

# Management Challenges Arising from Disruptive Political Changes in Nepal

**Basu Sharma**

Faculty of Business Administration  
University of New Brunswick, Fredericton  
Canada E3B 5A3

## Abstract

*This paper examines some of the management problems and challenges brought forth by the so-called Maoist revolution in Nepal. With the abolition of the institution of monarchy, the old institutional arrangements are weakened while there have been no new institutions fully functioning yet. This gap has created many challenges for the management with respect to establishing and managing businesses. The paper, however, contends that disruptive changes do bring about a better system—be it production system, political system or business system—if managed properly.*

**Key Words:** Disruptive changes, Management challenges, Control and authority, Property rights, Nepal

**JEL Classification:** M14, M38, M48, M54

## 1. Introduction

Change is a constant phenomenon, and management of change is a recurring theme in modern management literature. There are two types of change—sustaining and disruptive. Most of the changes take an evolutionary path, the path of incremental changes. This is called sustaining change, leading to continuous improvement in systems, processes, and products and services. However, some changes are occasional but game-changing events. They go by the name disruptive changes. The first management scholar to popularize this term was Clayton Christenson (1995). He describes it as a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves ‘up market’, eventually displacing established competitors. Initially, Christenson used this analytical concept to study changes in the disk drive industry. He gradually expanded its scope by applying it to many other industries, including education recently. Even though Christenson’s focus was on industries and products, this concept has analytical power to explain disruptive political changes. Recent political changes in Nepal have been of that nature. Absolute monarchy was the established political system for a couple of decades in Nepal. It went through some incremental change as reflected in its transformation to constitutional monarchy in 1990. The abolition of monarchy and establishment of a republic in 2006 was the disruptive change. Among others, it has tremendous consequences for business and management (Sharma, 2014). Hence, the purpose of this essay is to apply this concept to identify some of the key challenges for managers and business leaders in Nepal in this era of disruptive political changes.

Nepal has been going through a disruptive political change. This disruption is further exacerbated by two other factors. Its economy is significantly affected by recent turmoil in the global financial systems and its consequences. Technological advances taking place around the world have also challenged Nepal in a unique way through its enabling characteristics as well as its destructive capacity. Coping with such changes and challenges requires new management thinking and discovery of new ways for doing business. Composition of capital, system of control and exercise of authority and power, and upholding of ethics and integrity are three of the most important dimensions of modern management. An understanding of how the modus operandi of each of these will be affected by the disruptive changes is necessary to identify likely management challenges in the new evolving business order in Nepal.

## 2. Capital Composition

It is obvious that production of goods or services requires capital. Earlier we understood capital in terms of its tangible nature.

Tangible assets included factory or office buildings, other physical facilities supporting the factory or the office, tools and machineries and so on. Management of such tangible assets efficiently commanded much of the attention of managers in earlier days. Then came the recognition of the pivotal role of human capital in the organization and management of business. Skills, education, training and experience began to be counted for efficiency of production systems. Theories and methodologies to account for such attributes are in place now. New attributes such as competency and creativity are also being added to this inventory of human capital system. In addition to physical and human capital, there are two other types of capital necessary for business. They are reputational capital and structural capital.

Reputational capital is about trust and ethics, whereas structural capital is about organization of things and people. Both will exert influence on the bottom line of business. Very recently, scholars have also been talking about imagination capital, an ability to appreciate future utilities. That is to say, organizations and societies with ability to shift preference between present and future will do better than those without such abilities will. Societies are endowed with varying degrees of these capitals, of course. Some have less of some types and others have more. Though not scientifically deduced, an aggregate picture of the level of capitalization situation in Nepal can be depicted as in Table I below.

**Table I: Level of Capital Endowment in Nepal**

	Very	High	High Low	Very Low
Physical Capital		X		
Human Capital				X
Reputational capital			X	
Structural capital				X
Imagination capital				X

If we look at the recent past, what we see is that reputational capital of Nepal is in decline. This is the result of disruptive changes in the political system. In fact, the level of reputational capital could have gone up sharply, had the new political system been able to produce a new constitution on time, ensured property rights, and reformed feudal type institutions. Lagging these, the structural capital has greatly been in deficit. As to the level of human capital development in Nepal, it is tied to the educational system and skill development opportunities. Except for a very few institutions, the educational system is very much in disarray. Looked at it from a global perspective, it falls short on many counts—depth, breadth, quantity and quality. Schools and colleges tend to be rife with strikes and other non-academic activities. There seems to be so much compromise on academic standards. In many educational institutions, student focus has been on politics rather than studies. This is largely a result of politicization of education.

The government does not have enough resources to put into skill development schemes. Business organizations are not big enough and matured enough to implement skill development programs on their own as well. Hence, there is a very low level of capitalization of human resources. Since imagination capital is intricately related to human capital, it follows that it is at a very low level of development. However, even with less of some types of capital except for physical one, societies and organizations will be able to enhance their stock. However, disruption of one form leads to disruptions in others, creating new challenges for management. Disruptive changes in the political system have created challenges for creating and managing different forms of capital. In addition, a positive investment climate is necessary for attracting foreign direct investment and promoting domestic capital formation. Since the Maoist ideology is more focused on distributional issues rather than production ones, economic growth scenario is unlikely to be like in the neighboring countries--India and China. In a low growth environment, fewer managerial strategies for sustainable competitiveness succeed.

### **3. Control and Authority**

There are four classical managerial functions—planning, organizing, directing and controlling. Each of these functions has changed over time. Three key aspects of planning are strategic, tactical and operational. Organizing is creating a structure of functions and relationships among and between people and units designed to carry on the planned activities. Directing is the process of interacting and motivating people to achieve strategic objectives of Organizations. Controlling involves regulating work of people in the organization or unit by setting performance standards, monitoring ongoing performance, evaluating it and creating satisfactory reward system.

In addition, systems of control transform along with changes in scope, scale and use of technology in the production system (Edwards, 1977). In the early stage of industrialization, authority system revolves around simple control. Scale of operations remains small; management tends to be paternalistic; employees are considered a cost only factor; and performance evaluation is more arbitrary. Managers are like an absolute monarchy. They cannot be questioned; it is assumed that they know everything. A division between head and hand is very clear. There will be hardly any cross over. However, as societies in general and organizations in particular begin to embrace technology and scale of operations begins to increase, the control mechanism also begins to change. Technology replaces supervisors; monitoring is often done mechanically. This mode of control is known as technical control. In addition, with the coming of this system changes the mode of relationship between employers and employees. The personal or paternalistic type of relationship becomes untenable. Labor problems that appear in the later phase of early factory system make technical control more appealing to managers. Depersonalization of authority is the main theme in this system. Managers can still exercise control but not in the business-as-usual way.

Going forward, the technical control slowly gives away to a new system called bureaucratic system as economy begins to transform with service sector becoming more dominant. A bureaucratic system is a rule governed system. It is not the whim or discretion of managers, but the application of rules and systems that dominates management of organizations. Nepal is still in the early stage of industrialization. Management system in many businesses and organizations is paternalistic. Simple control is the name of the game. However, as the capital context changes so will the system of management. That is to say, with the rise of educated workforce and growth of service industries, management systems are bound to change. We should see a transition from simple control to technical one to bureaucratic one. Nonetheless, it is important to note that the types of control is not either/or but the extent of domination of one type against others. Hence there will be instances of technical control as well as bureaucratic control co-existing even in Nepal at present. But in the industrial sector, the dominant type is simple control. No control mechanism seems to be in place for managing employees (both workers and managers) endowed with a lot of imagination capital. Such employees are entrepreneurial and creative. New incentive designs are required for developing, attracting and retaining this category of employees. This type of capital is scarce in Nepal though.

Table II below presents the nuances of the types of control and their extent or appropriateness in the context of Nepal.

**Table II: Types of Control and their Extent of Use in Nepal**

	Very High	High	Low	Very Low
Simple Control		X		
Technical Control				X
Bureaucratic Control			X	
Design Control				n/a

The question then arises whether the control paradigms in Nepal will shift due to the disruptive political changes. Since the Maoist ideology believes in empowerment of the proletariat, there should be a paradigm shift. The shift will favor equality and participation in workplaces. But equality (sharing of resources equally) needs to be accompanied by equity (Rewards should be proportional to contributions.). However, the new political power supports only equality. This is not a good strategy for good business. Hence this disruptive change will be regressive. Management is vested with the legitimacy to use power. However, the way power is exercised has transformed over the years in tandem with transformation of social ethos, moral values, production methods, business practices and workforce characteristics. For example, today's social ethos is equality of humanity. However, feudal societies like Nepal refuse to accept this. Hence, organizations and production units in those societies will tend to become hierarchic, and consequently autocracy will be the modus operandi of management practices. Contrary to this, in democratic society's empowerment and fairness will dictate management practices.

One could think of Scandinavian countries like Sweden where workers' participation and democratization of workplaces are popular. These countries are not just concerned about workers' rights and industrial democracy but they are also taking steps to introduce elements of economic democracy. Democracy by definition is about participation in a free and non-coercive manner. Civility of workplaces depends on the extent of opportunities for voice and participation. Political forces believing in physical force to coerce people who don't subscribe to their views can't contribute to establishment of a real democratic workplace.

Party supporters and their blind followers will manage public enterprises under the Maoist Party's influence. These managers have political motives rather than professionalism in the management of organizations. Efficiency is thus bound to suffer. Production of goods or services requires use of power. The sources of power over the centuries have changed as well. In early industrial systems, the physical dexterity or power mattered. In today's service and information-based economies, the brainpower matters the most. That is, required workforce characteristics in these two regimes of economic evolution are very different. Unskilled, physically strong and loyal workforce predominated the early factory system. Coercion often worked in the early industrial system. However, only cooperation and persuasion work in the new system as workers are more educated, mobile and concerned with quality of working life. Hence, employees and other stakeholders need to be persuaded to cooperate on the larger goal of the organization or the society. Many societies have already moved away from physical power-dominated space to brainpower-dominated sphere. Nepal needs to expedite this transition so that it can catch up with the brain power-dominated societies. The disruptive political changes have not created an environment for such a development. Managerial power is necessary. However, power can be used properly if the value system is based on humanity and morality. Absent these foundations, it can be abused and overused. Creating an environment for proper use of managerial power is anew challenge at present in Nepal.

#### ***4. Ethics and Integrity***

In a seminal study on differing management practices across firms and countries, Bloom and Renan (2010) discovered that large differences in productivity between firms and countries are the result of variations in management practices. These variations cut across several dimensions, and two of them are ethics and integrity of corporate leadership. Lacking these two attributes, a management team cannot become trust-worthy; it cannot act in the best interest of corporate stakeholders. A strong moral foundation is a prerequisite for best practices in management. America recently was financially burnt due to corporate greed. Stories of bank failures and difficulties with mortgage markets in the U.S. are shocking examples of what can happen to the business and the economy as a whole if the managers managing important business and social institutions have no ethics and integrity. The corporate world in Nepal lacks a strong moral foundation. Hence, the probability of having many more Enrons in Nepal is very high. A few cases of failures of financial institutions that happened recently are indicative of such a future trend. Ethics and integrity are the two pillars for a solid foundation of good corporate governance. Tone at the top (TATT) is crucial in laying this foundation (Bergson, Ore and Dvir, 2008).

CEO attributes and power play a role in influencing the perception of employees in regards to TATT. In addition, the board of directors is ultimately responsible for oversight of the internal control system of a corporation. There is little hope for adherence to high ethical standards in organization, if the leadership at the top is corrupt and the board weak. Take the case of the Goldman Sacks. The CEO boasted once by stating that he does "God's work," implying that his organization has immunity from laws and policies of the government. Later, it came out that members of the board of directors of his organization were engaged in arm's length insider trading. Some of the recent developments in the financial sector of Nepal points out that the country has started to suffer the consequence of the contagion effect—the contagion of corporate evils and lack of ethics and integrity in CEOs and managers. One of the challenges for the government of Nepal right now is to set out proper ethical standards for business. Business should make money but without becoming unethical and immoral. In emerging markets like Nepal, violation of ethical norms and engagement in opportunistic behavior are the common business practices. How to change these practices for creating a better business ethos is today's challenge.

#### ***5. Concluding Remarks***

Management cannot be effective in societies where markets are not competitive, property rights not honored and rules of law ignored. This is precisely the case in most of the post revolutionary societies in their early years of political change. Only when these three cardinal factors are firmly in place, modern management can take hold. In the case of Nepal, cases of market failures are plenty; especially Maoist created frequently challenges property rights, and supported entities like the Young Communist League (YCL); and rules of law are frequently ignored and violated. All these are the results of disruptive changes brought forth by the Maoist revolution. Ideological tangles of this revolution will make evolution and implementation of modern management principles all the more difficult. The Maoist party played a key role in dismantling a feudalistic institution—the monarchy. This is a monumental task, and kudos should go to the Maoist. However, revolutionary party is hardly capable of governing a country trying to make hasty transition to civil society.

The failure of the Maoist-led governments has already been a case in point. Societal level disruptive changes transcend to lower strata such as social and business organizations. Hence, business organizations cannot remain immune from these changes. These changes have, of course, given rise to strikes and assertions of claims by various interest groups. Whether these activities will result in an establishment of a better and productive business order has yet to be seen. Nonetheless, disruptive changes do bring about a better system—be it production system, political system or business system—if managed properly. Let us hope Nepal can benefit from a new management system coming out of the current disruption not too long before!

### ***References***

- Bergson, Y., Ore, S. and Diver, T. 2008. CEO values, organizational culture and firm outcomes. *Journal of Organizational Behavior*, 29: 615-633.
- Bloom, Nicholas and Van Reenen, John. 2010. Why do management practices differ across firms and countries? *Journal of Economic Perspectives*, 24 (1): 203-224.
- Christensen, Clayton M. and Overdorf, Michael, 2000. Meeting the challenge of disruptive change. *Harvard Business Review*, 78 (2): 66-76.
- Edwards, Richard. 1977. *Contested Terrain: The Transformation of the Workplace in the Twentieth Century*. New York: Basic Books.
- Sharma, Basu. 2014. Challenges of Disruptive Political Changes for Business Development in Nepal. In *Building Business in Emerging and Developing Countries: Challenges and Opportunities*, Elie Chrysostome and Rick Molz (eds.), New York: Routledge, pp. 7-17.