

# Emerging Environmental Forces: In The Nepalese Organizations

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## **Introduction**

Environment refers to all internal and external forces which have a bearing on the development, performance, and outcomes of a business organization (Agrawal, 2003, p. 67). Business organization gets investment from environment and produces goods and services by converting them. Environment forces directly and indirectly affect performance of business organization. Their effect may be both positive and negative on an organization. Some forces / elements may affect positively in one situation and the same may affect negatively in another situation. Thus, it can be said the environment provides opportunities to business organizations and at the same time it also gives challenges; so manager should scan the environment and should utmost utilize the opportunities and face challenges skillfully and intellectually.

Business environment is the aggregate of all conditions, events, and influences that surround and affect it (Davis, 1975, p.116). It is dynamic, complex, and multiple. It becomes difficult to be identified clearly. It provides uncertainty to business organization. Environment is also multiple, because the same environment becomes opportunity for one organization and challenge for others.

Organization takes inputs and distributes outputs from environment. There are two types of environment. They are external environment and internal environment. External environment refers to forces and institutions outside the organization that potentially can affect the organization's performance. The external environment is made of two components: the specific environment and the general environment (Robbins and Coulter, 2006, p. 66). The specific environment includes competitors, suppliers, regulators, and increasingly strategic allies. And the general environment includes economic, technological, socio cultural, political-legal, and international dimensions (Griffin, 2000, p. 71).

Nowadays social consciousness of Nepalese people is very high. Consumers` Forum, Environment Protection Forum, etc. are active in Nepal. Nepal has played an active role in different international fora. Employee`s participation is increasing in decision making process in Nepalese organizations. Increase in private investment in core industries (like electricity, communication, transportation, etc.), development of

private sectors, and appearance of multinational companies are emerging features of Nepalese business environment.

The purposes of this study are: (i) to explain the relationship between organization and environment; (ii) to identify the economic forces of environment; (iii) to assess the political forces of environment; (iv) to evaluate the socio-cultural environment; and (v) to identify the technological forces of Nepalese business organizations.

This study is concerned with the detailed analysis emerging from business environment of Nepalese organizations. Especially it throws light on relationship between organization and environment, economic, political- legal, socio-cultural, and technological forces of Nepalese organizations.

### **Organization-Environment Relationship**

Organization is an open system. It interacts with environmental forces. This interaction takes place in different sectors in different ways. A successful manager deeply studies and analyzes the interrelationship between environment and organization. It is, therefore, necessary to discuss how environment affects an organization and how an organization adopts environment.

How does the environment affect the organization? Mainly three approaches can be used to explain this question. They are: organizational change and complexity, competitive forces, and environmental turbulence.

### **Environmental change and complexity**

The environment can be explained in two ways. The first is the extent of change and the second is the degree of homogeneity. The extent of change studies which environment is comparatively peaceful and dynamic. The degree of homogeneity studies which environment is comparatively simple and complex.

### **Competitive forces**

The following methods are developed to assess the competitive forces: (a) threat of new entrance: new entrepreneurs may gradually take hold of the market; (b) competitive rivalry: the competition among business entrepreneurs in marketing their goods or services is competitive rivalry. For example: Coca-Cola and Pepsi are the competitive rivalry; (c) threat of substitute products: the substitute products trims down the customers demand for already marketed product. For example; the demand of typewriter has decreased due to entrance of computer; (d) power of suppliers: the suppliers can have power to influence the potential buyers; and (e) power of buyers: the buyers can have the power to influence the suppliers of goods or services.

## **Environmental turbulence**

If there appear unexpected changes in the environment, proper plan and program can be developed by studying and analyzing the competitive forces in order to face such changes but sometimes organizational environment becomes turbulent. The turbulence appears in the forms of crisis. Such crisis may ruin the organization, but the managers do not get ready to face such situation.

How do organizations adopt their environments? Organizations adopt their organizations in the following ways (Griffin, 2000, p. 86,):

**Information management** It is an important method of adopting environment by an organization. Organization may use different technologies for information management. Among them the main are: boundary spanner, environmental scanning, and information system.

**Social responsibility** It is also an important method of adopting environment. Organizations should compulsorily bear social responsibility. Organizations have their responsibilities towards shareholders, customers, employees, society, and nation.

**Strategic response** The another method of adopting environment by an organization is strategic response. To maintain strategic as it is, to slightly change it, or to adopt completely new strategy are the alternatives for organizations.

**Mergers, Takeovers, Acquisitions, and Alliances** If two or more organizations make a new organization joining together, it is called merger. If one organization buys another organization, it is called takeover. After acquisition an organization is acquired and the acquired organization works as subordinate organization. If one organization signs a contract with other to work together in a new venture, it is called alliance. Organizations adopt such strategies for expansion and easy access to new markets.

**Organizational design and flexibility** Organizations adopt their environment even by bringing flexibility in their structure.

**Direct influence of environment** Organization does not remain always weak. It also influences environment. Even influencing environment, the organization adopts their environment. Organization can influence environment in many ways. For example: an organization may sign a long term contract with suppliers to purchase certain goods at certain price.

## **Components of Environment**

Nepal is an underdeveloped country. Although it is naturally beautiful, its dependence on foreign aids is its compulsion due to hilly and landlocked situation. Mainly there

are export oriented industries, import substitution industries, production industries, and service industries in Nepal. It is natural for these industries to be affected by environmental forces or components. These components are classified into four categories. They are economic, political-legal, socio-cultural, and technological environment.

### **Economic Environment**

Economic environment is the important component to affect business organization. If the economic environment is good, the business organization can get ample opportunities. If it is adverse, they have to face different challenges. Government of Nepal has been trying to make the economic environment favorable to the business organization. The economic environment of Nepal at present can be found as follows:

**Economic condition** Nepal is an agriculture country. About 80 percent of its population is engaged in agriculture. So, the Nepalese economic system has depended on agriculture. Nepal lies in the list of very poor countries. The per capita income of a Nepal is 230 US dollars. There is also a great inequality in the distribution of national income. 42.7 percent population is compelled to live below the poverty line; Nepal has adopted mixed economic system. There are socialist model business organizations operated and controlled by the state and there are also capitalist model business organizations operated and controlled by the private entrepreneurs.

Nepal's economy has not become fully independent as yet greater part of annual budget depends on foreign aids. Nepal gets aids in soft loan and donations. It is very a backward country in capital formation through collections of saving funds and its effective mobilization. Therefore, Nepal's financial market is in miserable condition. A lot of effort is needed to improve such miserable economic condition of Nepal.

**Trade and Transit policy** Government of Nepal has implemented trade policy 2049 to simplify and regularize the foreign trade. The objectives of the trade policy 2049 are to create open and liberal environment, to increase domestic and international trade through increasing participation of private sector as to boost up the contribution of this sector to the national economy, to develop trade in sustainable way by gradually reducing trade imbalance, to expand employment oriented trade and link it to the other sectors, to export trade and make it competitive and sustainable. Along with this, proper import and export policy, arrangement for foreign exchange and internal trade policy have been implemented.

Nepal has become a member of World Trade Organization- WTO. Government of Nepal has claimed that Nepal should get unobstructed transit facilities. Till now, it has used Kolkata port as its transit point. Since this route is long and expensive,

Nepal has talked with India to give consent to use Foolbari Bagalabanda route. As a result of several talks with Indian government, an agreement was signed in June, 1997. Since that agreement, Nepal has been using Foolbari Bagalabanda route. But some unexpected difficulties have appeared in the use of this route.

**Industrial policy** A proper and suitable industrial policy should be adopted to industrialize the country. So Government of Nepal has adopted Industrial Policy 2049, According to this policy government can gradually handover state owned enterprises to private sector and it shall not nationalize the private sector companies. The government has adopted the policy to invest in the sectors necessary for the national economy to which the private sectors are not attracted. The government has also forwarded the policy to encourage private sectors to take part in the development and management of community and private forest, small hydropower and road, bridge, tunnel, ropeway, hospital, etc. The industrial policy 2049 has also aimed at reducing unemployment problems by developing employment generating industries, utilizing local resources, giving priority to export oriented industry, amplifying industrial production and productivity to increase contribution of this sector to the national economy. The government has adopted the policy of industrialization for balanced development of the nation.

**Privatization policy** Nepal has adopted mixed economy policy. Due to the failure of state owned public enterprises to give reasonable return of the investment and failure to contribute to the gross domestic product as expected, the government has lost its hope towards them since the 1980s. The sixth plan has mentioned to involve private sector in management of public enterprises. The seven plan declared to handover all the sectors to private sectors except the defense and very important and basic services. The industrial policy 2049 incorporated provision for privatizing all the other sectors except very important enterprises related to public utility and defense sectors. The policy of privatization was developed in BS 2048 and privatization law was enacted in BS 2050 by the parliament.

The privatization policy was adopted and implemented with the objective to lessen the financial and administrative burden on the government, to raise productivity by increasing efficiency of public enterprise, to provide capital to the government for alternative use, to raise economic growth rate of country enhancing public participation on industry, and so on. The government has adopted the policy to invest by itself in the sectors to which the private sector is not attracted and in the sectors related to basic needs, public utility, and defense, and nationally very important. The government has no policy to nationalize the private industries. Rather it is encouraging private sectors and has given priority to free and liberal economic system.

**Income distribution** Nepal is an underdeveloped country. The per capita income of the Nepalese is 230 US dollars. This income shows the poor purchasing power of the Nepalese people. The rich are very rich and the poor very poor in Nepal. Only a handful of persons are very rich in Nepal. Poverty is overrunning everywhere. So, income distribution in Nepal is unequal.

**Economic policy** Financial and monetary policies come under economic policy. These policies also have direct effect on business organization. Tax and public expenditure policies also come under the economic policy. Nepal government makes these policies. The business organizations must follow such policies.

Nepal Rastra Bank makes the monetary policy in Nepal. It directly affects the demand and supply of money, cost of credit, level of average demand etc. This affects interest and inflation rates by which business organization get affected.

### **Political- legal Environment**

Political system and parties, administrative policy, legal provision, and constitution fall under political- legal environment. It is another important component of Nepalese environment.

**Political system and parties** Political system directly affects the business organizations. Nepal has been practising republican democracy as a result of peoples' movement of 2062-063. There are various political parties in Nepal. The political-economic thoughts of political parties directly affect the economic system of a country. United Nepal Communist Party (Maoist), Nepali Congress, Nepal Communist Party (UML), Madhesi Jana Adhikar Forum are the biggest parties of Nepal. These all parties are adopting mixed economic policy even when they are different political ideologies.

**Administrative policy** Administrative policy is an important element of political-legal environment. As the administrative policy of a country affects the whole industrial sector, the manager should always be well informed about administrative policy and lead the industry accordingly. Government of Nepal has adopted the policy to strengthen organization, make effective the instruction and training programs, bring co-ordination among different organization, enable participation of all administrative levels through decentralization and delegation of power, simplify decision making process, activate the role of Administrative Court, implement special and rigid policy for corruption control, organize high level manpower and further strengthen regular monitoring system. The administration becomes strong and healthy through such policies.

**Legal provision** The other element of political-legal environment is legal provision. Legal provision directly affects business organization. If the legal provisions are favorable, the business organizations are positively affected and if they are unfavorable the business organizations are negatively affected. Different laws and regulations are enforced to regularizes and control the business organizations. According to the legal provision, the cottage industries need not to pay excise duty and income tax and the industries such as cigarette, beer, *bidi*, plastics, vegetable ghee, electric ( except wiring ), power oriented, agriculture, mineral etc should pay excise duty and income tax only after five years from the commencement of production.

The Export and import control Act, Nepal Act, Private Firm Registration Act, Partnership Act, Company Act, Patent Design and Trademark Act, Nepal Mine Act, Hotel Management and Liquor Sales Control Act, Bonus Act, Black Marketing and Social Crime Punishment Act, Tourism Act, Mediation Act, Check Post Act, Income Tax Act, Excise Duty Act, Property Tax Act, Sales Tax Act, Contract Act, Value Added Tax Act, Labor Act, Foreign Investment and Technology Act, Industrial Business Act etc, are the concerned subjects for the managers of any business organization. So, they should be well in informed about such Acts

**Constitution** Constitution is other main element of the political- legal environment. It should clearly explain the economic policy of the country.

### **Socio-cultural Environment**

Population, pressure groups, reference groups, social classes, lifestyle, attitudes, beliefs, religion, education, language, etc. fall in socio-cultural environment. Socio-cultural environment also directly affects business organizations.

**Population** According to the statistics of 2058 BS, 23,1,51,423 live in Nepal. Among them men are 49.95% and women are 50.05%. Now Nepal's population growth rate is 2.27%. Eight or ten years ago the people used to migrate to *Terai* region but nowadays, the pressure of migration is growing in city areas including *Pokhara* and *Kathmandu* valley.

**Pressure group** Pressure groups conduct different activities for the interest of group or society. Such activities affect business organizations. Consumer's association, Civil Society, Human Rights Organization, Women Association, Environment Protection Forum, Children Right Forum etc. are pressure groups. As these pressure groups are working in Nepal, they affect business organizations.

**Reference group** Reference groups bring change in consumer's attitude. Political leader, cine stars, characters, musicians, singers, scientists etc. are included in reference groups. Consumers imitate them. This also affects business organizations.

**Social class** Nepalese society can be classified in three classes such as high class, middle class, and lower class. Their purchasing power, lifestyle, tendency, interest, behavior, etc. differ according to class of people. It also affects the business organization.

**Life-style** Social change causes change in the lifestyle of people. Life style of people is expressed through their activities, talks, behavior, etc. The life style of Nepalese people is changing. Change in such things also affects business organizations.

**Attitude** The other important element of socio-cultural environment is attitude towards time, work, and change. So, a manager should carefully consider this element as it affects business organizations. People's attitude is affected by education, language, culture, and belief. Looking as whole, the attitude of Nepalese people towards time, work, and changes is not satisfactory. The office time has been fixed from 10 AM sharp, but the service holders are present only after 10.30, and mostly they do not stay at office after the noon. The fixed time for meeting is not accurately maintained. They surpass the fixed or given time by at least 1 or two hours. Delay making is persistent in offices. Works are not taken as duty and morality. Tendency to accept new changes in management and technology has not been developed. The Nepalese give importance to traditional concepts.

**Belief** The other important element of socio-cultural environment is public belief. It has been influenced by education, religion, culture, etc. The Nepalese people believe in fate. They have the concept that success or failure depends on the wish of God, but not on action or efforts of any person. The result of any work or effort is looked as the result of God's wish, or Sati's course or the fruit of previous life. People visit temples to promise a sacrifice or pray to God for success. Different kinds of superstitious activities are carried out even in this 21st century. Most Nepalese do not buy new clothes on Monday. So, it seems it will take more time for the complete change in people's attitude.

**Religion** Nepal is secular state. There are about 80.62% of the people professing a Hindu religion and about 10.74% profess *Buddhist* religion in Nepal. Other people upholding *Islam, Jainism, Christianity*, etc. also live in Nepal. There is religious tolerance in Nepal. No religious conflict has ever occurred in Nepal. Hindus and Buddhists have maintained intimacy. The goal of all religions has been to serve human interest and welfare.

**Education** The other important element of socio-cultural environment is education. Only 53.75% people are literate in Nepal. It adversely affects the business organization.



**Language** The other important element of socio-cultural environment is language. It is the strongest media for communication. It directly affects business organizations. It also plays an important role in development of a country. In the ancient age, *Sanskrit*, *Kirat*, and *Newar* languages were used as official language. But in the modern Nepal, as most of the Nepalese people can speak and communicate in Nepali language, it has been used as official language. The Interim Constitution of Nepal 2007 has recognized all the mother tongues spoken in the country as national languages. But English language has been used in foreign missions, foreign trade, etc. In most of the Nepalese business organizations Nepali language is spoken but all the records are kept in English language. However, the financial reports to be sent to government offices are prepared in Nepali language.

### **Technological Environment**

This is the age of new technology. Development of technology positively affects industrial development. Nepal's technological environment can be explained in the following four ways:

**Level of technology** The level of technology becomes labor oriented and capital oriented. Human resource is used in labor oriented technology and advanced machinery is used capital oriented technology. In Nepal mostly labor oriented technology is in use. However, this technology is slowly changing to capital oriented technology.

**Pace of technology** Technology is dynamic. Its pace of change is intense. So, a manager should be able to adopt the new technology. Nepal also cannot remain aloof from it.

**Research and Development** The other important element of technological environment is research and development. The business organizations are also affected by the ability of a nation's scientific research and development. The business organizations can conduct research and development section by themselves. But some may not be fully able to conduct R&D section alone since it needs high amount of investment. So, the state itself should be involved in R&D. In Nepal also, Technical Schools, Practical Science and Technology Research Centre, Nepal Academy of Science and Technology, etc. are working for research and development.

**Transfer of technology** Nepal lags behind in the sector of science and technology. A country should be economically sound for the development in science and technology sector. Since Nepal is economically weak, development of science and technology is impossible for the country. Hence, Nepal has adopted the policy for the transfer of new technology. For examples, we can take *Coca-cola*, *WaiWai* Noodles, *Gold Star* Television, *Tuborg* and *San Miguel* Beers, etc. Technology can be transferred in the following ways:

- Directly importing new technology,
- Opening branches of multinational companies,
- Handing over management of organizations to foreign firms or persons, and
- Sending existing manpower for training and development to enhance administrative and technical know how.

### **Conclusion**

In conclusion, different forces which affect the organization constitute, what is called, business environment. They provide both opportunities and challenges. The business organization should scan the environment before taking the decision. The major conclusions of this study are as follows: (i) there is deep relationship between organization and environment; (ii) economic condition, trade and transit policy, industrial policy, privatization policy, income distribution, etc. are the major economic environmental forces of Nepalese organizations; (iii) political parties, administrative policy legal provision, constitution, etc. are the political-legal environmental forces; (iv) population, pressure group, reference group, social status, life style, attitude, beliefs, religion, education, language, etc. are the social-cultural environmental forces; and (v) level of technology, pace of technology, research and development, technology transfer, etc. are the technological environmental forces of Nepalese organizations. Increase of private investment in core industries, development of private sectors, and appearance of multinational companies are the major features of Nepalese business environment.

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