

**Environmental Determinants of Multinational Companies in Nepal: A Case of
KFC and Pizza Hut.**

Course Code: BE 309 E

Candidate No: 11

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*In partial fulfillment of the requirements for The Degree of Master of
Science in Business,*

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May 2015

Acknowledgement

This paper would not have been possible without a number of important people who have been by my side throughout the time of this journey. I would like to thank my supervisor Professor Dominique Thon and university advisor Ellen Sirnes for their invaluable guidance, information and help. I am equally indebted to the respondents for their cooperation and valuable time. Likewise, I would like to express my heartfelt gratitude towards my friends and family for the continuous support during the project. I am equally indebted to my teachers and administration at the University of Nordland for the invaluable support during difficult times.

Abstract

Stating the obvious, a host of factors influence the business operation of Multinational Companies (MNCs). MNCs, as business firms operating across international borders, have to tackle multitude of issues. Among other issues, micro economic factors like politics and socio-cultural mix of the host country are particularly significant in determining the success and existence of MNCs. This paper—Environmental Determinants of Multinational Companies in Nepal: A Case of KFC and Pizza Hut—seeks to understand the micro environmental factors surrounding the MNCs in Nepal. The business environment of Nepal is characterized, if not riddled, by political instability, pervasive corruption, power shortages and troubled relationship between the management and the trade unions. The paper tries to assess how the MNCs negotiate their success and existence in a Nepalese business environment.

Keywords: Business Environment, MNCs, Corruption, Labor Unions

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Environmental Determinants of Multinational Companies in Nepal: A Case of KFC and Pizza Hut

1. INTRODUCTION:

The introduction section focuses on providing the overall picture of the thesis and will briefly dwell on the aims and motivation of the study. Moreover, the section will dwell on the general background of and to the study as well as discuss the research problem—environmental determinants of multinational companies (MNCs) in Nepal. This chapter aims to define the research problem along with the purpose of the study and its limitations.

1.1 BACKGROUND:

The thesis, Environmental Determinants of Multinational Companies in Nepal: A Case of KFC and Pizza Hut, apart from being a partial fulfillment to the Masters program in International Business, is of some personal interest to me as well. As a student of internal business, I have always been interested in the business scenario of Nepal in connection with the changing face of Nepal and her response to the forces of globalization. While multinational franchises are often seen in terms of or in connection with globalization, the entry of international food brands in Nepal offers a good platform for research. In this connection, the current research aims to understand how the two firms in question are coping with the overall business environment in Nepal.

The highly anticipated launch of the international food chains—KFC and Pizza Hut—in Kathmandu, the capital of Nepal, created quite a buzz in social media in Nepal. People talked about the long queues in the food outlets and pricing of the foods, some even talked about the negative consequences that the introduction of international food chains would have on the national economy and society. However, the business operation of the international food chains has not been smooth. KFC had its issues with labour unions and was forced to close for some time. As of 2015, the two international restaurant chains remain closed due to trouble with labour unions. The focus of this paper will be to look into the environmental determinants of MNCs in Nepal.

1.2. RESEARCH PROBLEM:

1.2.1 RESEARCH BACKGROUND:

Multinational companies (MNCs), as the name suggests, are business enterprises operating across national boundaries, charting into vast territories and motivated to push their performances far and wide. The territories—far and wide—often offer both opportunities and challenges to the MNCs. While the new territories that mean new markets offer new opportunities to the business community, they also come with numerous challenges. One of the challenges is the new and unfamiliar business environment. Talking about the influence of business environment on business firms, Michael Chibba writes, “The business environment in a country plays a central role in decision-making by global firms with respect to matters of cost-reduction and profitability, comparative advantage, the state of labour force and infrastructure in the host nation, and ease of doing business” (Chibba, 2012:110). While the influences of environmental factors on business firms are undeniable, it is also important to understand what constitutes a business environment. “The general environment is composed of elements in the broader society that can influence an industry and the firms within it” (Fahey & Narayanan, 1986:49). The definition covers a broad range of elements connected with and surrounding the business enterprise.

The business operation at international level calls for a more complex process (es) given the presence of a host of factors that come into play in their business ventures. Of the many factors influencing the MNC’s operations, environmental factors of the host country play a significant role. Environmental determinants of business, broadly categorized into micro and macro environment, are some of the key issues any business enterprise should try to address, if not cope. The paper, standing on the assumption that a number of factors, environmental determinants in particular can have an impact on MNCs, will try to elaborate on how the factors influence the MNC’s business operations. The focus of this paper is to look into the environmental determinants of MNCs operating in Nepal, in general, and micro environmental factors influencing the MNCs—KFC and Pizza Hut—in particular. In so doing, the paper will try to uncover the various micro environmental factors influencing and at times shaping the business operations of the two international food chains in Nepal.

The introduction of KFC and Pizza Hut in Kathmandu, the capital city of Nepal, was a welcome sign in a country where the presence of international franchises and food chains are but sparse. The reasons for this relatively negligible presence of international brands in Nepali market are many, ranging from being a relatively small market, to the traumatic political climate of the landlocked nation. Devyani International Nepal, who operates the KFC and Pizza Hut, in a press statement released on the opening of the restaurants wrote, “Devyani International along with YUM! Brands, world’s largest restaurant company with five dynamic global brands & 35,000 outlets across 105 countries, is excited to make their entry in Nepal restaurant circle and have extensive plans for growth & expansion in this market,” (nepalnews.com). While the KFC and Pizza Hut enjoyed an immediate success and warm reception since its first day of official launch, the challenges they had to negotiate to operate in Kathmandu slowly and gradually grew. The research tries to understand the environmental determinants and the coping strategies that the business firms have adopted. Both the KFC and Pizza Hut have been operating under the same management in Kathmandu and since its inception they have expanded its chain to one more centre in Kathmandu.

While it would be logical to assume that the international food chain have so far succeeded in their business venture in Nepal, their sail have not been all smooth. KFC, not very long ago, was dragged into controversy regarding the quality of meat they serve. While the media and social media voiced their concern and outrage on the KFC fiasco, the business continues to lure middle class and upper middle class customers of the capital city. The first KFC and Pizza Hut franchises that opened in the posh shopping line of Kathmandu, King’s Way or Durbar Margh, did very well in the early days of their launch either due to their careful choice of location or due to the weight that the brand name carried. The focus of this paper, however, will be on the environmental factors affecting the business operation of the business firms in question. All in all the paper will try to find answers to the questions regarding how the two business firms have succeeded in their operations.

Nepal, though a proud and sovereign nation, and Nepalese consumers, proud citizens, have this curious fascination towards international brands and franchises. Anything international is looked upon as trustworthy and it is only urban phenomenon to be

mesmerized by things “imported”. While it may sound self-critical to make claims regarding the Nepalese consumer culture, the current trend is hard to explain otherwise. For instance, people queued up for hours to get a taste of the fried chickens during the early days of KFC launch in Kathmandu and the scene continued for over a week. People were eager to taste the famous KFC. The prices, however, is exorbitant considering the average income of an average middle-class Nepalese. Whether the spending capacity of the Nepalese middle class has grown considerably over the years or it is the craving for the chicken, KFC seem never to be short of hungry customers. Whatever the case may be, the KFC and Pizza Hut brand seem to have the brand loyalty and fascination. This study will look into the operation of the multinational restaurant chains in question and their negotiation with the macro-environmental factors.

1.2.2. RESEARCH PROBLEM

So how do the environmental factors affect the operation of MNCs? The answers are many and complex on the one hand and obvious and understandable on the other. As stated earlier, the focus of this paper will be to look into the environmental determinants of KFC and Pizza Hut in Nepal in general and the roles of macro environmental factors like Nepalese political climate and socio-cultural determinants for the two firms. For any business to sustain, it is important to take into consideration the various aspects of business environment so as to formulate strategies to excel at best of conditions and survive at worse. Business as a social activity has a direct relationship with human society; its resources are drawn from both the nature and human society, it operates within the realm of social institutions and is made of human interactions.

Business as a social activity is directly connected with nature and human society as all its resources—employees, capital, technology, market, energy etc.—exist and operate within human society and social institutions. Moreover, business as a regulated activity has to comply with government rules and regulations as well as it have international obligations to consider. Apart from the different regional and transnational alliances between different countries, business enterprises have to deal with host of environmental issues. As the business ventures, MNCs, move from

regional to national and finally to international level, the business environment starts to grow more complex and the list of things to take into consideration grows.

Defining business environment can be a “tricky” business as it could be a subjective undertaking of the business firms or people concerned. However, this does not mean that business environment lacks a stable definition. Mary Agboli and Chikwendu Christian Ukaegbu in their paper—Business Environment and Entrepreneurial Activity in Nigeria: Implications for Industrial Development—brings in Bird and Gnyawali and Fogel to discuss about the business environment:

The concept of business environment itself is a tricky one, often reducible to the operational definitions of the researcher. On a general note, Bird (1989) conceptualized the business environment as events, circumstances, situations, settings and niches, which surround entrepreneurial activity. In the same vein, Gnyawali and Fogel (1994) see the business environment as the overall economic, socio-cultural and political factors that influence people’s willingness and ability to undertake entrepreneurial activities. A good business environment or investment climate will encourage private firms to be well managed and efficient, be profitable to grow, create jobs, increase the rate of economic growth, and reduce poverty (Development Gateway 2004). (From Agboli & Ukaegbu, 2006:2-3).

The definition of business environment, as much as it can be subjective covers as much a broad area ranging from micro factors that may influence a business operation to the macro aspects that have some implications on a business firm. From politics to the socio-cultural aspects of the host country to the managerial dilemmas and strategic considerations to the local consumer preferences, business environment covers a wide array of things that may influence and affect business firms. As often and popularly stated, “business does not operate in vacuum, it operates in an environment,” business is a two-way street at its simplest sense and a complex undertaking in a more reasonable understanding.

While it could be argued that the success of any business firm depends largely on the business environment that it has to deal with, it should also be noted that the business environment can both be internal and external—within one’s control and those out of one’s control respectively. Agboli and Ukaegbu, in their paper on business

environment in Nigeria, talking about the internal and external business environments write that the former focuses on the “internal structure, culture and process of the enterprise, including organizational structure, managerial practice, incentive systems, collegial relationships and other organizational idiosyncrasies”, external environment, on the other hand, focuses more on the “... issues and conditions generally outside the enterprise,... These include government regulatory policies and bureaucratic practice, infrastructure, availability of operational resources such as finance, labour, machinery and raw materials and the political climate” (Agboli & Ukaegbu, 2006:3). Apart from the usual listings of different aspects of business environment, as one firm crosses national border, including new cultural and social territory, MNCs also have to deal with uncertainties that may arise from the different environmental setting. While the very nature of business of being unpredictable and at times a matter of risk taking, entrepreneurs often maneuver to cut down the uncertainties.

Arguing in the same vein, Briance Mascarenhas, in his paper *Coping with Uncertainty in International Business*, convincingly writes, “If the domestic business environment can be labeled uncertain, the international business environment is doubly so. In going overseas, firms face, in addition to domestic sources of uncertainty, foreign exchange and political risk” (1982:1). While uncertainty could be the nature of business, the desire to ascertain control and device predictability has been a thing of human engagement, at least in business community. International business ventures owing to its exposure to the different environmental conditions and changed scenario have to cope with new challenges stemming from the changed business environment.

According to Chibba, the business environment or business climate generally has what he refers to as three key dimensions: economic, political and governance-related matters. The economic dimension covers the things like “costs of doing business, what incentives are available, the labour climate, economic growth prospects, employment, and related economic issues”. Likewise, the political dimension refers to “political constraints (the type and form of government in power; and what changes are politically feasible), and political stability, generally”. As with the governance-related matters, it deals with the “issues such as the rule of law (including enforcement of laws), business regulations and procedures in place, the government apparatus, oversight and the role of corruption” (Chibba, 2012:110). This paper tries

to look into the macro-economic environmental factors like corruption along with the issues concerning business firms like trade unions and local business environment. The focus of this paper, however, will be on all the three dimensions in connection with the KFC and Pizza Hut.

1.2.3. PROBLEM DEFINITION

As discussed earlier in the research background, there are many environmental factors influencing and affecting the business operation of MNCs. In the context of Nepal, the two business firms in question—KFC and Pizza Hut—have their own share of host of issues to tackle. The paper tries to answer the following questions:

- i. What are the environmental factors affecting and influencing the operation of KFC and Pizza Hut in Nepal?
- ii. How do the macro environmental factors influence the KFC and Pizza Hut in Nepal?
- iii. What factors should the business firms consider to operate in Nepal?
- iv. What may be the influencing factors for the operations of MNCs and what impacts might the MNCs have in Nepalese society?

1.3. RESEARCH STRATEGY

The current study, in its exploration of the environmental determinants affecting the operation of multinational franchises KFC and Pizza Hut in Kathmandu, will adopt the case study and interview method. The case study method is an effective tool to analyse the social phenomena. According to Yin, “a case study is an empirical inquiry that (a) investigates contemporary phenomena within its real-life context, especially when (b) the boundaries between phenomenon and context are not clearly evident” (1994). Case studies are appropriate when looking into social phenomena like environmental determinants of MNCs as it is important to look into the issue within a sustained period of time. Though the time constraints will not allow for the observation over of a long period, the study will look into the history of the business enterprises in question. An observation will be made through its, KFC and Pizza

Hut's, earlier days and analysis will be made on its current performance. The focus of the study—to investigate how the various environmental factors affect the MNCs—can be best understood through this method. The study will look into the various environmental factors in connection with the business operation of the MNCs in question. An interview will be conducted with the management officials of the firms regarding their business.

1.4. PURPOSE

Much ink has been spilled on Nepal's bleak political picture and dismal economic growth as well as on its development agendas and growth potentials. While the domestic politics does not present to us an encouraging picture, business is something that thrives in adversity often defying the normal human logic. This paper aims to uncover the direct and indirect impacts of environmental conditions on the two business firms under observation. The study will seek to uncover the links between the performance of the MNCs and the business environment of the host countries thereby arrives at an understanding about how the MNCs negotiate their survival and success in different environmental conditions.

1.5. DELIMITATIONS

The study focuses on the two international franchises operating in Nepal and both of the firms are related to food and hospitality sector. It does not include other MNCs which might have longer history of doing business in Nepal. The research, in its exploration of the MNCs operation in their relation to the environmental condition, will not be able to look into the implications that the MNCs may have on people.

2. LITERATURE REVIEW

This chapter focuses on the available literatures concerning the MNCs and its environmental determinants in general. Furthermore, a range of issues relating from the definition of MNCs to the types of MNCs, to the MNCs operating in Nepal along with the MNCs and business environment will be discussed. Also, the chapter will discuss about Nepal's culture in relation to its business environment. Apart from the relevant literatures regarding the MNCs and their environmental determinants in the context of Nepal, this chapter will also shed lights on the relevant literatures concerning the Nepali culture and business environment in connection with the issue of MNCs. However, the focus of this section will be on the MNCs and business environment in Nepal. The paper is further divided into subsections to dwell on the various subject matters relating to the overall study.

2.1. MNCs: An Overview.

One of the simplest modes of defining multinational companies or MNCs is looking into the organizational traits that characterize them and the business activities they involve in. MNCs are basically characterized by their multinational business operations, large size, international ownership, and transfer of resources, to list the few. MNCs have transnational operations but they cannot be termed transnational corporations as MNCs, unlike transnational corporations, base their operational headquarters in their home country while the same could not be said of the transnational corporations.

According to the International Labour Organization (ILO), The essential nature of the multinational enterprises lies in the fact that its management headquarters are located in one country (home country) while the enterprise carries out operations in a number of other countries" (Cited in Agrawal, 2005:383). Likewise, arguing in the same vein, Sundaram and Black state that, "Multinational enterprise is any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making permitting influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise" (Cited in Agrawal, 2005:383). MNCs, as the above definition suggests, are defined by their international business operations, centralized

control method and their being prone to influences from host of factors of both home and host countries.

MNCs are business firms or companies that operate in two or more than two countries. In other words, companies or corporations whose business activities are not restricted within a single country can be called a multinational company. However, to define a MNC merely in terms the geographical boundaries that it covers and traverses would not be enough as there are host of the other factors and characteristics that constitute a MNC. These corporations cross their national boundary and enter into the other for their business. Multinational companies operate in diverse environment. Some of the multinational companies have their operation in hundreds of countries. “Three types of firms are distinguished by nearly every study: Multidomestic (combining low integration and high responsiveness), Global (combining high integration with low responsiveness) and Transnational (combining high integration with high responsiveness)” (Harzing, 2000:103).

According to the United Nations, “Multinational companies are enterprises which own or control production or service facilities outside the countries in which they are based”. These companies have their head office or central office in the home country and other branches in different parts of the worlds. These transactional corporations are registered in one country but often run their business transactions across the world. Both the MNCs in question—KFC and Pizza Hut—have their organizational headquarters in the USA but they have their business across the globe. The launch of the international food chain, a MNC in Kathmandu, can also be viewed as an influence of globalization and as a market expansion of MNCs.

The concept of globalization and the term MNCs are quite related and thus we have to give some of our attention in globalization too. The term globalization refers to the movement of any goods or services or any business operations in international market. The internationalization of any business or the business activities is called globalization. Globalization by name suggests that any firm or any product are entering and performing in global context. In globalization, firms are doing their operation locally but are thinking globally. The entire world now is globalized; everything we do and everything we see are being linked with global scenario. It has created a tough competition not only in products and services but also in technologies,

methodology, management systems, marketing, research and development, investments and so on.

Multinational Companies are thus a component or an actor of the term globalization. It means all the multinational corporations work in global environment. Everything they do has a global meaning and at times far-reaching implications. They are not just concerned with business within the home country but also to the world outside. The process of manufacturing, buying, selling, servicing, operating, marketing, advertising and managing all gives the global meaning. There is wide mobilization of resources. Resources may be human resources, technical resources as well as financial resources.

2.1.1. TYPE OF MNCs

MNCs can have different forms considering the nature of business they involve in as well as the ways they do business. MNCs can be classified into four categories if we consider their structure and establishment.

a. Franchising:

One of the most common forms of MNCs is franchising. Franchising refers to the business strategy where the MNCs allow its affiliates to use its trademark, patents and brand names but must adhere to the parent company's policies. The firms get the right to operate their business as per the terms and conditions of franchise agreement by paying royalties or license fee to the parent MNCs. This is a popular model for the products and services which have high demand in host countries. For example, Coca Cola in Nepal. Franchising is usually popular with luxury items, sportswear and food outlets.

b. Branches:

MNCs also open branches in different countries or they make their presence felt in different markets. The head office, usually located in the home country, controls the operation of its branches. The head office sets policies and rules for its branches. MNCs can have any number of branches depending on the size of the parent corporation. The Pepsi Cola Company of the USA operates in 114 countries including Nepal. The branch of Pepsi Cola operates in Nepal and the Nepal branch has to operate within the guidelines of the head office.

c. Subsidiaries:

Subsidiaries refer to the companies that are wholly or partly owned by another company. However, the parent company holds a minimum of 50 percent shares. This is one of the ways MNCs expand their business operations across the countries. Subsidiaries can be wholly or partly owned. In the case of wholly owned subsidiaries, only the people in the parent company can own the shares but if it is partially owned, people of the host country can also own the shares. Usually parent company is larger than its subsidiaries. Bartlett and Ghosal, talking about the operation of what they call 'global company' state that "The organizational structure of the Global company is centralized and globally scaled, and the main role of subsidiaries is to implement parent company strategies—that is, mainly to act as pipelines of products and strategies" (Bartlett and Ghosal, 1989, 1992. Cited in Harzing, 2000:108). Just like other MNCs, the operation of subsidiaries is also guided by their parent companies. Subsidiaries act as a distinct legal entity for the purpose of liability, taxation and regulation.

d. Joint Venture:

Joint venture, as the name implies to a business firm where more than one firms come together. Generally, foreign companies establish joint ventures with local companies to enjoy the local resources for production purpose available in the country. In a joint venture, parties also have control over the enterprise. Most business houses or companies choose to enter joint ventures in order to share strengths, maximize risks, and increase competitive advantages in the market. A joint venture is like a partnership because of the features like shared management, profit sharing, equal rights and responsibilities but partnership is long-term ongoing business whereas joint venture can be based on a single transaction as well. However, unlike a partnership, a joint venture is based on specific area or purpose so when purpose is completed, the profit and losses are shared, bills are paid off and venture is completed. MNCs provide technological and skill to the local firms. In the case of Nepal, we can see the joint ventures of different banks and financial institutions like Global IME Bank, NIC Asia Bank, Everest Bank in joint venture with Punjab Bank of India.

Apart from the four categories of the MNCs discussed above, MNCs can have different forms. Business commentators and educators alike, often discuss the

existence of the MNCs and their different variants. Though they are often of different viewpoints regarding the variants of the MNCs, they agree on the existence of it. Anne-Wil Harzing, in her paper—An Empirical Analysis and Extension of the Bartlett and Ghosal Typology of Multinational Companies—write that, “Most of the literature in international management either explicitly or implicitly assumes the existence of different types of MNCs. Terms such as Polycentric, Geocentric, Ethnocentric, Multidomestic, International, Global, and Transnational often are used to denote different types of MNCs” (Harzing, 2000:101). Likewise, the businessdictionary.com categorizes multinational corporations (MNCs) into four subgroups: “(1) a multinational, decentralized corporation with strong home country presence, (2) A global, centralized corporation that acquires cost advantage through centralized production wherever cheaper resources are available, (3) An international company that builds on the parent corporation’s technology or R&D, or (4) A transnational enterprise that combines the previous three approaches” (2015).

W.A. Dymysza, echoing the similar tone argues that distinctions are generally made between the terminologies as international and multinational. Multinational designates “a highly developed international company with a deep worldwide involvement *and* a global perspective in its management and decision making” (W.A. Dymysza, in Priel, 1974:47). Talking about the different types of MNCs, Priel has categorized MNCs in four broad categories: manufacturing enterprises with local processing or assembly of imported components, merchandising firms with partial manufacture and contracted suppliers, prime producers or extractors of natural and agricultural resources, and quasi-identical brand operations in service or catering (Priel, 1974:48-49). According to Priel, the first two groups “represent the growth of technology and marketing opportunities. Likewise, the third group “reflects the widening scope of exploration. The focus of this paper, KFC and Pizza Hut, is closer to the fourth category—the group whose existence, according to Priel “is in response to greater mobility of world population”. The launch of KFC and Pizza Hut, in the context of Nepal, can also be associated with Priel’s first two groups if we consider the “widening scope of exploration” on the part of the international restaurants. MNCs, therefore, are many and varied and labeling them as one is not always easy and correct.

2.1.2 MNCs IN NEPAL

This subsection will describe in brief the multinational national companies that are operating in Nepal, their nature and characteristics, their importance, advantages and disadvantages. In so doing, the subsection will try to discuss the issues of having MNCs in least developed countries, their challenges, and importantly the current environmental situation that they are operating with. By the term environment or business environment we mean the things surrounding and influencing us. Here, the environment of multinational companies refers to the system, policy, nature, trends, habits, cultures and peoples inside and outside of the company. Also, while talking about MNCs and their launch, if not expansion, in developing countries like Nepal can and should be viewed in connection with the forces of globalization. MNCs are often viewed as forces, at least economical, of globalization and globalization also plays catalyst to MNCs growth and expansion.

Academicians often argue and seldom find a common ground concerning the definition and traits of definition. Globalization is often critiqued as a latent form of westernization and democratic agenda of the affluent West. While globalization and democracy may appear as the reasonable and rational modus operandi if one is to pursue development considering the western success model, it is also important to look into the possible consequences, both positive and negative, on the developing nations that are recently playing host to the MNCs. As asked by Bennett, “What is the nature of the enrichment of people envisioned in a world driven by globalization via multinational corporations? Even if one did accept the view that the welfare of ordinary people would be greatly improved through the activities of multinationals, one might ask what sort of welfare would it be” (in Neal & Bennett, 1994:30)? Will the MNCs foster development vis-à-vis democracy and peace or will it drag the host nations further deep into troubles should it fail to cope with the changed environmental conditions? There is no easy and correct answer to it but it is important to raise questions.

MNCs in Nepal, at least the two business firms in question—KFC and Pizza Hut—have in fact given the forward-looking capital city a touch of international business and presented a competition to the local market. Will it help foster the service sector and help push other local business firm to step up their service quality and menu or

will it be happy to muscle up local firms? Again the answer, only time has it. Cameron, talking about the operation of multinational business ventures of banks, writes, “As authoritatively stated, banks expanded their cross-border and cross-currency business, opened branches and launched new ventures in foreign countries as a reaction to epoch-making shifts in communication, technology, international trade and capital flows” (Cameron, 1991: 12-14 from Battilossi, 2006:362). Technological growth and its spread contribute to globalization and facilitate international trade. A number of MNCs have their business operations in Nepal and the business sector is diverse and varied ranging from banks to hardware to service and food outlets. Below is a table presenting the list of important MNCs active in Nepali market.

Table 1.Important Multinational Companies in Nepal

| | |
|----------------------------|-------------------------------------|
| 1. Unilever Nepal | 11.Coca Cola . |
| 2. Dabur | 12.Pepsi |
| 3. Holiday Inn Crown Plaza | 13.Nepal Arab Bank |
| 4. Radisson Hotel | 14.Standard Chartered Bank |
| 5. L.G Television | 15.Himalayan Bank |
| 6. Samsung | 16.Nepal SBI bank |
| 7.Jenson & Nicholson paint | 17.San Miguel Beer |
| 8.Wai Wai Noodles | 18.Tuborg Beer |
| 9.UTL Communications | 19.Surya Tobacco |
| 10.Ncell | 20.Life Insurance Corporation Nepal |

Source: (Govinda Ram Agrawal, 2005:40)

As of now, we have the fresh additions in the form of KFC and Pizza Hut offering their service in Kathmandu. Though Nepal's business climate does not offer the perfect conditions for business operations, the number of business enterprises entering the Nepali market has been increasing.

Nepal has low Foreign Direct Investments (FDI) in comparison with other developing nations, hence the relatively few numbers of multinational companies. Due to the political and economical situation most of the foreign corporations hesitate to invest in Nepal. Although the trade barriers have been cut off more than before, it's not so easy to survive in foreign market. For example: due to the political instability, strikes and different types of movements most of the industries in Nepal remain closed for several days. There have not been security provisions for the industries and business.

The investors, who wish to go global, thus should monitor, scan, analyze and evaluate the environmental situation of the host country. They should thoroughly analyze market before moving into investment as well as should take feasibility study. Likewise, analysis of international as well as domestic competitors is equally important should. "Understanding the strategies of current and likely future competitors and their strengths and weakness may suggest opportunities and threats for the firm which allow it to identify an appropriate strategic position to adopt" (Frank Bradley, 2005). There are many cases where the MNCs have failed in international market. The lifestyle, life standard and the cultures of host countries are some basic reasons behind it.

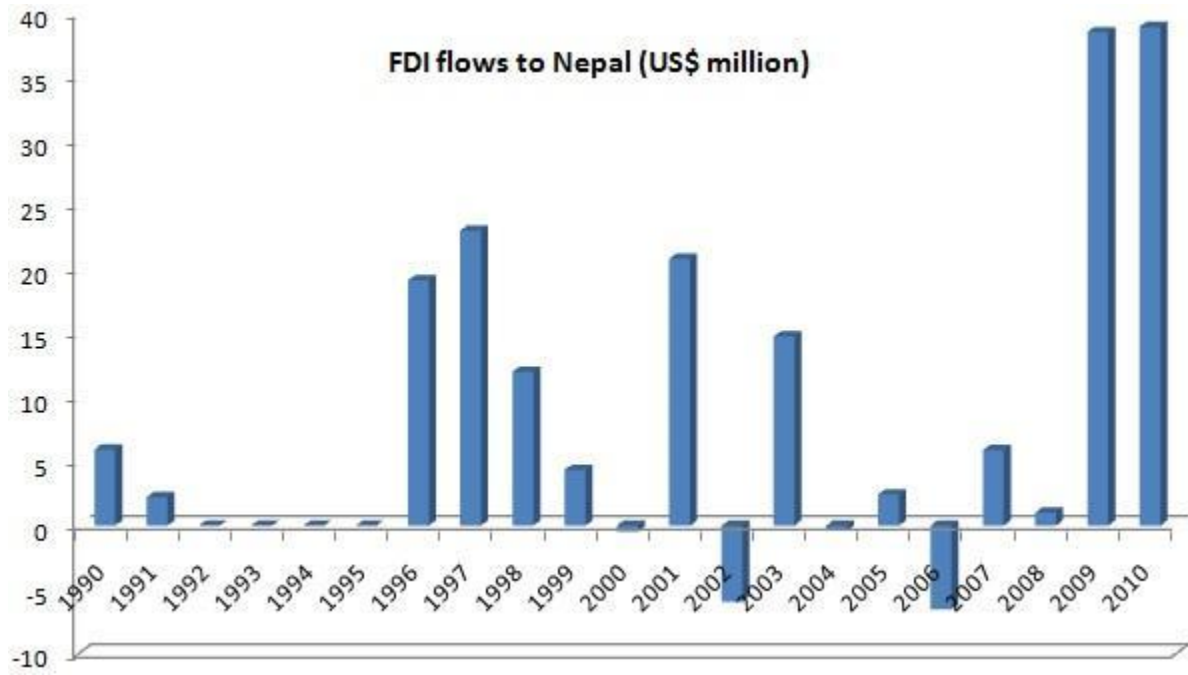


Figure 1: FDI inflow to Nepal

Source: Sapkota blog

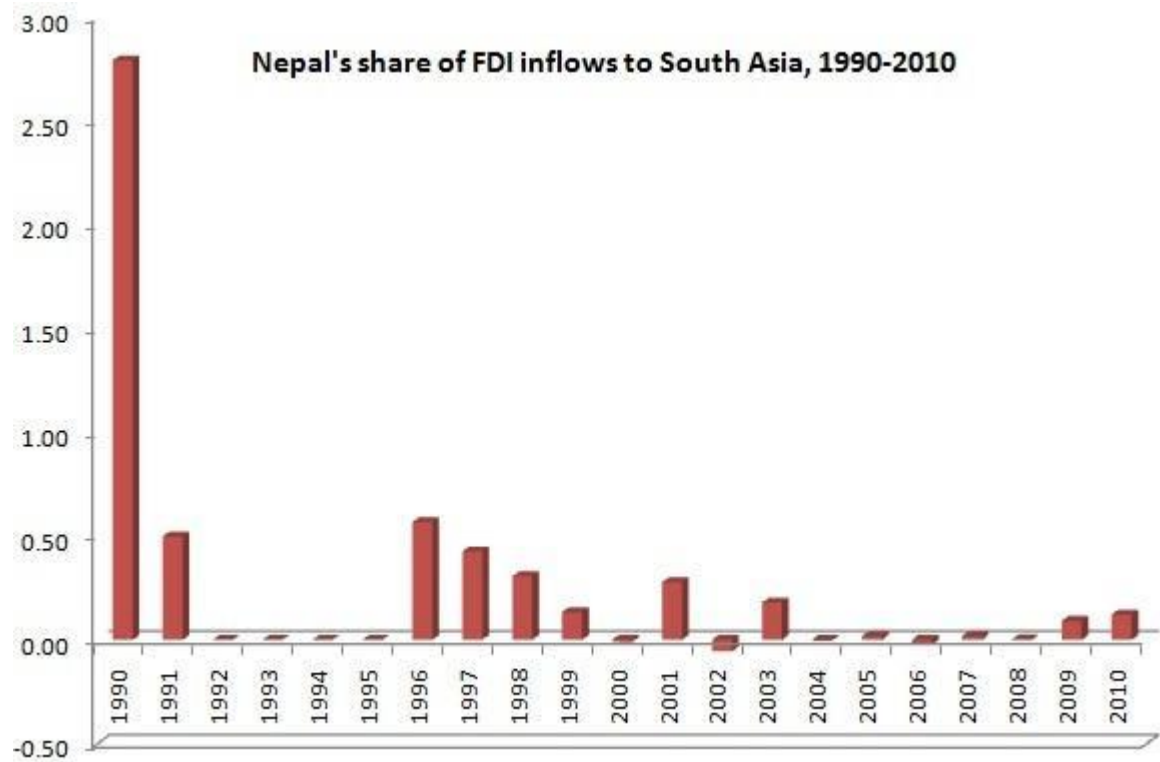


Figure 2: Nepal's share of FDI inflows to south Asia

2.1.3. Environmental Factors Affecting MNCs in Nepal (Current situation of MNCs)

Business environment in Nepal, given the current political instability and her socio-economic quandary, has a bleak picture to play host to MNCs. However, business firms continue to exist and expand amid the dismal business environment. While much could be said about the hostile business environment in Nepal, it also holds immense possibilities for business enterprises. Challenges apart, a right business strategy can make all the difference. The grievances of the business community in Nepal ranges from the tricky socio-cultural make of the Nepalese society to the political quagmire of a nation grappling with inefficient bureaucracy and corruption along with the poor national attitude towards international business.

Chibba, talking about the influence of business environment on the business firms, writes, "The business environment in a country plays a central role in decision-making by global firms with respect to matters of cost-reduction and profitability, comparative advantage, the state of labour force and infrastructure in the host nation, and ease of doing business" (Chibba, 2012:110). Talking about the influence of business environment on business firms is stating the obvious but to identify and discern them is the real challenge for any business. "The general environment is composed of elements in the broader society that can influence an industry and the firms within it" (Fahey & Narayanan, 1986:49). Nepalese environment for any business is quite distinct with lots of opportunities to grab and threats to cut down. The most influencing factor is the political instability and the economic factors like public income, life style of the people. Likewise, the cultural determinants also have enormous effect in day-to-day operations of international corporations. The price for the product may go high due to the cost of transportation. Being a land locked country Nepal doesn't have water transportation. All business has to rely on land and air transportation. Due to the lack of railway service the transportation cost goes higher. But this may not be affordable for the consumers of least developed countries.

Here, we will categorize the influencing factors for the operation of multinational into two broad topics namely macro environmental factors and micro environmental factors. A brief information about those factors and the way how they affect MNCs has been discussed below:

2.1.3.1. Macro environmental factors:

Macro environment refers to the situation or condition outside the business firms. These environmental factors are not within the control of business firms. The micro factors relate to the broader and external environmental factors of the world or of the nation. Macro environmental factor either provides opportunities to the business or poses threats to MNCs. While the favorable factors create opportunities, the unfavorable ones poses challenge to the business. The survival of a business or its growth depends highly on those factors. Some of the macro environmental factors that influence MNCs are now described below.

A) Political factors:

National politics of any host country has a crucial role in framing the business of any multinational company. The political instability of Nepal has troubled not only the national industries but also the international firms. "The political environment comprises those elements that are related to governmental affairs" (Cetro & Peter, 1993:40). In the present situation Nepal even doesn't have constitution. This also has impacts on the monetary policy and fiscal policy. The existence of more than hundred political parties in such a small and poor economy may be quite puzzling for the world. The activities of the political parties directly influence the transaction of those companies.

The trend of imposing general strikes and obstructing normal life even in small political disagreements has hampered the operation of different industries and companies. The general strike or *Banda*, as popularly called, causes about irreparable losses in the revenues that could be earned through business. Due to these types of shutter downs of MNCs there has been lots of economical losses. Corporation has to pay their salaries even they are closed. Government will charge tax. In some cases business remains closed even more than couple of weeks. The situation was worse during the Maoist armed insurgency in Nepal. However, the situation has not improved even when the country is in a state of peace. Political instability and the frequent government changes that it causes about have been routine.

One problem in particular regarding the multinational firms operating in Nepal is that of trade unions and their well-documented differences with the company management. News of strikes and company shutdowns, both temporary and permanent, are often heard coming out of the differences between the management and the trade unions. Politically motivated trade unions and management are often at odds and the tension often takes its heavy toll on the existence of the business. While Nepal tends to welcome foreign investors and MNCs, investors are often weary of trade unions, political instability and the issue of security. During the Maoist armed insurgency, the foreign investors were weary of the communist party of Nepal as they often used rhetoric nationalizing private firms. This is because of the belief that capitalist system is more favorable for international investment. The disjointed political scenario, the politically motivated trade unions, the trend of imposing or

enforcing general strikes, the obscurity in legislations relating the ownership and property rights along with the lack of security and the communists' rhetoric of nationalizing private firms often make the would-be investors nervous.

B) Economical Factors

As a member of least developed countries Nepal still has a poor economy. Out of about 30 million populations, a significant chunk of population, roughly 40 percent, are living under poverty. The living standard of Nepalese is very low in the comparison with other European and developed countries. Rosenbloom states, "The economy is probably the most obvious and pervasive category of environmental variables affecting all companies" (Rosenbloom, 2004:75). Economic factors are crucial and can impact the operation of MNCs.

According to the UN report, the per capita income of Nepal in 2011 was only about \$607. This all fact tells us about the present economic condition of Nepal thus suggesting the low purchasing power of consumers. One of the main demerits for MNCs is that if the customers have low purchasing power then there may not be market demand for the products. Marx et. al. argue, "Markets need purchasing power and people. The available purchasing power of economy is determined by a large variety of factors such as income, price savings and availability of credit" (Marx et al.1998: 61). For instance Hotel Radisson and KFC in Nepal may not have large numbers of customers as the other normal local restaurants have. They have to rely on targeted and limited numbers of customers. The price of the product may be higher for the customers due to transportation and other regular costs, which they cannot afford easily. This may result in low public demand and may prevent form market expansion.

The next point to be considered by the MNCs may be the economy-related policies made by the government. The operation, sales or profitability of any multinational company may be directly influenced by the fiscal and monetary policy of a host country. For instance, when Maoist first came to government in Nepal in 2007/2008, most of the MNCs got scared and foreign investors were on 'wait and see policy'. The indicator in stock exchange also went down and down. As soon as the Maoists made

some liberal policies and promised to provide industrial security to encourage foreign investments in Nepal, things improved little. Thus it seems that MNCs operating in developed and large economy are quite successful than those who operate in small economy.

On the other hand MNCs in Nepal are taking advantages of low labor costs. Due to the unemployment people are ready to work in a very low wages and salary. And they are paid below the international standards. This results in the lower operating costs of MNCs. Similarly, a low cost for the raw materials and resources in Nepalese market is another economical advantage for existing MNCs.

C) Social Factors

Social factors cover all the social aspects of lifestyle ranging from the fashion trends to the religious beliefs, habits, cultural mores and values as well as the overall culture of a society or population. Culture as a social factor along with other social factors life belief system and languages can have impact on the business operation of MNCs. According to Smith and Cronje, “The social environment is where peoples’ lifestyles, habits, and values are shaped by the culture, therefore making certain demands on the business” (Smith and Cronje, 1999:68). Let us take an example: most of the people in Nepal are Hindu and according to the belief in this religion they never eat beef. Likewise, consuming alcohol is not allowed for some caste groups as their religious beliefs restrict them. As of social factor, alcohol consumption is not considered appropriate in front of elder members of family in most of the families. If any international restaurant whose main food item is beef product, is planning to enter into Nepalese market then it should know about it. This eating habit and Hinduism may highly affect its sales. The trend of eating out is limited to the middle class and upper middle class people and a large part of Nepal’s population are poor.

The next but the most influencing social factor is culture and the fashions. Most of the MNCs in Nepal like Unilever, Radisson, KFC, Toyota, Coca-Cola are the examples who are being influenced by the Nepalese culture and traditional beliefs. Unlike the Western society, Nepal has various cultures and religious festivals. Numerous cultures and traditions causes about a couple of months' days offs in Nepalese business environment during a year. These cultural activities highly affects the

productions, sales and marketing activities of the MNCs. Similarly, Nepalese fashion and life style of the people also has impacts on the functioning of existing MNCs. Ball et. al., talking about the importance of understanding the cultural difference of the host country warns, “Mishandling or ignoring differences can cause numerous problems, such as lost sales, the departure of competent employees, and low morale that contributes to low productivity” (Ball et. al. 2004:292). To sum, social factors can have significant influence in the operation of MNCs.

D) Technological Factors

The changes in the technology, technological advancement and the transfer of the technology have huge effect on the global corporation. "Technology is the most continuously and rapidly changing aspect of the environment" (Rosenbloom, 2004:89). It is probably the most influencing factor for the international corporation who are operating in host countries like Nepal. Most of the technologies lately enter in Nepalese market. Some of the multinational corporations are using the old fashioned technologies in Nepal.

Nepalese business or some of the MNCs don't use latest and updated technologies or don't want to use them. The reasons may be the lack of fund, inconvenient transportation services, lack of market or small market, lack of technological knowledge to use and maintain it, lack of servicing and maintenance centers or lack of manpower for running those technological machines. Nepal basically doesn't have updated technologies in so many sectors due to that reason they do the work manually. This is more time consuming but the labour cost is cheap in Nepal. In most cases MNCs try to employ people from the local area but due to the lack of technological knowledge in people they have to hire skilled labour from their home country. Even if they hire them, then have to train them. Beside this, some of the multinational companies are grabbing maximum opportunities from the use of the latest and advanced technology. A fine example can be the Standard Chartered Bank Ltd. enabling its customers for internet banking, mobile banking, SMS banking and so on. In Nepalese context it is very easy for the companies to take the distinctive and competitive advantages if they are able to grab the technological advancement and technological changes.

2.1.3.2. Micro Environmental Factors

Above described were some of the macro environmental factors affecting the operation of the multinational companies. Here, in this part we try to describe some of the micro environmental factors in brief. Micro environmental factors are the factors, which are in organization's control. They are the factors inside the organization. A favorable micro environmental factor gives strengths to the organization where as an unfavorable factors results into the weakness to the organization. "The micro-management environment encompasses all the functions of the organization" (Nieman & Benett, 2002:43). The MNCs existing in Nepalese business environment can enjoy lots of strengths and also may have weakness in the market. Competitors for multinational companies are generally smaller in size and investments. Thus it can be strength points for the MNCs. However, if one MNC has to fight with more other MNCs then that might be weakness for it. Coviello et al. (1998) argued that research on international competitiveness is emerging as a frontier area for international business study.

The population is increasing in a rapid rate in Nepal. The growing numbers of customers may be a positive sign for any MNCs. However, the down side is that all of them are not familiar with the product brand and brand loyalty is something not common. Likewise, many national companies have been closed due to the shortage of raw materials. The supplies of raw material and few numbers of suppliers in Nepal are the weakness of MNCs in Nepal. Likewise, the structure of the company itself, its rules and policy, the culture of organization itself, the availability and capability of the resources like human resources, financial resources, physical resources etc., may results in the strengths and weakness of the MNCs.

2.2 Perception of MNCs and Foreign Direct Investment in Nepal

MNCs, as international business firms usually have their headquarters in faraway homes in developed world and their existence of being a foreign corporation are often viewed with skepticism and distrust. MNCs, just like any other business firms are firstly motivated and by profit, and this very nature of business homogenizes the image of business firm as an enterprise devoid of human sensibilities, at least for the host countries. However, this does not mean that profit generation is an evil business.

Yavas et. al. talking about the allegations and criticisms that the MNCs are facing write

MNCs are criticized for utilizing corrupt business practices, exploiting raw material and human resources, destroying social norms, breaking local laws, exporting jobs, not helping replace imports, creating currency instability, fuelling inflation, transferring little appropriate know-how or technology, causing political instability, fostering inequitable income distribution, adversely affecting cultural values, and widening the gap between developed and developing countries (Yavas et. al., 1984:72).

Criticisms abound on the business firms operating across borders as domestic firms often struggle to compete with the robust economic base of the MNCs. Likewise, talking about the issue of wage inequalities in the host country, Figini and Gorg bring in Aghion and Howitt, they argue, “Based on a model by Aghion and Howitt (1998) we argue that MNCs introduce a higher level of technology in the host country, which leads to an increase in the demand for skilled labour and, thus, a change in wage inequality between skilled and unskilled labour” (Figini and Gorg, 1999:595). The relationship between wage labour and the host country are often tricky as MNCs often base their centers in places where labour prices are cheap and production cost is minimal. Furthermore, Figini and Gorg talk about the reasons for the inequality of wages. They reason, “A number of scholars have recently argued that the advent of new technologies has led to a shift in labour demand towards skilled labour which, in turn, has led to an increase in the wage of skilled relative to unskilled workers” (Figini & Gorg, 1999:594).

Mark Neal and Scott Bennett in their paper, *The Benefits of Foreign Direct Investment in Developing Countries*, argue that the MNCs “are agents of peace and democracy in developing countries” and have provided an assessment of what they call “prevailing critiques” of multinational companies. The paper, while arguing for the peace and democracy which it says the MNCs help to foster, provides an assessment of the general negative perceptions about the MNCs. While Neal and Bennett agree that the criticisms on MNCs like them being exploitative, cultural imperialists, “multinational companies prop up undemocratic regimes”, environmental hazards, they argue that the criticisms are “valid but misguided”. They

argue that MNCs, like any other business firms, are driven by profit but this does not mean that they are outright immoral organizations bent on sucking on resources and discarding the source.

Furthermore, they contend that any malpractice is a two-way street and blaming MNCs alone is not reasonable. Nevertheless, this does not purge the MNCs of their image alone since business firms are often mired into controversy either for their gross negligence on issues concerning nature and human wellbeing or for their apparent selfish motives of profit and expansion (Neal & Bennett, 1994). However, we should also be mindful that development does not and should not always mean democracy though there is no ambiguity in the case of peace. On the one hand we have globalization and on the other we have counter discourses concerning development that are closer to “indigenous values and local culture”. Getting back to business environment and MNCs, it is safe to argue that MNCs are not necessarily evil machinations of developed parts of worlds and tools of exploitation devised to suck on the developing world.

The face of the international business has undergone massive change, thanks to the ever-progressing technologies and communication. “The multinational is no longer just the American, European, or Japanese megacorporation. Increasingly, smaller scale organizations are active in multinational roles. Increasingly, smaller scale organizations are active in multinational roles” says Scott Bennett in his comment on Neal`s article (in Neal & Bennett, 1994:28). As far as the definition of the MNCs are concerned, they refer to, at least in common parlance, multinational firms operating across national borders and their point of origin usually being positioned in the developed parts of the world. Bennett also voices his concern about the issues with globalization in his comment:

This emphasis on efficient resource allocation in a global context suffers from the same problem that afflicts nearly all economic-based policy paradigms. It allows for the total deemphasize of questions of distribution of resources in a vertical dimension as opposed to efficient allocation of resources across sectors, markets, or other horizontal dimensions of economic orientation. Questions of the distribution of resources and its relation to the welfare of the

population are marginalized relative to questions of aggregate growth or income change via efficient allocation” (in Neal & Bennett, 1994:30).

Business environment in Nepal, given the current political instability and her socio-economic quandary, has a bleak picture to play host to MNCs. However, business firms continue to exist and expand amid the dismal business environment. While much could be said about the hostile business environment in Nepal, it also holds immense possibilities for business enterprises. Challenges apart, a right business strategy can make all the difference. The grievances of the business community in Nepal ranges from the tricky socio-cultural make of the Nepalese society to the political quagmire of a nation grappling with inefficient bureaucracy and corruption along with the poor national attitude towards international business. One problem in particular regarding the multinational firms operating in Nepal is that of trade unions and their well-documented differences with the company management team. News of strikes and company shutdowns, both temporary and permanent, are often heard coming out of the differences between the management and the trade unions.

2.3. Nepal’s Culture: General Background and Information on the Sociocultural Aspects

Culture is often defined in terms of anthropological sense as a “sum total of beliefs, rules, techniques, institutions, and artifacts that characterize human populations” (Ball et. al. 2004:292). Culture, therefore, shapes the way of life and also vice-versa. Culture is both learned and shared; it is acquired through socialization as a member of human society. While human beings as social beings are deeply shaped and defined by the culture they practice, it is also true that human society is at its core an ethnocentric society. It is important to discuss about the history and culture of Nepal in its sociological sense to understand the business side of the study. The following part discusses the sociology of Nepal.

Up until 1950s Nepal remained a medieval society ruled by the Rana Prime Ministers. A democratic government was introduced under the active and powerful monarch. During the Rana regime, nepotism and favoritism was heavily dominant in the Nepalese society which resulted in a huge gap between the rich and poor. The new

government faced a huge task of revitalizing the socio-economic aspect along with introducing Nepal in global community as a fully functioning economic community with mixed results. From the very beginning agriculture and forestry has been the most important sectors that affect the national economy. According to a recent report from Asian Development Bank (ADB) the gross domestic product (GDP) accelerated to 5.2% in Fiscal Year (FY) 2014 (ended 15 July 2014) as compared to 3.5% during 2013. This was because of a favorable monsoon that boosted the agricultural and forestry output, which covers 35% of GDP and provides livelihood to about 76% of households, and marked an increase in remittance income which is 28.2% of GDP. Growth in agriculture, at 4.7% was the highest in the last 6 years. The growth of GDP from FY 2014 was due to increase in agricultural harvest, moderate recovery in construction, and robust services activities backed by high remittance income. According to the ADB report wholesale and retail trade covered 14.5% of GDP and was the second largest sector during FY 2014 which reflects the strong growth in remittance inflows that resulted in increase in consumption demand of imported goods. The large increase in number of migrant workers (16.4% growth of migrant workers who obtained permits from the Department of Foreign Employment) and the incentives to remit more money back home as a result of the weak currency have boosted workers' remittance inflows, which reached a record 28.8% of GDP in FY 2014, equivalent to \$5.5 billion. This meant an 11.9% of growth in remittance inflows. According to the Millennium Development Goal (MDG) report if the worker's remittance were to be excluded then poverty would be 35.3% rather than the 19.3% currently.

It is possible to take very different views about the way in which Nepal is heading. An optimistic assessment based on the official statistics showed that poverty appeared to be at minimum, with no begging and no real shantytowns. Famine was infrequent as well. Considering the situation in 1950 when the Rana regime was overthrown Nepal needed to transform from a medieval oriental despotism where nepotism and favoritism was rampant, into a modern nation. An increase in literacy rate to 40% by 1980 as compared to 2% in 1951 showed bright shine of becoming a new nation. The low literacy policy was adorned by the Ranas to make it easy for them to rule over the people. According to the National Population and Housing Census conducted by the Central Bureau of Statistics (CBS), the national literacy rate on 1991 was 25.0%

which increased more than double fold to 54.1% by 2001. The recent data taken on 2011 the national literacy rate was 65.9% which comprised of 75.1% literacy rate in the male category and 57.4% among female. The survey done in 2012/2013 showed that 4,576,693 children enrolled in primary school that year whereas only 387516 were studying higher secondary. This might be due to poverty and family duties which forced them to quit school.

The CBS has already conducted ten decennial censuses since 1911 but taking the data of social components such as language, religion, and ethnic/caste groups was a relatively new sector as the Rana regime came to an end in 1950. Before 1950, the Rana government wanted to show Nepal as a homogeneous country in terms of language, religion, and ethnic/caste structure. The Rana government advocated single language and religion policy within the framework of larger Hindu nationalism and ideals. They did not encourage the CBS to publish the data on religion and ethnic/caste because they believed that it could harm the larger Hindu nationalist sentiment despite the fact that CBS had data on these sectors since 1911. After 1950, the frequent changes in government did not help provide space for religion followed by smaller group of people. Only after 1990 the democratic government encouraged the CBS to provide information on caste/ethnicity of Nepal.

The government faced a major setback during 2001 due to the Maoist insurgency as they were unable to collect data from 80 villages of eight Maoist insurgency affected districts. Despite CBS taking data since 1911, historically it is difficult to provide reliable information on ethnic/caste groups of Nepal because no anthropological/linguistic survey has been carried out in Nepal to date to note the various ethnic/caste groups and their mother tongues before that. Before the conquest of Kathmandu valley by King Prithvi Narayan Shah in 1768, Nepal was divided into small kingdoms and principalities ruled by different kings and chiefs. The east comprised of Rai, Limbu, Sunuwar, Lepcha, and others. To the West of Kathmandu Valley had Chaubise Rajya (Twenty four kingdoms) which comprised of Magar, Gurung, and othes whereas in far west across Karnali river were the Baise Rajya (Twenty Two Kingdoms) where Tharus, Dhimals, Rajbanshi, and others were living. The Kathmandu valley was inhabited by mostly Newars.

The caste of Hindu groups have some distinct cultural features namely, hierarchical structure, endogamy, and purity and pollution as per the data from CBS on 2001, all information provided will be based on the 2001 data by CBS. There are more than 100 ethnic/caste groups and they have been arranged into five broad cultural groups by CBS namely Caste-origin Hindu groups, the Newar, the janjati or nationalities, Muslim or Musalman, and others. There are three distinct caste-origin Hindu groups namely Caste origin Hill Hindus, Caste origin Tarai Hindus, and Caste Origin Hindu Newars. In the Hill Hindu groups the social structure is simple reflecting three groups in heirarchay rather than the four groups (char varna). The High caste Hindu group comprises of Brahmin, Thakuri, and Chhetri. Middle caste consists of Sanyasi and the low caste consists of Dalits, Kami, Sarki, Damai, Badi, and Gaine.

The caste origin Tarai Hindu groups has four grous (char varna) with distinct heirarchical structure within them: Brahmin (Maithil Brahmin, Bhumihar), Chhetri(Rajput), Vaisya (Yadav, Kayastha, , Halwaii, Hajam, Sonar, Lohar, Rajbhar and others) and Sudra or untouchable(Tatma, Bantar, Mushahar,Chamar, Dom and others). These various cultural groups belong to four distinct language groups: Maithili, Bajika, Bhojpuri, and Awadhi. The caste Hindu Newar is an exceptional case with complicated social structure among all groups in Nepal. It follows the true four group (char varna) model with two distinct religious groups namely the Hindu and the Buddhists. Newars are divided internally into more than 40 distinct cultural groups with different occupational categories, though they share a common language (mother-tongue) Newari. The CBS recorded Newars as only one cultural group. The janajatis are those communities who have their own language, religion, written or oral history, have had no decisive role in politics and government in modern Nepal, and who declare themselves to be janjati. They are divided into two groups: Hill janajati e.g. Magar, Gurung, Rai, Limbu, Sherpa, Sunuwar, Bhote, Raji, Raute, etc and Tarai Janajati e.g. Tharu, Dhimal, Gangain, Satar/Santhal, Dangar/Jhangar, koche, Meche, etc. The Muslim community is the minority in Nepal. The big Musalman populations live in Tarai and the small groups of Musalman living in the valley are called Churoute. The others consist of small number of religious and social groups such as Sikh/Punjabi, Bengali, Marwari, and Jain who live mostly in the urban areas of the Nepal.

The sociocultural mix of host country and its connection with the business firms operating in the sociocultural and economic space of any host country has a direct and obvious relationship. Religion shapes the food habit of people and defines their taste as well. Moreover, it has significant impact on the MNCs operating therein. Likewise, cultural values plays equally important role in shaping the customer trends of a host country.

3: THEORETICAL FRAMEWORK:

This chapter focuses on the different approaches surrounding the understanding of international business. Moreover, the chapter will also try to shed light on the historical approaches surrounding the international business vis-à-vis the understanding of their operational strategies of international business ventures. By international ventures, this paper means the MNCs and their operation in host countries. From the classical analyses of the internal business to the recent theoretical understandings on the issue of international business, there has been an understandable shift in the understanding of the premises and undertaking of international business.

3.1. THEORIES IN INTERNATIONAL BUSINESS

As often argued, the theoretical explanations and understandings of international business have been but limited. The explanations and analyses offered about international business can be traced back to the classical theories of Adam Smith, David Ricardo and that of Mercantilism down to the present-day explanations on environmental determinants, the understandings on international business has but grown considerably. The emergence of international business as a separate discipline or a distinct field of study per se has been a matter of few decades and it, as Robert Grosse and Jack N. Behrman argues, “does not have a widely accepted explanatory theory on which to base its uniqueness as a discipline” (1992:93). Though the history of international business and trade can be traced back to the centuries, international business in terms of its existence as a separate discipline is not as old as its history itself.

Theory, as we understand, should seek to explain the causality as well as consequence of any element of issue and theories on internal business is no exception. Grosse and Behrman contend, “Any theory of *international* (sic) business must be a theory of policies and activities of business *and* Governments, in conflict and cooperation” (1992:94). Macro environmental factors are central to the understanding of international business as international business is more about coping with now contexts and situations. Any understanding on international business and MNCs as

their flag bearers is not complete without a thorough consideration about the politics of the host country. The overall business strategy of MNCs will therefore be a careful negotiation with the business environment of the host country.

3.2. CLASSICAL THEORIES:

While it is often argued that international business does not have a “widely accepted explanatory theory”, the classical theories have also been crucial in understanding the nature and components of international business. Particularly, three schools of thoughts have been central in what we could call classical theories concerning international business. Mercantilism as championed by William Petty, Thoman Mun and Antoine de Montchretien model, the theory of Absolute advantage proposed by Adam Smith and David Ricardo’s theory of Comparative Advantage are some of the important classical schools of thoughts concerning general business.

According to the Deardorffs’ Glossary of International Economics, Mercantilism is “an economic philosophy of 16th and 17th centuries that international commerce should primarily serve to increase a country’s financial wealth, especially of gold and foreign currency. To that end, exports are viewed as desirable and imports as undesirable unless they lead to even greater exports”. Mercantilism, as a theory believes in evolutionary process of business activities as businesses slowly evolve from local to national and to international. Stating the obvious, the primary aim of any business venture is to cut loss and maximize profit. Going by the definition, under Mercantilism, the emphasis is on maximizing import so as to bring in more foreign currency or gold.

Adam Smith’s theory of absolute advantage critiqued the mercantile model saying that it was favorable more to producers than to the consumers. Furthermore, he argued “it was impossible for all nations to become rich simultaneously by following mercantilist prescription because the export of one nation is another nation’s import” (International Encyclopedia of the Social Sciences, 2nd Edition). Adam Smith’s theory of absolute advantage talks about “...the scenario where a country generates goods and services in which it has an advantage, for consumption indigenously...”(Morgan and Katsiekeas, 1997:69). In classical theories like Adam Smith’s comparative advantage, the sole basis of successful business is finding that comparative advantage. “Thus, classical trade theory contends that the basis for international trade can be

sourced to differences in production characteristics and resource endowments which are founded on domestic differences in natural and acquired economic advantages” (Morgan and Katsiekeas, 1997:69). Moving from the principles of cutting down imports and expanding profits, the classical theory seeks explanations in the natural abilities of a country to define its economic muscles.

David Ricardo’s theory of comparative advantage contends that, “trade is a win-win situation, as workers in all trading countries are able to consume more of all goods” International Encyclopedia of the Social Sciences, 2nd Edition. However, Ricardo was apparently aware of all the fact that countries can have many differences in terms of both the goods and the mode of production. However, Ricardo’s model links up “specialization with opportunity cost, which is the basis of modern trade theory” (ibid). Ricardo’s theoretical model elaborates on the idea that not everyone can be better in everything and that they hold comparative advantages in certain areas of trade and manufacture over other. Grosse and Behrman contend that “Comparative advantage is not a special theory of international activities; it explains the benefits of the division of labour for any individual, firm, region or nation” (1992:95). The classical theories like the comparative advantage model also bring in the advantages of division of labour and segregated mode of production. The classical theories also, in connection with the international business and trade, offer us an explanation on business firms’ choice of business location and business strategies.

3.3. PESTEL ANALYSIS

PESTEL (Political, Economic, Socio-cultural, Technological, Environmental and Legal) analysis, as its stands for, helps us understand and assess the macro environmental aspects concerning multinational business firms or MNCs in the case of this study. One of the important advantages of PESTEL analysis is that it is helpful in determining the extent to which “macro environmental conditions are appropriate to realize the goals and targets of company” (Yuksel, 2012:65). PESTEL analysis has been central in guiding the present paper as the study was as attempt to look into the macro environmental aspects influencing the operation of MNCs in Nepal. Yuksel arguing that the consideration of macro environmental factors in determining the course of actions for companies has been more important than ever states, “new

phenomena and concepts such as environmental protection, environmental health, transparency, and accountability have become more important parameters that need to be taken into account in commercial activities” (2012:52). The operations of MNCs call for a broader consideration of environmental determinants surrounding them and environmental factors are not stable entities that are easy to understand and analyze.

PESTEL analysis has two basic functions for a company. The first is that it allows identification of the environment within which the company operates. The second basic function is that it provides data and information that will enable the company to predict situations and circumstances that it might encounter in future. PESTEL analysis is therefore a precondition analysis, which should be utilized in strategic management (Dincer, 2004. Cited in Yuksel, 2012:53).

The present study, in its analysis of the environmental determinants of the MNCs in Nepal tries to look into the relationship between the macro environmental aspects and its impact on the MNCs operating in Nepal. PESTEL analysis, therefore, remains crucial in understanding the different factors influencing the macro environmental aspects as well as overall operations of the MNCs. “The fundamental distinction between domestic and international business is the existence of interventions by Government of home and host countries in inter-country business activity, which lead to business reaction” writes Grosse and Behrman (1992:94). What makes MNCs a special case is the host of macroeconomic factors that come into play in their business adventures. Apart from the usual micro-economic factors, MNCs have more things to worry about.

Politics, as one of the most important points of initiation in PESTEL analysis, refers to the macro environmental aspects like government policies and all other political changes that have far-reaching implications for MNCs. For instance, in the context of Nepal, Nepalese political climate has direct and negative impact on MNCs operating in Nepal. Government policies like taxation regulations, development and economic agendas of the ruling political parties can change the landscape of the MNCs’ operation. In the case of KFC and Pizza Hut in Nepal, they have frequent labor issues with the Maoist-affiliated trade unions. Furthermore, political factor can include

bilateral and multilateral ties of a host country, its defining political ideology and the overall political (in)stability.

Economic factors refer to the changes in the areas like taxation policies, fluctuation in exchange rates, interest rates, inflation as well as the overall economic agenda of the host and home countries. It has direct implication on the MNCs for instance high interest rate for MNCs can deter FDIs and the economic policies of the host country have direct relationship with the FDIs and MNCs. Indicators and attributes like the Gross Domestic Product, Gross National Income, debts, unemployment and other fiscal policy are important economic factors.

Social factors remain one of the most important points of consideration for the operation of MNCs as the culture and religion of a host country can shape the mode of production and sales of goods and services offered by MNCs. Social factors may include the overall socio-cultural aspects of a society ranging from language, culture, ritual, myths, religion and morality, among other things. Arguing in the same vein Ball et. al, writes, “In introducing new products, especially when the goal is immediate market penetration, marketers must be aware the *generally, as they go down the economic and social strata in each country, they will tend to find greater dissimilarities among countries with respect to social and cultural values*. It follows from this that in general, the deeper the immediate market penetration is, the greater must be the product modification” (Ball et. al., 2004:529). Product modification, owing to the socio-cultural fervor of the host country is not at all uncommon. Moreover, the customer trends can also determine the business prospect of MNCs.

Technological factors, without doubt, are one the most influential factors whose influence is hard to escape. Technological advancement can change the landscape of market as online shopping is an effective alternative due to the Internet and innovative business endeavors on the part of business firms. Likewise, technological factors are crucial in determining the nature and ways of business as they are influential in creation of new markets and modes of exchanges. It is technology that has revolutionized the concept of market and created virtual world of shopping.

Environmental factors, in the 21st century, have been at the center stage of discussions, touching every aspects of social life including business environment. Environmental factors can be as simple and direct as the weather change and its

influence on business and as big an issue like the global climate change. Environmental issues like pollution and endangered species have created new aspects of doing business. Environmental factors, for instance, have direct relationship with industries like farming, fishing, and tourism, to name the few. Business firms, these days, have pressing obligation to play role model for the protection of nature and environment. Moreover, factors like urbanization and natural disaster fall under this category.

Last but not the least, legal factors like the laws binding the operation as well as defining their operation can influence the business environment as well. For instance, laws concerning child labor, gender equality, wage equality, working hours can have direct implications for the business firms. Legal affairs bind the business firms to operate within the legal frameworks as it is through the law, important legislations concerning the employees and their rights are guaranteed. Not long ago, Nepali hand-woven carpets were denied market in the EU because of the use of child labors in the factories. Competition laws, consumer rights, international treaties fall under legal factors.

Though PESTEL analysis has its strong base and logical foundation, it would be a mistake to take the model as the conclusive and final to analyze the business environment. As society changes with time, business emerges and mutates, it is therefore important to take into consideration the changes and the contexts that define it. Talking about the challenges and shortcomings of PESTEL analysis, Yuksel writes, “Since PESTEL analysis have a qualitative structure, measurement cannot be generally made, or is otherwise qualitatively measured. Using such an evaluation, does not allow the factors constituting the external environment of the company to be objectively and rationally analyzed” (2012:53). However, the influence of PESTEL analysis in understanding the environmental determinants of MNCs cannot be downplayed. For instance, the PESTEL analysis has been particularly useful in understanding the MNCs negotiation with the Nepalese business environment.

4. METHODOLOGY

The chapter will dwell on the overall research methodology or the research strategy employed by the study and set out to furnish details on the same. What we understand by the term research, speaks for itself the necessary procedures that any academic inquiry must follow, if not obviously follows. According to Uma Sekaran, “Research can be described as a systematic and organized effort to investigate a specific problem that needs a solution. It is a series of steps designed and followed with the goal of finding answers to the issues that are of concern to us in a work environment” (1992:4). A research or an academic inquiry, like this study itself, comprises of a carefully planned methodology designed to satisfy the research problem.

A research methodology is a tableau of the tools employed to carry out the intended study. “Research methods refer to the ways in which research studies are designed and the procedures by which data are analyzed” (Sekaran, 1992:5). Research methodology can be defined as an adopted model to carry out the scientific inquiry. The points of consideration, therefore, are varied and many in such an inquiry ranging from choosing an appropriate tool of inquiry to anticipating the possible pitfalls of the study. The study, taking into consideration the nature of research problem, has employed interview method as its tool of inquiry. The study is a qualitative research given the nature of the thematic analysis that it tries to explore and explain.

The general inquiry of the study being the environmental determinants of MNCs in Nepal in general and multinational franchises KFC and Pizza Hut in particular, makes qualitative research method an appropriate one. As stated earlier in the introduction chapter, the focus of this study was to look into the issues concerning the operation of KFC and Pizza Hut in Nepal and their subsequent negotiation with the Nepalese business environment. The case being so, the current study has employed qualitative research method as its basic tool and case study method as its standard operational device. Interviews will be conducted with the management staffs of the KFC and Pizza Hut regarding the business operation in Nepali market and data will be collected through secondary sources concerning the overall business environment of Nepal. While the interviews will lead us to the answers concerning the business firms’ negotiation with the Nepalese business environment, the secondary sources will lead us to the better understanding of Nepalese business environment.

It goes without saying that the success of any research depends, by and large, to the research methodology that it applies. A research methodology is a set of principles together with the practical considerations of the research framed in order to serve the well functioning of the research operation. It is a detailed model of how the research should be carried out on the one hand and also makes the researcher aware of his/her ethical considerations and limitation of the study. The current study, qualitative that it is, seeks to understand the environmental determinants of MNCs in Nepal in general and KFC and Pizza Hut in particular. In so doing, the paper will also seek to understand the impact of the business firms in the local economy.

4.1. RESEARCH METHOD

Research method is the overall framework of the research activity. As research is a scientific inquiry, research method is the most important part of any scientific inquiry. A proper and thoroughly worked out research method would ensure the successful running of the research. According to Blanche and Durrheim, research methods are the “tools of data generation and analysis that are chosen on the basis of criteria related to or even dictated by the major elements of the methodology in which they are embedded” (2012:34). Qualitative research methods, as employed in this study, aim at uncovering the experiences and perceptions about the environmental determinants of MNCs in Nepal.

4.2. RESEARCH AREA

The study, considering its area of inquiry, will be conducted inside Kathmandu valley as the two business firms in question—KFC and Pizza Hut—are positioned in Kathmandu alone. Apart from the major reason of the positioning of the business firms in Kathmandu, the consumer culture of the relatively affluent capital city and its changing face adds up the value to the study. Kathmandu, apart from being the capital city of Nepal, is also home to what could be called a growing middle class population. While it could be argued that middle class population does not rest on Kathmandu alone, the capital city has seen majority of the fancy sales and service outlets clustered than in other cities of the country.

KFC and Pizza Hut have their two outlets each in Kathmandu, situated at posh shopping line at Durbar Marg and Thapathali. While Durbar Marg, which is also

popularly known as Kings Way, is a popular hub for Kathmandu middle class for shopping and leisure, Thapathali lies closer to the Lalitpur municipality—one of three municipalities within Kathmandu valley—which is home to affluent middle class Kathmandu denizens. Both the areas are strategically important location from a business point of view. While the former is more popular destination the latter has its own traits to attract customers from Lalitpur. Managers of the KFC and Pizza Hut were conducted and face-to-face interview was conducted to assess their business situation and their coping with the business environment.

Kathmandu and its three municipalities—Kathmandu, Lalitpur and Bhaktapur—are strategically important business locations. The paper seeks to understand the business environment in the area. In so doing, the paper will dwell on key points like consumer culture, cultural setting, middle class society, social life, leisure and current trends of the modern Nepalese society. The research area, therefore, will be the Kathmandu and business environment surrounding it.

4.3. DATA COLLECTION

The study uses both primary and secondary sources of information to understand the environmental determinants of the two MNCs in question. While interviews are the primary source of information, available literatures ranging from academic papers and newspaper articles along with informal reviews on the related issue are the secondary source on information. While the interview gives us an insight on the nature and dimensions of business operation and takes us closer to the research question of the MNCs negotiation with business environment, the secondary information sources helps us understand the overall performance of the MNCs and the impressions and impacts they have made in the Nepalese market scene. An open-ended interview was conducted with the managers of the business firms in question. Questions like their overall food sales, food culture, customer trends, competition with local business houses and their operational hurdles and challenges were asked to gain an insight into the relationship between the business firms and the business environment. Apart from that, questions regarding their organizational structure and their existence as an international franchise were asked during the interview.

While interview is the major source of data generation in this study, the use of secondary sources like newspaper articles and public reviews added up to the

understanding about the research question. In the current study, both the primary and secondary sources hold equal importance as the paper seeks to uncover the environmental determinants of MNCs in Nepal. While the interview supplies us with the answers considering the challenges and the ways the business firms are negotiating with the business environment, the secondary data offers us with an overall picture of Nepal's business environment which is equally significant in terms of understanding the relationship between the business environment and business firms. Sekaran, talking about the types of research in business writes, "Research can be undertaken for two different purposes. One is to solve a currently existing problem in the work setting; the other is to add or contribute to the general body of knowledge in a particular area of interest of the researcher" (Sekaran, 1992:5). The nature and aim of this study is closer to the latter part of Sekaran's classification which he calls as "basic or fundamental research". And it is for this purpose, the data collection method is not confined to interview alone.

4.3.1. INTERVIEW METHOD

Business research, scientific inquiry that it is, is concerned with uncovering the data and information that is characterized by purposiveness, has rigor, testability, replicability, precision and confidence, objectivity, generalizability, and parsimony (Sekaran, 1992:10). Interview method is one of important and appropriate methods that can take us closer to the understandings regarding the phenomenon affecting the causality of institutions and organizations. Interviews, apart from bringing out the subjective perspective on the things and phenomena under observation, are also important to gain insight into what could be called insider's view. In the words of Kvale (1996), qualitative research interview seeks "to understand the world from the subject's point of view, to unfold the meaning of people [sic] experiences, to uncover their lived world" (1996:1). Likewise, Keats contends that interview method is effective tool to gain information on the people's subjective understandings of the issue (Keats, 2000). While it is true that subjective understanding is important in a qualitative research, the current study seeks to gain insight into the insider's perspective on the issues concerned. In so doing, the inquiry is not limited to the subjective interpretation of the events but also serves as a vantage point of reference for the phenomena as they happen.

The current study has employed the interview method to understand the influences of Nepalese business environment in the operation of the MNCs concerned. The interviewees hold responsible positions in their respective firms and have more precise understanding of their business undertakings. Direct and precise questions were framed in order to enhance smooth and objective conversation and the questions were aimed at with the issues like the challenges and business experiences of the interviewees' respective firms. Prior information about the study and the purpose of the inquiry were stated to the interviewees in order to facilitate the overall inquiry process. The interview consisted structured but open-ended questions to stimulate genuine responses as well as to keep information flowing.

4.3.2. RESPONDENTS

As stated earlier, the respondents hold key positions in their respective firms and have sound idea about their business operations. Two respondents were selected from the business firms under observation to discuss the issues concerning their operation in Nepalese context. The respondents were expected to know their business well and be aware of the business environment they operate under. Considering the nature of data required and the research problem concerning the two business firms, the respondents were selected to generate the insiders' view on the issues. However, the names and the respondents' positions will not be disclosed in the paper to keep their identity safe. Though the information that the paper derives is not controversial, the respondents will not be disclosed keeping in mind the ethical considerations of the research work.

4.3.3. SECONDARY DATA

The current study, apart from its reliance on generating information about the KFC and Pizza Hut from the interviewees, relies also on the bulk on secondary information that come in the form of newspaper articles, academic journals, other research papers as well as reports and statistics from other government and non-government organizations. As always, the secondary data have been particularly useful in understanding the issues better. The data obtained through secondary sources of data have been particularly useful in understanding the environmental factors surrounding the Nepalese business landscape. All the information regarding the overall business environment of Nepal along with other data regarding the presence of MNCs, their existence and performance have been gathered through the secondary sources. The

secondary source of data has been particularly significant in understanding the statistics, facts and figures concerning to the business environment of Nepal and the MNCs. Moreover, the secondary sources also act as vital point of references thereby making the data incurred through interview verifiable.

4.4. OTHER ISSUES OF THE METHODOLOGY

This section is devoted to dwell on the other important issues concerning the current study. The section is further subdivided into two subsections—reliability and validity of research and ethical issues of the research. The first section deals with the issues of reliability and validity of study and the second subsection goes out to deal with the issues of ethics in research.

4.4.1. RELIABILITY AND VALIDITY OF RESEARCH

The success of any academic inquiry hinges on the two most important traits of the research—the question of reliability and validity of research. Any knowledge gained through questionable means and sketchy procedures cannot be labeled a good knowledge or knowledge at all. The question of reliability and validity lay central to any academic activity. And central to the question of reliability and validity are objectivity on the part of researcher meaning there are no subjective biases and a position of a detached observer. Apart from that, the important concerns for the validity of research are the use of appropriate research tools to and well-worked-out research design. Miles and Huberman, talking about dangers of qualitative research writes, “qualitative analysis can be evocative, illuminating, masterful, and downright wrong. The data, looked at more scrupulously don’t support the conclusions drawn” (1982:230). However, we can reduce the risks if we follow the right strategic measures in our data analysis. The current study has been thoroughly precise and careful in its operation to cut down the possible pitfalls and has sought out to be as objective in its analysis as possible and practicable.

The study has brought in arguments and differential views regarding the business environments in Nepal. The research has been particularly careful in issues concerning personal biases, ethical considerations as well as application of scientific methods to make the inquiry both reliable and valid. The samples were selected with a considerable degree of rational calculations, the data collection was carried out

without any subjective biases and the research design was framed taking into account the nature of research problem. Likewise, the analysis was carried out as objectively as possible.

4.4.2. ETHICAL CONSIDERATIONS

The issue of ethical consideration in the undertaking of business research is anything but central if we are to comply with the core values of research. Ethics in research refers to the core values of research concerning the whole process of conducting an inquiry and the process of knowledge-generation. “Ethics are norms or standards of behavior that guide moral choices about our behavior and out relationships with others. The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities” (Cooper & Schindler, 2006:116). Ethics in business research, with no exception, should adhere to the principle of ethics. The study has been particularly careful in adhering to the principles of research. An informed consent was sent to the interviewees stating the purpose of the inquiry and a brief synopsis of the present study was sent. Furthermore, the interviewees were made aware of their rights to walk out of the interview as well as their right not to answer questions that they deem unnecessary. The study has taken due consideration in keeping the identity of the interviewees anonymous and their rights respected.

4.5. LIMITATIONS OF THE STUDY

The study analyses only two MNCs operating in Nepal and both the firms are related with the food sector. While considering the environmental determinants of MNCs in the context of Nepal, the two business firms in question may not reflect the overall picture of the business environment of Nepal in connection with the MNCs in Nepal. However, the study aims at enriching the knowledge on the business environment in Nepal. The two business firms—KFC and Pizza Hut—clearly stands out as true representatives of the international franchises and their multinational operations. The study, therefore, comes up with answers to the questions like how the international business franchises negotiate their existence and success in Nepalese business climate.

4.6. DATA ANALYSIS

Data analysis is one of the most important phases of business research as it brings to fore the fundamental findings of the whole research inquiry. Though the process naturally follows the data collection process, the analysis part in qualitative research does not always follow the presumed natural succession. Put differently, the data analysis process in business research is often argued to be a “continual” and “iterative” process that has no precise beginning and an ending (Merriam, 2009). Or, the data analysis process in qualitative research is a continuous process and can start with the initial data collection process and can go till the very end or concluding part of the study. The current study, being a qualitative research, is both interpretative and explorative in its data analysis. As often stated, the data analysis along with the data collection process will focus on the uniformity and differences of and between the variables as well as the patterns that may so occur with the data at hand. Simply put, the sole aim of data analysis is to decipher meanings or meaningful findings for the data so collected for the study.

The study, as stated earlier, has used both primary and secondary sources of data to create an understanding on the research problem. The study, through its employment of face-to-face interview method, has tried to uncover the perception of the business operators regarding the business environment of Nepal. Moreover, the interview, with its open-ended questions, has tried to bring to fore the issues surrounding the business operation of MNCs operating in Nepal and KFC and Pizza Hut serve as the proper sample of the MNCs in Nepal. Likewise, it is through the secondary sources of data like reports from government and non-governmental organizations along with academic papers and news reports, the study has tried to understand the overall business climate of Nepal in their connection with the MNCs operating in Nepal.

The study uses thematic analysis and interpretation along with literature analysis to analyze the data at hand. The collected data through both the primary and secondary sources have been categorized and presented in different thematic headings. The responses from the interview are organized and used in collaboration with the different thematic sub-themes understand the varied environmental determinants of MNCs operating in Nepal. The collected data has been organized in different subheads:

- i. Labour unions and MNCs: Labour Unrest and Trade Unions in Nepal**
- ii. Corruption(s) and International Business**
- iii. The Challenges and Opportunities of MNCs in Nepal**
- iv. Customer Trends in Kathmandu and Nepali Middle Class**
- v. KFC and Pizza Hut: A Success Story?**

5. ANALYSIS CHAPTER

This chapter discusses the overall business environment of Nepal and its connection with the MNCs operating in Nepal. Particularly, the paper analyses the environmental determinants of the two business firms—KFC and Pizza Hut. The chapter has been divided into further subsections to dwell on the different thematic analysis of the business environment in Nepal.

5.1. LABOUR UNIONS AND MNCs: LABOUR UNREST AND TRADE UNIONS IN NEPAL

There is always a two sides to a story and it is important to be aware whose narrative one follows. It would be an understatement to say labour is an important part of any business firm. Nevertheless, stories of labour unrest and their friction with the management is well documented if we consider the news coverage on the business firms finding it hard to come to terms with business environment defined by rocky relationship with the labour unions. As of 2015, when the analysis chapter is being written, the KFC and Pizza Hut remains shut over the row between employees and the management as well. In a press release issued by the Devyani International (Nepal) Pvt. Ltd. the Franchise for Yum! Restaurant International, on May 13, 2015, it states that the KFC and Pizza Hut restaurants in Kathmandu have been forced to close down their restaurants due to the unruly activities of the laborers. The press release states that the labor union leaders manhandled the senior management members on May 11 accusing them of not complying with the rules set by the trade union. “The unions had set the rules to work only till 6:00pm and the team members of KFC and Pizza Hut Durbarmarg were manhandled and threatened by union leaders for violating the rules,” read the press release, adding, “They also vandalized the restaurant in front of customers and protested there” (The Himalayan Times, 2015).

The laborers allegedly threatened to physically assault the managers and senior administrative staffs and also issued threats over life. Likewise, the company has also stated that the business environment of the international franchise has been seriously hampered by the activities of the labour unions. Though the problem of labor unions in relation to the business environment is not something imposed from outside but rather stems from within the organization and its institutional make, MNCs like KFC

and Pizza Hut often struggle with such troubles. Put differently, the labor trouble has less to do with the State-level policy changes and other macroeconomic environmental determinants but more things within the organizational structure. The issue of KFC and Pizza Hut with labor unions is not something new as similar problem had occurred on 2012 as well when the labor unions threatened the management team over life.

Likewise, concerning the closure of the restaurants, the Maoist-affiliated All Nepal Revolutionary Hotel and Restaurant Workers' Union has issued a press statement stating their concern over the closure of the restaurant. The statement, released on May 12, 2015 states that the closure has been one-sided and decried the management team's decision to impose "no work, no pay" policy during the period of restaurant closure. They have also urged the management team to come to dialogue. However, the restaurant and its outlets across Kathmandu remains shut over the row and things look bleak. Likewise, concerning the same issue the Federation of Nepalese Chambers of Commerce and Industries (FNCCI) on May 20 issued a press statement urging the management team and the labor union "to settle their differences through dialogue at the earliest" (The Himalayan Times, 2015). The FNCCI also "cautioned both the management and trade union that 'closure of KFC and Pizza Hut, which is being with full foreign investment, would send a negative message' in the international market" (The Himalayan Times, 2015).

The conflict between the management team and the trade union comes in the wake of April 25 earthquake that rattled through Nepal claiming thousands of lives and displacing hundreds of thousands of people across the country. The trade unions have demanded to operate the services in the restaurants only till 6:00pm due to the earthquake. The management on the other hand has accused the labor unions of misbehaving and carrying out unruly activities during business hours in front of the customers concerning the dispute. The labor union has refuted the allegations.

News of hotels being forced to close their services due to their inability to meet the demands of the labours as well as the labours resisting to work often make headlines in Nepal. On the flip side, stories of labours being exploited do not make often headlines. The problem of labour unrest is particularly rampant in big business firms like hotels and casinos where labour are more organized and have some political

affiliations of their own. However, it is not restricted to them alone. There could be much analysis to this labour situation and one of them is the increased political awareness as well as their improved bargaining power in the wake of the historical political change that came post Maoist armed insurgency. Trade unions and labour relationship are one of the defining environmental determinants of MNCs in Nepal.

Among all other challenges facing the operation of MNCs in Nepal, labour unrest fuelled by politically motivated trade unions stand out as one of the most severe problems facing the MNCs. Instances of business firms and international subsidiaries brought to a crippling halt and closure are not at all uncommon. Hotels and casinos are the ones hardest hit by the trade union issues. The watchful international community, aware of the troubles of starting and sustaining a business in Nepal, are usually critical of Nepal's business environment. According to a 2011 report published by the United States Department of State, Bureau of Economic, Energy and Business Affairs regarding the business climate in Nepal, the business environment in Nepal is not so encouraging for foreign investors. It states,

The current Government of Nepal (GON) has continued the liberal trade and investment policies and states in its public proclamations to foreign investors that Nepal is open for business. However, political instability, labor unrest, continuing bureaucratic delays and inefficiencies, pervasive corruption, and perennial power shortage send a different message. Lack of predictable legal framework on securing private property, in view of the unsettled political process and looming uncertainty in the constitution drafting process, creates an uncertain environment for foreign and private investment.

Little has changed in Nepal since the 2011 report. Politics remain the same— anarchic, unstable and volatile—with corruption is still rampant, and the government unable to address the issue of power shortages. Power outages are routine in Nepal as it gets worse during the winter and summer offers little respite. Industries are hit the hardest by power outages. As of petroleum fuels, Nepal imports its fuel from India and is often hit by fuel shortages as well. Diesel and petrol are mostly short in the Nepali market and the tendency of the fuel retailers to feign shortages as well as the black marketing of the fuels like petrol and LPGs goes unabated. “Underdevelopment, dependency, and marginalization are the basic features of the Nepalese economy,”

writes Blaike et al, regarding their paper on Nepalese economy (Koirala et al, 2005:31). Apart from these practical concerns, the legal issues regarding international firms and private property often make the foreign investors nervous. The nervousness stems from the political rhetoric of political parties rather than from the ambiguity in the laws itself. The Maoists, former rebels turned a sizable political force, often use their rhetoric against privatization despite not doing so. The case of the two firms in question—KFC and Pizza Hut—is no different.

After an enthusiastic launch, KFC and Pizza Hut initially stormed the Nepali market as food enthusiasts thronged in thousands the newly launched outlets. A press release issued on the occasion read, “Devyani International along with YUM! Brands, world’s largest restaurant company with five dynamic global brands & 35,000 outlets across 105 countries, is excited to make their entry in Nepal restaurant circle and have extensive plans for growth & expansion in this market”. However, the international restaurants could not keep its enthusiasm for long as they were hit with labour issues as well as their chicken import regulations. During the 2010 when Indian chicken was considered as unsafe due to the bird flu epidemic spread across India and Nepal, KFC imported their chicken from India. This led to a general outrage amid poultry farmers of Nepal, whose chicken KFC had initially denied as lacking quality good enough for the international franchise. The confrontation ended in KFC losing its imported chicken as the irate crowd dumped the chicken midway.

Like other international firms operating in Nepal, KFC and Pizza Hut also have their fair share of troubles that they have encountered in their business ventures in Nepal. KFC was on the verge of closure regarding their dispute with the trade unions. According to a news reported by online news portal, nepalnews.com, “Some Maoist trade union activists have beaten up and threatened the management staff of the company and interfered with their works like hiring and transferring of staff”, reported a senior management staff at KFC in Kathmandu” (nepalnews.com). He further warned that the KFC might be permanently closed if the situation does not improve. If anything, KFCs negotiation with the business environment in Nepal has not been free from frictions.

KFC, since its inception, has been in news and not always for good reasons. On 2012, KFC faced a closure after Maoist-affiliated trade unions threatened the senior

managers of the business firm of physical harm. “Some Moist trade union activists have beaten up and threatened the management staff of the company and even interfered with the works like hiring and transferring of staffs”, reported a senior management of the company who wished to stay anonymous, reads the news article covered by Zee News, one of India’s leading news channel (zeenews.india.com). Likewise, on another occasion, poultry farmers stopped trucks importing chicken for KFC restaurants and destroyed the chicken (AP: 2012). The news story report that the chicken was seized and destroyed as the restaurant violated the ban on Indian chicken due to the cases of bird flu. The local farmers were apparently angered by the fact that their chickens were surpassed by the KFC while KFC often said that they imported their chicken from Brazil. KFC and Pizza Hut’s negotiation with the Nepalese business environment has not always been easy, if we consider these incidents.

Devyani International, a subsidiary of RJ Corp, in partnership with YUM! Brands jointly brought in the first multinational chain of restaurants in Kathmandu. The fact that the RJ Corp has the experience of doing business in Nepal and that they are understandably aware of the possible pitfalls regarding the business operation in Nepali business environment, speak of the business potentials they seek to exploit in Nepal. If anything, the recent incident of the closure of KFC and Pizza Hut in Kathmandu does not send a positive message to the multinational business firms and does not paint a good picture of Nepalese business environment. To sum, labor union is one of important environmental determinants of MNCs operating in Nepal.

5. 2. CORRUPTION(S) AND INTERNATIONAL BUSINESS IN NEPAL

Corruption has proved to be the Gordian Knot of Nepali society and culture. Whenever conversation takes place about Nepali politics and Nepali business environment, it is hard to miss the issue of corruption. Corruption is also an important point of consideration in the business environment of Nepal. Lack of accountability on part of service providers and concerned stakeholders, red tape, nepotism, favoritism and the silent approval of it as well as the tendency to seek service through personal connections may well define the normal business interaction in Nepal. From blatant bribery to the misuse of public property to the abuse of authority, corruption runs deep in the Nepali society. Corruption (s), in connection with the business environment of Nepal, can be as simple as abuse of authority to as complex as subtle political lobbying for international firms with questionable reputation. In a nutshell, corruption exists and it has serious implications and lasting ramifications on business and society as a whole.

Doh et al, has illustrated the nature and consequences of corruption in the table illustrated below:

Direct Costs of Government Corruption

| Type | Explanation |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Bribes | Monetary and non-monetary payments to those with some degree of public power as a response to extortion or in exchange for some misuse of public power. |
| Red Tape/Bureaucratic Delay | Non-monetary and opportunity costs of dealing with corrupt officials or of complying with the illegitimate bureaucratic requirements of corrupt regimes. |
| Avoidance | Efforts to avoid and limit the firm's exposure to extortionary behavior by corrupt officials, including hiding output and opting out of the official economy. |

| | |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Directly Unproductive Behavior | Investments in channels of influence to gain advantage in dividing up the benefits of economic activity; includes lobbying and more direct vote and influence peddling. |
| Foregoing Market Supporting Institutions | Costs imposed on the firm as a result of foregoing the use of courts for the enforcement of contracts, local financial operations, etc. |
| Engagement with Organized Crime | Monetary and non-monetary costs imposed on firms as a result of willing or unwilling engagement with organized crime. |

Source: Doh et. al. 2003:117

While it would be a controversial statement to term a government a corrupt regime, it is also equally true that corruption persists in a variety of forms and the government cannot be aloof from the problem of which it is a part. The above table states that corruption may take various forms ranging from bribery to engagement with organized crime. As business is an organized and regulated economic undertaking and as a lot of money is involved in it, stakes are generally high. While the corruption may well hinder the business environment, for some it may also mean a chance to reap benefits.

MNCs, in the context of Nepal, have to negotiate with this macro environmental reality of corruption. Much ink has been spilled on the nature of corruption and its impact on Nepalese society and overall business environment. According to the 2014 Transparency International report, Nepal ranks 126th among the 175 countries and her percentile rank is 29% with a score of -0.685385294. The figure, discouraging as it is, speaks about the general mood of Nepal's economy and business environment. However, this does not mean that business ventures cannot survive and succeed in the business climate riddled with corruption. Though corruption is one of the important issues hovering over the Nepal's business environment, business in Nepal is not as bad as one would like to imagine. While the international firms are aware of the corruption issues in the overall country and its business climate, they are also optimist

about their business opportunities, if the increasing launch of international brands in Kathmandu is anything to go by. There is a surge in international business firms and brands wanting to explore the Nepali market. While the environment could be challenging the market potentials that the Nepali market holds is something worth considering. For instance, KFC and Pizza Hut, since its inception, have been running successfully and have commanded a decent following amongst the Kathmandu middle class. So far, it has been a fairly success story in Nepali food scene, if we consider its brand appeal. KFC, irrespective of its some frictions with trade unions have been operating in Nepal since 2010.

Corruption, as they exist, has become an important point of consideration for international firms operating in Nepal. Corruption and its myriad forms can be as simple as nepotism and favoritism, tax evasion and as complex and grave as embezzlement of huge sum of capital and resources. Talking about government corruption, P. Doh et. al. writes:

The very nature of government corruption, which we define as the abuse (or misuse) of public power for private (personal) benefit, lends itself to a tendency to look the other way and fosters an attitude of "don't ask, don't tell." Firms are concerned that exposing corrupt behaviors will reduce profits or anger corrupt officials without changing the behavior of others. Some have suggested that corruption may even create an opportunity for international firms to overcome numerous difficulties associated with entering new foreign markets (P. Doh et al. 2003:115).

One of the pervasive problems hovering over Nepal's business climate is that of corruption. Corruption is a two-way street, meaning that both the parties involved in the unlawful transaction or exchange of favors for personal benefits hold equal share of the misdoings. Whether it is the unruly and politically motivated trade unions or it is the abusive and tax-evading administration, corruption ends up taking its toll on the overall economy of the nation and the business firms concerned.

P. Doh et al. in their paper, *Coping with Corruption in Foreign Markets*, have outlined what they call "costs of corruption" as Avoidance, Directly Unproductive Behavior, Bribes, Red Tape and Bureaucratic Delay, Foregoing Market-Supporting Institutions and Engaging with Organized Crime under the direct costs and Reduced Investment

and Distorted Public Expenditures, Macroeconomic Weakness and Instability, Weak Infrastructure, Squandered/Misdirected Entrepreneurial Talent and Socio-Economic Failure under indirect costs. They argue that while the firms and government alike tend to take corruption lightly and as opportunities to make up for managerial and organizational shortcomings, they are considerably unaware of the costs of corruption. They have also highlighted two dimensions of corruption: Pervasiveness and Arbitrariness. The former is concerned with what they call “well-structured, stable corruption regimes in which payment expectations are predictable and effective. The latter, on the other hand refers to the “disorganized corruption network when government agents act independently and capriciously”. (P. Doh et al. 2003:117-118). Corruption, talking about Nepal, is both pervasive and arbitrary. Pervasive in the sense that it is deeply embedded in Nepali work culture and the modus operandi that the Nepali work culture has embraced.

While corruption is understandably, in most cases rightfully, viewed in connection with the political environment of a country, it would be too simplistic to connect it with politics alone. The rings of corruption run far and deep and more often than not, it has its roots in the socio-cultural aspects of society. Corruption does not happen independently, it takes both the sides to make it one. However, politics stay central to the understanding of corruption. Commentators and social scientists often draw on the nexus between poverty and political instability vis-à-vis corruption. “Underdevelopment has become a catalyst for political instability. The decade-old (sic) civil war/violent armed conflict has been a setback to growth due to rising human casualties, displacement of people, destruction of productive factors, disruption of livelihoods, and misallocation of resources from development towards security” (Koirala et al, 2005:32).

Understandably, underdevelopment and politics share a curious relationship. The relationship, analyzing it through the laws of causality, shies away from normal explanations as we enter the chicken-egg dilemma—what causes what? Whether we have political instability because of our poverty or whether it is the other way around, the answer is not simple. What we can safely argue is that politics has its close ties with economy at large. The question of foreign direct investment (FDI), MNCs and any other economic endeavors looms large when we seek explanations on their relationship with macro business environment. Political environment, plagued by

instability and corruption in the case of Nepal, has not helped lure FDIs and taken its toll on economic growth of Nepal as a whole. Koirala et al, convincingly writes, “Nepal has been beleaguered by political instability and dismal growth performance, which has aggravated in recent years. Political instability has been a hallmark of the Nepalese political system” (2005:47). This 2005 statement still holds its significance in defining Nepal’s political environment. To sum, corruption has various forms and its impact is more than what appears on the surface. Furthermore, the perils of corruption runs deep and wide and corruption are not only an environmental determinant limiting the growth of business firms but also an equally hazardous activity for the nation as a whole.

5.3. THE CHALLENGES AND OPPORTUNITIES OF MNCs IN NEPAL

Stating the obvious, the business environment has a major sway in the success or failure of any business operation. Both the macro and micro economic environment of the host country remain crucial in shaping the future of MNCs. While a favorable business environment may mean success, the hostile environment can pose serious threats. However, the operational strategy of the business firms can also determine the course of business firms. It is worth mentioning the words of Agboli & Ukaegbu,

A hostile business environment, which is within the control of the entrepreneur, such as competition from other firms, scarcity of market information, and low demand for a firm's services, can encourage pro-activity, aggressiveness and innovativeness. But a hostile environment outside an entrepreneur's control is indeed an actual or potential inhibitor of the success of the enterprise (Agboli & Ukaegbu, 2006:5).

The argument that competitive business environment pushes business firms towards innovativeness holds more ground when we associate it with human nature of resilience and optimism. The case of KFC and Pizza Hut, looking it in connection with the labor troubles it frequently encounters or have encountered, in Nepal presents to us a case of how the MNCs negotiate their operation in business environment like that of Nepal. While the possibility of the business firms running successfully, under normal circumstances, is very plausible and reasonable in Nepal, instances of troubles with labor unions and a political climate often causing about disruptions in business operations also gives the business managers plenty to think about. Leaving aside the usual premises of international business firms and franchises operating in the host country, along with the challenges of socio-cultural and economic differences, MNCs negotiation with other environmental determinants like labor unions can influence the overall business.

Katherine Loh and Nirjan Rai, in their commentary on Nepalese economy and its connection with politics, write, "As a result of Nepal's political instability, a mood of uncertainty prevails, dampening entrepreneurial activity and the macroeconomic environment across the country. This uncertainty clings not only to the national mood, but makes its way down to the sub-national level too" (Loh & Rai, 2011). Their assessment of the Nepalese business climate in the light of political instability speaks

of the entrepreneurs' woes as well as the general picture of the Nepal's business climate. While it may sound redundant to talk about the political instability and its relation with the overall business environment of a host country, political instability sits as the most influential environmental determinant of MNCs in Nepal. The connection between political instability with the economic growth against the backdrop of Nepal's troubled story with poverty creates a dismal picture of Nepal's business environment on the one hand and offers to us a logical explanation of Nepal's economic woes. Loh and Rai, talking about the labor troubles and their impact on industries write:

In the district of Parsa, some five dozen small and big industries situated in the Birgunj-Pathaliya Industrial Corridor area have remained closed for the last two years due to labor disputes, leaving 20,000 workers without jobs. Large factories like Annapurna Textile, Puja Soap and Chemical, and Aarati Soap remained closed during this time, according to the Birgunj Chamber of Commerce and Industry (Loh & Rai, 2011).

There is this uneasy relationship between the employees and the employers and the consequences have been far from desirable as the losses are not merely economic but have lasting ramifications on nation's future as a whole.

Moreover, according to The Heritage Foundation Index of Economic Freedom, "Nepal is ranked 108th out of 185 economies in Doing Business 2013, recording a decline of 1 point. This reflects lower scores in 8 out of 10 indicators". Nepal's performance in the international market considering the reports from various formal and informal sectors has been less than convincing. Furthermore, the Heritage Foundation states, "According to the latest Enterprise Surveys (2010), the main obstacles to running a business in Nepal include Political Instability and Electricity". Apart from the political instability that the paper has dwelled on earlier, one of the problems that have plagued the general business environment of Nepal is that of power outages and fuel shortages. Absurd as it may sound, Nepal holds immense possibility of producing hydropower as most of the perennial rivers flowing from the Himalayas and Nepal is ranked second richest country in terms of hydropower potentials. However, power outages lasting up to 18 hours during the winter season when the water level in rivers shrink is not something uncommon. The severe power

outage has crippling effect on industries and their production. Likewise, alternative fuel sources add up to the production cost and services get expensive with it. Moreover, the alternative fuel sources like diesel and petrol also are not readily available in market as black market of fuel during crisis is rampant.

Likewise, “In the World Bank’s Worldwide Governance Indicators, Nepal is ranked below the 10th percentile for the Political Stability Indicator. For the Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption Indicators, Nepal rates around the 20th percentile”. The environmental determinants of MNCs in Nepal considering its macroeconomic environmental aspects tell the same dismal story as the influence of politics is hard to escape and harder to cope. According to the Index of Economic Freedom 2012, Nepal is assigned a “score of 50.2, making its economy the 147th freest out of 183 countries in the 2012 Index”. Furthermore the report states, “Its score is virtually unchanged from last year, with an improvement in investment freedom offset by deterioration in business freedom. Nepal is ranked 32nd out of 41 countries in Asia-Pacific region, and its score remains far below world and regional averages”. While the indexes and the reports don’t lie about the business climate of Nepal, it is important to dwell on the environmental determinants and their direct implications on MNCs in Nepal.

Below is a table released by the United Nations Department of Safety and Security (UNDSS), Nepal Office, on the data about general strikes and the concerned political parties that have called them during the years from 2008 to 2013. By looking at the table we can see that general strikes or *Bandha*, as it is called colloquially, is the trend in Nepalese social and political sphere and more painfully a powerful way to get the demands met. Almost every organized group from rebellion groups to student organizations to struggle communities can impose general strike and bring the nation to a grinding halt. Schools remain shut, vehicles do not ply the road, businesses remain closed and the entire country is brought to a virtual standstill during general strikes and the more powerful the group, the more stringent the strike. While the business community rues the loss that such strikes causes about for them, the general strike does not seem to go away.

Table 3: Events of Strikes by Action Initiators

| <i>Action Initiators</i> | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total | Percent |
|--------------------------|------|------|------|------|------|------|-------|---------|
| Political Parties | 367 | 402 | 604 | 91 | 104 | 53 | 1621 | 36.4 |
| Rebellion Groups | 158 | 264 | 105 | 132 | 37 | 46 | 742 | 16.7 |
| Transport Unions | 93 | 11 | 149 | 101 | 18 | 11 | 383 | 8.6 |
| Local Communities | 13 | 14 | 128 | 92 | 83 | 45 | 375 | 8.4 |
| Ethnic & Alliance Groups | - | - | 53 | 121 | 47 | 5 | 226 | 5.1 |
| Business Communities | 21 | 27 | 11 | 12 | 22 | 3 | 96 | 4.4 |
| Students' Union | 20 | 13 | 30 | 56 | 63 | 12 | 194 | 3.7 |
| Struggle Committees | - | 51 | 22 | 1 | 89 | 1 | 164 | 2.2 |
| Trade/labour Unions | - | - | 2 | 6 | - | - | 8 | 0.2 |
| Others | 35 | 175 | 101 | 120 | 169 | 42 | 642 | 14.4 |
| Total | 707 | 957 | 1205 | 732 | 632 | 218 | 4451 | 100.0 |

Source: United Nations Department of Safety and Security (UNDSS), Nepal Office

Political parties account for the most number of general strikes as they have the muscle to impose the closure. Looking at the table, one of the interesting things that strike most is the variety of organizations that resort to such a form of protest. It would be safe to argue that general strike holds the promise of successful protest campaign.

5.4. CUSTOMER TRENDS IN KATHMANDU AND EMERGING NEPALI MIDDLE CLASS

Kathmandu, the capital city of Nepal, is home to some 20 million people. Kathmandu dwellers, apart from the locals from Newar community, are mostly from other parts of Nepal, immigrated in pursuit of better life. It houses multi-storied shopping complexes with state-of-the-art entertainment and business facilities to the river-side slums alike. Defining the consumer trends of Kathmandu can be a matter of perspective as the developing nation's capital is home to the riches on the one hand, the emerging middle classes on the other, as well as the lowly poor. While the nation's economic growth is but dismal, the rise in Nepal's middle class is a positive sign. The subject of inquiry of this paper, the environmental determinants of MNCs in Nepal: A case of KFC and Pizza Hut, apart from being the administrative hub of the capital is also home to Nepal's only international airport. The capital serves as the sole entry point via air route to Nepal. Moreover, Nepal's failed development policy or the centralized development policy has contributed to making Kathmandu the city that it is today — the core urban hub of the country catering to the needs of what could be called the rising middle class of Kathmandu.

Understandably, majority of the big city centers, shopping districts, and modern-day attractions are centered in Kathmandu. Consumer trends, in the light of this study, therefore centers on the business centers in Kathmandu. KFC and Pizza Hut, with their food outlets in Kathmandu valley, have their services limited to Kathmandu alone. While the initial phase of launch of the two business franchises in question can explain the limitations of the services within Kathmandu alone, lack of marketable venues in other cities in Nepal can also offer a logical explanation. Talking about the consumer trends of Kathmandu, it is important to talk about the middle class people of Kathmandu. By consumer trends, the paper means the people of what we often times refer to as class and their observable pattern of lifestyle. The way they feed, clothe, socialize, recreate and live. While the middle class people are on the rise in Nepal as a whole, the consumer trends have also gone more modern. People are often more outgoing and

According to the 2010 Asian Development Bank (ADB) report—*Asia's Emerging Middle Class: Past, Present and Future*—on the Asian middle class, the definition of

middle-class, is difficult to put into words and hard to conceptualize. It states, “Unlike poverty, which can be defined in absolute terms of caloric requirements, there is no standard definition of the middle class” (ADB, 2010:5). However, the report “uses an absolute approach defining the middle class as those with consumption expenditures of \$2-\$20 per person per day in 2005 PPPS” (ADB, 2010:5). Talking about the differences between the middle classes of the world ADB report states:

“Ravallion (2009) has distinguished the “developing world’s middle class” from the “Western world middle class”. To define the former, he uses the median value of poverty lines for 70 national poverty lines as the lower bound (\$2 per person per day) and the US poverty line (\$13) as the upper bound. Bussolo, De Hoyos, Medvedev, and van der Mensbrugghe (2007) and BUssolo, De Hoyos and MEdvedev (2009) have defined the middle class as those with average daily incomes between the poverty lines of Brazil (\$10) and Italy (\$20).

...Birdsall (2007) has used a hybrid definition that combines the absolute and the relative approaches. According to her, the middle class includes individuals who consume the equivalent of \$10 or more per day, but who fall below the 90th percentile in the income distribution” (ADB, 2010:5).

The definitions as the report says “are based on consumption expenditure or income” and that the definition of middle class can go beyond the economic terms as in the historical sense the middle class fall between the classes of peasantry and the nobility. Furthermore, one of the notable markers of middle class has been “on the basis of education and occupation in a white-collar job” (ADB, 2010:5)

It is understandable the spending capacity of the individuals of different nations is different and the nature of the particular country’s economy holds a major sway in defining what economic classes mean. Middle class, though, often understood in economic terms has also other social sides attached to it. Middle class, for instance in the case of Nepal, is a social class defined by their social status as being educated to a certain degree, having a comfortable housing and life, and also harboring prospects of moving up to higher class structure. However, things are changing and social classes do not necessarily stick to the assumed criterions.

Mark Liechty, who has written extensively on Nepal's middle class, in his book on Nepal's middle class and consumer culture convincingly writes, "Kathmandu's position as capital of modern nation-state—Nepal's gateway (and gate keeper) to a world of economic and cultural flows—has brought it a degree of economic prosperity, even if these benefits rarely extend beyond the valley rim" (Liechty, 2003:40). Throughout the history of modern Nepal, as a nation-state trying to keep in pace with the changing face of the world in terms of technological and sociological sophistications, the Nepalese middle class has been an urban phenomena and most centrally on Kathmandu and Kathmandu alone. He further ponders, "How do we account for a growing middle class in the capital of a "least developed country," where over 90 percent of the population is rural and, by most standards, extremely poor" (Liechty, 2003:40)? While there is not an easy and correct answer to the question, it is important to raise the question.

REMITTANCE AND CONSUMER CULTURE IN NEPAL

Talking about the consumer culture and the spending capacities of the general public, little can be said about their income as a larger portion of Nepali population, if not family, survive on the remittances sent home by the economically active family members working abroad. Mukul Humagain and Rajeev Shakya in their news article on Nepali middle class and the ADB report on the rising middle class of Nepal writes, "High inflow of remittance and expansion of the service sector in Nepal has engendered more middle class people. Remittance has particularly been instrumental in reducing poverty in the country. It contributes 20 percent to the national GDP, and is a major driver of the economy" (2010). Nepal, as a nation characterized by frail economy and bleak employment prospects, has witnessed the exodus of the youths to the other countries in search of job opportunities and better lives for themselves and their families. While the money that comes in from the foreign lands in the forms of remittance is significant, 20 percent of the national GDP, it is also important to note that the money is mostly used for domestic consumption and subsistence rather than as an investment on other development related activities and business.

Middle class, though an economic class is also a fair share of population who defines the majority of economic activities.

6. CONCLUSIONS: KFC and Pizza Hut: A Success Story?

When KFC and Pizza Hut started their business operation in Kathmandu on 2009, it was an enthusiastic opening as people queued up for hours to get their bite of the fried chicken and pizza. The reception that the KFC and Pizza Hut received was unprecedented. The trend continued for a couple of weeks and both the KFC and Pizza were busy place with customers waiting for their turns to order. The initial popularity that the international brand appeal commanded continued and showed little sign of slowing down but within a couple of years it started having issues with the trade unions as well as was dragged into controversy regarding the chicken imports from India during the time of bird flu endemic in India. If sales and profit alone would mean the eventual success of an enterprise then KFC and Pizza Hut would be considered a grand success but if we consider consistency and smooth operation of business then we may have a second opinion as this is the second time KFC and Pizza Hut has been forced to shut down, indefinitely, for the second time.

Talking with the management staffs of the KFC and Pizza Hut revealed about their challenges and negotiation with the Nepali business environment. They voiced their concern over the political instability of the country and its direct and indirect impact on their business. The political tradition to impose general strikes to get the demands met has crippling effects on their business. Likewise, the respondent talked about frequent problem with trade unions as one of the serious issues facing them. While the key respondent was optimist about the overall sales and performance of the food outlets, the frequent labor troubles posed serious threat to the Rs. 110 million business venture. Moreover, the respondent was concerned with the general image of the Nepali business environment among the watchful international community of investors and multinational franchising mulling starting business in Nepal.

While the performance of KFC and Pizza Hut and the popularity they have enjoyed among Kathmandu middle class can make a case for luring multinational franchises in Nepali market, the troubles they have trade unions can send a negative message on the other hand. Apart from the issue with trade unions, political instability of the country along with corruption have been detrimental in maintaining the image of Nepal as a right place to invest and do business. While the country is struggling to lure foreign investments so as to create employment opportunities in Nepal, the general trend of

harassing the business community has not helped create a positive image of Nepalese business climate. To sum, business environment in Nepal is characterized by political instability, and labor problems, to go with the power outages and offers as much challenges as they offer opportunities.

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Appendix 1. Interview questions

How are you coping with the Nepali business environment?

Who are your customers and how do you rate the Nepali consumer culture?

How do you rate the business of KFC and Pizza Hut in Kathmandu, in comparison to the other franchises across the region?

How is the Nepali political scenario treating your business, direct and indirect impacts?

How bad is the situation with the trade unions?

Are new outlets both in Kathmandu and other places outside Kathmandu in the cards?

Do you think KFC meals are health conscious and environment friendly?

How do you consider the competition from other restaurants in Kathmandu?

How are you dealing with the power shortages?