

# **North Korea: How Business Strategy Demystifies the World's Most Misunderstood Country**

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# Preface

- ▶ Has anyone been to North Korea or interacted with North Koreans?
- ▶ Has anyone acted to influence the situation there?
- ▶ Has anyone taken Greenwald's class or read his and Kahn's book?
- ▶ Has anyone read or studied Porter's five forces?

# Overview

- ▶ North Korea is important
- ▶ Some background on North Korea and me
- ▶ The usual perspective on North Korea and problems with it
- ▶ Business strategy, largely from Columbia Professors Greenwald and Kahn
- ▶ Applying that strategy
- ▶ Consequences
- ▶ What can be done

# North Korea is important

- ▶ 24 million people; 10,000 year-old culture
- ▶ Nuclear weapons
- ▶ World's most militarized nation
- ▶ World's most militarized border
  - ▶ Missiles minutes from Seoul and Japan, possibly U.S.
  - ▶ Technically still at war
- ▶ Human rights organizations rank it among worst offenders
- ▶ Famine
- ▶ Drugs, arms, counterfeit money
- ▶ Incredibly durable

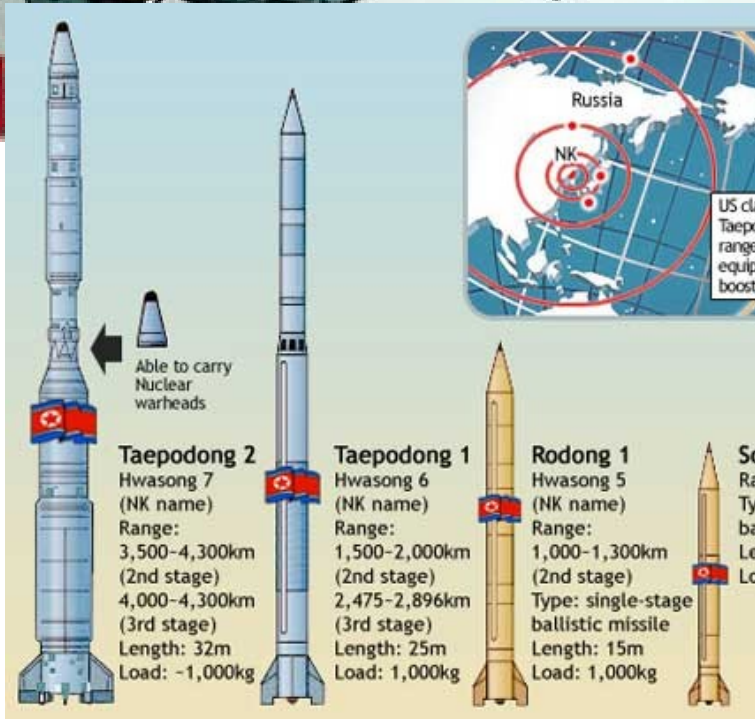
## North Korea and me

- ▶ One of about 3,000 Americans to visit since armistice.
- ▶ Why? A friend visited invited me to join his visit. He planned for three years.
- ▶ Currently very easy for Americans to visit.
  - ▶ Just go to Beijing with double-entry Chinese visa and work with Koryo. 1,500 Euros for a week, all included.
- ▶ 21st country I've visited, probably most educational and enlightening visit.
- ▶ Completely controlled visit. You choose a few sites from their list and nothing else.
- ▶ Nobody believes the tour represents North Korea. Only what government allows.
- ▶ People are people. The greater the difference in culture, the more you learn about universalities between us. The more you learn about yourself.
- ▶ A few dramatic events imply change is possible.
- ▶ Saw problems with mainstream view and developed a new view.
- ▶ Caveat: Not historian or cultural expert (but few to no others are)

# Expectations



# Expectations



## What I saw

- ▶ People are people
- ▶ The greater the difference in culture, the more you see universal commonalities
- ▶ No pretense that our view represented North Korea comprehensively
  - ▶ Tightly controlled
  - ▶ Selected things to see
- ▶ Still, interacted with regular people
- ▶ Much more, but will focus on strategy for this talk



## Common perspective in U.S.

- ▶ “Horrible hand, brilliantly played”
- ▶ Strong central leader consolidated power and runs everything.
- ▶ Government keeps agreeing to changes, then tinkers with it to keep from changing.
- ▶ On the verge of collapse.
- ▶ Lots of attempts to change that never work, can't figure out why.
- ▶ Power struggle, especially over succession.
- ▶ Nuclear weapons are major piece.

## Shortcomings of that perspective

- ▶ Generations of stability despite
  - ▶ Nearly universal global opposition
  - ▶ Colossal internal disasters
- ▶ How horrible can hand be?
- ▶ How brilliant can leadership be? What other signs of brilliance, if any?
- ▶ Smooth transition of power.
- ▶ Didn't need nuclear weapons before.
- ▶ Plenty of exchange – aid, tourism, etc.
- ▶ How can we explain these things?
- ▶ If we don't understand such fundamental things about the region, how can we expect to influence anything?

## I propose an alternative perspective, based on strategic perspective

- ▶ Incredible hand, played in the most obvious way.
- ▶ They inherited a unique *sustainable competitive advantage* and maintained it.
- ▶ Business strategic principles explain situation best.
- ▶ If you don't understand, you can't influence. If we are a group concerned with human rights, not understanding the situation means you can work very hard without any results. Understanding motivations for the behavior leading to human rights violations allows you to strategize effectively.

# A primer on strategy

- ▶ Based on [Competition Demystified](#) by Columbia Professors Bruce Greenwald and Judd Kahn (much free online)
- ▶ Strategy is **big** and its consequences **far-reaching**.
- ▶ Strategy **looks outward** from your organization, which may be commercial, but needn't be. It involves **choosing your field** and **how to manage the other players** on the field.
- ▶ Various forces affect you, but **one force dominates**, despite five forces model, which has dominated business thinking since 1980.
  - ▶ **The threat of new entrants dominates all strategic choices.**
- ▶ Strategic analysis should begin with two key questions:
  - ▶ **Do competitive advantages exist? If so, what kind are they?**
- ▶ If you have a sustainable competitive advantage, your business is to maintain it.
  - ▶ If you don't, you will compete on a level playing field and your strategy is efficiency.

# Sources of sustainable competitive advantages

- ▶ *“Paradoxically, in an increasingly global world, the key strategic imperative in market selection is to **think locally**. Dominance at the local level may be easier to accomplish than one might initially think.”*
- ▶ Geographic dominance
- ▶ Customer captivity

## The elements of strategy

- ▶ The **players** – (if the list is not short and manageable, there are probably no genuine barriers to entry).
- ▶ The **actions** each player can pursue.
- ▶ The **motives** – profitability is most common in business; but other goals, like winning.
- ▶ As we will see, the North Korean government has an incredible sustainable competitive advantage, which accounts for its stability. Its leaders know they do, or at least nearly all their actions support sustaining it, no matter how odd their behavior may seem to people who don't understand the situation and strategy.

# The threat of new entrants

Competition Demystified:

*“One of [the forces] is clearly much more important than the others. It is so dominant that leaders seeking to develop and pursue winning strategies should begin by ignoring the others and focus only on it. That force is barriers to entry – the force that underlies Porter’s “Potential Entrants.”*

*If there are barriers, then it is difficult for new firms to enter the market or for existing companies to expand, which is basically the same thing. Essentially there are only two possibilities. Either the existing firms within the market are protected by barriers to entry (or to expansion), or they are not. No other feature of the competitive landscape has as much influence on a company’s success as where it stands in regard to these barriers.*

*If there are no barriers to entry, then many strategic concerns can be ignored. The company does not have to worry about interacting with identifiable competitors or about anticipating and influencing their behavior.”*

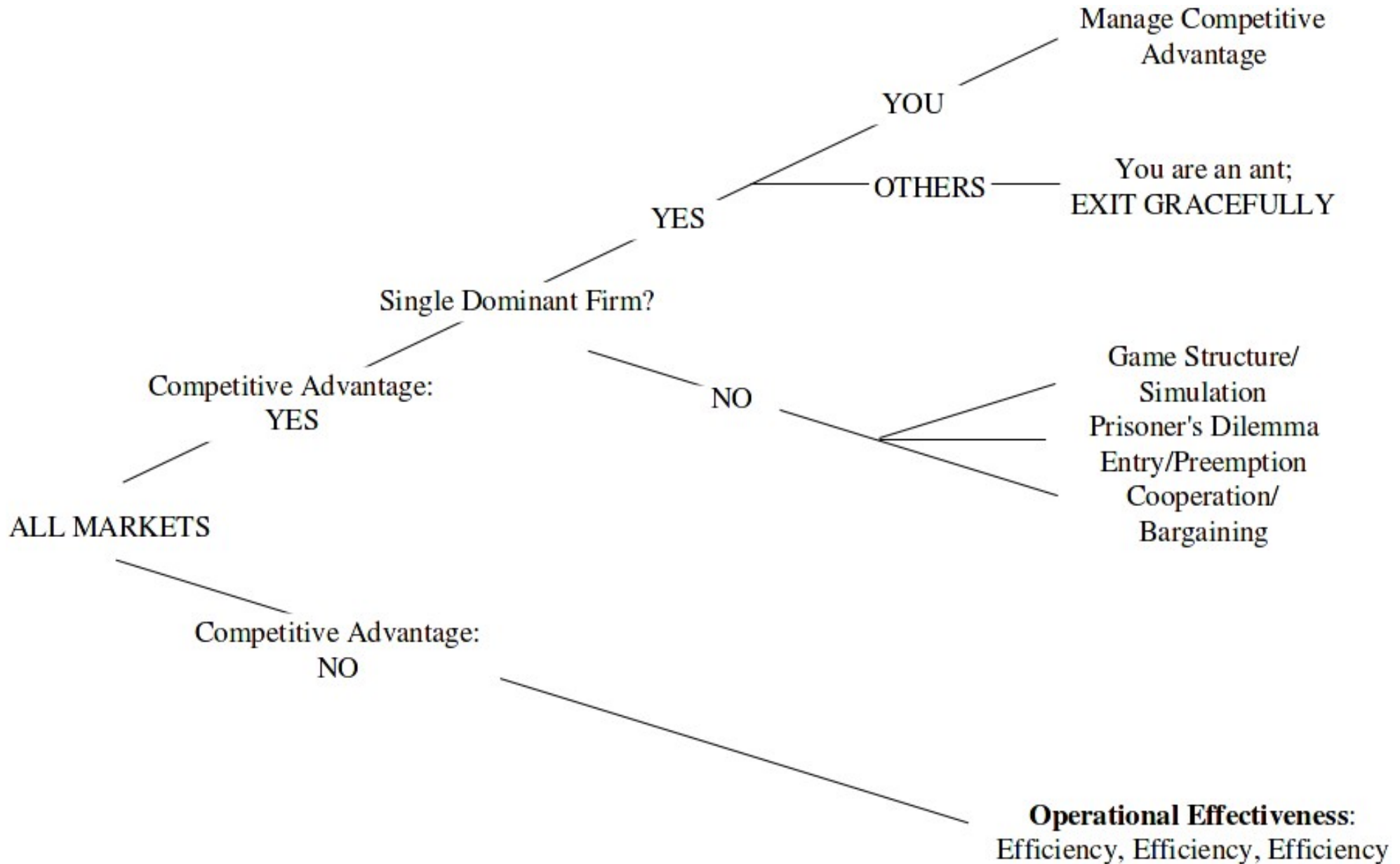
# If you have a sustainable competitive advantage

Competition Demystified:

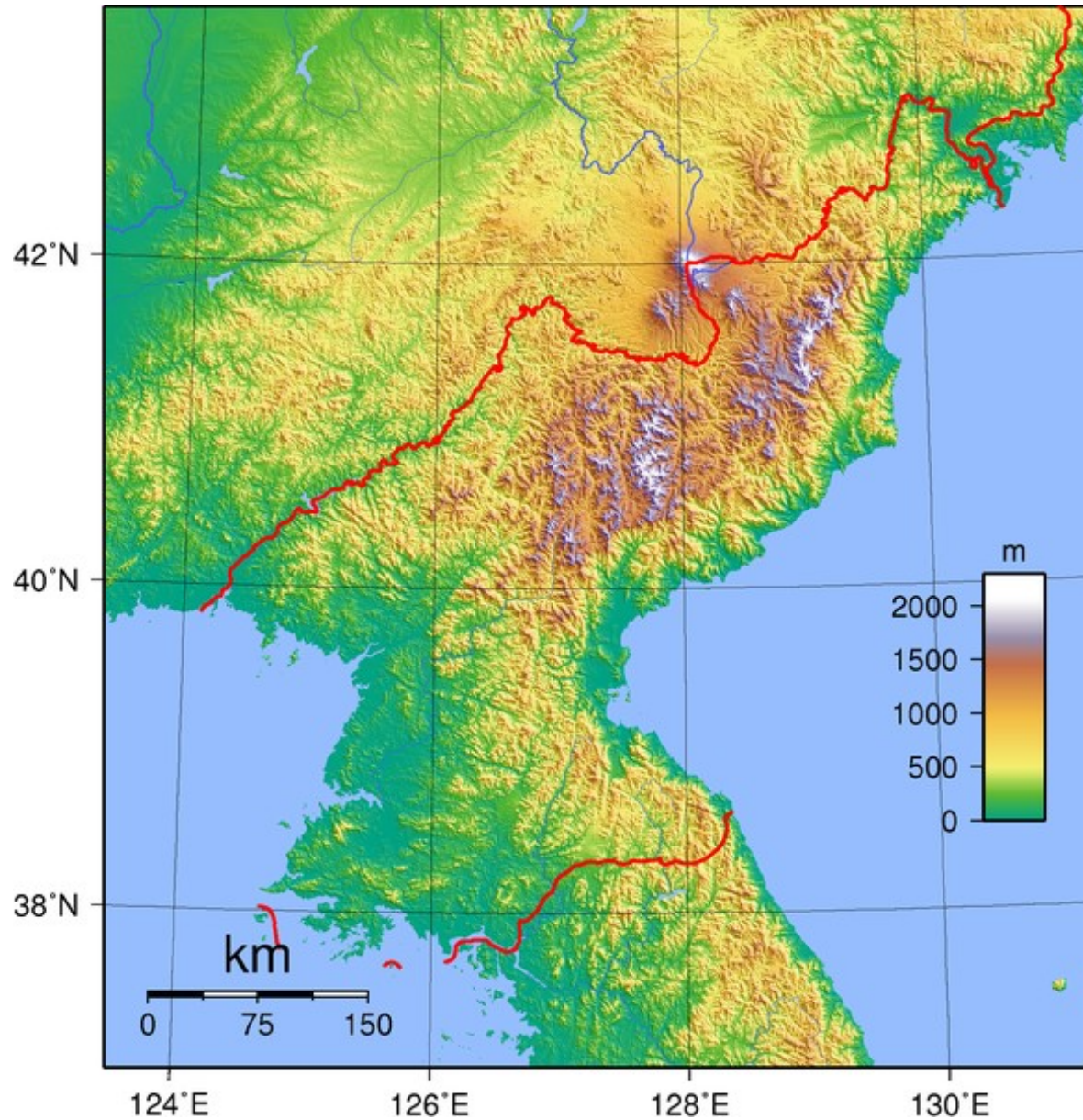
*“For an elephant operating within the barriers, life is sweet and returns are high. But competitive advantages still have to be managed. Complacency can be fatal, as can ignoring or misunderstanding the sources of one’s strength. An elephant’s first priority is to sustain what it has, which requires that it recognize the sources and the limits of its competitive advantages.”*



# If you have a sustainable competitive advantage



# The field of competition and players



1. North Korean decision-makers
2. North Korean people
3. South Korea
4. China
5. Russia
6. Japan
7. United States

# North Korean decision-makers

- ▶ Very few people have power
- ▶ Those alive today didn't create the situation but benefit from it
- ▶ Consider their perspective if they tried to change it
  - ▶ Few leaders of dictatorships survive overthrow. Usually exile or death, more poignant post-Gaddafi, Hussein, etc
  - ▶ 24 million people learning leadership benefited from their families' suffering
    - ▶ Risks their lives, their family's, and of everyone they know.
- ▶ If they maintain, they live in relative prosperity.
- ▶ Need hard currency
- ▶ Result: strong motivation to maintain border and power (geographic dominance)

# North Korean people

- ▶ Have little idea the rest of the world has greater material prosperity or freedom
  - ▶ This is one of the hardest point for people to grasp. They aren't brainwashed or simpletons. They have different information than you.
- ▶ Draconian punishments for opposing party
  - ▶ Torture, death
  - ▶ Three generations
  - ▶ Guilt by association
  - ▶ Arbitrary “justice”
- ▶ Restricted from travel, assembly, free speech
- ▶ Rewards for supporting party
- ▶ Result: locally powerless, captive to “support” decision-makers

# South Korea

- ▶ Missiles minutes from Seoul
- ▶ Access to cheap labor
- ▶ German reunification example, and then some
- ▶ Some South Koreans motivated to support North
- ▶ Result: locally powerless, motivated to maintain border
- ▶ Result: South Korea effectively held hostage

# China

- ▶ History of supporting North Korea, including Korean War.
- ▶ North Korea buffers their border from United States military in South Korea.
- ▶ Access to cheap labor and natural resources, providing hard currency.
- ▶ Result: defensive, motivated to maintain border and support

# Japan

- ▶ Missiles minutes from Japan
- ▶ Result: locally powerless, motivated to maintain border
- ▶ Result: Japan effectively held hostage

# Russia

- ▶ History of supporting North Korea.
- ▶ Access to cheap labor and natural resources.
- ▶ Much less powerful than before, but still provides some hard currency.
- ▶ Result: motivated to maintain border and access to cheap labor.



# United States

- ▶ History of supporting South Korea, basically an obligation.
- ▶ Major military presence in Sea of Japan.
- ▶ Provokes defense in China.
- ▶ Result: locally powerless, motivated to maintain borders.

## Summary of all players

- ▶ Local geographic dominance and “customer” captivity: powerful sustainable competitive advantage.
- ▶ North Korean decision-makers hold all the cards that matter. They don't need brilliance to realize strategy of maintaining borders and “customer” captivity when their lives depend on it.
- ▶ Like movie hostage situation. World superpowers can do little with South Korean and Japanese lives and economies at stake.

## Result: the strategic situation

- ▶ North Korean decision-makers decide all influential choices.
- ▶ All parties motivated to maintain **loyalty** and **stability** (customer captivity and geographic dominance).
- ▶ Leadership need not be brilliant. Hand is powerful. No power struggle among decision-makers because their highest interests align.
- ▶ Business strategy perspective explains more than “great man” perspective or merely looking at tactics.
- ▶ Importance of sustainable competitive advantage.
- ▶ Importance of perspective of individual

# Review problems of mainstream perspective

- ▶ Generations of stability despite
  - ▶ Nearly universal global opposition
  - ▶ Colossal internal disasters
- ▶ How horrible can hand be?
- ▶ How brilliant can leadership be? What other signs of brilliance, if any?
- ▶ Smooth transition of power.
- ▶ Didn't need nuclear weapons before.
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## What can we do?

- ▶ Start with understanding, especially motivations to curb human rights – a life and death issue for North Korean decision-makers.
- ▶ At national level, not much
  - ▶ Let go of failed tactics – isolation, sanctions, military, aid
- ▶ Influence loyalty and stability
  - ▶ Trade, communication, sports, cultural exchange (dvds, for example)
- ▶ Strengthen South Korea so U.S. can leave (if willing)
- ▶ Improve China-U.S. Relations
- ▶ Most controversial, but potentially helpful – witness protection program. How else to influence North Korean decision makers?

# Closing

- ▶ North Korea can be understood strategically simply (though difficult to influence).
- ▶ Few will get chance to influence situation, but I hope this perspective will help.
- ▶ Few will get to make major strategic decisions (entrepreneurs will), but I hope this perspective helps illustrate and prepare.
- ▶ Difference between strategy and tactics can be huge.
  - ▶ When you know, you can when you can make a difference. When you don't, you can work hard with no chance at making a difference.
- ▶ Often the people have to lead their governments.

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