11

GLOBAL CONTEXT OF MANAGEMENT

LEARNING OBJECTIVES

After comprehensive study of this chapter, you will be able to:

- get the meaning of globalization,
- know methods of globalization,
- be familiar with effects of globalization,
- know the fundamentals of international management,
- get the concepts of multinational companies,
- know the types of multinational companies,
- be familiar with advantages and disadvantages of multinational companies,
- get the concept of digital dimensioning,
- know the digital dimensioning and planning, organizing, influencing and controlling.

CONCEPT OF GLOBALIZATION

Globalization refers to the integration of economies and societies all over the world. Globalization involves technological, economic, political, and cultural exchanges made possible largely through the advancement of communication, transportation and infrastructure. In simple words, globalization is the growing international interaction of market for goods, services, capital and technology. For an organizational level, globalization means strategy of crossing national boundaries through globalized production and marketing networks. It is the means of ability to compete in domestic as well as the foreign competitors through quality, cost and performance. Modern organizations are being influenced by global effect and Globalization is getting popularity throughout the world.

Globalization can be understood in different forms for different perspective. To business executives, globalization refers to the strategy for crossing national boundaries through globalized production and marketing networks. It is simply extending business into international market. To economists, globalization refers to an economic interdependence between countries because of increased trade, technology, labor and capital flows. This is simply an integration of economy through ties of various factors of economy. Similarly, to political scientists, globalization refers to an integration of a global community in terms of ideas, norms and values.

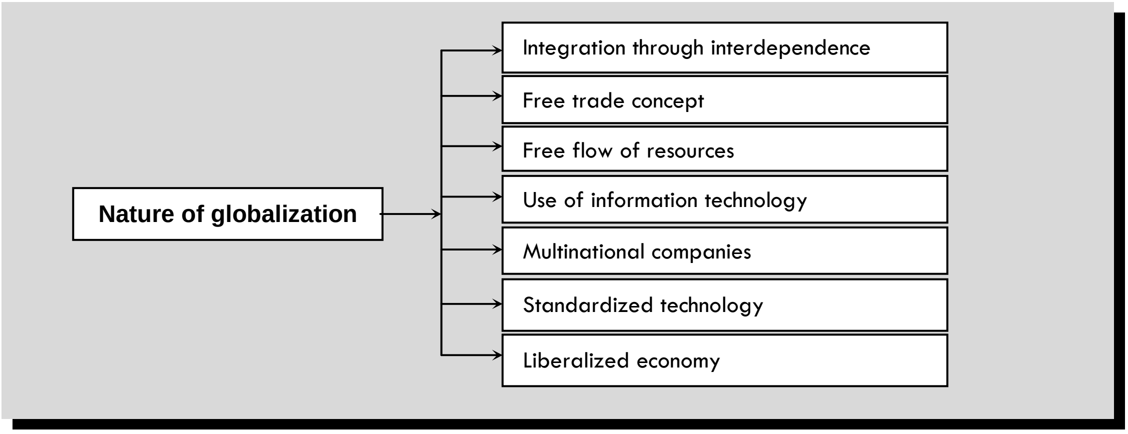
> **World Bank :** "Globalization is the continuing integration of the countries of the world."
>
> **Harold James :** "The most dramatic feature of globalization is the liberalization of trade in goods and services and the increasing unrestricted flow of capital across borders."
>
> **International Monetary Fund (IMF):** "Globalization is growing economy, economic independence of countries worldwide through increasing volume and variety of cross border transactions of goods and services and of international capital flow and also through the more rapid and widespread diffusion of technology."

Globalization refers to a free movement of goods, services, people, capital, and information technology across national border. It is a process by which an activity or undertaking becomes worldwide in its scope. In other words, we can say that globalization is a process of integration of the world into one market. This process ultimately converts the huge globe into a small global village. Every manager needs to feel that it is the main source of opportunities as well as the threats. Globalization helps to extend the business into global market so that it provides ample opportunities to the business organization. Through market expansion, business organizations can utilize the low cost resources and reduce the cost of production which facilitates to increase the price competitiveness. At the same time, globalization creates threats of business loss because of presence of large and technologically competent organization to the many small and weak organizations.

NATURE OF GLOBALIZATION

The word 'Globalization' is widely used in these days. It is the essence of development of the information technology and activity of international and regional institutions like WTO, IMF, WB, EU, ASEAN, SAARC, SAFTA, etc. These institutions advocate for integrating national economy with regional and global economy. Nature of globalization can be discussed under following points:

1. **Integration through interdependence:** National economy and markets are integrating into global economy market. Being integrated with global economy and market, economy and the market activities are to be interdependent each other. Globalization encourages the borderless trade. Not only the economy, but political, socio-cultural, technological interdependency gets increased.



2. **Free trade concept:** Globalization promotes the international trade, based on competitive free market mechanism. Under this concept goods and services are moved freely across the borders. Globalization facilitates to remove any barrier to the free trade through different monetary and non-monetary instruments.

3. **Free flow of resources:** Globalization requires free flow of capital, labor, technology, and management across borders. Nationalization of firm and industry is prohibited. Foreign investment is done in direct or indirect form. China and India in these days are getting maximum Foreign Direct Investment (FDI) from the globe. Nepal too, wishes to get FDI from different countries and conducting series of investment seminars.

4. **Use of information technology:** Globalization requires the extensive use of Information Communication Technology (ICT). Availability and development of internet and e-mail facilitates the international trade. ICT has dramatically reduced the cost of production and operation of the business. But it is being challenge to small and medium level business organizations as they neither can develop the advance technology themselves nor can purchase the new technology from others. Because of this such small and medium level organizations lose their competitive advantages.

5. **Multinational companies:** Multinational Companies (MNCs) facilitate the globalization. They wish to extend their business through production or selling activities in different nations. MNCs produce goods and services in large quantity and distribute transnational markets. Globalization is possible only because of multinational companies.

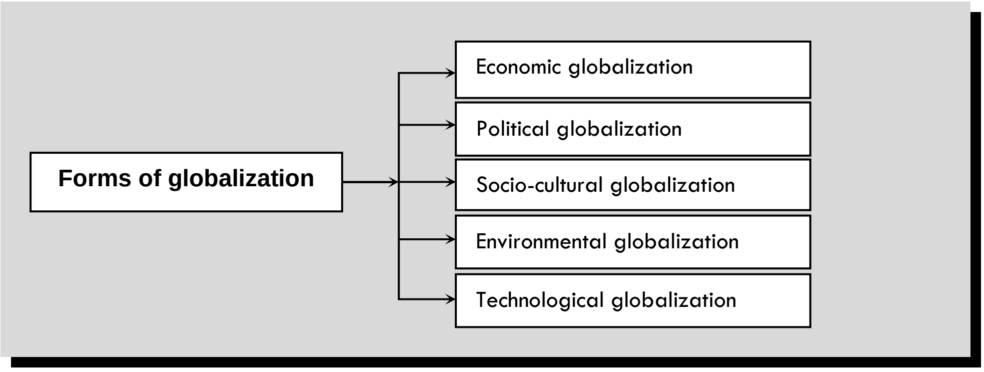
6. **Standardized technology:** It is possible to adopt new and standard technology due to the huge investment. Large companies are investing on pollution free and advanced technology for better and sustainable use of technology. Such technology develops the competitive advantage of the organization.

7. **Foreign direct investment (FDI):** Through globalization, FDI is encouraged for establishing huge industries and multinational companies in developing countries. FDI may be helpful to solve unemployment problem through optimum use of resources available in the country.

8. **Liberalized economy:** Globalization encourages all the countries for economic liberalization. Policies like monetary policy, fiscal policy, foreign exchange policy, industrial policy, etc. are liberalized for facilitating the globalization. Under globalization, governments play the role of facilitator and regulator but do not handle business organization.

FORMS OF GLOBALIZATION

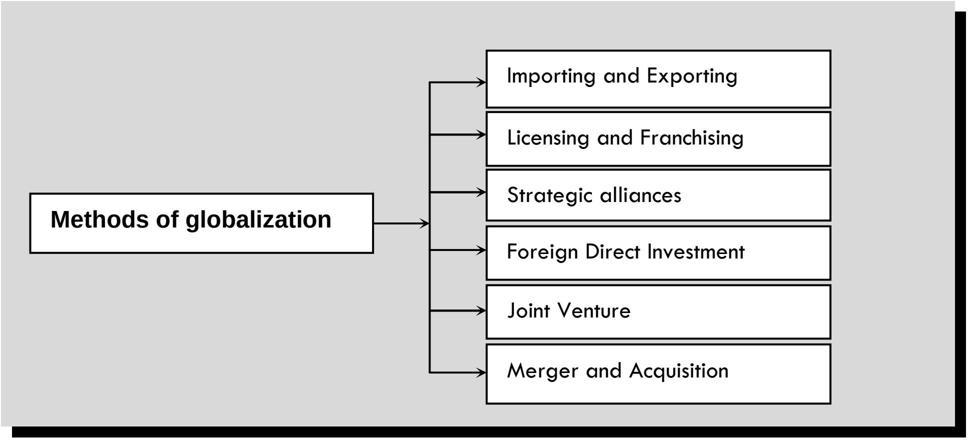
Globalization is multi-dimensional process. It brings many changes in the different sectors. It influences in several areas of the economy in different forms. Globalization can be in different forms as described below:



1. **Economic globalization:** Economic influence is the most obvious part of globalization. It is the integration of different facets of national economy with the world economy through liberalization, deregulation, privatization, and declining cost of transportation and communication. This form of globalization indicates the increased global connection of the markets, service, capital, trade, finance, etc. Multinational companies and international and regional institutions are main drivers for economic globalization.
2. **Political globalization:** Countries are being more interdependent for exchanging the views and experiences regarding the establishment of good governance system, legal system, human right, property rights, local level decentralization, etc. The regional and global groups of nations have promoted such issues for globalization. Along with the economic globalization, immense pressure has been created for democracy and human right. Political system has been changing the economy from controlled to mixed and free market model. Global unit for anti-terrorism movement is an example of political globalization.
3. **Socio-Cultural globalization:** Different countries may have different sets of national beliefs, values, culture, religion, and social norms. Increasing trend of globalization has brought these cultural beliefs in various forms. Use of ICT, television networks, transportation facilities, and global communication systems have been reducing the barriers of distance and culture. Unique cultural heritage has been joining global cultures. There are no such social and cultural values and principles which are not affected by other social and cultural values and principles. Lifestyle has been changed and the ways of dealing are affected by globalization.
4. **Environmental globalization:** The economic and political globalization, in many cases, are creating many unexpected environmental problems. The world is facing problems of global warming, depletion of ozone layer, acute loss of bio-diversity, and ecological problems like air, soil, water and pollution. Many interest groups and environmentalists are promoting awareness and advocating against the agents for producing such pollutions. Almost all the nations are at the same plateform to demoralize the activities of pollution. Anti-pollution activities have also changed the global political situation as well. MNCs are charged for environmental degradation.
5. **Technological globalization:** Technology is one of the important agents for globalization. In order to reduce the cost of production, improve the quality of goods and services, large organizations are investing a large sum of capital for innovation and development of technology. Through globalization, free flow of information is being possible. Technology developed in one country can be adopted in many other countries quickly. Such developments in technology are being compulsory to adopt for transportation, communication, preservation, etc. Thus, globalization is being possible through movement of technology.

METHODS OF GLOBALIZATION

Different methods are being used for globalization. These methods are also referred as foreign market entry strategies. Some common methods of globalization are described below:



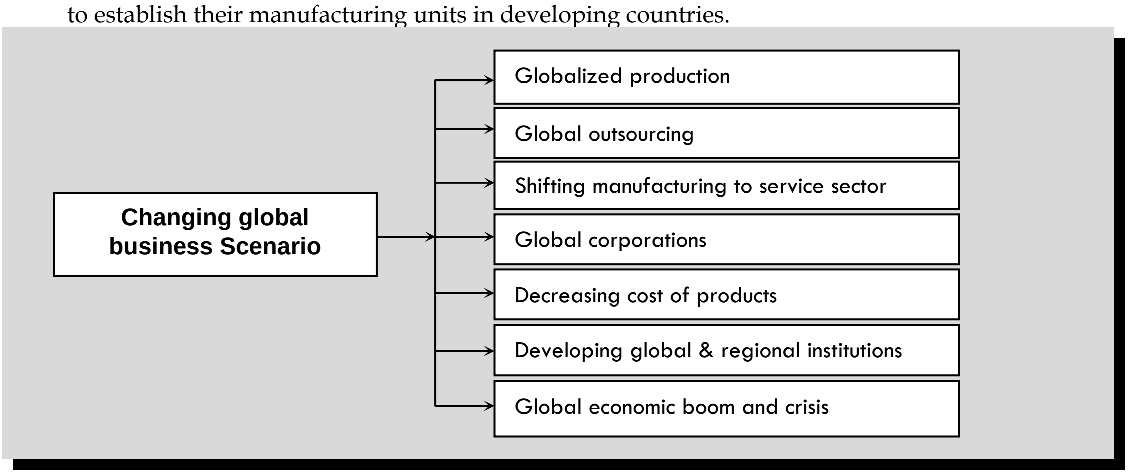
1. **Importing and Exporting:** It is the most traditional and common method of globalization. In the method, the necessary or deficit goods for the nation are purchased from other countries whereas excess or surplus productions of products are exported in foreign markets. Importing and exporting involves buying and selling products from and to other countries without establishing manufacturing facilities in concerned countries. Import and export can be done directly or by using intermediaries. Exporting is preferable when the cost of production in the home countries is substantially lower than cost of producing goods in foreign markets. For instances, Chinese companies are exporting their products throughout the world because of the lower cost of production. Nepali garment products are getting trouble in exporting because of higher cost of production than the Bangladeshi garments.
2. **Licensing and Franchising:** Licensing is a process of assigning the rights to certain technical knowhow, design, intellectual property, etc. to a foreign company in return of royalties. Franchising is a form of licensing in which a parent company i.e. the franchiser grants the right to do businesses in a prescribed manner to another independent organization called the franchisee. When an organization negotiates a licensing and franchising agreement, it is granting the right to produce or sales the firm's product in host country. This strategy is frequently used for entry into less-developed country having restricted or regulated economy.
3. **Strategic alliances:** Strategic alliances also open up the possibilities for any firm to expand its business globally. This is also known as collaborative agreements, or global strategic partnerships. In this strategy, two firms involve in an agreement for transferring technology, ideas, business success stories, etc. than the equity and ownership. Such types of alliances are increasing especially in service sector like airlines, hotels, educational institutions, etc. Regional and global groups of developed countries are posing their strategies to the developing countries as well. IMF, World Bank, WTO, etc. are such organizations which provide facilities for supporting their strategic decisions. Sky Chefs has strategic alliances with airline companies to supply the food items to the airlines.
4. **Foreign Direct Investment (FDI):** FDI is new approach of entering into foreign country market through direct investment without the support or joint venture of the domestic organization. FDI is the investment alternative in foreign land with hundred percent capital investment of the company. Multinational organizations in foreign country for the manufacturing of goods and services do direct foreign investment in order to reduce cost of production and transportation. The ownership and complete control over operations and profit of new established (subsidiary) company is limited with holding company. It is the commonly used method of globalization since last 30 years in China and Asian countries by the western countries and their multinationals.
5. **Joint Venture:** Joint venture is the process of sharing ownership with foreign companies. It is a very popular method of globalization in recent years especially to those countries where the FDI is not possible. Joint venture is effective for transferring the technologies, technical knowledge, ideas, and capital to the developing countries with the joint capital investment from developed countries.

6. **Merger and Acquisition:** Merger and acquisition are familiar globalization procedures. It is a process of creating full ownership of the firm. Two firms of different country can merge for making their firm more commercial, bigger and global. In acquisition, a large and strong firm purchases a running firm of foreign country. This method is very effective forms of globalization until 1980s.

CHANGING GLOBAL BUSINESS SCENARIO

Modern business is strongly affected by globalization. Due to the rapid and unexpected development in information technology and transportation, markets of various part of world are converting into a single global market. So, world's business scenario has been changing since last few years. Changing global business scenario can be explained in the following points:

1. **Globalized production:** The production activities are now moving out of the developed countries. Large firms of developed countries are now starting their branches in developing countries for producing goods and services. Low cost labor and easy availability of other resources attracts them to establish their manufacturing units in developing countries.

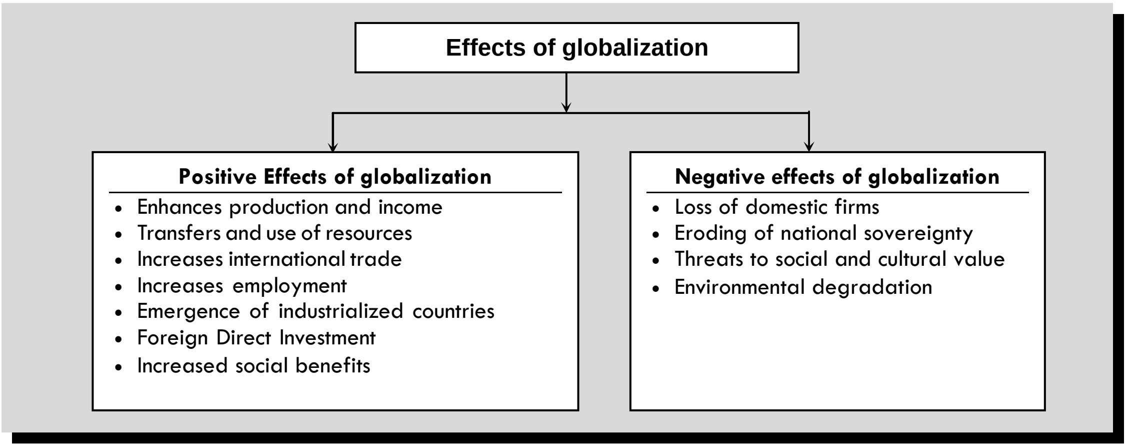


2. **Global outsourcing:** Global outsourcing is the process of procuring various resources from the lowest cost and better quality source available anywhere in the world. Raw materials, labors, and technology can procure from different areas. Different parts of a product can be produced in different countries depending on the cost and availability of the resources. They can collaborate in different other countries.
3. **Shifting manufacturing to service sector:** The scenario of world business and composition of GDP of developed country has been changing continuously. The service sector is growing up smoothly in developed country than the manufacturing sector. So, manufacturing units of the multinational companies have been shifting in developing countries in the form of service sector like transportation, telecommunication, hospitality, etc.
4. **Global corporation:** Global corporations with large size and scale activities have now been growing. Such corporations manufacture, conduct research, raise capital, and buy supplies wherever they can do their business at the best. National regulations and boundaries tend to be irrelevant for such organizations.
5. **Decreasing cost of product**: The fast development of transportation, IT, and communication is reducing the cost of products and increasing the quality over night. Every product can be procured out easily. Import and export processes are being easy due to the development of IT and transportation.
6. **Development of global and regional institutions**: Many global and regional organizations are facilitating for global and regional market. These organizations have formulated the legal and institutional foundations for multilateral trading system. World Bank, IMF, UNCTAD, SAFTA, EU, etc. are such organizations which are encouraging for the global trade.

7. **World economic boom and crisis:** The world economy is growing up rapidly with the global production and technological development. The world's GDP was increased from $ 3980 billion in 1989 to $ 29232 billion in 1999. The report on 2018 is quite different. It is reported that world GDP is growing with 3.7 percent, while advance economy's growth rate is 2.4 percent and GDP growth rate of emerging and developing economy is 4.7 percent. Service sector business is booming smoothly upwards and global trade was increased substantially. World trade is increasing, growth rate of developing countries has been increasing, and new industrial countries are emerged. Asian Tiger (Singapore, Malaysia, Indonesia, and South Korea), China, India, and other many countries are converting themselves in to industrial and developed countries. Developed countries are exploiting the service sector business opportunities and manufacturing units are operating in developing countries.

EFFECTS OF GLOBALIZATION

Increasing trend of globalization has many effects or consequences on an individual business firm as well as the entire national economy. There are both positive and negative effects of globalization which are discussed below:



A. Positive effects of globalization

Globalization has many positive effects on individual and national economy. Some of them are discussed below:

1. **Enhances production and income:** Multinational companies, through globalization, are seeking cheapest resources and adding value to those materials throughout the world. Globalization results in high productivity and income. Specialization at production with economies of large scale production is possible only due to the developed technology. Thus, globalization helps enhance the specialization and economies of scale. Increase in production also has increases the trade. This leads increment of national income as well.
2. **Transfers and use of resources**: The resources like raw material, labor, knowledge, and technology are easily transferred from surplus area to shortage area. Technological development is widespread, cheap labor is utilized to produce goods all over the world. Globalization has encouraged producing products at cheapest area because of which unutilized and under-utilized natural resources and man power can be used.
3. **Increases international trade:** globalization facilitates in free flow of goods and services. This has substantially increased the international trade i.e. export and import. Rate of increasing multinational companies in developing countries is increasing because of which they are able to export their products in developed countries.
4. **Increases employment:** People in developing and underdeveloped countries are getting more employment opportunities due to the establishment of huge multinational companies. Business corporations are getting low cost labor from developing countries. This has further increased the business activities. Opportunities of employment in developing countries have solved many social unrest and crimes as well.

5. **Emergence of industrialized countries:** Some developing countries like Singapore, Thailand, Malaysia, Taiwan, China, South Korea are emerging as new industrial countries. They are getting supernormal growth in their economy. They are growing as new economic miracle.
6. **Foreign Direct Investment:** FDI is increasing in different sectors of developing countries from developed countries. Developing countries are getting benefits from FDI and using their resources effectively. Due to this, employment is generated, export is encouraged, and free trade is facilitated resulting in high economic growth.
7. **Increased social benefits:** Multinational companies, through social responsibility are providing facilities to the societies in different sectors. They provide budgets for education, health and other basic purposes to the society. Interaction of different group of people from business creates new socio-economic environment that may be much beneficial for the development of the society.

B. NEGATIVE EFFECTS OF GLOBALIZATION

Societies are suffering from negative consequences of the globalization too. Some of them are discussed below:

1. **Loss of domestic firms:** Domestic firms may not have enough resources like capital and technology for extending and procuring the business in comparison to the large multinational companies. Domestic firms cannot compete with multinational companies in terms of quality and price. So, domestic firms gradually lose their market because of globalization. There may be the chance of losing their existence too. For instance, about dozen of Nepali aluminum industries have already been closed, and the Nepali garment industries are running with poor performance as a consequence of globalization.
2. **Eroding of national sovereignty:** National sovereignty is affected by the policies and strategies of globalization. Developing nations are compelled to accept those policies for receiving the grants, debts, and attract FDI. Large multinational companies and even their home nation government pressurize to the host countries to formulate policies in favor of their companies.
3. **Threat to social and cultural value:** Indigenous cultural and social values are damaged because of transferred cultures from developed countries to developing countries. Religion and cultures are changing by losing their main themes and values. International crime, drug trafficking, international terrorism, child sex abuse, prostitutions, etc. are increasing because of business practices of globalization. Life style has been changed and to maintain such changes people may follow socially unexpected behaviors.
4. **Environmental degradation:** Due to the globalization, the earth is facing problem of global warming, depletion of the ozone layer, acute loss of bio-diversity, and over consumption of natural resources. It is creating water, air, soil and noise pollution in big cities. Increased number of multinational companies are responsible for the degradation of the global environment.

INTERNATIONAL MANAGEMENT

CONCEPT OF INTERNATIONAL MANAGEMENT

International management is the management of business operations for an organization that conducts business in more than one country. It involves understanding international economics, leading changes in international corporations and creating global business strategies. Scope of the international management is being wider because of the increased trade volume of international business. No organization, nowadays can assume its growth without being international. Because of globalization, efforts for decreasing regional and global trade barriers, trade volume in international trade is increasing. These days, management of the business is being more challenging because of changing business environment.

International management requires knowledge and skills above and beyond normal business expertise, such as familiarity with the business regulations of the nations in which the organization operates, understanding of local customs and laws, and the capability to conduct transactions that may involve multiple currencies. As an international manager, managers must develop skills as domestic managers, like critical thinking, problem solving and business skills, in addition to understanding global economics, multicultural business practices and foreign languages, labor market dimensions, changing technology, socio-cultural differences, etc. For international management, more specialized knowledge in applying business practices on a global scale need to be developed along with basic knowledge of business principles e.g. marketing, finance and supply chain management. Managers must be able to consider how local cultural ideals, social standings, political stability, economic progresses and geographical benefits play into making ethical business decisions. Networking skills with international non-profit organizations, corporations and other government and non-government agencies or groups.

APPROACHES OF INTERNATIONAL MANAGEMENT

There are three approaches to international management: ethnocentric, polycentric, and geocentric. All these approaches have their own pros and cons. They are discussed below :

- **Ethnocentric approach :** The ethnocentric approach is the international management approach in which organization uses the same style and practices of their home country to the international business management. In this approach, management does not care about changes in business environment in international market. In such situation, manager's decision may make wrong because of ignorance of environmental changes in the host country. Strategy in one country may not work to another country. Thus, this approach of international management may not be appropriate in the countries with more flexible business environment.
- **Polycentric approach :** Polycentric management approach stresses that the people should be hired from the local i.e. host country as it believes that local people know the best about market, consumers and their buying behavior, legal provisions, work ethics, language, religion, etc. This means, the management hires employees from the host country. There is chance of being less efficient manpower in host country because of which the productivity of the organization could be low.
- **Geocentric approach:** In this approach, the best individuals are hired from any country regardless of their home or host country. Specially, for the top management positions, people are searched globally. This philosophy assumes that business problems are the same regardless of where in the world they occur. Therefore, competent managers who are able to apply logic and common sense to resolve them will be successful; specific cultural knowledge is not necessary. This is the most difficult of the three approaches to apply, since managers must be able to understand the local and global ramifications of the business.

FUNDAMENTALS OF INTERNATIONAL MANAGEMENT

International management, in simple terms, is the performance of management activities across the national borders. Main objective of international management is to achieve organizational goals with extension of management activities in other countries. Because of the increasing globalization, every organization has no question regarding whether or not to globalize but the question is how and how fast to globalize. It is essential to monitor, scan and scale the rate of global progress over time.

There can be several forms of international management, from simply analyzing and competing in the international competition to establish a formal partnership with one or many foreign organizations.

To be a successful international managers, following strategies are suggested:

- Check the list of assumptions made to have international management.
- Slow down, speak clearly, and use slang cautiously and carefully.
- Prepare a list of facts and figure supporting and opposing the business in particular country.
- Make a list of facts and factors about another countries or cultures
- Observe and listen the factors changing in different referent countries in which the company wish to extend its business. Seek out global news sources, analyze these sources and trends of changes in factors in business environment. For this, it is necessary to travel frequently to the destinations but should make precautions.
- There must be management of people in different countries and make them accountable for business success. Give constructive feedback and receive their feedback.
- Organizational leaders should be more sensitive on initiating strategic change and implementation if necessary.

MANAGING BUSINESS IN INTERNATIONAL BUSINESS ENVIRONMENT

Many managers face challenges in the different countries because of differences in various components of the business environment. Following management issues in different situations are importantly suggested in international management.

- **The political/legal environment:** In few countries like the US have well established legal framework and political procedures (stable business environment) while some countries like Nepal have less established legal and political business environment. Managers need to cope with different political and legal environment. More stable legal and political environment facilitates for accurate predications while poor stability provides threats on business expansion. Managers must recognize the differences from home country and host country. Based on the facts, managers need to identify the constraints and opportunities that exist in host country.
- **The economic environment:** International manager must be aware of economic issues when doing business in other countries. Economic system (free market and planned economy), inflation rate, economic policies, tax policies, repatriation policies, etc. are more important dimensions in economic environment. Managers must study and understand these factors before exposing their business in the host country. They need to get exact information and if possible, should appoint legal advisors. Such informations need to be analyzed and prepare comparison table of constraints and opportunities. Managers prepare the list of tax provisions, procedures and schedules based on the countries.
- **The cultural environment:** National culture is more important factor for guiding and leading the international business. Formal/informal, direct/indirect, collectivist/individualist, high power distance/low power distance, external/internal locus of control, value/temporary relationship, paternalistic/low protectionist, keeping of word/changing commitment, etc. are most important business dimensions leading the business environment. These factors differ because of national culture. Manager's managerial style should be different with the different environment as the employee's expectations and their way of doing things remains different according to their national culture. Managers in international management should identify the differences between national cultures and train their managers and employees to cope with the change in cultural environment.
- **The technological environment:** Technological environment as composite of level of technology, pace of change of technology, technology transfer act, etc. of the host country. Managers need to be aware to such factors.
- Doing business globally today is not easy. Managers face serious challenges – challenges arising from the openness associated with globalization and from significant cultural differences. Without doubt, main objective of being global is to gain economic and social benefits. But, because of its openness, globalization creates more challenges. Economic interdependence, political interdependence and social challenges are the growing issues and challenges in international business management. More serious challenges for managers reflect intense underlying and fundamental cultural differences – differences that comprehend traditions. Managing business in such situation is really complicated. Managers must show their incredible sensitivity and understanding to cope with such challenges. They should be aware of their decisions and practices considering not only the people who agree but also to those who disagree. They need to adjust they leadership styles and management approaches to accommodate these diverse views.

MULTINATIONAL COMPANY

Multinational companies are defined as the companies engaged in producing and selling goods and services in more than one country. Such large organizations maintain headquarters in one country but perform production, marketing, finance, and personal function in several countries. The parent company normally exists in developed country and subsidiaries in developing countries (host countries). The ownership of multinational companies remains both with parent company and the subsidiaries. However, major shares of investment in subsidiaries are controlled by the parent company. Therefore, the parent company plays a major role in the management and control of business activities of the subsidiaries.

United Nations : "MNCs are those enterprises which own or control production or service facilities outsides the country in which they are based."
International Labour Organization (ILO): "Multinational Company has management headquarters located in home country and carries out operations in a number of countries."
David E. Lilenthal: "Multinational companies are corporations which have their home in one country but operate and live under the laws and customs of other countries as well."
Robock and Simonds: "MNC is a large corporation with operation and divisions spread over several countries but controlled by a central headquarters."

MNCs are international organizations that have significant operations in more than one country. Such companies produce and conduct marketing activities to their products across the border.

Some of the well known multinational companies in the world are as follows:

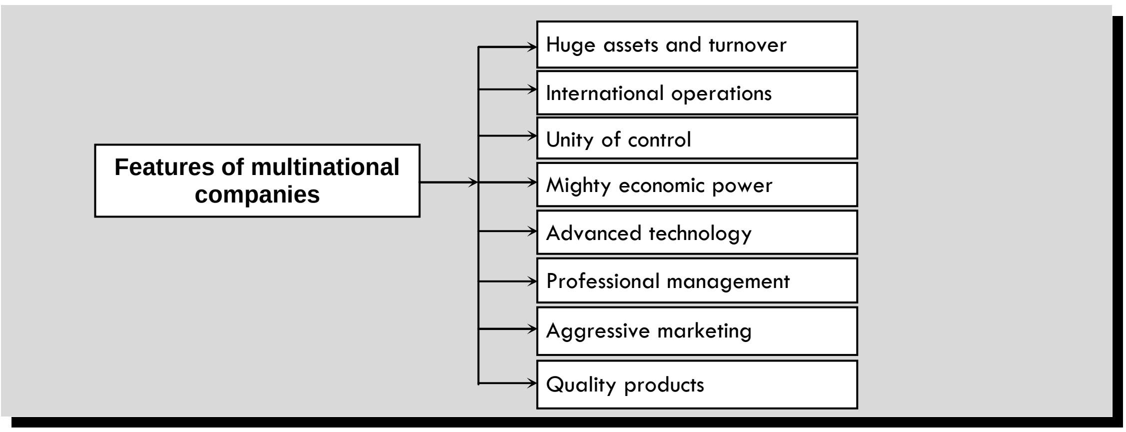
- IBM Corporation, USA
- Mercedez Benz, Germany
- Nestle Company, Switzerland
- Dunlop, UK
- Honda, Japan
- General Electric, USA
- Coca Cola Company, USA
- Hitachi, Japan
- Panasonic Corporation, Japan

Some examples of joint venture multinational companies in Nepal are:

- Colgate Palmolive
- Samsung
- Daewoo Television
- Surya Tobacco Pvt. Ltd.
- Pepsi Cola Nepal
- Standard Chartered Bank
- Everest Bank
- Tuborg Beer
- Holiday Inn Crown Plaza
- Union Carbide (Nepal Battery) LG
- Raddison Hotel
- Jenson & Nicholson Paint
- Bottlers Nepal (Coca Cola)
- Wai Wai Noodles
- Himalayan Bank
- SBI Bank
- San Miguel Beer

FEATURES OF MULTINATIONAL COMPANIES

MNCs are the organizations with their business extension throughout the world. They compete with global organizations at the global level. With advanced and sophisticated technology, MNCs provide world class goods and services to the customers. Some of the features of MNC's can be described below:



1. **Huge assets and turnover:** MNCs have huge physical and financial assets because of global operations. They invest in the growing economy having low cost of production. Being strong in technology, they produce goods and services in large scale and export in huge turnover. In fact, in terms of assets and turnover, many MNCs are found bigger than national economies of several countries.

2. **International operations:** MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries. In many instances, multinational companies extend their selling operation through alliances.
3. **Unity of control :** MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.
4. **Mighty economic power:** MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of the companies, in host countries. They even influence the economic and other policies of the host country.
5. **Advanced technology:** Generally, MNCs are strong enough in terms of advanced and sophisticated technology. They employ huge capital for technology innovation, development and acquiring it. Because of such advanced and sophisticated technology facilitates in production and distribution process. It significantly lowers the cost of production.
6. **Professional management:** A MNC employs professionally trained managers from regional or global labor market. They can easily handle huge funds, advanced technology and international business operations.
7. **Aggressive marketing:** MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever goods and services they produce.
8. **Quality products:** MNCs employ advance and sophisticated technology, qualified human resources and advance procedure. They have to compete on the world level. Therefore, they pay special attention to maintain the quality of goods and services.

TYPES OF MULTINATIONAL COMPANY

MNCs are of various types. It depends upon their purpose and coverage area. Different management experts have given different opinion regarding types of MNCs. Shapiro (1996) classified MNCs in to three types as follows:

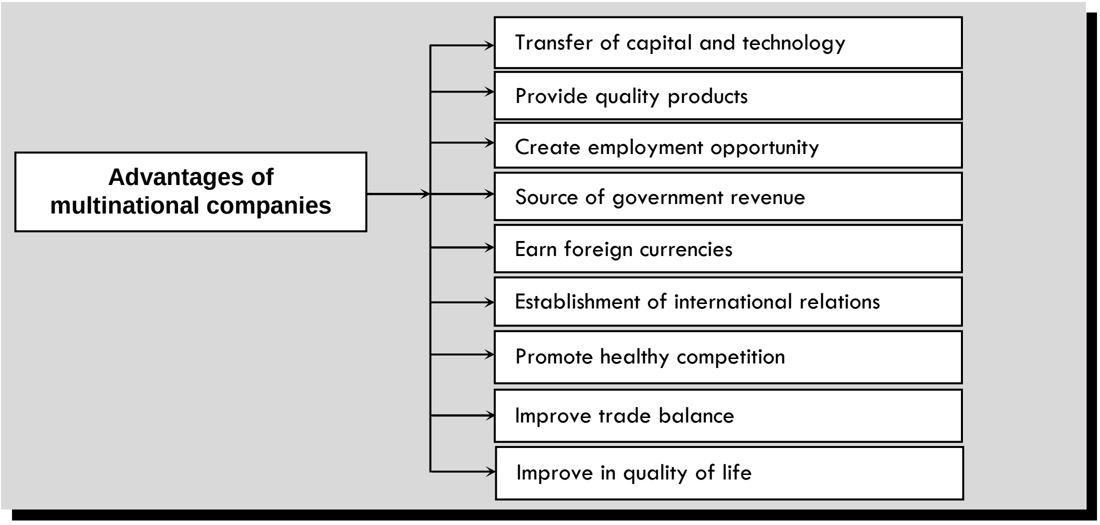
1. **Raw materials seekers:** If multinational companies are extending their business with the motive of getting the raw materials are called raw material seekers. The main aim of such MNCs is to exploit raw materials available in foreign countries at the cheap price. Such MNCs search mines, oil, gas, and other raw material required for manufacturing process. These are the earliest types known MNCs.
2. **Market seekers:** These are the most common type of MNCs in the modern economy. They establish their branches in foreign countries to produce and sell their products in those new markets. They invest in production facilities and spend heavily for market development.
3. **Cost minimizers:** Those MNCs which extend their business in order to reduce the cost of production, taxation and transportation are called cost minimizers. Such MNCs work in those parts of the world where labor and other factors of production are very cheap. Their main objective is to enhance the competition capacity by reducing the cost of production.

ADVANTAGES OF MULTINATIONAL COMPANY

MNCs provide a good number of advantages to the individual and nation as well. Some of the benefits of MNCs are explained below:

1. **Transfer of capital and technology:** The capital and technology are the major requirements for the economic development of any country. Multinational companies transfer capital and technology in the host countries through subsidiaries and other business operations. MNCs create investment climate through capital and technology transfer. This facilitates host countries for their development.
2. **Provide quality products:** MNCs use advanced and sophisticated technology. They need to compete at the world level. So they produce and sell standard goods and services. They provide ample opportunities to serve the consumers of developing countries for the quality goods and services at competitive price.
3. **Create employment opportunity:** Multinational companies are large companies extending business in many countries. They invest a large sum of money for utilization of natural resources available in those countries. Their investment in those countries creates employment opportunity for different capacities.

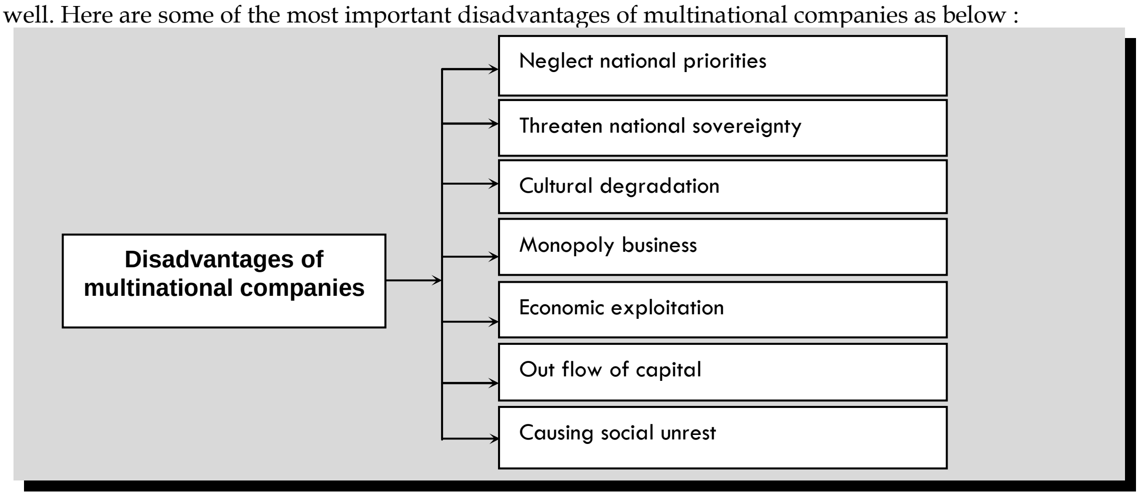
4. **Source of government revenue:** Multinational companies do their business at the large scale. They pay large sum of money in the form of excise duty, custom duty, income tax, value added tax and other corporate taxes. So, MNCs are the important sources of government revenue.



5. **Earn foreign currencies:** Multinational companies earn foreign currencies through royalty, transfer of technology, export of goods and dividends from subsidiaries companies. They are major sources of foreign currencies for many countries. As a result, the countries may have favorable balance of trade.
6. **Establishment of international relations:** Multinational companies help in developing international relations at the political as well as business levels. They link several countries and promote such relations with host countries.
7. **Promote healthy competition:** Multinational companies create an environment of healthy competition in the domestic as well as international market. They break the monopoly of domestic companies. As a result, they compel domestic companies to be competitive and efficient.
8. **Improve trade balance:** MNCs help increase their exports and decrease their import requirements. This will be helpful to maintain the balance of international payment systems.
9. **Improve in quality of life:** MNCs invest for technology advancement and innovate. Such companies produce at the large lots to produce scale of production. So, people get quality product at cheaper products which help to improve quality of life.

DISADVANTAGES OF MULTINATIONAL COMPANY

Multinational companies are not only helpful to the developing nations but they create some problems as well. Here are some of the most important disadvantages of multinational companies as below :



1. **Neglect national priorities:** Multinational companies usually invest their capital in profitable sectors as per the interest of parent company. They neglect the national priorities of host countries. As a result, most of the under developed sectors of host country's economy remain unchanged.
2. **Threaten national sovereignty:** Host countries face the threat of losing their sovereignty because of multinational companies. Multinational companies are economically and technically much powerful. They can easily interfere in the internal affairs of the host countries. For this, they influence policy makers and political parties.
3. **Cultural degradation:** Multinational companies generally produce and sell those goods and services which are popular in the developed countries. However, such goods and services may not be compatible to the values, customs and culture of host countries. As a result the culture of the local people is generally diluted with the culture of the developed countries.
4. **Monopoly business:** Multinational companies conduct business at large scale. They provide quality goods and services at cheap price at the beginning days. But when they extend their business, they totally displace local industries. In such ways, they conduct monopoly business.
5. **Economic exploitation:** Multinational companies attempt to maximize profit as soon as possible. They use natural resources excessively but pay low charges to government. At the same time, they pay low wages to local people but charge high prices of products. In this way, they exploit to the customer as well as country economically.
6. **Out flow of capital:** Multinational companies carry out a large sum of money in the form of divided, profits, royalties, technical fees, etc. from host countries. It adversely affects the balance of payment of the home country.
7. **Causing social unrest:** Multinational companies offer luxurious products and facilities the people. They encourage people to own such facilities through attractive advertising products. But majority people with low purchasing power cannot afford such expensive products. They may involve in stealing, robbery, kidnapping, murder, etc. to fulfill their desires. Thus, social unrest may be common because of multinational companies.

DIGITAL DIMENSIONING

Digital dimensioning is the process of designing and implementing those digital activities that will best help a specific organization reach its goals. To make the international business success, with development of internet facility, managers use e-business as the regular and strategic organizational activity. Such digital dimensioning activities should always be aimed at achieving organizational goals. With increasing popularity and use of internet throughout the world, specially among the young people, managers should use the digital dimensions for organizational goal achievement.

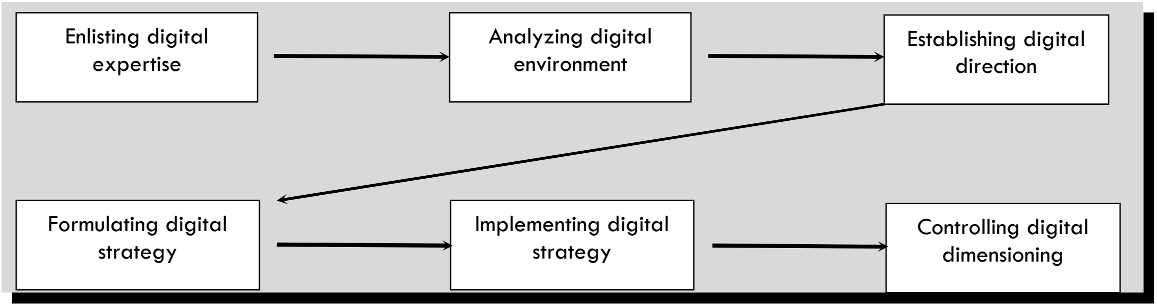
Digital dimensioning is the process of enlisting digital expertise, establishing digital environment, establishing digital direction, formulating digital strategy, implementing digital strategy and controlling digital dimensioning. It is process of managing internet to make the business success. Through digital dimensioning, organizations try to educate, communicate and manage different components of business through inception of business ideas to after sales service. With increasing uses internet devices, digitalization of the business is being cheaper and fastest means to reach to the customers, to serve them at minimum time and cost with uniform quality. For instance, from Kathmandu, if you have Booking.com application in your mobile, you can book hotel rooms and services instantly throughout the world listed in Booking.com. Here planning to be in Booking.com, providing hotel informations to Booking.com, making confirmation of rooms availability and confirming the bookings with auto-generated messages, etc. are the scopes of digital dimensioning of the hotel business. Nowadays, various online shopping applications for goods and services are available as essence of digital dimensioning.

PROCESS OF DIGITAL DIMENSIONING

Digital dimensioning is a process or series of steps following the below stated major steps:

1. **Enlisting digital expertise:** For digital dimensioning requires to increase the special technical skills, human skills and conceptual skills as in other managerial process. People involving in digital dimensioning should have technical skills and ability for handling the e-business hardware and

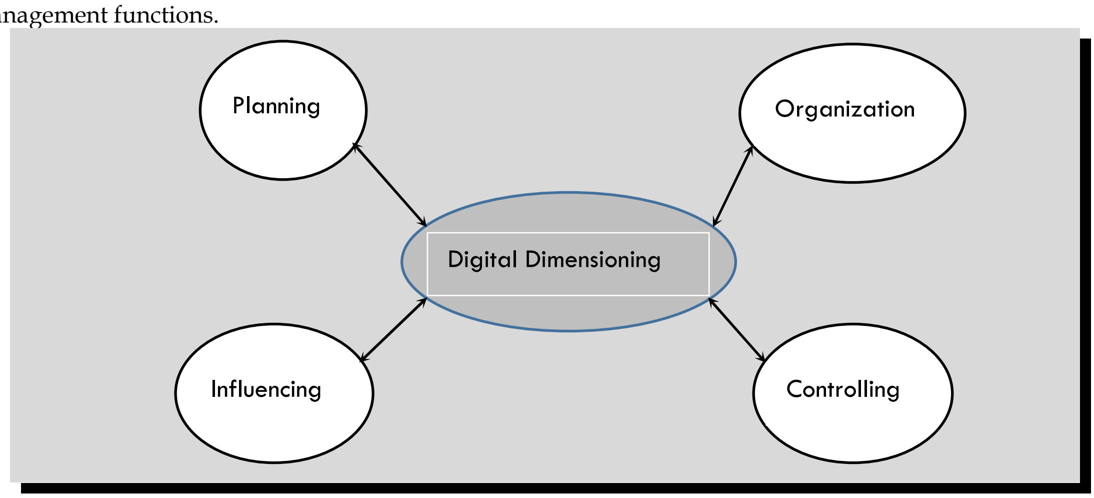
software. To increase this type of technical skills, there could be three options as to train employees already involving in the organization, hiring new organizational members with such skills and hiring e-business partner or consultant sufficient with such expertise. Organization can choose one of these options based on the list of expertise essential for making e-business successful. Thus, management needs to enlist the digital expertise for making the e-business successful.



2. **Analyzing digital environment:** After enlisting the digital expertise, now it is to analyze the organization's digital environment. It is the process of monitoring, assessing, and making conclusions about organizational surroundings that could impact on success of its digital efforts. This helps to analyze the critical factors both inside and outside the organization that could influence progress toward building e-business competitive advantages.
3. **Establishing digital direction:** After enlisting digital expertise and analyzing digital environment, managers now need to establish the digital direction that the organization need to follow. This act helps set the actions that the organization need to take to accomplish the organizational goals. Organization should develop digital oriented mission statement and goals so that organization can focus on overall philosophy about pursuing digital activities. In this stage, management sets the philosophy about how to pursue digital activities, expect to modify, heighten, or even change its array of digital activities, based on what is learned over time from its involvement in the digital arena.
4. **Formulating digital strategy:** Strategy is the set of plans, policies and schemes prepared to follow in order to achieve digital mission statements. Digital strategy helps achieve the organization's digital goals. Digital strategies can be in corporate level, business unit level and operational level. Based on level of strategy, operational action plans are formulated.
5. **Implementing digital strategy:** After establishing all the foundations for digital dimensioning, now it is the time to implement the digital strategy. In order to implement the digital strategy successfully, managers must perform activities like allocating resources necessary to build systems required by digital strategy and building organization culture so that digital strategy can grow and flourish. They need to analyze and work their hardest to change the organization's culture, system and procedure to convert it into digital supporting. Managers need to work for establishing scope of digital dimensioning to all the people of the organization, allocate the resources adequately, participate key employees in different level meetings, trainings and dissemination, support the employees and if necessary, take assistance of consultant.
6. **Controlling digital dimensioning:** Controlling is the process of monitoring and evaluating the digital dimensioning process and initiatives to make sure that results materialize as planned. Controlling digital dimensioning entails monitoring digital activities to ensure that digital goals are achieved. In monitoring, if the managers find the current level of activities are not sufficient in achieving the established digital statements, they take required action like improving digital strategy, improving how digital is implemented, or reviewing the results of the analysis of the digital environment to observe whether digital goals were too ambitious. When controlling digital dimensioning activities, managers must be aware that action taken to improve the effectiveness of digital activities, once implemented, should be monitored very carefully. It is most important that the controlling process should focus on improving the digital dimensioning process.

DIGITAL DIMENSIONING: THE MANAGER'S WHOLE JOB?

This is a digital era where all the managers must perform to enhance organizational success through the use of digital dimensions. In general, digital dimensioning is seemed to be manager's job in totality. With burgeoning growth and significance of the modern digital business world, many would argue that managers must now ensure that digital dimensioning is a significant part of their job. Managers perform their managerial jobs with visualizing digital dimensioning as primary management activity along with planning, organizing, influencing and controlling. Following figure illustrates how managers might visualize this close relationship between digital and dimensioning and the more traditionally accepted management functions.



Digital dimensioning and Planning: Planning is the process of establishing organizational goals, choosing tasks that must be performed in order to reach those goals, outlining how the tasks should be performed, and determining when that tasks should be performed. There is reversible relationship between digital dimensioning and planning as shown in above figure. Digital dimensions can help the managers to make the plan more effective and efficient. Good digital dimensioning helps make quickly decisions which helps to reach the business at shortest time. Through digital dimensioning, managers can establish tools to enhance the speed of data gathering and analysis and the probability of making sound planning decisions.

Digital dimensioning and Organizing: Organizing is the process of establishing responsibility-authority relationship so that it makes the accomplishment of tasks without any confusions. Organizing assigns tasks and duties to employees that, once completed, will result in the organization reaching its targets. It, in another meaning, is the process of orderly uses for all the resources within an organization. People, materials, financial assets and informations are the valuable organizational resources. Digital dimensioning also has the reversible relation with organizing. From responsibility-authority point of view, digital dimensioning helps create ways to allow people to work together on specific projects from various locations around the world if necessary. Specially, internet-based applications can be used to develop person-to-person collaborative tools which enable people to communicate from various locations in cities, states or countries. For the organization specially more decentralized, collaborative technology provide tremendous potential for handling organizational issues like teamwork, improving workflow, and communicating more efficiently and effectively. Nowadays, many digital based tools like telephone, fax, photocopying, etc. and the applications like Messenger, Viber, Zoom, Hangouts, etc. facilitate in organizing function. They are frequently being used in coordination with the people who are physically far. Use of such devices have helped to minimize the cost and timing of meeting. From the resource point of view, digital dimensioning helps to search new devices, make comparison, and making decisions.

Digital dimensioning and Influencing: Influencing is the process of guiding the activities of people towards appropriate directions. Influencing involves focusing on employees as people and dealing with such issues as morale, arbitration of conflict, and the development of positive working relationships. Many research works have proved that influencing people is one of the most important factors to make the business success whether they are from within the organization i.e. employees or from external i.e.

consumers and other stakeholders. For influencing people, appropriate directions for the employees and clear information are most essential. To direct and communicate people in the organization, digital dimensioning is most essential. It helps management in diverse areas like recruitment and selection, performance evaluation, communication, supervision and directing, training and development, and maintaining workplace employee relation. These issues are more importantly emerging in these days for employee satisfaction and motivation. Digital dimensioning helps to update and upgrade these issues. Digital dimensioning can be used for consumer communication and welfare program. Thus, digital dimensioning has great role in influencing people.

Digital dimensioning and Controlling: Controlling is the process of being sure that the activities are being as per the standards set by the management. Controlling consists of setting desired standard, measuring actual outcomes, comparing standard and actual outcomes, locating and analyzing the deviations, if any, and initiating corrective action. Digital dimensioning helps perform all these activities. Organization develops or hires effective software packages for these activities. Such softwares help monitor and analyze the trend, say, to estimate the environmental changes and required changes in organization's efforts. Organizations develop their own websites including organizational progress and procedure, documents, and information regarding the work process which helps keep record, analyze and make decisions. Such programs helps to increase the validity of the output, and decrease the flaws in accomplishment of jobs. Digital dimensioning helps to provide quick and reliable customer service.

SUMMARY OF LEARNING OBJECTIVES

❐ **Concept of globalization:** Globalization refers to the integration of economics and societies all over the world. Globalization involves technological, economic, political, and cultural exchanges made possible largely by advancement in communication, transportation and infrastructure. In simple words, globalization is the growing international interaction of market for goods, services and capitals.

❐ **Nature of globalization**

- Integration through interdependence
- Free flow of resources
- Multinational companies
- Foreign direct investment (FDI)
- Free trade concept
- Use of Information Technology
- Standardized technology
- Liberalized economy

❐ **Forms of globalization**

- Economic globalization
- Social and Cultural globalization
- Technological globalization
- Political globalization
- Environmental globalization

❐ **Methods of globalization**

- Importing and Exporting
- Strategic alliances
- Joint Venture
- Licensing and Franchising
- Foreign Direct Investment (FDI)
- Merger and Acquisition

❐ **Changing Global Business Scenario**

- Globalize production
- Shift from manufacturing to service sector
- Global corporation
- Decreasing the cost of the product
- Development of global and regional institutions
- World economic boom and crisis
- Global outsourcing

❐ **Effects of Globalization**

A. Positive effects of Globalization

- Enhances production and income
- Increased international trade
- Emergence of newly industrialized countries
- Increased social benefits
- Transfer and use of resources
- Increased employment
- Foreign Direct Investment

B. Negative effects of Globalization

- Loss of domestic firms
- Eroding of national sovereignty
- Threat to Social and Cultural value
- Environmental degradation

❒ **Concept of International Management:** International management is the management of business operations for an organization that conducts business in more than one country. It involves understanding international economics, leading changes in international corporations and creating global business strategies. International management requires knowledge and skills above and beyond normal business expertise, such as familiarity with the business regulations of the nations in which the organization operates, understands local customs and laws, and capable to conduct transactions that may involve multiple currencies.

❒ **Approaches of international management**

- Ethnocentric approach
- Polycentric approach
- Geocentric approach

❒ **Multinational company:** Multinational company is defined as the company engaged in producing and selling goods and services in more than one country. Such large organization maintains headquarters in one country but performs production, marketing, finance, and personal function in several countries.

❒ **Types of Multinational Company**

- Raw materials seekers
- Market seekers
- Cost minimizers

❒ **Advantages of Multinational Company**

- Transfer of capital and technology
- Provide quality goods and services
- Create employment opportunity
- Source of government revenue
- Earn foreign currencies
- Establishment of international relations
- Promote healthy competition
- Improve trade balance
- Improve quality of life

❒ **Disadvantages of Multinational Company**

- Neglect national priorities
- Threaten national sovereignty
- Cultural degradation
- Monopoly business
- Economic exploitation
- Out flow of capital
- Causing social unrest

❒ **Digital dimensioning :** It is the process of designing and implementing those digital activities that will best help a specific organization reach its goals. Digital dimensioning is the process of enlisting digital expertise, establishing digital environment, establishing digital direction, formulating digital strategy, implementing digital strategy and controlling digital dimensioning.

❒ **Process of digital dimensioning**

- Enlisting digital expertise
- Analyzing digital environment
- Establishing digital direction
- Formulating digital strategy
- Implementing digital strategy
- Controlling digital dimensioning

❒ **Digital dimensioning and Planning:** Through digital dimensioning, managers can establish tools to enhance the speed of data gathering and analysis and the probability of making sound planning decisions.

❒ **Digital dimensioning and Organizing:** Digital dimensioning helps search new devices, make comparison, and making decisions. It helps make the organizational structure, establishing responsibility-authority relationship, making the people accountable.

❒ **Digital dimensioning and Influencing:** Digital dimensioning can be used for consumer communication and welfare program. Thus, digital dimensioning has great role in influencing people.

❒ **Digital dimensioning and Controlling:** Digital dimensioning helps perform all the controlling activities. Digital dimensioning helps provide quick and reliable customer service.

EXERCISE

Brief Answer Questions

1. What is meant by globalization?
2. What are the features of globalization?
3. State the various methods of globalization.
4. State any four effects of globalization.
5. How does globalization affect on political issues of a country?
6. Describe the socio-economic influence of globalization.
7. State different forms of globalization.
8. What is meant by multinational company?
9. What are the reasons that a company becomes a multinational?
10. State positive influences of multinational company.
11. What negative influence are of multinational company?
12. What is meant by international management?
13. What are the different approaches to international management? Explain.
14. State fundamentals of international management.
15. Define digital dimensioning in business.
16. Explain the role of digital dimensioning in planning process.
17. Explain the relationship between digital dimensioning and organizing.
18. How does digital dimensioning assist in influencing others?
19. Explain the relationship between digital dimensioning and controlling.

Descriptive Answer Questions

20. Define globalization. Explain the methods of globalization.
21. Explain the nature and forms of globalization.
22. Give the concept of globalization and explain its effects.
23. Give the concept of globalization and examine the changing global business scenario.
24. What are multinational companies? Explain their characteristics.
25. State and explain different types of multinational companies. Explain advantages of multinational company.
26. Define multinational company. Explain their various demerits.
27. What is international management? Explain the fundamentals of international management.
28. Define digital dimensioning. Explain the role of digital dimensioning in planning, organizing, influencing and controlling.

Analytical Answer Questions

29. What are multinational companies? Explain their advantages and disadvantages.
30. Analytically examine the importance of globalization to the developing nations like Nepal.
31. International management is being more important in globalized arena. Based on this line, explain the concept and fundamentals of international management.
32. Digital dimensioning is most important to manage business internationally. Based on the line, explain how digital dimensioning helps in planning, organizing, influencing and controlling.

CASE

Himalayan Enterprises (HE) was established in 2001 A.D, by two Nepali entrepreneurs Kaji Sherpa and Bibek Bhandari with the objective of exporting Nepali Handicraft products to US and Europe market. HE produces different varieties of handicrafts including Pashmina. HE started its production and exporting since 2004 A.D. Its exports are targeted more to US and European multinationals operating in Bolivia and Brazil, as its handicraft-goods are popular as office decoration pieces there. Till 2009, the sales of HE was exciting, so, HE management was continuously increasing its operation. There were 52 employees working fulltime and few consignments were ordered from small scale home producers and even from other enterprises too. Because of economic recession of 2008, the order from American and even the Europe market also started lowering. Sherpa and Bhandari started feeling trouble to manage their business.

So many political changes in South American region also created problem in exporting the goods to them. For instant, Bolivia President Evo Morales took over the Chaco oil company managed by multinational called Anglo-Argentine Pan-American Energy in late January 2009. He also announced that the government is in position to take over the companies by the state. He had received authority to protect and promote the indigenous projects through referendum. Besides that, through the referendum, Bolivia was defined as a socialist state, and the state allowed powers, land and revenue to the indigenous majority.

As being the member nation of WTO, Nepal had no special provisions of quota under the equal treatment to the member nations. At the same time, handicrafts industry was significantly growing in Bangladesh, with the lower cost of production and greater productivity. Cost of production of handicrafts in Bangladesh was almost half of the Nepalese products. Procedural delays, problem of transportation and many others were other hindrances to the Nepalese exporters. Political volatility in Nepal was causing lower bargaining power for transit facilities with India and Bangladesh. The direct impact of such threats was to the Himalayan Enterprises. Managers of HE were in greater confusion regarding the business.

Questions:

1. Prepare SWOT profile for HE.
2. Political and Economic environment of the international arena plays vital role in international business. Comment on the statement on the basis of the case.
3. What are the reasons for nationalizing the Chaco oil company? Explain.
4. What next move do you suggest to HE to manage human resource, capital and the business?

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