

## Being Better at Doing Good: Organizational Engagement and International Management Practices in the DPR (North) Korea

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International organizations work in North Korea (the DPRK) under multiple external and internal pressures, and they try to respond to their working environment in their own ways. However, it is important that these organizations are able to work effectively, in order for international engagement with the DPRK or any transition to be meaningful. In this research, utilizing the case study method, I explore the following questions: How can international organizations work more effectively in the DPRK? How can they achieve their outputs and outcomes more easily? What are the dynamics of the mutual embeddedness process as international organizations become immersed in the context of the DPRK? I find that organizations in their efforts to respond to the environment in the DPRK end up compromising their effectiveness in avoidable ways. I explore what works and what does not for organizational management in the DPRK and make some recommendations.

**Keywords:** international organizations, North Korea, organizational effectiveness, mutual embeddedness, socialist transition

### Introduction

DPR Korea (North Korea/the DPRK) has one of the most difficult in-country operating conditions for international organizations and their managers. Scholars have noted that economic engagement with the DPRK has been “used for cross-purposes and that this ... is unwittingly helping North Korea achieve aims ...” which are unintended.<sup>1</sup> How-

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1. Hazel Smith, “How South Korean Means Support North Korean Ends: Crossed Purposes in Inter-Korean Economic Cooperation,” *International Journal of Korean Unification Studies* 14, no. 2 (2005), p. 22.

ever, at the same time, there is significant support for engagement with DPR Korea.<sup>2</sup> Influential sections in many countries such as China, Russia and even the Republic of Korea (South Korea/ROK) feel that it is through constructive economic engagement that the DPRK may change from within, ensuring the welfare of all of its people, and hence reducing the tension in the Korean peninsula. But how do we ensure the effectiveness of economic engagement with the DPRK?

As a partial answer to that question, I study the record of engagement of international organizations working in the DPRK. I find that there is scope for massive inconsistency between what international organizations in the DPRK expect to happen (such as, behaviors they expect from their local employees/the DPRK nationals), based on how these organizations manage their operations, and what in fact happens. International organizations' understanding of existing social drivers and what they can achieve in such an environment is under-studied, especially in a closed economic system like DPR Korea.

The specific questions that this research explores are: How can international organizations effectively work in DPR Korea? How can they achieve their outputs and outcomes more easily? To what extent do international organizations change due to working in DPR Korea and, in turn, to what extent do the DPRK actors change due to working with international organizations; i.e., what are the dynamics of the mutual embeddedness process? These are important questions not only for the DPRK but for many other contexts, such as post-socialist transition countries.

Much of the literature on economic and organization management in socialist-communist contexts tend to be concentrated on European post-socialist transition countries. This study contributes to comparable literature focusing on the Asian context.

There is also implication for multinational enterprises (MNEs) working in emerging markets, which are known to worry about the "fit" of their organizations to the local context. "A recent Accenture

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2. Asia Society and University of California, *North Korea Inside Out: The Case for Economic Engagement*, 2009, Report of Independent Task Force.

survey shows that 95 percent of senior executives say that they doubt their companies have the right operating model to support their international strategy.”<sup>3</sup> Depending on the alignment of interests between headquarters and the country of operation, the management responses to the problem of local intransigence may range from the need for minor adaptations to overcoming significant hurdles.

For instance, organizations over the world employ various incentives that are designed to retain, motivate and promote their staff. In the DPRK, the conditions like restricting interaction between national and international workers are such that those incentives lose their edge. To make things worse, there is the overhang of geopolitical crisis that periodically negatively impact operations of organizations in the DPRK. It is therefore in the interest of those working and investing in the DPRK, in the interest of effectiveness of official development assistance, and for any kind of transition planning, to better understand the various ways of embeddedness and spillovers of international organizations working in that country.

## Literature Review

The field of economic and organization management in socialist-communist countries is informed by many studies on post-socialist transition and comparatively fewer studies (at least the recent ones that are in English) on the management of “classical” socialist organizations, not in transition. The scarcity of the latter type of studies is due to information control and restrictions on scholarship in “classical” socialist-communist countries and disinterest of contemporary scholars on classical socialism.<sup>4</sup> As to the former body of work — on post

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3. Stéphane J.G. Girod, Joshua B. Bellin and Robert J. Thomas, “Are Emerging-Market Multinationals Creating The Global Operating Models of the Future?” Research Report, Accenture Institute for High Performance, 2009, p. 3.
  4. Rüdiger Frank and Sabine Burghart, eds., *Driving Forces of Socialist Transformation: North Korea and the Experience of Europe and East Asia* (Vienna: Praesens Verlag, 2010).

socialist transition — this is often colored by Western and neoclassical economic precepts. (There is also an interesting body of literature on the lessons to be learned from socialist transition, mostly by World Bank economists and others from similar background, of which the two notable scholars are Joe Stiglitz and Justin Lin, who have greatly illuminated China's transition. However, these works deal with macro-level issues such as initial conditions and path dependencies and not so much with the meso and micro level issues that is the remit of this research.) At any rate, much of this abovementioned literature is on European socialist-communist systems. The applicability of this Eurocentric knowledge is limited to the DPR Korea as European socialism-communism and the Asian variety, particularly the DPRK's system, differ in important ways. Nevertheless, there are some comparable literature on the DPR Korea and some committed scholars. Much of the Korean scholarship on this subject usually focuses on international relations, unification or regime collapse. A general issue, however, with this literature is the lack of the respective researchers' direct and sustained physical access inside the country. Hence, these scholars are limited in their direct observation of internal workings of organizations and human dynamics in situation in the DPRK.

Comparative management studies identify and explain similarities and differences among business strategies, management systems and social behavior in different work contexts (e.g., geographic areas, cultures or industries). Historically, the study of comparative management assumed salience in the context of post-socialist transition, as the recognition dawned "that post-socialism has proven to be more complex, convoluted and diverse than was first thought by the transition economists."<sup>5</sup> It became clear in post socialist institution building that the influence of international actors was actively constrained by local actors in a variety of everyday micro-social interactions. The literature on the study of small and medium enterprise management in post-socialist transition draws from the rich empirical evidence of

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5. Ed Clark and Mike Geppert, "Socio-political processes in international management in postsocialist contexts: knowledge, learning and transnational institution building," *Journal of International Management* 12, no. 3 (2006), p. 3.

eastern European firms.<sup>6</sup>

The relevant and recent literature specifically on the DPRK is by a handful of scholars with long commitments to Korean studies. Hazel Smith is one such scholar, as well as a practitioner, who has worked with the UN and humanitarian agencies in the DPRK. In *Hungry for Peace*,<sup>7</sup> she deals with the DPRK's famine during the 1990s. She explains that the famine and the humanitarian response have subtly transformed the DPRK's economy, society, and political thinking, as the country accepted some international norms and allowed markets to function. Rüdiger Frank and Sabine Burghart among others have done interesting work on socialist transformation in the DPRK. Their approach is to study the history and transition of socialist institutions, and illuminate the 'stickiness' of the institutions in the context of change.<sup>8</sup> In a 2006 paper,<sup>9</sup> Frank notes:

Though not making headlines in the Western press, the societal relations in North Korea have changed dramatically. It is virtually impossible to undo what the monetization of the economy has done to individual's outlook on their own life and their place in society. In addition to loyalty to the state, there now exists an alternative way of advancing. The politically enforced uniformity of living conditions that applied to most North Koreans has been rapidly replaced by social stratification according to material wealth on a large scale. In a monetized economy, political power is closely related to economic power. Unless the top leadership decides to start a massive purge and to expropriate the new rich — a step that would be politically risky and therefore must be considered unlikely — these winners could become the nucleus of a middle class that would exhibit the same characteristic as elsewhere: a strong distaste for extremes.

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6. Snežina Michailova and K. Liuhto, "Organization and management research in transition economies: towards improved research methodologies," *Journal of East-West Business* 6, no. 3 (2001), pp. 7-46.

7. Hazel Smith, *Hungry for Peace: International Security, Humanitarian Assistance, and Social Change in North Korea* (Washington D.C.: United States Institute of Peace Press, 2005).

8. Frank and Burghart, eds., *Driving Forces of Socialist Transformation*.

9. Rüdiger Frank, "Classical Socialism in North Korea and its Transformation: The Role and the Future of Agriculture," *Harvard Asia Quarterly* 10, no. 2 (2006), p. 54.

Noland in a recent paper<sup>10</sup> examines labor standards and employment practices in Kaesong special economic zone in the DPRK, where Republic of Korea (South Korean) firms operate. This paper examines whether ROK firms' employment practices in DPRK are likely to encourage the DPRK's transition. Utilizing survey data, Noland shows that the DPRK government has successfully circumscribed exposure of its citizens who are the workers in these ROK firms to market-oriented economic practices. Noland finds no evidence of the sort of broader spillovers that proponents of engagement sometimes assert. The paper also explores the possibility of using voluntary labor codes to promote transformation.

The work of the above scholars, cumulatively, has significant breadth, but there is a paucity of in situ studies. The source material for most of these works is second hand — either interviews of defectors, mirror statistics or other proxies. There is a troublesome limitation of primary and reliable information on the DPRK, and hence there is a speculative quality pervading much of the literature.

### **Enhancing Organizational Effectiveness in the DPRK: Clutching at Straws?**

Enhancing the effectiveness of international organizations working in the DPRK may sound like a wishful thinking. Organizational effectiveness at its simplest is about improving organizational performance externally and internally. This should be determined through multiple criteria, including productivity, growth, turnover, stability, collaboration and human resource development.<sup>11</sup>

As the abovementioned criteria *inter alia* determine the embeddedness of an organizational in its context, we examine the process of

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10. Marcus Noland, "Labor Standards and South Korean Employment Practices in North Korea," Report, Washington, D.C.: US-Korea Institute at SAIS, 2014.

11. W. Richard Scott, *Organizations: Rational, Natural, and Open Systems* (Englewood Cliffs, NJ: Prentice Hall, 1992).

embedding of international organizations working in the DPRK. The concept of organizational embeddedness, introduced by Polanyi<sup>12</sup> and expanded by Granovetter<sup>13</sup> and others is useful for this research as it allows a study of the complexity within which organizations find themselves. Another usefulness of the embeddedness concept is its dual nature: Embeddedness constrains organizations' effectiveness by tying them down in webs of social, political, cultural factors that act as friction against efficient management; embeddedness can also open up opportunities for organizations through, for example, improved network resources, greater trust and lower transactions costs.

International organizations adjust their corporate interests in relation to local conditions existing in host countries. Therefore, the economic, social, cultural, and institutional conditions of host countries are important considerations for organizational embedding processes; particularly, social, micro-level interaction between expat managers of international organizations and local actors.<sup>14</sup>

In the DPRK, where there is tight control on every facet of life, the drivers and barriers to embeddedness, the relevant variables, should be identifiable. International organizations operate here based on (i) a broader agreement with local authorities as to their mandate; and (ii) specific permissions for each consequent activity that implementing the broad agreement entails. Basically, the "official line" is supposed to be followed in every aspect of economic and social exchange. The official line basically prescribes a range of activities and functions that are pre-approved. Any deviation, therefore, stands out.

Accordingly, I study the outcomes of certain activities and atten-

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12. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, MA: Beacon Press, 1944).

13. Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91 (1985), pp. 481-510.

14. Marta Kahancová, "Embedding Multinationals in Postsocialist Host Countries: Social Interaction and the Compatibility of Organizational Interests with Host-Country Institutions," Discussion Paper, Köln: Max Planck Institute for the Study of Societies, 2008.

dant friction/transaction costs of those activities under examination, which at different points in their life in the DPRK the international organizations engage in. Further, the embedding process in the DPRK does not generate increasing returns; e.g., giving more incentives to workers does not necessarily engender proportionally increasing levels of trust in them towards the management. This is because the system in the DPRK is premised on minimizing interaction, reciprocity and dependence between locals and foreigners. For example, the DPRK nationals working in international organizations are mandatorily removed after relatively short periods of time. Also, there is no scope for contact between former international and national colleagues. Many such micro-level restrictions are in place, designed to effectively bring about a sort of mutual disembeddedness, which act as barriers to positive mutual embeddedness.

Thus, to understand how embedding occurs I follow a three-pronged approach:

- Elicit an understanding of interactions and dynamics from available literature on international management practices in the DPRK and in the post socialist transition context.
- Empirically explore micro-level management practices of international organizations working in the DPRK, and the response of relevant local actors/counterparts.
- Apply theoretical logic to the empirical information and to the findings from literature, to determine the variables (i.e., the drivers and barriers) to the mutual embedding process between the international organizations operating in the DPRK and their local counterparts.

The possible variables of embeddedness/disembeddedness in day-to-day management practices that this research focuses on include: the human resource management practices of international agencies and firms working in the DPRK (e.g., what kinds of incentives improves which types of performance of workers?); motivations and ideologies of salient actors (e.g., what kinds of incentives are requested by workers for which kinds of work); and the consequent negotiation/bargaining dynamics between expat managers and their DPRK counterparts.



As this research is essentially exploratory in nature, it utilizes the case study method, employing suitable qualitative research tools, including literature review, participant and non-participant observations, and unstructured interviews for studying the selected cases of the handful of international organizations working in the DPRK. The aim of this research is not to test hypotheses, as the areas under study in the context of the DPRK are still underexplored and hence data and theories will not be readily available. Instead, this research aims to identify salient variables (i.e., drivers and barriers to mutual embeddedness and disembeddedness), study the various conditions of cause and effect of such variables, and generate new knowledge. Qualitative research is also suitable for this kind of work to trace the lines of causation.

The consultation includes sources available in the public domain (such as aid agency reports) and, utilizing my current vantage point as resident in the DPRK, appropriate observations of salient people and dynamics relevant to organizations in-country.

## **Limitations**

For the case study, as this research utilizes a convenience sample, addressing limitations of low generalizability and external validity would be necessary. Through an extensive survey of the theoretical and case study literature (aid agency documents), thus, and close observation of aid agency practices, we expect to compensate for sample limitations.

Limitations of studying embeddedness also need to be addressed. One general vexing question in organizational embeddedness research is how to attribute embeddedness/disembeddedness. Organization research scholars have cautioned, "Not everything is 'embeddedness'."<sup>15</sup> In the case of the DPRK, this problem is somewhat mitigated

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15. Tina M. Dacin, Marc J. Ventresca and Brent D. Beal, "The Embeddedness of Organizations: Dialogue & Directions," *Journal of Management* 25, no. 3 (1999), pp. 317-356.

by the fact that market forces are greatly attenuated, particularly at the meso-level economic sectors which most international organizations occupy and work in. In addition, it is the author's experience in the DPRK that reciprocal decisions/actions often occur, to an extent, in a tit-for-tat manner, i.e., the organization takes one step and the DPRK counterparts take another corresponding step in relatively quick succession. Such responses make the question of attribution somewhat transparent.

Furthermore, in keeping with the best recommendations in embeddedness research methods, this research studies the rich empirical context in which organizations work in the DPRK. This study looks at the various repetitive actions and processes that international organizations in the DPRK do over time, and the corresponding responses to and outcomes of such actions and processes.

## **International Organizations in the DPRK**

The United Nations agencies, embassies, and international NGOs (INGOs) constitute a relatively sizeable presence of international organizations in the DPRK. It is noteworthy that these well-known INGOs cannot operate in the DPRK under their own names. In addition, there are 24 embassies in Pyongyang.

Then, there are resident commercial/joint venture organizations. Expat managers and international personnel of these commercial organizations mostly reside in and around the Munsudong diplomatic area in Pyongyang (or in city hotels), with all the other diplomats, UN and aid workers.

The DPRK, like China and other socialist countries, has begun experimenting in enclave capitalism, and has set up Special Economic Zones (SEZ) in far flung areas of the country. The Rason Special Economic Zone was established in the far northeast of the country in 1991. The two Koreas have established two joint economic zones, the Kaesong Industrial Complex (KIC) and the Mount Kumgang Tourist

Region (where operations are now suspended). The DPRK's SEZs have attracted investment and foreign currency, without spurring greater/general economic growth in the rest of the country through the establishment of linkages or through "demonstration effect" leading to more effective economic activities. The DPRK recently announced that new SEZs would be established in each province of the country. The expat managers and staff of the SEZs are restricted to living within the SEZs.

Then, how do the various agencies and organizations differ in terms of their respective motivations, ideology, and negotiation styles, which are the relevant variables being studied in this research? In the discussion below, we examine the general varieties of organizing and managing in socialist systems, and within that discussion will situate our DPRK case study.

### ***DPRK's Coordinating Agencies***

The DPRK government has coordinating bodies for the international agencies working in the country; these agencies are generally part of some of the ministries, like the Ministry of Foreign Affairs. The coordinating bodies are: KECCA (the Korean Europe Cooperation Coordination Agency) for INGOs and NCCs (the National Coordinating Agencies) for the various UN Agencies.

For international commercial organizations operating the Special Economic Zones (SEZs), the government coordinating agencies are the State Economic Development Commission (SEDC) and the Korea Economic Development Association (KEDA). These oversee the development and promotion of the DPRK SEZs. The Kaesong Industrial Complex has a dedicated coordinating body, the Kaesong Industrial District Management Committee (KIDMAC). There are recent reports that the Ministry of External Economic Affairs (formerly the Ministry of Foreign Trade) has been reorganized in June 2014 to subsume the DPRK's Joint Venture and Investment Commission (JVIC), SEDC and possibly all other separate agencies, and thus all matters

related to international economic enterprises are streamlined into a single body now.<sup>16</sup> These coordinating agencies' explicit role is to collaborate and coordinate the working of respective international organizations; they also exert parallel control on the DPRK staff working in such organizations.

In each office of each international agency operating in the DPRK, there are one or two national colleagues who are responsible for coordinating the other national colleagues in that office. It is often the case that there are intersecting parallel lines of management, explicit and implicit, in the international organization operating in the DPRK. Thus, expat managers face many challenges in smoothly managing their organizations.

Nevertheless, there is growing evidence of interdependent interaction between the DPRK entities and international organizations working in the DPRK. There are reports, for example, that minimum operating conditions of humanitarian agencies were gradually improving.<sup>17</sup> Private commercial firms were employing innovative methods to reward and incentivize the DPRK workers, such as through chocolate pies at the Kaesong Industrial Complex (which is a longstanding example of inter-Korean cooperation, and most recently affected in the wake of the 2013 Korean crisis<sup>18</sup>).<sup>19</sup>

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16. Institute of Far East Asia Studies, "North Korea's Ministry of External Economic Affairs Stresses Business at Economic Development Zones is Gaining Momentum," *NK Brief* no. 141006, Seoul: IFES, 2014.

17. Aid agencies in the DPRK regularly put out various reports of their cooperation on the ground and scanning any of those can lead one to easily conclude that working environment is tentatively improving.

18. The latest crisis in 2013 included an escalation of tensions between North and South Korea (Republic of Korea, ROK), the United States, and Japan. The trigger was the North's launch of its Kwangmyŏngsŏng-3 Unit 2 satellite on December 12, 2012, and its nuclear test on February 12, 2013.

19. Kim Young-jin, "Choco Pies Fuel Productivity at Gaeseong," *Korea Times*, September 12, 2012.

## **Organizations and Management in Socialist Systems**

There is not much existing literature in the public domain on actual organizational level management and human resource practices prevalent in the DPRK. This is to a large extent due to the lack of access of researchers to organizations in the DPRK. There are (1) only a handful of case studies of the Kaesong Industrial Complex (KIC) — the joint DPRK-ROK Special Economic Zone (SEZ) — which is perhaps the only industrial area where organization researchers have access. Then, there are some organizational audit-type reports (mostly of the United Nations' organizations) available in the public domain. And, my own empirical observations, based on three years of living and working (as an international development consultant) in the DPRK. Hence, this is the body of knowledge from which I draw inferences for this research.

As a starting point, for general purposes/macro-perspective, it may be valid to assume that the DPRK having a socialistic and command economy type, there should be broad similarities with systems and practices prevalent in such socialist countries elsewhere. In socialist State Owned Enterprises (SOEs), managers do not see their roles as entrepreneurs, interested in expanding future incomes for the organization, but rather primarily as custodians on behalf of the state of past investments and resources. Thus, in socialist economies, SOE managers adopt a bookkeeping management style; as profits/surplus if any is generally turned over to state or used per directions from the state.<sup>20</sup>

Socialist socio-economic systems usually operate as rigidly hierarchical and rule-bound, and are marked by several important disconnections. Business organizations are intersected with multiple lines of authority (this, for instance, is evident in the international organizations working in the DPRK, e.g., as noted in the DPRK Coor-

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20. Max H. Boisot, "Institutionalizing the Labour Theory of Value: Some Obstacles to the Reform of State-owned Enterprises in China and Vietnam," *Organization Studies* 17, no. 6 (1996), pp. 909-928.

dinating Agencies section above); the management style in use is a combination of participation, ideological propaganda, and coercion. The enterprises are deeply dependent on the state for structural and political-ideological reasons; such dependence leads to disconnect of the actions of economic units from their financial consequences (e.g., soft budget constraints).<sup>21</sup> Managers of socialist enterprises must demonstrate submission to the official ideology, and hence must conspicuously display their obedience; such conformity is known to lead to disconnection of the formal organizational system from actual organizational practices.<sup>22</sup>

As for organizational culture — i.e., the system of values and meanings practiced in and promoted by a specific organization and which it uses to motivate its employees — for capitalist firms it is generally locally-defined (i.e., related to the firm's immediate social environment), loose and implicit. Organization culture of firms in socialist economies on the other hand is centrally-ordained; employee motivation in socialist firms is therefore traced to state/external sources and is much more heavily imposed than in capitalist firms. Of course, the specifics of how organizational cultures were practiced differed from country to country. For instance, organizational culture in the former Soviet Union involved obtrusive party and government propaganda, press campaigns, and party control into employee inducements and motivations; in other words, staying in the good books of the party leaders, who may or may not have the best economic interests of the organization at heart, would be a *sine qua non* for any employee's career.<sup>23</sup>

In current day DPRK, an idea of organization culture can be drawn

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21. This phrase, credited to the Hungarian economist János Kornai, is the description of an institutional practice in centrally planned, socialist economies in which production units form expectations of always being bailed out by central authorities and not be held accountable for performance (Wikipedia).

22. Haridimos Tsoukas, "Socio-economic Systems and Organizational Management: An Institutional Perspective on the Socialist Firm," *Organization Studies* 15, no. 1 (1994), p. 23.

23. *Ibid.*, p. 33.

from a reading of the precepts of economic management being implemented in the country, the so-called Economic Management in Our Style policy. According to this policy, the DPRK is a socialist society where:

... the means of production are socially owned and where the economy develops according to the guiding plans of the country.... With relation to means of production, socialist ownership is the foundation of a socialist economy, and a socialist economy is developed through collective labor.... Adhering to socialist principles in an economic enterprise means to support and hold fast to socialist ownership and to thoroughly realize the principles of collectivism. ... In terms of economic leadership and management, we must adhere to and support socialist ownership, put national and societal gains above all else while also securing as much profit as possible for producers. ... The entire process of production and management must become one which fosters the spirit of collectivism in workers and laborers and which elevates the public's willpower and creativity so that they may fulfill their roles and feel ownership responsibility.... Economic guidance and management must coincide with objective economic laws and scientific logic in order to guarantee the highest amount of real economic profit.... Objective economic laws affect a socialist economy, and the process of satisfying those demands is equal to 'economic construction' or an 'economic development process'. ... In order to guarantee real economic profits, economic laws and related economic spaces must be put to use effectively. Such economic laws include the law of value, the law of distribution through labor, and the law of planned, balanced development of the people's economy through economic leadership, management, production and economic activities. .... In terms of economic guidance and company management, efforts first must be made to advance scientific technology, and all processes and factors relating to production and management must be made scientific. All businesses should actively pursue research and development in new technology and progress towards becoming a company where scientific technology and production are integrated — a technology-intensive business.<sup>24</sup>

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24. Institute of Far East Asia Studies, "'Securing Economic Profit,' Fundamental to Economic Management," *NK Brief* no. 141027, Seoul: IFES, 2014.

In November 2002, the agreement between the two Koreas on the Kaesong Industrial Complex allowed, for the first time, large volumes of investments from ROK firms in industrial units that would employ the DPRK labor under ROK management. KIC had attractive benefits that created potential competitive advantages for southern small and medium enterprises (SMEs) to locate in the Kaesong Industrial Complex. The KIC is located only 60 km from Seoul, and is also close to the Incheon Free Enterprise Zone (IFEZ), the main logistics hub of the ROK.

Case studies of the Kaesong Industrial Complex note that ROK managers have stated that they are impressed with the intensity with which the DPRK workers take their jobs. In return, due to the relative improvement of working conditions for workers in KIC under the ROK management standards, the DPRK worker health and appearance, anecdotally, showed some improvement. There are also preliminary signs of effectiveness of casual engagement, as there were *gradual relaxation of controls on social interaction between management and workers*. Preliminary findings are that, cumulatively, these measures have led to some level of skill assimilation, and thus a degree of productivity improvement.<sup>25</sup>

## **Organizational Change in Socialist Systems**

The immediate post-socialist transition period was an exceedingly fraught environment, exerting significant pressures on organizations to transform rapidly. Such an environment has led to counter-intuitive outcomes in socialist organizations. Organization managers, caught between the pressures to maintain continuity and the pressures of change induced by external, transformative forces have often resorted reflexively to the comfort of known routines.

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25. Jeffrey Gower, "Knowledge Management and Transfers between North and South Korea at the Kaesong Industrial Complex," Working Paper Series, University at Buffalo, SUNY, 2011.



Post-socialist managers have, thus, continued to see through old lenses, reproduce old practices, and in this way have somehow coped at a time of great flux and achieved some degree of organizational continuity.

However, many similar organizations and their managers have also opted for a significant break from old routines and embraced organizational change to cope with the fast changing environment.<sup>26</sup> It seems that what has happened in the complex reality in post socialist contexts is that during the times of transition managers have rationalized their decisions in conditions of incomplete and conflicting information, utilizing rough and ready justifications, rather than established dogma. It has been a process of learning by doing for the post socialist managers.

### **Implications of Socialist Socio-economic Systems for Organizational Management**

Scholars have described the management of organizations in socialist systems as “politically induced isomorphism,”<sup>27</sup> in which socialist organization managers enforce conformance on their organizations to the party line as an attempt to enhance their and their organizations’ legitimacy. In return, the state allocates resources for these organizations’ functioning and propagation.

However, dependence on the state for precious resources and management approach to enforce submission to political priorities leaves the question of the organization’s response to real economic forces uncertain. Tsoukas, for example, writes:<sup>28</sup>

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26. Ed Clark and Anna Soulsby, “Organization–Community Embeddedness: The Social Impact of Enterprise Restructuring in the Post-Communist Czech Republic,” *Human Relations* 51, no. 1 (1998), pp. 25-50.

27. Tsoukas, “Socio-economic Systems and Organizational Management,” pp. 33-34.

28. *Ibid.*, p. 36.

Thus, a socialist economic system causes two fundamental dissociations: vertically, the dissociation of the formal organizational structure and culture from actual practices and behaviors and, horizontally, the dissociation of the actions of an economic unit from their consequences. Both these disjunctions generate vicious circles: the more actual behavior is different from that intended, the more central authorities respond with more indicators, regulations and restrictions which, in turn, produce more of the initial non-conforming behavior. Similarly, the softer the budget constraints, the greater the appeal of economic units to the usually receptive state, to rid them of their difficulties.

Some interesting insights can be drawn from the discussion in the above sections on organization, management and change in socialist systems, relevant to the variable being studied in this research — HR practices; employee motivations; ideologies; and negotiation dynamics. It appears that in stable circumstances, as socialist organizations become increasingly dependent on the state, the dependence becomes somewhat habit forming for the managers. HR practices, motivations, ideologies and negotiation dynamics must therefore be adjusted to justify dependency. This implies potentially deeper path dependency and organizational inertia. In times of change, it is difficult to shake off those dependencies and inertia, at least in the initial phases of transition. It is only during the later phase of transition, after much hard learning, that post socialist organizations and managers inculcated in the values and practices of socialist systems are able to adjust to some form of hybrid management combining old forms and new pressures.

### **Case Study<sup>29</sup>**

With the above theoretical discussion of socialist organizations and management practices in perspective, let us now turn to some actual

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29. **DISCLAIMER:** There are various real and high risks to researchers, organizations and persons for any case study involving the DPRK; both the DPRK

instances and management practices in DPRK. Specifically, among international organizations working in the DPRK, the example of one agency stands out.

IOA is probably the only international agency working in the DPRK which has by agreement with the host government tried to implement management and human resource principles of international standard. Therefore, this agency is an interesting case to study the effects of human resource practices on organizational effectiveness within the contextual limitations of DPRK.

### ***IOA Programs in the DPRK***

IOA is one of the oldest international aid agencies working for the last three to four decades in the DPRK in areas of humanitarian aid and responding to humanitarian and development crises in the DPRK. Like any other aid agency in the country, IOA works jointly with the DPRK government to develop the country program, which is approved by IOA's governing board, constituted as it is with international multilateral agencies of various nation states. Sometime in the past decade, due to some allegations of mismanagement and wrong doing that had surfaced against IOA in the DPRK, the agency did some hard bargaining with the DPRK government which led to the instituting of a number of strict conditions with regard to human resource management, financial management, audit and oversight matters on IOA's programs in the DPRK.

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government and also the international organizations working in the DPRK are sensitive about their operations and reputations. For reasons of anonymity and confidentiality, the actual agency that is the subject of this research will not be named here but referred to only as International Organization (IOA). To avoid the risk of deductive disclosure, I may have changed indentifying details; certain information sources may be available only upon request. Any resemblance to any actual persons, living or dead, or actual organization or events is purely coincidental. The findings, interpretations and conclusions expressed in this paper are my personal views, and do not necessarily reflect the policies or views of the United Nations, or any of its funds, programmes or specialized agencies.

In the area of Human Resource Management, DPRK national staff were removed from core organizational duties. National staff salaries would be paid directly to them instead of the previous practice of paying the government. The idea behind these changes was to align IOA national staff to standard practices prevalent for IOA national staff in other countries, and thereby have greater control and loyalty from IOA national staff and embed them more deeply in IOA organizational culture, weaning them away from government influence and dependence. These revised management practices and conditions caused consternation for the government of DPRK. The government viewed the situation as being motivated by political pressure on IOA from hostile donor countries.

### ***Role of the DPRK Government in IOA Programs***

The legal framework for IOA's operations in a country lays out the parameters of the relationship between it and the host government. This legal framework signed with the DPRK was a standard agreement, and hence it addressed only in broad terms the obligations of IOA and DPRK government on IOA's operations in the country.

But the devil lay in the details. The IOA-DPRK legal framework, for instance, did not address such issues as HR management practices, financial management practices, or anything about the nitty-gritty of daily IOA operations in the DPRK, where there were grounds for micro-level manipulation and pressure by the government. There were reportedly some corrupt practices in the use of IOA funding that was meant to support government ministries and departments with whom IOA worked closely as program counterparts.

### ***IOA's DPRK Office Profile***

As in other countries, the government of DPRK and IOA worked together closely on strategies and goals that would address the needs on the ground and also support the government's national priorities for the DPRK. Based on the broader strategies and goals, IOA-DPRK

in collaboration with the government would approve projects for implementation in the country.

In other countries where IOA works, the country level managers have a lot of influence in shaping these projects. However, for the IOA-DPRK office, the Regional Headquarters of IOA withdrew a lot of the authority for project formulation, approval and implementation, due to sensitivities of the geopolitical situation and the donor countries. The Regional HQ also provided a higher than normal amount of oversight on IOA-DPRK's daily activities.

IOA DPRK country level managers also faced issues from the DPRK government counterparts on access to project sites for monitoring and project management. I have written elsewhere on these and related difficulties that UN and aid agencies face in operating in the DPRK:

Aid agencies in DPR Korea often complain (mostly informally) that they are not allowed by the government to conduct the kind of in-depth analyses needed for more ambitious programming; and the donors stymie many attempts at increased scope and scale of activities. Aid agencies in DPR Korea are already known to impose their own form of conditionality. Named the "no access-no aid" principle (literally, DPR Korea authorities are reluctant to grant aid agency and their resident expatriate workers physical access to areas and populations for which/whom they request aid from agencies), aid agencies use this for trust-building and negotiations with national counterparts for improved access to affected populations. In response, the government sometimes makes access dependent on the financial scope of the engagement (to maximize the amount of aid money available, they employ a reverse principle, known in Pyongyang circles as, "no aid-no access!"). The DPR Korea government imposes other conditions: for many aid agencies, independent project monitoring is not allowed and all monitoring is required through ministries and/or national counterparts. Then there is the "7-day notification rule" — under which every project visit has to be requested from and approved by the government with a minimum seven days notice. Although many such conditions vary and are relaxed from time to time, on the whole the operating environment facing aid agencies in DPR Korea remains challenging.<sup>30</sup>

## ***IOA-DPRK Staffing Arrangements***

### **International Staff**

The IOA-DPRK office international staff were primarily with two types of contracts, based on two different sources of funding for their salaries and emoluments. One type, usually for higher country level managers, was funded by central funds; as such funding is more continuous, these staff therefore had more permanency to their contractual status with IOA. The other type was funded through various combinations of project funds; as funds for projects are more intermittent, dependent on the vagaries of donor funding, the contracts of project staff were more temporary, such as of one- or two-year duration. It has been a continuing issue that centrally funded staff positions in IOA-DPRK were so few, yet the sensitivity of the work in the DPRK required more centrally funded staff. There is some allegation that the light central funding was at least partly due to the geopolitical environment, which should not have been the case given neutrality of international multilateral organizations. I have written elsewhere that this lack of job security for expat staff potentially compromised their actions and decisions.<sup>31</sup>

### **National Staff**

In DPRK socialist economy, the lack of a labor market requires international organizations to request the government counterparts and be dependent on them for recruitment of national personnel. There are many issues with this practice: limited opportunity to interview government-referred candidates; limited opportunity to assess their suitability for proposed work; limited opportunities to manage, motivate, guide,

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30. Rajarshi Sen, "Whither Inequalities? Paradoxes and Practices of Aid Agencies," Background Paper, UNICEF-UN Women "Addressing Inequalities" Global Thematic Consultation for MDGs post-2015, New York, 2012.

31. Ibid.

and discipline such personnel (as they are not technically the agency's own employee but seconded to the agency from a parent government organization, where they can return to virtually guaranteed employment); limitations to retain such personnel for a length of time considered desirable for the organization. All of these issues impacted IOA-DPRK's operations significantly. Due to the short tenures and high rotation of national personnel, IOA's return on the investment in nationals' training and capacity-building was often low.

IOA-DPRK had only a few national officers who had been with the office for a long time and had acquired the necessary skills gained from long periods of service. Such capable, long term national employees, however, were the exception; generally, there was no standard period of assignment for Korean national staff. Local staff was assigned on an annual rotational basis and there was the perception that the government used the IOA rotation as a training office. IOA-DPRK had therefore requested the government to increase the length of rotation of national staff, and there was some evidence that this request was granted.

In terms of location and overall functioning of the IOA-DPRK office, all international organizations and offices, including embassies, were physically isolated in a diplomats' compound. All local personnel arrived and left together by transportation that IOA arranged, generally working from 8:00 a.m. to 5:00 p.m.

## **Analysis**

Given the preceding theoretical discussion of socialist organizations and socialist management practices, followed by the account above of actual organizational actions and management practices of the international organization working in the DPRK, I now consider how those actions and practices fare in terms of enhancing organizational effectiveness. While more details are tabulated in Appendix, a general description follows in this section:

Broadly speaking, there were six to seven categories of actions that seem relevant when it comes to distinguishing the organizational management dynamics affecting IOA: human resource management, institutional arrangement, relationship with government (which is a sub category of institutional arrangement), physical/infrastructural environment, principal-agent relations, funding resources and interpersonal relations.

The specific actions that were critical in the day to day management of the IOA organization include donor pressure on IOA for increased accountability, leading to local personnel being removed from core staff duties; and creation of regular contract agreements between Korean nationals and IOA, with salaries paid directly to the local personnel, as opposed to the arrangement earlier of national staff being seconded to IOA from the government. In response, the government imposed various direct and indirect barriers to national staff enjoying long tenures with IOA; this forced IOA to negotiate with the government for ensuring fixity of and/or longer tenures for the Korean staff. Ongoing, also, were various forms of undue government influence and interference in IOA's internal decision-making, to increase chances of IOA's decisions to conform to government agenda. The "no aid, no access-no access, no aid" dynamic between government and international organizations was also an ongoing practice. As were general measures to minimize interactions between national and international colleagues. There were separate telecommunication systems between nationals and internationals in the DPRK; national colleagues cannot call international colleagues and vice versa.

In such a contested situation, IOA headquarters adopted internal control measures to minimize risks to IOA operations and increase accountability of the IOA-DPRK office, by circumscribing decision making authority of IOA-DPRK based managers. This further delegitimized IOA-DPRK based managers. As it is, IOA-DPRK managers were in professionally insecure position due to non-permanent nature of their individual contracts. They were hence without any incentive to take any strong decisions. Despite these limitations, some managers did go the extra mile by cultivating to the extent possible informal



relationships with Korean colleagues. These extra efforts did pay some small dividends, in terms of trust building and greater mutual understanding.

## **Discussion**

In the 1990s, as many socialist economies disintegrated, the respective countries experienced major economic shocks of high inflation, precipitous falls in GDP, and so on. In such circumstances, the establishment of macroeconomic stability became a natural focus and policy approach. However, subsequent experience showed us that the preoccupation with macroeconomic issues and macro stabilization programs would tend to fail in the absence of or with inadequate micro level adjustment.<sup>32</sup> This was because socialist systems created microeconomic distortions, such as lack of incentives for workers of an organization to respond to economic forces and fundamentals that affect the organization, that impacted the macro picture; hence, the micro-macro links are consequential.

Similarly, inconsistencies between the structures of incentives facing expat managers in the DPRK and DPRK nationals working with these managers are becoming evident from the operations of international organizations in the DPRK. The above analysis has highlighted that manager-national worker interaction in international organizations operating in the DPRK remains largely transactional, devoid of the possibility of forging deep bonding and loyalties. Such limited interaction, and the extant social and political controls in the DPRK as well as the international organizations' own practices to mitigate their risks (which collectively constitute the operating environment that international organizations in the DPRK find themselves in), pose significant barriers to the formation of psychological contracts between DPRK national workers and expat managers. Psychological

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32. Jan Svejnar, "Microeconomic Issues in the Transition to a Market Economy," *Journal of Economic Perspectives* 5, no. 4 (1991), p. 123.

contracts and good team relationships are constructs and practices in organizational dynamics that lead, through the formation of cognitive mechanisms such as transactive memory systems (TMS),<sup>33</sup> to improved task coordination and enhanced team performance.

Although, there are some evidences, to be sure, from the above case study of IOA-DPRK of limited formation of interpersonal relations, which can build relational coordination. Other such examples — as the initial lack of interaction between expat managers and DPRK workers, followed by tentative growing interaction, correlated with preliminary signs of improving skills — come from case studies of Kaesong Industrial Complex. It was noted that, at first, ROK/South Korean managers were not allowed, for example, to eat lunch with the workers. Gradually, the DPRK government allowed these managers to remain in Kaesong on a semi-permanent basis. The resultant growing familiarity with expat managers and their interaction with DPRK national staff (such as DPRK workers bringing home-cooked food for the expat managers, possibly as reciprocity for ‘choco pies’) potentially led to ‘tacit knowledge to be exchanged between management and workers knowledge in settings other than the job site.’<sup>34</sup>

Overall, however, the analysis of international organizations working in the DPRK described significant difficulties in the formation of strong team dynamics between expatriate managers and DPRK nationals. As a result, these organizations’ operating environment is structurally indisposed for the accomplishment of complex, interdependent tasks, which in turn affect their effectiveness.

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33. Transactive memory systems (TMS) are cognitive processes and outcomes in knowledge-intensive teams (see, for instance, Vesa Peltokorpi, “Transactive Memory System Coordination Mechanisms in Organizations: An Exploratory Case Study,” *Group & Organization Management* 39, no. 4 (2014), pp. 444-471, such that team members collectively develop to encode, store, and retrieve information in different domains. This is possible as team members are aware who knows what, are able to specialize in different but compatible information domains, and use each other as external cognitive aids.

34. Gower, “Knowledge Management and Transfers between North and South Korea at the Kaesong Industrial Complex,” pp. 20-21.

The conditions preventing deeper connection between expat managers and their national colleagues assume significance also when seen in light of our above theoretical discussion of socialist and post socialist organization management and change. We have seen, for example in the literature on post socialist transition in Eastern Europe, that personnel inculcated in socialist values and management practices have a tendency to cling to old habits. Only serious and sustained change pressures can eventually lead them to embrace some hybrid form of old and new management practice. In the case of IOA-DPRK, in the opinion of this author, the organization has exerted more pressure on the DPRK government counterparts than any other organization working in the DPRK; IOA-DPRK has also most impressed upon its national colleagues (through their organizational socialization process) for change towards international standards. However, the capacity for exerting pressure for any one organization such as IOA-DPRK is limited. The embeddedness of national colleagues to the extra-mural environment outside of IOA is much stronger than their embeddedness within IOA's organizational culture. Hence, hard persuasion needs to be supplemented/balanced with soft measures — reflected through HR management practices; employee motivations; ideologies and negotiation dynamics. Both hard and soft approaches are necessary and neither alone will be sufficient.

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## Appendix

Table 1. International Organizational Actions and Practices in the DPRK

Category of actions/ practices	Organizational Action/ Practices	Sources	Reasons	Possible Impacts on Organizational Effectiveness
Human Resource Management (HRM)	Local personnel removed from core staff duties	UN	Risk reduction/ mitigation measure by IOA management	<p>The resulting mistrust between Korean colleagues and expat managers, as agents of the organization, should hamper psychological contract<sup>35</sup> between managers and local employees</p> <p>Removal of local staff from core duties restricts them to lower duties only; hence, exchanges between such staff and managers will remain merely transactional, as opposed to something deeper ... which too would hamper strong psychological contract</p>

35. Psychological contract is a complex concept formed by an individual’s perception of mutual obligations that exist between herself and her employer. These obligations arise out of the belief that a promise has been made either explicitly or implicitly and the fulfillment of promissory obligations by one party is contingent upon the fulfillment of obligations by the other. The mutual obligations are thus sustained through the norm of reciprocity. (Jacqueline Coyle-Shapiro and M. Parzefall, “Psychological contracts,” in Cary L. Cooper and Julian Barling, eds., *The SAGE handbook of organizational behavior*, London: SAGE Publications, 2008), p. 8.

Category of actions/ practices	Organizational Action/ Practices	Sources	Reasons	Possible Impacts on Organizational Effectiveness
HRM	In lieu of the current agreement between the government and IOA for local personnel, individual service agreements between Korean nationals and IOA were to be created, to then be converted into regular IOA contracts, with salaries paid directly to the local personnel	UN	Donor pressure on IOA to improve HRM in the DPRK	Attempts by IOA managers to win over some extent of control on local staff through contractual and financial remuneration means
Institutional arrangement/ environment	Government structure included a number of Ministries, bureaus, commissions, and institutes which interfaced with IOA on many fronts including in project implementation. In their capacity as implementing agencies or government partners, these myriad entities received financial support from IOA for their work with IOA projects.	UN/ Author's observation		Opens up possibilities for exerting political pressure on IOA, leading to political isomorphism



Category of actions/ practices	Organizational Action/ Practices	Sources	Reasons	Possible Impacts on Organizational Effectiveness
HRM	There was no standard period of assignment for Korean national staff. Local staff were assigned on an annual rotational basis and there was the perception that the government used the IOA rotation as a training office	UN/ Author's observation	Manipulation of human resources by government	Short stints predisposed exchanges between Korean local staff and expat managers to remain merely transactional ... and hence precluded formation of strong psychological contracts
HRM	The DPRK was unable to guarantee the length of time that local personnel were posted to a position, diminishing the effect of IOA's investment in training and capacity-building for staff	UN	Manipulation of human resources by government	Exchanges between Korean local staff and expat managers to remain merely transactional ... and hence precluded formation of strong psychological contracts
HRM	IOA-DPRK requested that local personnel be assigned to the IOA office for a longer period of time, and there was some evidence that this request was granted.	UN	Manipulation of human resources by government; and doling out small concessions to impress upon IOA/its expat managers	Evidence of extracting some concessions from the government by IOA-DPRK

Category of actions/ practices	Organizational Action/ Practices	Sources	Reasons	Possible Impacts on Organizational Effectiveness
HRM	The lack of a functioning labor market in the DPRK meant that the government assigned local personnel required by IOA for its program operations. IOA had only limited opportunity to interview government-referred candidates and determine their appropriateness for the role. There were few effective mechanisms in place for staff performance reviews and appraisals to evaluate the work of national staff	UN	Manipulation of human resources by government	Essentially, this meant that expat managers had very little effective management control over their Korean national colleagues
HRM	Periodically, the DPRK government would reassign local staff. When reassignments occurred, the government would inform IOA-DPRK of the reassignment and send replacement candidates. It seems that the government usually only sent one such candidate, limiting the IOA office's choice. IOA-DPRK later persuaded their DPRK government counterparts to send two candidates from which to choose.	UN	Manipulation of human resources by government; and doling out small concessions for influence	Evidence of extracting some concessions from the government by IOA-DPRK

Category of actions/ practices	Organizational Action/ Practices	Sources	Reasons	Possible Impacts on Organizational Effectiveness
Institutional arrangement/ relationship with government	No aid no access-no access no aid practice	Author's observation	Government-aid agency negotiation for ready access to project sites in exchange for aid	Evidence of extracting some concessions from the government by IOA-DPRK
Physical/ infrastructural environment	In terms of location and overall functioning of the IOA-DPRK office, all international organizations and offices, including embassies, were physically isolated in a diplomats' compound. All local personnel arrived and left together by transportation that IOA arranged, working from 8:00 a.m. to 5:00 p.m. Because local personnel left at 5:00 p.m., the international staff were usually the ones to close the office.	UN/ Author's observation	Government attempt to minimize contact between resident expat staff and local population/ political	Minimal personal/after hours interaction between expat managers and national colleagues inhibits formation of team spirit, loyalties
Physical/ infrastructural environment	Separate telecommunication systems between nationals and internationals in the DPRK; national colleagues cannot call international colleagues and vice versa	Author's observation	Government attempt to minimize contact between resident expat staff and local population/ political	Minimal personal/after hours interaction between expat managers and national colleagues inhibits formation of team spirit, loyalties and strong psychological contract

Category of actions/ practices	Organizational Action/ Practices	Sources	Reasons	Possible Impacts on Organizational Effectiveness
Principal-Agent relations	IOA Regional HQ withdrew project approval authority from the head of IOA office in the DPRK and retained such authority for itself. This was done in part to allow for higher level decision-making on projects, which were subject to scrutiny by donor countries, and to assist the head of IOA DPRK office in his relationship with the government. Thus, while the role of IOA-DPRK included project oversight, a significant amount of project oversight and decision-making authority rested with the IOA Regional HQ.	UN	Donor pressure on IOA	This situation essentially created confusion and mistrust between IOA's HQ- and Country-based managers

Category of actions/ practices	Organizational Action/ Practices	Sources	Reasons	Possible Impacts on Organizational Effectiveness
Funding resources	There were few centrally funded positions in the DPRK despite clear justifications for an increase in centrally-funded positions. The light central funding was in great part due to the geopolitical environment in which the IOA-DPRK office existed and tension between IOA Headquarters management and the DPRK Office over increasing funding and core staff for the DPRK.	UN/ Author's observation	Donor pressure on IOA; funding scarcity	This created contractual uncertainty for IOA expat staff on the ground, which resulted in them not 'rocking the boat' and/or not being too strict in their oversight responsibilities
Interpersonal relation	Expatriate managers giving small gifts on their own volition to national colleagues engendered some small levels of loyalty and team spirit	Author's observation		Building relational coordination, i.e., coordination carried out through emergent relationships of shared goals, knowledge, and mutual respect. Strong relationships enable employees to embrace their connections with one another and to more effectively coordinate the work in which they are engaged. <sup>36</sup>

36. Peltokorpi, "Transactive Memory System Coordination Mechanisms in Organizations," p. 449.