

The “Costs of Doing Business Abroad” in a Cross-border Context Characterised by Extreme Political Volatility

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The “costs of doing business abroad” in a cross-border context characterised by extreme political volatility

Abstract

Purpose – The purpose of this empirical study is to describe and explain the organisation-design antecedents of coordination, learning and trust in an international strategic alliance in a cross-border context characterised by extreme political volatility.

Design/methodology/approach – The research was carried out as a single-case study in situ in a humanitarian international strategic alliance in Pyongyang, the Democratic People’s Republic of Korea (North Korea).

Findings – In addition to explaining the effects of interface, specialisation, formalisation, and centralisation on coordination, learning and trust, the study demonstrates the influence of classic IB “costs of doing business abroad” (Hymer, 1960/1976) on the same organisational outcomes. Moreover, the study identifies *intergovernmental engagement/containment/disengagement* as a contextual antecedent of both organisation design and outcomes.

Originality – The study extends international-business theory by indicating that mainstream IB perspectives may not fully explain intra-organisational outcomes in cross-border contexts characterised by extreme political volatility. Notably, the study suggests that complementary constructs such as *intergovernmental engagement* are needed to account for the additional costs incurred by such settings.

Keywords Democratic People’s Republic of Korea; DPRK; North Korea; Costs of doing business abroad

Paper type Research paper

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1. Introduction

Since Hymer (1960/1976), international-business (IB) scholars have made considerable headway in identifying the “*costs of doing business abroad*” and determining the consequences of these costs for cross-border business operations (Eden and Miller, 2001). The achievements include the development and extensive testing of *internalisation* (Buckley and Casson, 1976) and *transaction-cost theory* (Hennart, 1982), *eclectic (OLI) theory* (Dunning, 1980), and *liability-of-foreignness theory* (Zaheer, 1995).

However, the “costs of doing business abroad” that serve as the basis for these frameworks are conspicuously low-key. Indeed, mainstream international-business theory appears to assume only low to moderate levels of political volatility as a sufficient condition. For example, internalisation theory and transaction-cost theory centre on market imperfections, which tend to manifest themselves even under politically stable conditions. Similarly, the notion of liability of foreignness refers to essentially modest hindrances associated with spatial distance, a firm’s unfamiliarity with the host-country environment, a lack of legitimacy, and home-country restrictions on foreign investments (Zaheer, 1995). More recently, Eden and Miller (2001) identify relative production costs, relational hazards, and managing operations at a distance as primary costs of doing business abroad. Yet newer research streams highlight cultural differences (Shenkar, 2001) and obstacles posed by foreign languages (Welch et al., 2005), impediments that hamper dealings even between friendly neighbours and partner countries. Thus, mainstream IB theory is based on peacetime “costs of doing business abroad” and has remarkably little to say about business behaviour in operational contexts affected by geopolitical tension, international punitive sanctions or war (John and Lawton, 2018, see also Petricevic and Teece, 2019). We argue that this may be a serious shortcoming.

In a call to redirect IB research towards extreme events, Andriani and McKelvey (2007) note that whereas IB managers regularly deal with extremes, IB researchers seem content to report on averages. Indeed, international business is becoming increasingly exposed to volatility (Earl and Rose, 2022). Global flows of foreign direct investments (FDI) are contracting (Witt, 2019b, UNCTAD, 2021), at least in part due to a harsher geostrategic climate and intense economic competition between the world’s great powers (Ciravegna and Michailova, 2022). The game-changing clash over national borders that erupted in Europe in February 2022 epitomises the new reality. In line with scholars who refer to a *VUCA* world defined by Volatility, Uncertainty, Complexity and Ambiguity (Bennett and Lemoine, 2014, van Tulder et al., 2020), we argue that IB theory must be “stress-tested” (Buckley, 2020) and – if need be – extended to account for business behaviour in operational environments characterised by extreme political volatility. The present single-case study undertakes this kind of test by assessing empirically the antecedents of coordination, learning and trust in a humanitarian international strategic alliance in Pyongyang, North Korea (formally: The Democratic People’s Republic of Korea or DPRK).

2. Context

The Korean War (1950–1953) left an estimated three million dead, divided the country in two, and cemented great-power rivalries in the region. The hostilities ended without a peace treaty. Thus,

technically still at war, the Republic of Korea (i.e., South Korea) built a capitalist and trade-oriented economy, whereas the DPRK pursued a development path guided by socialism and the notion of self-reliance. In recent years, disagreement over the DPRK's nuclear armament has raised geopolitical tensions to levels not seen since the 1950s. Thus, the context of this case study is one of extreme polarisation and multi-layered conflict, featuring deep-seated historical, national-security, and ideological fault lines.

The case organisation is the first and only privately-run institution of higher education in the DPRK. Henceforth, we will refer to it as *the Institution*. Established by authority of the Ministry of Education of the DPRK in 2001, the Institution commenced operations in full in 2010. In 2019, there were 600 undergraduate and graduate students. With around 40 foreign staff members on campus at any given time, it constitutes the largest community of foreigners in the DPRK. The *de facto* governance structure on the foreign side can be categorised as a loosely coordinated global network of charities and volunteers led by a supervisory board. Whereas other international humanitarian agencies and charities have been forced to scale down or leave the country in the face of the comprehensive global sanctions regime imposed on the DPRK (United Nations Security Council, 2019) and the US unilateral travel ban of 2017 (US State Department, 2022), the Institution remains in operation.

3. Theoretical starting point

The aim of this explanatory case study (Welch et al., 2011) is to describe and explain the organisation-design antecedents of coordination, learning and trust in an international strategic alliance in the Democratic People's Republic of Korea (North Korea). Empirical research suggests that such organisational outcomes can be strong predictors of performance (Christoffersen, 2013). In line with earlier IB case-study research (Oetzel, 2005), we adhere to Eisenhardt's (1989, 2021) recommendation that *a priori* specification of constructs aids the initial design of a case study and offers a grounding for emergent theory. Accordingly, our immediate focus is on four structural parameters – interface, specialisation, centralisation, and formalisation – and three organisational outcomes: coordination, learning and trust within the alliance. Previous research has considered the impact of structural parameters on these organisational outcomes (Albers et al., 2016). However, we deliberately refrain from hypothesising causal relationships in an IB context characterised by extreme political volatility. The reason is that “*preordained theoretical perspectives or propositions may bias and limit the finding*” (Eisenhardt, 1989, p. 536). This choice is, further, in line with standard method recommendations in qualitative research (e.g. Corbin and Strauss, 2008, Glaser and Strauss, 1967/1999).

Beginning with the organisational outcomes, *coordination* pertains to “*the set of tasks each party expects the other to perform*” (Mohr and Spekman, 1994, p. 138). Albers et al. (2016) distinguish between two types of coordination in strategic alliances. First, static coordination entails the formulation and monitoring of agreed plans for joint action. Second, dynamic coordination reflects the collective and concerted adjustment of plans to deal with changing conditions. Organisational *learning* amounts to “*the development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions*” (Fiol and Lyles, 1985, p. 811). Whereas exploitation-oriented learning aims

to refine existing organisational processes and capabilities, exploration-oriented learning is about acquiring new and innovative skills (March, 1991). *Trust* has been defined as “*the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party*” (Mayer et al., 1995, p. 712). Personal ties can provide the foundation for so-called relational or *affective* trust. Similarly, when one’s expectations of reliability and dependability are met in another person, cognitive or *instrumental* trust evolves (McAllister, 1995, Jukka et al., 2017).

Turning to the organisation-design parameters, we draw on Pugh and colleagues (1963, 1968). *Specialisation* refers to how much time one employee spends on a particular task. *Centralisation* concerns the locus of authority to make decisions. *Formalisation* indicates how far communications and procedures are written down and filed. The *interface* between the alliance partners is peopled by *boundary spanners* (Aldrich and Herker, 1977), who represent their respective organisation and enable communication within the alliance (Albers et al., 2016).

4. Method

4.1. Case selection

The case was selected for two reasons. First, insights into the structural design and organisational behaviour of an organisation in the DPRK are exceedingly rare and, thus, represent a valuable addition to the collective IB body of knowledge. The international sanctions regime precludes commercial investments; hence a humanitarian operation was chosen. Second, the case alliance operates amidst acute geostrategic tension. Hence, the business context is one of extreme political volatility – a dimension of considerable theoretical interest and empirical topicality. These political sensitivities, further, compel us not to reveal the case organisation’s identity.

4.2. Research design

The authors conducted one background visit to Pyongyang in early 2019. Two months ahead of the data collection, a detailed research plan including the case-study protocol and the interview guide was submitted for approval to the case organisation. The plan was accepted, and the research team received a formal invitation and were granted an official research visa by DPRK national authorities. However, after the research team arrived in the country, the DPRK representatives unexpectedly declined to participate in the enquiry. Nonetheless, the research design allowed for effective data collection from other respondents and sources in situ.

4.3. Data sources and analysis

Data collection was conducted in person by the first author on the premises of the Institution during one week in late 2019. The research team enjoyed free movement on campus and interacted extensively with both DPRK and foreign staff. This allowed for comprehensive personal observation. The presence on the ground also facilitated access to English-language material produced by the Institution, such as an

orientation leaflet for foreign staff members. The Institution's public, English-language website was a further source of written documentation. The diverse data sources allowed for triangulation of data, a means of enhancing construct validity in case-study research (Yin, 2018, Eisenhardt, 1989).

In addition to personal observations and written data sources, seven semi-structured interviews were conducted with foreign-side resident personnel at the Institution. Respondents included permanent as well as shorter-term staff members with both teaching and management functions. Interviews were conducted in English. Respondents differed with respect to mother tongue. To minimise possible sources of error due to language issues (Welch and Piekkari, 2006), written interview guides were shared with respondents prior to the interviews. Respondents were given the opportunity to review a draft of the interview report and make any alterations they chose, a step recommended to enhance construct validity (Yin, 2018).

The data analysis was aided by the *a priori* specification of constructs pertaining to organisational structure and outcomes (Pugh et al., 1963, Pugh et al., 1968, Albers et al., 2016). The use of established constructs adds accuracy to the analysis, regardless whether these initial constructs are retained in the resultant theory or not (Eisenhardt, 1989). Similarly, positioning the study within the literature on the costs of doing business abroad (e.g. Eden and Miller, 2001) offered catalogues of relevant constructs, thus affording construct validity and a firm grounding for emergent theory (Eisenhardt, 1989). This robust conceptual foundation greatly facilitated the data analysis and allowed the authors to focus on any emerging "costs" that might characterise an IB context defined by extreme political volatility. Accordingly, the data were analysed in a semi-grounded fashion (cf. Glaser and Strauss, 1967/1999), centring on the latter stages of the coding cycle (Miles et al., 2020).

Below, based on the collected data we first determine the organisation design (interface, specialisation, centralisation, formalisation) of the case alliance. Thereafter, we consider the effects of the design parameters on our target constructs coordination, learning and trust.

5. Case narrative and interpretation

5.1. Assessing the design parameters

Interface. The interface between the Institution's alliance partners is primarily made up by the senior-management team. A distinguishing feature is the dual structure of management. All management positions and all senior academic positions are occupied by one representative from the hosting (DPRK) side and one from the foreign side. [*"The senior management – presidents, vice-presidents, and also lower-ranking representatives from other departments as required – meet once a week. At the lower levels, departments.... also meet approximately once a week or as frequently as needed. Similarly, deans meet weekly or as needed. In all these meetings, the two sides are in principle represented in equal numbers."*] With the participation of one set of presidents, five sets of vice presidents, and five sets of deans in weekly meetings, the interface between alliance partners in our specific case can be characterised as broad in scope, dense and moderately active. In sum, we are speaking of a strong alliance interface.

Specialisation. All hosting-side staff members are employed full time and long term. On the foreign side, the picture is more diverse. All foreign managers and senior academic staff are employed full time and long term. However, during the academic year, an equal number of non-resident teachers travel to Pyongyang on short-term or one-time assignments. [*“Also visiting professors are important. In particular as the U.S. travel ban has been very disruptive to [the Institution.]”*] Managers with an American citizenship were affected when the United States in 2017 introduced a unilateral travel ban, prohibiting U.S. citizens from travelling to the DPRK. [*“Most of the foreign-side leadership are now abroad, i.e., not on campus... Before the travel ban, all people holding management positions lived and worked on campus.”*] Only as of 2019, several senior-management positions, but not all, were filled by resident foreign staff. Hence, specialisation is very strong on the DPRK side but much less so on the foreign side. Thus, the relationship is asymmetric.

Formalisation. At the Institution, very little is formulated on paper. One informant attributed this to culture. [*“This is Asia and, hence, we rely extensively on dialogue and inter-personal relations.”*] All senior-management plans and minutes are in Korean only, in effect excluding non-Korean speakers from assuming managerial roles. Nevertheless, some important English-language guidelines do exist in writing. Notably, an orientation pamphlet lays out the rules and procedures that apply to foreign staff members on campus. [*“Foreigners should abide by the laws and regulations of the DPRK and should not criticize the system of socialism.” ... “Foreigners who want to travel outside [the Institution] should notify the planning office of the trip’s purpose one day before and should be accompanied by a guide.”*] Apart from this, very little concerning the joint operation of the alliance is formulated in writing. Accordingly, we establish that the case alliance displays low levels of formalisation.

Centralisation. The case alliance is decidedly centralised in the vertical sense. All planning and implementation decisions are made jointly by the two sides’ representatives in the weekly senior-management meetings. [*“The most frequent meetings are at the high level.”*] Nonetheless, the daily business of the departments is left to senior academic staff. [*“The senior management respects our decisions and never interferes.”*] Thus, the delegation of operational decision-making to deans implies a measure of horizontal decentralisation. The overriding impression, however, is that of a heavily centralised structure.

5.2. Drivers of coordination, learning and trust

Coordination. In general, respondents have high opinions of the dual-management principle’s contribution to dynamic coordination. [*“Both sides are brought in parallel. The sides achieve mutual understanding of all aspects of management. The downside is that decision making is slow and that much management time is required.”*] Thus, the strong interface and pronounced centralisation may indeed help explain the Institution’s resilience over the past 10 years. Nonetheless, the modest score on specialisation is a distinct drawback. [*“A difficulty arises when the foreign staff members are not on campus. The DPRK side does not have easy access to e-mail.”*] Coordination is further hampered by the U.S. travel ban, which necessitates provisional solutions and diminishes specialisation. [*“In the absence of a foreign executive co-president on campus (due to the travel ban), the foreign vice-presidents and deans assume his/her responsibility.”*] This latter aspect suggests that contextual circumstances do influence the level of coordination achieved at the Institution. Further, the low level of formalisation is

likely to inhibit static coordination, a notion associated with transparency and predictability. This was confirmed in interviews. [*“Although courses are generally assigned to lecturers well in advance, timetables are announced very late, often only during the very first day of a new semester.”*] One further factor emerged during the interviews. Language skills seem to have a bearing on coordination. [*“Mostly it is Korean speakers who facilitate coordination between the two sides.”*] Thus, language skills have a direct positive effect on coordination. Moreover, as senior management is composed of Korean speakers only, language skills have a complementary mediating effect on coordination via centralisation.

Learning. Interviewees give a mixed assessment of learning at the Institution. One informant highlights the alliance’s readiness to innovate. [*“We suggested new, interactive teaching methods. The DPRK side gave our suggestions an enthusiastic welcome.”*] Thus, explorative learning seems to take place to some degree. In contrast, another informant dismisses outright the notion that learning is taking place. [*“There has not been much change over the past ten years.”*] The latter statement may reflect the perceived absence of exploitation-oriented learning. Indeed, other sources verify the impression that the Institution does not consistently seize opportunities to achieve exploitative learning. [*“There is very little discussion regarding policy and strategy.”*] The high centralisation in the alliance appears to hinder exploitative learning. [*“These meetings are mostly about the exchange of information. Very little genuine discussion takes place.”*] Accordingly, the lack of systematic reflection on past and current achievements, and the absence of formalised organisational development processes, hamper exploitative learning in the alliance. Yet another possible explanation for limited exploitative learning relates to language. [*“Language skills are very important to achieve learning. For this reason, Korean speakers on the foreign side [of the Institution] have an advantage in learning.”*] Accordingly, language skills affect learning both directly and indirectly. First, a common language directly facilitates knowledge exchange amongst its speakers. Second, as shown above, a common language allows for low levels of formalisation, which indirectly facilitates explorative learning.

Trust. Several staff members contend that affective trust is present. [*“Both sides have at times had to apologise to the other party. Overall, there is a good level of trust. Both sides are reasonable people.”*] Another interviewee confirms this assessment. [*“Trust has been built over our 10 years of common history, with both ups and downs.”*] The research team’s own observations support these statements. During lunch hours, the Institution maintains a modest coffee shop open to foreign and local staff and to the foreign families that reside on campus. Here, colleagues from both sides of the alliance meet informally and mingle freely. The presence of spouses and children adds to the relaxed and casual atmosphere. In short, the scene testifies to the presence of affective trust.

Nonetheless, at a different level, the data reveal a deficit of trust between alliance partners. We associate this outcome with a shortfall in instrumental trust, possibly accentuated by the low formalisation and the weak specialisation on the foreign side of the alliance, as predicted by theory (Albers et al., 2016). Interviewees highlighted the importance of adequate communication and the need to follow up on promises. [*“There have been instances when the DPRK side did not inform us of a decision in advance. In the other direction, when foreign professors who we said would come did not show up, the DPRK side was upset.”*] Expectations not met foster mistrust between the partners. [*“Too often things we thought were agreed don’t happen.”*] On one occasion, the research team were present when DPRK-side representatives voiced their frustration. [*“We should have foreign professors in all positions, but*

the foreign side does not provide them.”] Clearly, the tense geopolitical situation fuels discord within the alliance. The foreign side is struggling to compensate for the loss of teachers and managers after the U.S. travel ban. The international embargo on trade with the DPRK is a further cause for disappointment. [“*[The Institution] needs new computers. But the foreign side must say no because of the UN Security Council trade sanctions.*”] Furthermore, a perceived lack of transparency evokes scepticism. [“*The DPRK side knows everything about the foreign staff members, their entire CVs. However, the foreign side knows nothing about their counterparts on the DPRK side.*”] Indeed, when challenged to give a more specific assessment, most informants were close to neutral or disagreed with the statement “The DPRK side and the foreign side have a relationship characterised by mutual trust.”

6. Discussion

The data suggest that, in addition to the structural parameters, a range of demographic and contextual factors play a part in determining organisational outcomes in the alliance:

Language skills. Language skills appeared to be decisive in determining the composition of the alliance’s senior management. Only Korean speakers hold senior management positions as presidents, vice-presidents, and, with one exception, deans. [“*All discussions in the weekly senior-management meeting are held in Korean. Similarly, written documents such as agendas and minutes are all in Korean.*”] This relegated non-Korean-speaking foreign personnel to teaching positions with very little opportunity to take part in the management of the alliance. Similarly, the language issue divided the foreign side into Korean speakers and non-Korean speakers. There was evidence to the effect that Korean-speaking foreigners acted as boundary spanners (Aldrich and Herker, 1977, Chattopadhyay and Aundhe, 2021) between the foreign and the DPRK sides. Thus, language had an impact on organisation-design parameters such as interface, centralisation, and formalisation. Even more conspicuously, language skills had a direct positive effect on the formation of coordination, learning, and trust in the alliance. Thus, we propose that language skills be incorporated as an antecedent of both organisation-design parameters and the organisational outcomes. Accordingly, we align ourselves with the international-management literature, which is increasingly recognising the critical role of language in organisational processes (e.g. Welch et al., 2001, Harzing et al., 2011, Tenzer et al., 2017, Angouri and Piekkari, 2018, Golesorkhi et al., 2019).

Cultural awareness and institutional sensitivity. Cultural awareness is one further parameter that emerged from the interviews and the researchers’ observations. [“*We build trust by respecting the local culture.*”] Amongst the Korean-speaking foreign staff, some originate in China, a country with a substantial Korean minority population, whereas others hail from the global Korean diaspora. Some informants noted that staff members who were born and raised in China had a better grasp of, or a higher readiness to comply with, the practices of the alliance’s hosting side. This disparity was explained by the fact that both China and the DPRK are socialist countries that share some ideological values and societal goals. [“*Chinese Koreans are born and raised in a socialist country and have an intuitive understanding of many aspects of DPRK society and culture.*”] Korean speakers living in the West have a different mindset and are, therefore, prone to think and act differently. For example, in discussions

amongst foreign colleagues, the research team observed Chinese-born staff justifying their arguments by referring to an intimate understanding of the socialist system. Thus, amongst the foreign Korean speakers working at the Institution, institutional sensitivity introduces a further distinction. Nonetheless, we note that cultural awareness and institutional sensitivity come very close to the notion of *cultural intelligence* (Alon and Higgins, 2005, Sharma, 2019, Yari et al., 2020), suggesting that an alignment may be in order.

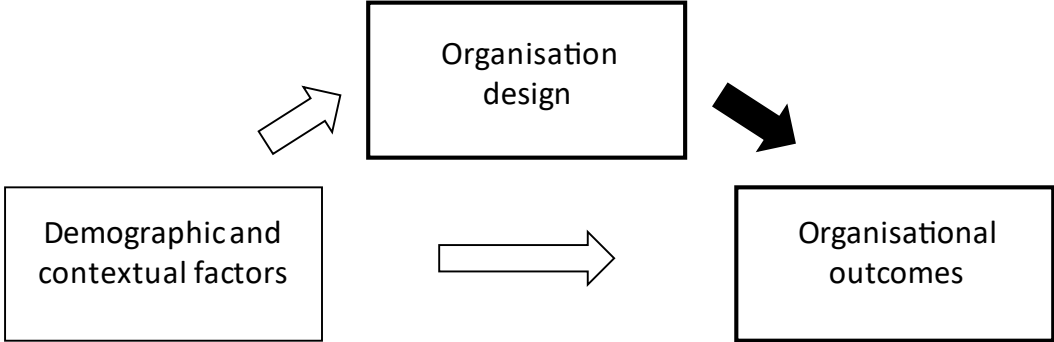
Geographical distance. In the wake of the U.S. travel ban in 2017, American teachers and managers had to leave the DPRK. Some of these managers remain in their capacities and try to continue their work, albeit from a location outside the DPRK. Thus, the geographical distance between the alliance partners, as well as within the foreign community of alliance workers, has increased substantially. Our evidence suggests a direct negative effect of geographical distance on coordination, learning, and trust. Additionally, the data demonstrate a mediation effect, whereby geographical distance reduces the alliance interface and specialisation, thereby inhibiting coordination, learning and trust. The spatial influence on organisations is documented in the international business literature, albeit as a somewhat peripheral strand of research (Castellani et al., 2013, Beugelsdijk and Mudambi, 2013). In the international-management literature, the discussion centres on group-level outcomes in global virtual teams (e.g. Jarvenpaa and Leidner, 1999, Luring and Jonasson, 2018) and international project teams (Bjorvatn and Wald, in press). Our results add to this literature by demonstrating the effect of geographical distance as an antecedent of both structural design and organisational outcomes. The construct's relevance seems, furthermore, to be amplified in a setting of extreme political volatility, where travel restrictions as part of government-level sanctions aggravate the consequences of spatial separation.

Intergovernmental engagement. The DPRK balances its engagement with foreign actors against distinct limits to the promulgation of foreign values and ideas and to the movement of foreigners within the country. Thus, the DPRK side couples its engagement with containment (Shambaugh, 1996, Coleman, 2007, Silove, 2016). Accordingly, the two aspects of containment – restriction and opacity – inhibit key organisational outcomes within the case alliance. For example, the last-minute decision to opt out of joint research with a foreign university undermines coordination, learning and trust between the hosting and the foreign sides. Moreover, the hosting side's commitment to containment may be one reason for the alliance's high degree of centralisation. Thus, there exists a cross-level mediation between the external operational context and organisational outcomes within the alliance. Nevertheless, the picture is nuanced. The very fact that the DPRK hosts and sustains an international strategic alliance like the Institution on its home turf testifies, first, to the country's willingness to engage with the outside world and, second, to its considerable agility in pursuing this end. In contrast, the alliance's foreign environment is decidedly hostile. The international sanctions regime has crippled a variety of humanitarian initiatives in the DPRK (United Nations Security Council, 2019), including the Institution. Further, the U.S. travel ban continues to constrain operations. Conspicuously, then, whereas the DPRK context is one of balancing containment and engagement, the alliance's foreign context is characterised not merely by containment but by active disengagement (Witt, 2019b, Witt, 2019a). In organisational

terms, the result is failing coordination, learning, and trust between alliance partners. We sum up this discussion in Figure 1.

Figure 1. Empirical model based on the case study

The model illustrates the relevance of classic IB categories such as language, national culture, and



| Demographic and contextual factors | Organisation design | Organisational outcomes |
|---|--|-----------------------------------|
| Language skills Cultural awareness Institutional sensitivity Geographical distance Intergovernmental engagement | Interface Specialisation Formalisation Centralisation | Coordination Learning Trust |

geographical distance in the formation of organisational outcomes, as highlighted in the literature on “costs of doing business abroad” (Hymer, 1960/1976, Eden and Miller, 2001). Notably, *intergovernmental engagement* emerges as a little-explored construct that appears to have a considerable influence on these outcomes. Beyond having a direct impact on coordination, learning and trust, these demographic and contextual factors also produce an indirect effect via the organisation-design parameters interface, specialisation, formalisation, and centralisation.

The effects of organisation-design parameters on coordination, learning and trust in strategic alliances have been theorised by Albers and colleagues (2016). However, analogous studies in the field of IB are exceedingly rare. One exception is Lee and Ram (2018), who find that the alignment of partners’ organisation structures drive trust in an international joint venture. Even closer to the present study is Huang et al. (2011), who find that decentralisation favours learning to the extent that national culture endorses participative leadership.

7. Implications and concluding remarks

To the best of our knowledge, this study offers the first published account of the inner workings of an organisation in North Korea. Second, the study heeds recent calls for IB research that explores organisational resilience to outside shocks in a world that is becoming increasingly fragmented (Ciravegna and Michailova, 2022). Third, this case study demonstrates the relevance of classic *costs of doing business abroad* (Hymer, 1960/1976) such as culture, language and geographical distance in cross-border operational contexts characterised by extreme political volatility. Fourth, and most originally, the study identifies additional constructs and relationships that suggest that an extension of mainstream perspectives in IB may be in place.

In times of international disruption, governments play a more prominent role than they do in stable settings (Earl and Rose, 2022). The reason is that national-security interests are the prerogative of the state power. Hence, the negative dimensions of intergovernmental engagement – i.e., containment and disengagement – affect individual organisations primarily in the presence of intense cross-border political volatility. In their discussion of *chained globalisation*, Farrell and Newman (2020) observe that internationalising firms are increasingly held hostage to intergovernmental rivalries. Correspondingly, Ciravegna and Michailova (2022) announce the return of the *large state* to international business.

Accordingly, we propose *intergovernmental engagement* as a useful construct in IB studies, and specifically as a *cost of doing business abroad* (Hymer, 1960/1976, Eden and Miller, 2001) that is unique to contexts characterised by extreme political volatility. This study identifies three dimensions of the construct: engagement, containment, and disengagement. While the political-risk literature (John and Lawton, 2018, Iankova and Katz, 2003, Jiménez and Bjorvatn, 2018) tends to focus on one country at a time, *intergovernmental engagement* is an expression of the mutual relations between host-country and home-country governments at the dyadic level of analysis. Further, whereas the institution-based view (Peng et al., 2008) accommodates chiefly stable institutional constraints, *intergovernmental engagement* is likely to incur organisation-level costs primarily in cross-border settings defined by extreme political volatility. Thus, our finding reflects and augments Zaheer's (2002) call — following the terror of 11 September 2001 — to develop IB theory for contexts characterised by extreme intergovernmental rivalry.

As well as driving organisation design and organisational outcomes within individual organisations, intergovernmental engagement seems to represent a steppingstone to global-level analyses of international business. Specifically, we argue that the construct (viz., intergovernmental disengagement) can be viewed as a driver of *de-internationalisation* (Tang et al., 2021), *global decoupling* (Petricevic and Teece, 2019, Wei, 2019, He et al., 2017) and *de-globalisation* (Witt, 2019b). Accordingly, the construct has a potential for explaining disintegrative effects at both the global and the organisational levels. By offering an organisation-level view of de-globalisation, this study outlines the micro-foundations of a theory of global decoupling. Thus, we contribute to the “missing middle” of international-business theory, as identified by Buckley and Lessard (2005). From a practical viewpoint, this study gives a unique glimpse of some of the challenges facing international business in the context of the DPRK. For policymakers, our research offers new insights into the interplay between politics and business during times of intense inter-governmental conflict.

This study carries all the limitations of a case study (Yin, 2018). Notably, we cannot generalise to other contexts but can only engage in analytical generalisation (Welch et al., 2022). The organisational context of the case study precluded a more extensive collection of data. Indeed, one study is insufficient to ensure construct validity. Therefore, future research should explore further the concept of *intergovernmental engagement* in cross-border contexts characterised by extreme political volatility to determine the construct's validity and theoretical importance.

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