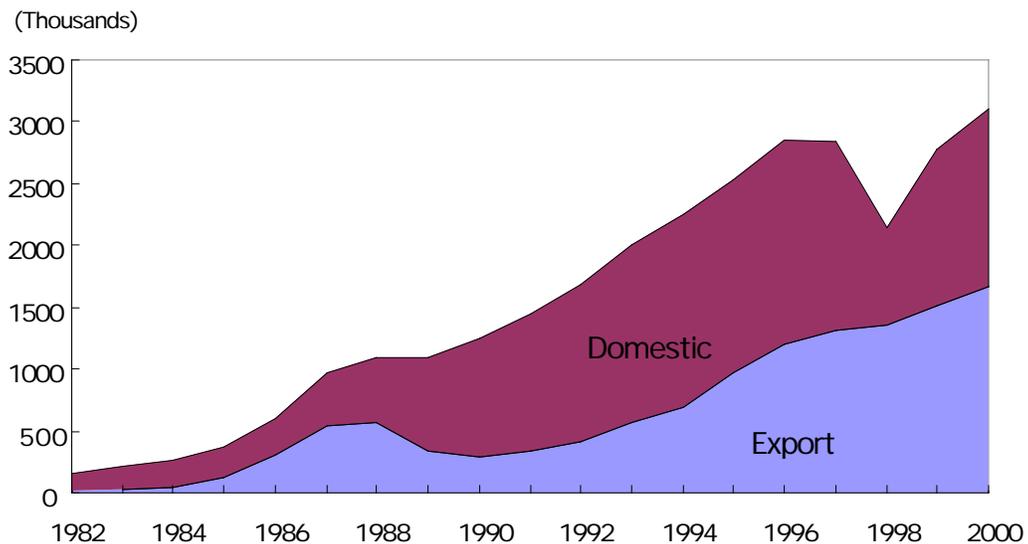


MERGER AND RECONFIGURING OF HYUNDAI-KIA

Byoung-Hoon LEE, Sung-Jae CHO

The Korean auto industry continued to grow without a slump from the early 1980s to the mid of 1990s. As illustrated in <Figure 1>, the auto industry in Korea had shown a sustained growth in sales of domestic and overseas markets until 1996. Between 1981 and 1996, it recorded a notably high rate of averaged annual growth in production (22.7%), domestic sales (19.5%), and export (36.2%). However, it experienced an unprecedented downturn under a serious economic slump and the foreign currency crisis occurring in the period of 1997-1998. In this period, all the automakers but Hyundai reached serious financial crisis, which mainly resulted from their over-expansion of production facilities by relying on an exorbitant amount of debts and was partly caused by excessive domestic market competition among them (Lee 2001; Cho 1999; Yoon et al. 1998). Kia went bankrupt in the summer of 1997, whereas Samsung, Ssangyong, and Daewoo fell into an insolvency crisis in 1999.

Figure 1.- Trends of Auto Sales by Korean Automakers



(Source): *Korea Automotive Research Institute (2000a)*

In this context, the Korean auto industry has been experiencing the process of wholesale reconfiguring up to now. Kia and its affiliate, Asia Motor, merged into Hyundai, and Samsung was acquired by Renault, a French automaker. Both Daewoo and Ssangyong are now under the control of creditor banks and the government, which provided public loans for their continuing operation, and it is not yet determined whether to sell out the ownership of the two companies, or to restore these crippled auto makers on their own. Even Hyundai, which maintained relatively healthy financial performance, made a sudden reshuffle of top management in accordance with the Hyundai group owner's succession plan. In addition, most automakers took a series of action to restructure business units and downsize its employment during the last four years (1997-2000). It is also notable that a number of auto parts manufacturers were taken over by foreign multi-national companies in this period. The restructuring of the Korean auto industry has led to intense confrontation, involving labor unions, management, and sometimes the government, and also produced some remarkable changes of employment relations practices in those auto makers.

The focus of this study is on the merger of Hyundai-Kia and their business restructuring, which is a key part of recent reconfiguring taking place in the Korean auto industry. The paper reviews why Kia collapsed in 1997 and how it was taken over by Hyundai in 1998 (Chapter Two). This study also delineates what strategic action management at Hyundai and Kia have taken for reorganizing the two companies' governance structure and pursuing a synergy effect of various business operations, such as R&D, manufacturing, auto part procurement, and marketing, since their merger (Chapter Three). In Chapter Four, we examine how the labor unions at Hyundai and Kia have responded to management's business reconfiguring strategies after the merger. In conclusion (Chapter Five), it is discussed what synergic effect the merger of Hyundai-Kia have produced and what challenges the Hyundai-Kia auto group have been confronted with. This study is largely based on our field interviews with the two companies' managers and union officials, which were conducted between February and April 2001.

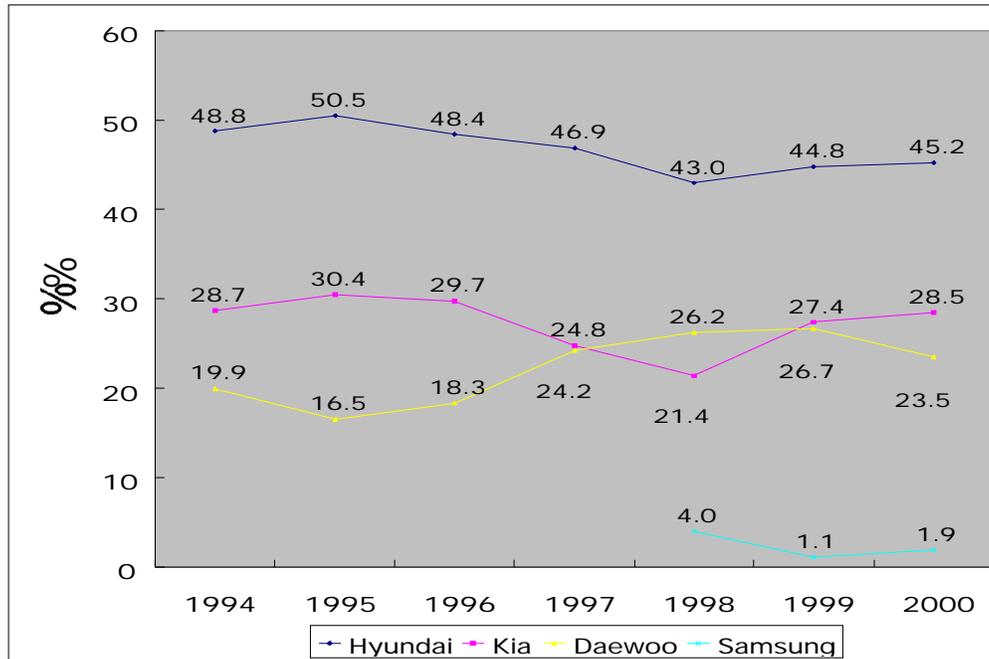
KIA'S COLLAPSE AND HYUNDAI'S ACQUISITION

Kia's crisis and failure to survive

As demonstrated in <Figure 2>, the Kia Motor was the number two automaker in Korea between 1990 and 1997.¹ It is also noteworthy that the Kia group was solely comprised of <Figure 2: Domestic Market Shares of Korean Automakers> auto-related companies and uniquely maintained a professional management system that a non-owner president had taken charge of since 1981, unlike other owner-run conglomerates (the so-called Chaebol in Korea) such as Hyundai, Samsung, and Daewoo.

¹ The Kia Motor group was established as a bicycle manufacturer (named Kyungseong Precision) in 1944. In the early 1970s, the Kia group entered the car industry by relying on technical alliance with Mazda and Fiat, and acquired the Asia Motor in 1976 which produced commercial vehicles. In accordance with the government's "industry-rationalization policy" to deal with a serious slump of the auto industry taking place in the early 1980s, the Kia group became the monopoly manufacturer of small-sized commercial vehicles, while giving up the production of passenger cars. In 1987, when the government lifted the "rationalization policy", the Kia group entered the passenger car market with the introduction of a mini-sized car, named Pride, which was a localized version of Ford Festiva. Since the sales of Pride made a great success in the domestic market, Kia was able to win the second place over Daewoo in the passenger market share from 1990.

Figure 2.- Domestic Market Shares of Korean Automakers



(Source): Korea Automotive Research Institute (2000a)

(Note): The market share of Daewoo includes that of Ssangyong.

Over the first half of 1990s, the Kia group continued to expand its production capacity by opening a new passenger car plant complex in Hwasung and made a substantial amount of investment to build overseas plants (i.e.: a passenger car plant in Indonesia and a commercial vehicle plant in Brazil). In the mid 1990s, the Kia group's top management announced its ambitious "Global Top-Ten" plan, according to which the company would expand its production capacity up to two million units and become the 10th global automaker by 2000.²

Behind its success story demonstrated during the first half of 1990s, the Kia group's financial vulnerability grew to a crisis point. As shown in <Table 1>, the Kia Motor continued to record net losses from the early 1990s and, as a result, was brought to capital deficiency from 1994.³ Finally, the Kia group went bankruptcy in the summer of 1997.

Table 1.- Financial Performance of the Kia Motor Group

(Unit: Billion won)

	1993	1994	1995	1996	1997
Equity	548.9	_124.5	_552.5	_1,311.8	_2,035.0
Net Profit	_290.3	_765.0	_770.5	_751.9	_768.4

(Source): Kim (2000)

² As of 1996, the Kia group was the 17th automaker of the global auto industry in terms of production volume. Likewise, Hyundai and Daewoo also made public their own "Global Top-Ten" plans at the time.

³ The Kia Motor's crumbled financial performance, which had intentionally been hidden by its management, became known through the auditing firm's asset evaluation in 1998.

The Kia Motor's collapse can be explained in several aspects. Firstly, it should be pointed out that the company's profitability worsened with the excessive domestic market competition triggered by Daewoo's interest-free sales campaigns from the early 1990s.⁴ Moreover, the company carried a growing burden of financial costs, derived from management's over- expansion of production capacity in domestic and overseas plants by relying on a heavy amount of debts. As exemplified in <Table 2>, Kia(and Asia)'s net financial cost was much larger than Hyundai's in the period of 1995-6, thereby contracting its profitability to a certain extent.

Secondly, the company's mis-management was one of critical factors to cause its crisis. Kia management tried to diversify their business by acquiring a special steel manufacturing firm (renamed the Kia Special Steel) and establishing a constructing company (named the Kisan), a trading company (named Kia Inter-trade) and so on. However, most of those new affiliates created exorbitant operational losses and, as a result, made a significant contribution to the mother company (Kia Motor)'s financial crisis. Also, Kia management made huge investment to develop their own passenger car models, such as Sephia, Credos, and Avella, yet those passenger car models made very poor sales records, thereby worsening the company's financial performance to a large extent.

Table 2.- Debts and Financial Costs of Hyundai

(Unit: %)

	1995		1996	
	Rate of Debt-to Equity	Rate of Net Financial Cost to Revenue	Rate of Debt to Equity	Rate of Net Financial Cost to Revenue
<i>Kia</i>	378.1	4.7	427.1	4.5
<i>Asia</i>	425.5	7.5	512.1	7.8
<i>Hyundai</i>	349.7	0.3	379.2	1.2

(Source): Yoon et al. (1999, pp. 22-24)

Moreover, in the face of the company's vulnerability management at Kia made substantial concessions to the labor union, where a militant activist group began to take power from 1993. Under the union's tough pressure, for instance, management agreed to increase production workers' wages by 9-10% between 1994 and 1996, and accepted the union's regulatory power over managerial disciplinary action, man-power allocation, and daily manufacturing operation.⁵ It should be noted that "moral hazard" which was widespread

⁴ Daewoo, which surrendered its 2nd place of passenger car market to Kia and experienced serious financial difficulties in the early 1990s, began to evolve an aggressive strategy to expand its market share by launching an interest-free installment sales campaign. In response to Daewoo's active marketing action, both Kia and Hyundai joined to offer the interest-free installment sales package. According to Cho (2000a, p.61), the averaged percentage of the interest-free installment sales to total sales of the three automakers increased from 36.7% in 1991 to 80.5% in the 1st quarter of 1993.

⁵ In addition, the labor union forced management to implement the weekly working scheme of 41 hours. As evident in these examples, labor relations in Kia was dominated by the militant union during the period of 1993-1996. For the details of the historical evolution of labor relations at Kia, see Lee (2001), Cho (2000a), and Park & Lee (1997).

among senior management produced considerable inefficiency in governing business operations and auto parts suppliers, and therefore deteriorated the company's financial performance.⁶

Thirdly, the Samsung group's continued threat to take over the Kia group did to some extent contribute in deepening the company's financial vulnerability. The Samsung group made inroads into the auto industry in 1992, following the government's action to lift its regulatory policy banning other corporate groups' new entry into this industrial sector in 1991.⁷ The Samsung group intended to take over Kia's production facilities and tried to carry out adversarial M&A by letting its affiliates buy Kia's shares between 1996 and 1997. Kia management barely defended their ownership from the Samsung group's M&A attempts. In the meanwhile, however, the company got its vulnerability widely exposed to the finance market and experienced a sharp drop of its market shares by 4.9% between 1996 and 1997. (Figure 2)

For the above reasons, the Kia group was eventually declared insolvent in the mid 1997. In facing the Kia group's bankruptcy, the government and creditor banks, who were concerned about its damaging impact on the national economy, took a special policy action to assist the troubled corporate group.⁸ Yet, there existed confrontation between Kia employees and the government in dealing with the Kia group's crisis. Management and labor unions of the Kia group insisted in the self-resuscitation, whereas the government and creditor banks planned to have other automakers take over this auto corporate group.

At that time, management and the labor union at Kia formed collaborative alliance to overcome the company's crisis and made great joint efforts to revive the company on its own. Particularly, the union leadership made a supportive endorsement for the management's own efforts to overcome the crisis and conceded a freeze of wage increase to management in the 1997 negotiation. Moreover, they made public a plan to aid an enormous amount of 233.3 billion won, including 100 billion won donated by union members, in order to save the company from its financial difficulties.⁹ In response, management gave back their promise of employment security to the union.

⁶ Cho (2000a) points out that Kia lacked a proper monitoring system to warn and resolve management failures. According to him, it was due to the under-development of stock market (outsider)'s monitoring and Kia management's policy to exclude the union (insider)'s participation in the strategy-making process. In addition, he notes that Kia's unique business structure, which solely specialized in the auto-related sector, made itself vulnerable, in contrast to other Chaebol groups, which were able to share financial risks through the diversification of their business operations.

⁷ In accordance with the government's policy change, the Ssangyong group entered the auto industry in 1991. This governmental step triggered intense competition for the expansion of production capacity between the existing automakers (Hyundai, Kia, and Daewoo) and the late comers (Samsung and Ssangyong), which resulted in the over-capacity of nation-wide production.

⁸ The government's special policy was called "the accord of bankruptcy suspension". In accordance with the accord, insolvent companies were given special treatment for suspending their repayment of loans for two months. This special policy action was applied to not only the Kia group but also other crippled conglomerates like Hanbo, Daenong, and Jinro.

⁹ The KMWU made not only a donation of 100 billion won by collecting 10 million won per union member, but also contributed to the company's labor cost saving of 133.3 billion won with a variety of union-led campaigns, such as the give-back of bonuses and allowances (40.2 billion won), the freeze of wage increase (80.5 billion won), a temporary deferment of welfare plans (10.7 billion won), and the provision of the union's welfare funds (1.9 billion won).

In the face of Kia employees' active campaigns for the revival of their company, the government put the corporate group into court receivership and replaced the existing top management in October 1997. The government and creditor banks decided to sell the Kia group out to the third party and curtailed the capital of those companies by 90%. The union opposed the government's sell-out plan and went on strike from April to June 1998. However, as the union's strike action to block the government's sell-out plan surrendered to the hard pressure of the new management assigned by creditor banks, Kia employees' efforts for the company's revival came to an end fruitlessly.

Hyundai's take-over of Kia

In July 1998, the government and the creditor banks offered a public bidding for selling out the Kia group. Hyundai, Samsung, Daewoo, and Ford took part in the bidding process. At the first and the second bidding round, all of candidates failed to satisfy the terms of acquisition proposed by the creditor banks. At the 3rd bidding round, it was determined in November 1998 that Hyundai which offered the most favorable terms took over the Kia group.¹⁰ In December, Hyundai finally signed a contract with the Korean Development Bank, the major creditor bank, regarding the acquisition of the Kia group. According to the contract, Hyundai secured 51% shares of both the Kia Motor and the Asia Motor by paying 1.18 trillion won and was given a favorable condition that Kia's debts amounting to 7.47 trillion won were written off.¹¹ As Hyundai paid the acquisition money (amounting to 1.18 trillion won) to the creditor banks in March 1999, it became the new owner of the Kia Motor and the Asia Motor. By taking over the Kia Motor and the Asia Motor, the Hyundai-Kia group was able to forge a solid position having over 70% of domestic market share and become the 7th or 8th global automaker by combining its affiliates' production capacity into the total volume of 2.9 million units (1.8 million in Hyundai and 1.1 million in Kia).

It should be noted that top management at Hyundai was reshuffled in January 1999. In accordance with the succession plan decided by the owner (Chung, Joo-Young) of the Hyundai conglomerate (Chaebol), Chung, Se-Young, who is the owner's younger brother and had managed the Hyundai Motor since its establishment in 1967, retired from the position of chairman, and Chung, Mong-Gu, the owner's eldest son, became the new chairman.¹² Immediately after his inauguration, Chung, Mong-Gu replaced many of the existing executives of the Hyundai Motor and the Kia Motor¹³ with new ones, most of whom worked

¹⁰ The Samsung group and Ford were disqualified due to their bidding proposals to demand a write-off of 8 trillion won out of the total debts of Kia and Asia (amounting to about 9.39 trillion won) at the third round. Particularly, the Samsung group, which had shown strong interest in acquiring the Kia group, gave up its bidding by top management's decision to specialize in electronics business under the condition of serious economic crisis. Therefore, Hyundai and Daewoo were final competitors at the third round, and Hyundai won over Daewoo by a big margin in their bidding scores.

¹¹ After the write-off of 7.47 trillion won debts, Hyundai carried the remaining debts of 1.92 trillion won. The acquisition contract had additional terms, which demanded that Hyundai cannot close the Kwangju plant during next 15 years and should maintain the current level of employment until 2000.

¹² Chung, Mong-Gu has been in charge of several affiliated companies of the Hyundai group, such as the Hyundai Precision, the Hyundai Motor Service, and the Incheon Steel. He had shown very strong interest in the auto business and actually opened an auto plant to produce recreational vehicles in the Hyundai Precision, run by himself, in 1991. Finally, he was able to become the top management of the Hyundai Motor according to his father's successor plan. Chung, Se-Young and his family, who retired from the Hyundai Motor, were given the ownership of the Hyundai Industry Development (a construction company).

¹³ Particularly, only 317 senior managers were transferred to the Kia motor from the Hyundai Motor, the Hyundai Precision, and the Hyundai Motor Service. Those transfers played a core managing role in taking over the Kia Motor and its affiliates.

for himself at the Hyundai Precision and the Hyundai Motor Service. Therefore, the Hyundai-Kia group has since launched its extensive business restructuring under the Chairman, Chung, Mong-Gu's leadership.

MANAGERIAL STRATEGIES OF BUSINESS RESTRUCTURING SINCE THE HYUNDAI-KIA MERGER

In this chapter, it is discussed how the Hyundai-Kia group's management has taken strategic steps to consolidate and reorganize their affiliated business operations from 1999 on. In more specific, we examine how the Hyundai-Kia group has reconfigured the governance structure over its affiliated operations and re-aligned core business functions, such as R&D, manufacturing, auto parts purchasing, and marketing & A/S, over the recent years.

Reconfiguring of corporate governance structure

Hyundai and Kia both took action to consolidate their business units after their merger. The Hyundai Motor absorbed the Hyundai Motor Service and the auto production division of the Hyundai Precision in March 1999, whereas four affiliated companies, such as the Asia Motor, the Kia Motor Sales, the Asia Motor Sales, and the Kia Daejun Sales, integrated into the Kia Motor in June 1999. Through the integration of those business units, the employment size at Hyundai and Kia respectively totals 50,705 and 30,426, as of mid 2000. Now, the Hyundai-Kia group is led by Chung, Mong-Gu, the chairman of the executive board and the chief executive officer (CEO), and top management is comprised of four presidents, such as a chief operating officer (COO)/chief finance officer (CFO) of the Hyundai Motor, a COO of the Kia Motor, a chief technology officer (CTO) for the R&D function, and a COO for the commercial vehicle manufacturing operations. Below those presidents, 23 vice-presidents (13 for Hyundai and 10 for Kia) are in charge of various operational units.

Immediately following the merger, a managing unit, named the Hyundai-Kia Joint Planning Division, was formed in the group HQ office early in 1999. This division has played a key role in framing and maintaining integrative governance and effective coordination for the two companies under the chairman's control. In order to integrate the R&D functions at Hyundai and Kia, a president (CTO) was assigned to supervise all R&D centers of the two companies in early 1999. Later, since top management noticed that it was necessary to promote the coordination and communication between partnered business functions of the two companies, they formed a variety of joint division offices (i.e.: the Joint Material Handling Division, the Joint Production Technology Division, the Joint Product Planning Division, and the Joint After-Service (A/S) Parts Division) for most of operational functions in the mid 2000. Also, a president (COO) was appointed to manage commercial vehicle manufacturing operations of the two companies. The only exception to this functional integration is marketing units, because the group top management intends to promote inter-company competition. At the end of 2000, when managing teams of Hyundai and Kia, which had their own HQ office in different locations, moved together into a group HQ building (Seoul), it is expected that coordination and communication of each operational function between the two companies could be further enhanced. From 2000, the Hyundai-Kia group has exchanged managerial employees between the two automakers. For instance, top management of the corporate group decided to move about 140 managers of Hyundai to Kia and 40 managers of Kia to Hyundai in the early 2001.

The Hyundai-Kia group has segmented its auto business by spinning off some of its existing business units and/or establishing new firms to specialize in certain business functions. Above all, the Hyundai-Kia group renamed the Hyundai Precision the Hyundai MOBIS in October 2000, which takes charge of the production and sales of auto parts. By the end of 2000, departments of A/S auto parts sales at Hyundai and Kia transferred to the Hyundai MOBIS.¹⁴ Top management intends to promote the Hyundai MOBIS to a specialized supplier and sales agent of auto parts. In mid 2000, this auto corporate group established a composite logistics handling company, named the Korea LogiTech, which takes responsibility for auto parts supply to manufacturing plants and car delivery to domestic customers and overseas dealers. In March 2001, the Hyundai-Kia group also formed an independent manufacturing firm, named the Hyundai PowerTech, which specializes in the production of transmission.¹⁵ The firm plans to start its production in June 2001 and to supply transmission to Kia's passenger car plants from that time and to Hyundai plants later. In April 2000, this corporate group established an internet sales company, named the Hyundai Autoever.com, to respond to the growing internet sales. It plans to reorganize the existing sales chains, comprised of company-run and independent dealers, into region-wide sales units, and to ultimately form two marketing firms (sales and A/S) to take charge of group-wide sales and car maintenance service. The Hyundai-Kia group has worked out a joint-venture with Daimler-Chrysler to produce commercial vehicles and their auto parts. The negotiation between the auto groups for the joint-venture is still underway. In case that the joint-venture of a commercial vehicle firm is established, it is expected to absorb Hyundai's Junju plant and the large-sized commercial vehicle manufacturing department of Kia's Kwangju plant.¹⁶

In June 2000, the Hyundai-Kia group reached a strategic alliance contract with Daimler-Chrysler. Through this alliance, the group management allowed Daimler-Chrysler to possess 10.45% of Hyundai's shares and aimed at joint development of new passenger car models, the establishment of the joint-venture to manufacture large-sized commercial vehicles, and various technical exchange with the alliance partner. <Table 3> shows the current composition of major shareholders for the Hyundai Motor and the Kia Motor. Top management of the corporate group decided to include a Daimler-Chrysler director into the executive board of the Hyundai Motor.

Table 3.- The Composition of Major Shareholders for Hyundai and Kia

Hyundai Motor	Kia Motor
Hyundai MOBIS: 11.49%	Hyundai Motor: 45.6%
Inchon Steel: 4.59%	Hyundai Capital: 8.9%
Chung, Mong-Gu: 4.07%	Employee Stock Fund: 8.2%
Hyundai Heavy Industry: 1.67%	Korean Development Bank: 5.87%
Daimler-Chrysler: 10.46%	

(Source): *Auto News (Korea Automotive Research Institute 2001)*

¹⁴ Along with the transfer of auto parts-related departments, 1,337 employees (420 from the Kia Motor and 917 from the Hyundai Motor) were re-deployed to the Hyundai MOBIS.

¹⁵ The Hyundai PowerTech was established in the form of a joint-venture between Hyundai and Kia. Yet, top management of the Hyundai-Kia group plans to expand this company's joint-ventureship to two more Japanese companies (Mitsubishi and JATCO).

¹⁶ Top management of the Hyundai-Kia plans to spin off the existing commercial vehicle plants in Junju and Kwangju for a joint-venture with Daimler-Chrysler and to double the current production capacity of 100 thousand units in order to take over 30% of market share in the Asian region.

In order to enhance the transparency of corporate governance, top management also increased the number of outside executive directors partaking in the executive board. Moreover, the Chairman, Chung, Mong-Gu, formed his own corporate group specializing in the auto business and separated it from the Hyundai conglomerate in September 2000. Now, the Hyundai-Kia corporate group consists of 17 affiliate companies, including the Hyundai Motor, the Kia Motor, the Hyundai MOBIS, the Incheon Steel, the Hyundai HYSCO, and the Hyundai Capital.¹⁷

Consolidation of r&d function

The first functional integration, initiated by top management after the Hyundai-Kia merger, was the consolidation of various R&D centers at the two companies. Prior to the consolidation, Hyundai had four R&D centers – the Namyang and the Ulsan R&D center to develop new passenger car models, the Mabukri R&D center to develop engines and transmission, and the Junju R&D center to develop commercial vehicles -, and Kia also did four R&D centers or departments – the Sohari Central R&D center to develop passenger cars and core auto parts, the R&D department of the Kwangju plant to develop commercial vehicles, and the R&D department of the Hwasung plant and the Shiwha plant to make and test pilot cars. The Joint R&D Division, formed in March 1999 and led by the CTO, set out a reorganizing plan to consolidate the R&D functions for developing passenger car models and core auto parts into the Namyang R&D center, while integrating R&D units for commercial vehicles into the Junju R&D center. In accordance with this consolidation plan, the Mabukri R&D center moved to the Namyang R&D center by the end of 2000. In 2001, the Namyang R&D center plans to incorporate the R&D departments at Shiwha and Hwasung, and the merge of the Junju R&D center and the Kwangju R&D department is underway. By the end of 2002, the remaining R&D centers at Ulsan and Sohari will be integrated into the Namyang R&D center. Now, Hyundai and Kia both have its own design center, yet they plan to incorporate these design centers into the Namyang R&D center in future. In addition, Kia, which does not have enough drive courses for pilot cars, is able to use Hyundai's facility.

The consolidation of R&D centers basically targets at the integration of platforms between the two companies. Prior to the merger, Hyundai and Kia had respectively 12 platforms and have produced 41 car models in total. Top management of the Hyundai-Kia group plans to reduce the number of platforms (from 24) to 7¹⁸ by the end of 2005, in order to save the costs of product development and manufacturing and produce a variety of car models having differing external styling and interior options for the brands of Hyundai and Kia. In the summer of 2000, Kia introduced a mid-sized car model, named Optima, as its brand, which was a minor change version of Hyundai's Sonata EF model. As such, Hyundai and Kia began to share the platforms of their car models as a preliminary stage of platform integration. In addition, Hyundai shared the platform of Mighty (mid-sized commercial vehicle) with Kia, which has sold Pamax, a modified commercial vehicle of the same platform.

¹⁷ As of early 2001, the Hyundai-Kia group is ranked 5th among Korean corporate groups.

¹⁸ According to a manager of the Joint R&D Division, the Hyundai-Kia group plans to have seven platforms to match types of cars, such as mini-sized, compact, sub-compact, mid-sized, large-sized (or luxury), SUV, and small-sized commercial vehicle

Between 1999 and 2000, some of R&D employees were exchanged between those R&D centers of the two companies in the form of temporary assignment. In March 2001, most of them (about 300 employees, including 40 production workers) changed their affiliation from Kia to Hyundai (the Namyang and the Junju R&D center), as the consolidation plan of R&D centers has evolved. According to a manager of the Joint R&D Division, the employment size of R&D operations that totaled over 7,000 until 1999 declines to the level of 5,800 through the consolidation of R&D centers. Management has re-deployed the surplus employees (amounting to 1,200) to other divisions. They also have a plan to assign some of the remaining R&D employees to the development of next generation car models (i.e.: electric vehicles), because the number of R&D staff required for the development of new car models will reduce through the integration of platforms.

Now, the Hyundai-Kia group has 29 engine models (16 for Hyundai and 13 for Kia) in total. It plans to reduce the number of engine models to 15, mainly by making many of Kia's engine models obsolete and sharing Hyundai's ones, because most of engine models (except the engines for RV and large-sized commercial vehicle), developed by Kia, cannot meet the environmental standards of the advanced countries. In addition, it plans to develop a new diesel engine for SUVs on the basis of Kia's Carnival engine.

Re-alignment and shared operation of manufacturing units

The Hyundai-Kia group has made re-alignment of its auto assembly units¹⁹ in accordance with the type and size of final products. Particularly, top management of the Hyundai-Kia group aims to have each assembly plant specialize in the production of certain types of passenger cars or commercial vehicles. In order to designate Kia's Kwangju plant as a specialized assembly plant of small-sized commercial vehicles, for instance, the Hyundai-Kia group transferred other plants' production lines of those vehicle models, such as Grace (from the Ulsan plant) and Pregio and Frontier (from the Sohari plant) to this plant. At the same time, top management plans to move the Kwangju plant's assembly lines of large-sized commercial vehicles to the Junju plant, which will be transformed to an independent joint-venture with Daimler-Chrysler to produce those vehicle models.

Immediately following the merger, Hyundai and Kia began to share power-train parts (i.e.: engine and transmission) to be supplied to assembly plants. For instance, Kia had produced automatic transmissions for car models below 1,500cc in its Sohari plant and imported those parts for car models above 1,800cc from overseas. After the merger, Hyundai has supplied some volume of automatic transmissions for mid-sized car models, produced in the Ulsan plant, to Kia. Besides, Hyundai has expanded its supply of engines, developed and manufactured by itself, for a variety of Kia's car/vehicle models, such as Combi (small-sized bus), Carens (minivan), Optima, and Frontier (small-sized commercial vehicle) since 1999. As noted above, this corporate group has built a new plant of the Hyundai PowerTech, which is expected to specialize in the production and supply of transmission to its assembly plants in the long run. Moreover, Hyundai and Kia concentrated many operations of manufacturing press die sets into the Ulsan and the Hwasung plant until mid 2000, and began to exchange

¹⁹ As of 1999, Hyundai had three manufacturing operations, such as the Ulsan plant complex to produce passenger cars, RVs, small-sized commercial vehicles, the Asan plant to produce mid-sized passenger cars, and the Junju plant to produce large commercial vehicles. Kia also had three assembly units, including the Sohari plant to produce compact passenger cars, RVs, and small-sized commercial vehicles, the Hwasung plant to produce a variety of passenger cars, and the Kwangju plant to produce several models of commercial vehicles.

die sets, produced in the two plants, between each other by standardizing their manufacturing process of die sets. In particular, Kia, which had imported many of die sets, is now able to meet its demand of die sets with the supply from Hyundai.

The Hyundai-Kia group has also shared production technology since 1999. Immediately after the merger, the corporate group standardized the terminology (approximately 4,500 terms) of production technology used by the two companies, in order to back the integration of platforms and the shared use of manufacturing facilities.²⁰ Kia management also began to adopt Hyundai's calculation method of production standards, called MODAPTS²¹, in determining man-power allocation and production line speed for the assembly lines of new car models from 1999.²² Under top management's initiative, Hyundai and Kia both have implemented the concept of modular production into their assembly operations. Particularly, Kia has borrowed the advanced know-how of modularization from Hyundai and applied it to new car models.

In addition, Hyundai and Kia plan to put their overseas manufacturing operations to shared use. For example, while Hyundai is to produce its compact car model in Kia's Yumsung plant, China, Kia intends to assemble its passenger cars in Hyundai's Pakistan plant. In 2000, the Hyundai-Kia group decided to re-open Kia's people car plant in Indonesia and to complete the construction of a commercial vehicle plant in Brazil. Kia's business operation of the both plants has been brought to a halt by Kia's bankruptcy since 1997.

Reshaping of the auto parts supply system

While pursuing the integration of platforms, Hyundai and Kia have reconfigured their auto parts suppliers in the direction of shaping those vendors into a multi-layer system and enlarging them through M&A.²³ Under the initiative of the Joint Material Handling Division, the two companies set up a joint data base of their auto parts vendors and standardized administrative procedures to manage auto parts supply to them in mid 1999. They also reduced the number of first-tier auto parts suppliers by over 20 during 1999. As a result, the total number of vendors which supplying auto parts to the two companies is 427, as of April 2000. The Hyundai-Kia group plans to decrease its auto parts suppliers by 133 until 2004 and put those excluded vendors into the second-tier level, which provide parts to first-tier suppliers. At the same time, Hyundai and Kia have urged mergers of vendors, which aim at the enhancement of their R&D capability to develop auto parts. Moreover, the Hyundai-Kia group has expanded the shared use of auto parts between the two automakers and pushed down the price of auto parts supplied by outside vendors.

²⁰ For example, Hyundai's 'UPH (unit per hour)' as a term denoting the production line speed is substituted for the 'tact time', which was used by the former Kia management.

²¹ The MODAPTS stands for Modular Arrangement of Predetermined Time Standard, which is a technical method to calculate working man-hours by analyzing production processes on the basis of modular tasks, comprised of various motions like moving and assembling. (Hyundai Motor Workers Union 2000)

²² According to a union official of Kia, engineers of Hyundai's production technology center often came to train Kia managers about how to apply the MODAPTS in setting out production standards for new car models in 1999.

²³ Hyundai and Kia have more or less maintained a single tier of auto parts supply network, where most vendors have directly provided auto parts to the two companies. Most of those vendors are small firms, which lack their own R&D function and rely on the two automakers' development technology of auto parts.

As noted above, the introduction of a modular production method into Hyundai and Kia is expected to further promote the integration of their auto parts suppliers. Top management of the Hyundai-Kia group has laid particular stress on the implementation of modular production.

Table 4.- Modularization of Hyundai Motor

	<i>Model A</i>	<i>Model B</i>	<i>Model C</i>	<i>Model D</i>	<i>Model E</i>	<i>Model F</i>
Total No. of Auto Parts (A)	640	934	633	666	820	805
No. of Modularized Parts (B)	65	85	128	165	167	244
Rate of Modularization (B/A)	10.2%	9.1%	20.2%	24.8%	20.4%	30.3%
Reduced Man-Hour	0.33	0.53	0.64	0.83	0.84	1.22

(Source): *Internal company document*

Now, Hyundai classifies auto parts into 13 modules²⁴ and plans to gradually upgrade the level of modularization for new car models. As exemplified in <Table 4>, it is noticeable that the modularization of auto parts supplied by outside vendors has grown from the level of 10% for the car model (A) and (B) to over 30% for the most recent car model (F). Kia also began to introduce modular production into a few car models after Hyundai's take-over. For instance, modules of cockpits and transmission were supplied to the final assembly line of Carnival (minivan) in 1999, and higher modularization was applied for Optima, a mid-size car model provided by Hyundai, in 2000. According to Cho, Hyung-Je's case study (2001), it is identified that Hyundai designated a vendor as the specialized supplier of cockpit modules for various passenger car models and let other vendors, having supplied cockpit parts to Hyundai, provide those parts to the module supplier. As such, the reconfiguring of auto part supplier network has accompanied the modularization of auto assembly pursued by both Hyundai and Kia.

The Hyundai-Kia group has carried out its strategic plan to promote the Hyundai MOBIS to a specialized supplier of core modular auto parts, including chassis, body frames, and dash-board.²⁵ According to an internal document of Hyundai, in case that the Hyundai MOBIS starts to produce modules of auto parts, Hyundai expect to lift its overall level of modularization for Hyundai and Kia up to 35~40%.²⁶ Now, the Hyundai MOBIS has an ambitious plan to expand the employment size up to 5-6 thousands by 2005 and become a global top ten auto-parts manufacturer by 2010. In addition, the LogiTech, established as a joint-venture of Hyundai and Kia, has undertaken the role of auto parts handling from outside supplier plants to assembly plants, which vendors had played so far.²⁷

²⁴ Hyundai's categories of modularized auto parts are as follows: cockpit, pedal, head-lining, doors, rear package tray, front suspension, rear suspension, fuel tank, muffler, tubes, cooling device, rear bumper, front bumper.

²⁵ The Hyundai MOBIS plans to expand the current size (30 employees) of the R&D department up to over 100 employees, in order to develop those modules.

²⁶ The MOBIS started to supply cockpit modules of Carnival's face-lift model to Kia in early 2001 and plan to provide the cockpit modules for Kia's Sportage (SUV) and Enterprise (luxury car) from the end of 2001.

²⁷ According to a union official of Kia, top management of the Hyundai-Kia group originally set a plan to have the LogiTech take charge of material handling inside assembly plants of the two companies. However, they gave up this plan in the face of labor unions' strong resistance.

Cordinated competition of marketing & a/s

Unlike the other operational functions, the marketing divisions of Hyundai and Kia have maintained the form of independent business units having little coordination, in accordance with top management's policy to promote an inter-company sales competition. Yet, it is noteworthy that top management, who has stressed the enhancement of business profitability, has focused on a non-price competition for customer service and product quality between the two companies, rather than a price competition. At the same time, top management of this corporate group decided to give Hyundai's sales rights of several car models, such as Optima, Visto (mini-car), Carstar (SUV), and Pamax to Kia, in order to aid in the recovery of the latter's financial performance.²⁸ In 2001, both Hyundai and Kia have tried to increase the number of independent dealers (and A/S shops), while shrinking company-run dealers.²⁹ According to the Hyundai Motor Workers Union, it is known that top management of the Hyundai-Kia group has worked out a plan to reorganize the existing dealer chains of the two companies into a region-based network as a transitory step in 2001, and to ultimately spin off those marketing divisions into independent firms specializing in sales business on behalf of the two automakers in the long run (Korea Labor & Society Institute 2001). As noted above, Hyundai and Kia formed a joint-venture, named the Hyundai Autoever.com, to carry out internet auto marketing for them in April 2000.³⁰

On the other hand, the Hyundai-Kia group has integrated the two companies' operations for product distribution and A/S parts supply in order to save marketing-related costs. Hyundai and Kia have shared the use of distribution centers between each other since 1999. In early 2001, it established the Korea LogiTech having responsibility for auto parts handling and product distribution for Hyundai and Kia. In addition, Hyundai and Kia have saved the substantial cost of auto delivery by sharing an export dock and the overseas destination port between the two companies. In order to export its Sonata EF and Grandeur XG (luxury car) for instance, Hyundai's Asan plant stopped to utilize the Incheon dock and has made shared use of Kia's Pyungtaek dock, which is much nearer to the Hyundai plant. Also, many of destination ports in the European countries and the US, which were separately used by Hyundai and Kia, plan to be consolidated into co-shared ones within two or three years. In December 2000, the corporate group also formed the Joint A/S Division, which has taken charge of the overall management of A/S parts supply and maintenance/repair service for the two companies. Top management of the Hyundai-Kia group intends to have the Hyundai MOBIS take over the Joint A/S Division in future (Korea Labor & Society Institute 2001).

In short, the Hyundai-Kia group has pursued not only a strategic mixture of competition (sales) and coordination (marketing support), but also the spin-off of marketing operations since the merger.

²⁸ The Hyundai Ulsan plant is producing Carstar and Visto in the form of OEM for Kia. Pamax is also manufactured in Hyundai's Junju plant as an OEM product for Kia. Optima is now produced in Kia's Hwasung plant.

²⁹ According to a union official of Kia, for instance, the company internally made public its plan to increase the number of independent dealers (from 480 up to 600) and car clinics, and to integrate its own dealers (and A/S centers) into bigger ones.

³⁰ Labor unions at Hyundai and Kia expect that the Hyundai Autoever.com may become the holding company for the independent sales companies.

LABOR UNIONS' RESPONSE TO THE HYUNDAI-KIA MERGER

Labor unions at Hyundai and Kia have experienced organizational changes in accordance with the reconfiguration of business operations taking place in the corporate group. The Hyundai Motor Workers Union (HMWU) and the Kia Motor Workers Union (KMWU) respectively integrated other unions of affiliated business units to the two automakers in response to the companies' business re-organization. In July 1999, the HMWU incorporated the labor unions of the Hyundai Motor Service and the Hyundai Precision, which were placed as its affiliated divisions. As of the end of 2000, the HMWU, which has 38,038 members in total, is comprised of the Ulsan main office, three divisions (Precision, Sales, and Repair Maintenance), and six local units (Junju, Asan, Namyang, Mabuk, Seoul, MOBIS³¹). Labor unions of affiliated companies in the Kia group were also integrated into the KMWU in October 1999. Now, The KMWU, whose membership totals 20,290, consists of the main office of the Sohari plant and five local units (Hwasung plant, Kwangju plant, Repair Maintenance, Sales, Sihwa R&D center). The membership of the HMWU and the KMWU both declined to some extent, because of their companies' massive downsizing during the crisis period (1997~1998). Through the organizational integration between 1999 and 2000, however, the size of the two unions' membership grew even bigger than the pre-downsizing period.³² <Table 5> presents a brief profile of the two labor unions.³³

Against a background of the serious economic slump and their companies' financial difficulties occurring between 1997 and 1998, the HMWU and the KMWU both were put in a very defensive position.³⁴ The KMWU made substantial concessions to management under the condition of the company's bankruptcy.

During the crisis period of 1997~1998, the union agreed upon a wage freeze and the temporary deferment of welfare plans, and also gave up its contractual rights to regulate managerial prerogatives over manufacturing operation and personnel management. According to the new labor agreement that was signed in July 1998, for instance, management at Kia was able to have its sole discretion over special promotion and disciplinary action, which were determined with the union's consent in accordance with the old one. The new agreement also enabled management to take such steps for the rationalization of productive operation as downsizing, outsourcing, the use of contracted workforce, and reallocation of production lines, only through the pre-consultation with the union (Cho 2000a). Those rationalization steps had required the union's prior consent in the old agreement. In addition, the weekly working hour schedule increased from 41 hours to 42 hours. The HMWU was also forced to accept not only a freeze of wage increase but also management-led massive downsizing in

³¹ In November 2000, the MOBIS unit of the HMWU was organized by the former Hyundai Motor employees who were transferred to the Hyundai MOBIS.

³² As of early 1998, the total size of membership in the two labor unions was respectively 34,122 (HMWU) and 14,041 (KMWU).

³³ Now, both of the two labor unions are affiliated to the Korean Metal Workers Federation (KMWF), which is one of the industrial federations affiliated to the Korean Confederation of Trade Unions (KCTU). In February 2001, the KMWF was converted into an industrial union, named the Korean Metal Workers Union (KMWU). The labor unions of the two automakers have not yet joined the KMWU and still maintained the organizational form of enterprise unions.

³⁴ For the details regarding the evolution of labor relations at Hyundai and Kia from 1997 on, see Lee (2001)

1998, when the company ran into big trouble because of sharply lowered operation of manufacturing facilities caused by a severe slump of the domestic auto market.³⁵

Table 5.- Overview of the HMWU and the KMWU

	<i>Hyundai Motor Workers Union</i>	<i>Kia Motor Workers Union</i>
No. of Union Members	38,038 -Ulsan plant: 21,711 -Other plants: 6,636 -Other divisions: 9,691	20,290 -Sohari plant: 4,600 -Hwasung plant: 7,743 -Kwangju plant: 4,756 -Maintenance unit: 2,183 -Marketing unit: 853 -R&D unit: 155
No. of Full-time Officers	90	110
No. of Shop Stewards	404	395
Union Dues	1% of Basic Wage	1.2% of Basic Wage
Form of Union Membership	-Plants: Union shop -Other units: Open shop	-Plants: Union shop -Other units: Open shop

(Source): *Internal document of each labor union*

(Note): The above figure is as of the end of 2000.

However, as both companies' business performance was drastically restored in 1999, the two unions has made a resurgence of their organizational power by mobilizing various dispute action and pressurizing management to give back many of the concessions made by themselves between 1997 and 1998. While the HMWU gained management's obligation to recall laid-offs, including 277 permanent laid-offs, in advance³⁶, the KMWU was given the payment of overdue bonuses as well as the restoration of suspended welfare plans. Moreover, both of the two unions, which experienced extensive downsizing in the crisis period of 1997~1998, have put particular stress on the employment guarantee of their union members. In fact, both of the unions implemented contractual clauses to enforce employment security for their members and, to some extent, constrain management's action (i.e.: layoff and outsourcing) for the adjustment of employment size through collective bargaining of 1999 and 2000. The HMWU and the KMWU also forced management to form the Joint Employment Security Committee to work out various action plans to guarantee union members'

³⁵ In the first half of 1998, Hyundai's utilization of production capacity was only 44.3%. Based on this low manufacturing performance, company management estimated that the reduction of a yearly auto production volume would reach 40.6% in 1998 (Cho, Hyung-Je 1999). In the face of intense confrontation between two parties, including the union's 36 day strike action, management at Hyundai carried out downsizing of approximately 12,000 employees – 277 permanent laid-offs, 1,968 unpaid temporary laid-offs, 6,451 early (voluntary) retirees, 1,429 normal retirees, and 1,722 contracted employees.

³⁶ In accordance with an agreement with the union, Hyundai management re-deployed some of those temporary laid-offs to the Asan plant in mid 1999 and recalled the remaining temporary laid-offs by December 1999, two months earlier than the planned recall schedule (February 2000). With the agreement made in September 1999, management recalled 133 permanent laid-offs in the form of rehiring and re-deployed them to production departments in early 2000. In the collective bargaining of 2000, management and the union agreed that the remaining 144 female laid-offs, who had worked in the company cafeteria, were given a recall or substitute hiring of their families.

employment.³⁷ Despite the unions' aggressive approach toward employment security, the two automakers have more or less kept labor relations stable from 1999 on, since top management of the Hyundai-Kia group has adopted a proactive stance on their unions under the condition of its achievement of remarkable business performance.

In response to management's action to reorganize the two companies' business operations, both of the unions have shown an ambivalent position. On the one hand, since 1999 the two unions have accepted most of management's steps to carry out minor business reconfiguring which has a little impact on the employment conditions of their members.³⁸ Of course, those managerial plans have been able to evolve on the condition that the companies should guarantee the affected union members' employment and living conditions. The two unions assented to management's plan for the concentration of R&D centers as well as the re-allocation of some production lines, because the employees re-deployed by this plan have kept the membership of the two unions and their existing employment conditions unchanged. The HMWU and the KMWU both did not take action to oppose the Hyundai MOBIS's take-over of auto parts administration departments, since the managerial decision affected only the small portion of union members (1,337) and the transferred employees continued to be represented by themselves.

On the other hand, the two unions have commonly taken a negative stance on management's plan of large-scale restructuring, such as outsourcing and spin-off, which has a substantial influence over the employment condition of their members. For instance, the HMWU pressurized management to give up their plan to outsource the seat manufacturing plant in Ulsan to an English seat supplier, the Lear Corporation. Similarly, the HMTU and the KMTU jointly blocked management's attempt to outsource material handling jobs inside assembly plants to the Korea LogiTech. Now, both of the two unions are very concerned about management's long-term plan to spin off the marketing and the A/S operation, and have expressed a firm position to oppose the spin-off plan. It is also noteworthy that the current leadership of the HMWU is negative on management's plan to spin off the Junju commercial vehicle plant and establish a joint-venture with Daimler-Chrysler, while local unit leaders and many union members of the Junju plant, who have worried about the worsening performance of their own operation unit, are showing a very positive interest in the joint-venture plan.

Since the merger of the two companies, the HMWU and the KMWU have set up a collaborative alliance to exchange company information and share union strategies between each other. Particularly, the policy-making departments of the two unions have held monthly meetings to share information and discuss their action plans to jointly react the companies' restructuring plans.³⁹ The regular meeting is co-chaired by the primary vice-president from

³⁷ In addition to the Joint Employment Security Committee, in November 1999 the union and management made an supplementary agreement to establish six more joint committees, such as the Joint Study Committee of Man-Hour Improvement, the Review Committee of Voluntary Retirement, the Committee of Welfare Program Enhancement, the Committee for Establishing Democratic ESOP (Employee Stock Ownership Plan) Management, the Committee of Working Shift Scheme Improvement, and the Committee for Integrating Working Conditions of Three Companies (the Hyundai Motor, the Hyundai Motor Service, the Hyundai Precision). In the case of Kia, the Joint Employment Security Committee was formed in late 2000.

³⁸ Through the regular labor-management committee and the Joint Employment Security Committee, the two unions have been provided with the relevant information regarding management's plans to reorganize business operations and opportunities of prior consultation about labor issues created by those plans.

³⁹ Due to the sudden resignation of the president of the HMWU, the joint meeting of the policy-making departments was brought to a halt from January to March 2001. As the new leadership of the HMWU was

each union. In addition, other departments of the two unions have held joint meetings and training programs in an irregular form. The two unions have benchmarked good practices and tactics between each other. For instance, the KMTU adopted a rotational-partial strike tactic⁴⁰, devised by the HMWU, in order to pressurize management in the process of 2000 collective bargaining, and also implemented the contractual clauses to improve the working conditions of contracted workers in March 2001 by following a pattern of the HMWU's supplementary agreement regarding the contracted workforce, made in late 2000.

CONCLUSION: SYNERGY EFFECTS AND CHALLENGES

The merger of Hyundai and Kia has created a notable synergy effect on the two automakers' business performance. As illustrated in <Table 6>, The Hyundai-Kia group has achieved the cost-saving of approximately 2.5 trillion won through the integrated operation of various business functions between the two auto companies in 1999~2000. In details, the function of the auto parts procurement has produced the biggest synergy effect (amounting to 1.4 trillion won) with the shared use of auto parts and the integrative management of auto parts suppliers. The consolidation of auto development/design and R&D centers between Hyundai and Kia has contributed in saving the relevant costs of 0.7 trillion won, which results largely from the sharing of R&D technologies and facilities as well as the integration of platforms between the two companies. The joint development of power-train and the exchange of those parts have also benefited the two automakers with the cost-saving of 0.25 trillion won during 1999~2000. Besides, Hyundai and Kia have saved some amount of operational costs by re-aligning other business functions, such as A/S & marketing, material handling, and production technology, in an integrative way.

Table 6.- Synergy Effects of the Hyundai-Kia Merger

(Unit: Billion won)

	1999	2000	Total
Auto Development & Design	171.3	333.2	504.5
Development & Manufacturing of Power-train	77.3	176.8	254.1
R&D	64.0	131.9	195.9
Production Technology	-	11.9	11.9
Auto Parts Purchasing	473.2	932.1	1,405.3
Material Handling	12.6	28.4	41.0
A/S & Marketing	31.8	36.5	68.3
Total	830.2	1,650.8	2,481.0

(Source): Internal document of the Hyundai-Kia group

elected, the two unions plan to resume the joint meeting. According to a manager of the labor relations department at Hyundai, managers, in charge of labor relations in the two automakers, have held joint meetings, like the two unions do.

⁴⁰ Considering the depressed climate of the rank-and-file after massive downsizing of 1998, the union leadership of the HMWU devised this new strike tactic. In the strike tactic, the union leadership followed the legal procedure for its strike action and gradually upgraded the pressure to management by increasing the hours of strike action (two hours for the first two weeks and 4 hours for the third week) and rotating union members' participation across plants. While this strike tactic to a large extent contributed in reviving the union's organizational power on the shop floor, the legal strike action gave threatening damage to management.

The Hyundai-Kia group plans to further pursue the coordinated specialization of the two companies' business operations and, therefore, expects to gain a growing synergy effect with the additional cost-saving of 4.6 trillion won in total by 2004. It is also noteworthy that Hyundai's aggressive managing style (top-down) and Kia's working practices of creative employee-involvement (bottom-up) have combined to create a very competitive organizational culture in an intangible aspect.

The drastic upturn of the Korean economy in 1999 and 2000 helped the remarkable recovery of the two automakers' business performance to a large extent, as shown in <Table 7>. Yet, it should be also noted that the merger of the two companies has made significant contribution to the revival of Kia. As a matter of fact, Hyundai's various aid, such as its provision of the sales rights of several car models and advanced technology as well as the sharing of core auto parts and production facilities, is attributable to Kia's successful turn-around to a certain degree. With Hyundai's substantial help (and the big sales hit of its new MPVs such as Carnival and Carens), Kia has made a sharp increase of its sales and market share and achieved as healthy financial performance of the lowered debt-equity rate as Hyundai does during the last two years. As a consequence, Kia got free from the court receivership in February 2000.

Table 7.- Business Performance of Hyundai and Kia

(Unit: Thousands; Billion Won)

		1997	1998	1999	2000
Hyundai	Production	1,310.4	845.5	1,269.7	1,525.7
	Sales	1,275.3	855.0	1,187.9	1,474.3
	Market Share	46.9%	43.0%	44.8%	45.2%
	Revenue	11,662.0	8,698.0	14,244.5	18,231.0
	Net Profit	46.5	-33.2	414.3	667.9
	Debt-Equity rate	490%	251%	129%	136%
	Production	659.9	389.5	700.2	803.4
Kia	Sales	679.5	414.0	751.5	847.8
	Market Share	24.8%	21.4%	27.4%	28.5
	Revenue	6,381.5	4,510.7	7,930.6	10,806.0
	Net Profit	-382.9	-6,649	135.7	330.7
	Debt-Equity rate	814%	Capital deficiency	148%	167%

(Source): Korea Automotive Research Institute (2001 & 2000a)

(Note): The figure of sales includes both domestic sales and export, while KD is excluded in production and sales.

At the same time, the Hyundai-Kia group has several policy issues to be tackled for its future growth. The first constraint that the auto group may be confronted with is the labor unions' resistance to its continuing pursuit of business integration and specialization. The labor unions of the two automakers have exerted their substantial influence over management's policy-making of business restructuring, which requires those unions' endorsement in accordance with the current labor contracts. The two unions have more or less been cooperative with their management's decision of minor business reconfiguring, such as the re-allocation of some production lines and consolidation of R&D centers. However, they

have expressed the opposing stance toward large-scale restructuring, including spin-offs and outsourcing, which management of the auto group plans to carry out in future. Thus, whether or how to deal with the labor unions' negative reaction and forge cooperative relations with them is a key concern to management of this auto group.

In early 2001, the Hyundai-Kia group announced its ambitious plan to become the 5th global auto group by 2010. This Korean auto group, which is a late-comer in the world auto industry, needs to improve the brand image of its car models in order to survive and grow in the intensified competition of the global auto market. Hyundai and Kia have so far made good success under the relatively protected condition of domestic market and with the export of their low-priced cars to overseas market. However, the Korean auto market has completely opened to foreign automakers (Renault and Japanese automakers in particular) since the mid of 1999, while full-scale competition among major global automakers has evolved in the world auto market. Under the rapidly changing environment, it is a critical issue to this auto group's survival to further enhance its own technological capability of R&D and manufacturing operations as well as improve the quality and reliability of its products, which is a necessary condition for upgrading the competitiveness of its car brands. In addition, as it has tried since the merger, the Hyundai-Kia group needs to nurture its auto parts suppliers' technological and financial capability, which has been much poorer than those in advanced countries.

The third issue that is yet resolved in the Hyundai-Kia group is how to position the sales and production of car models between the two automakers. Now, Hyundai and Kia have maintained the duplicate business positioning of their car models. It is known that senior management at both companies has expressed a strong interest in keeping intact the existing business composition, covering the full range of car models, in contrast with top management's long-term intention to separate business segments between the two automakers. In long run, it may be desirable that this auto group divides its business sectors and position the two automakers into those different business segments in order to create and meet various customer demands, as major Western auto automakers (i.e.: General Motors and Volkswagen) have done. Therefore, in case of trying to introduce a new group-wide business frame having each of the two automakers focus on different segments of auto sales and manufacturing, it may be another concern to top management of the Hyundai-Kia group to overcome senior management's entrenched interest in the existing business practices of the two companies.

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