Investigating Public Trust and Ethical Leadership in Nepalese Cooperatives

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ABSTRACT

This study employed a mixed-methods research design, combining quantitative and qualitative methodologies to explore the relationship and impact of leadership on public trust within Nepalese cooperatives. A convenience sample of 736 respondents from various regions was analyzed. Statistical findings indicated that while leadership competence did not significantly influence public trust (Beta = -.104, p = .142), transparency (Beta = .211, p = .002), accountability (Beta = .340, p = .000), integrity (Beta = .495, p = .000), and fairness (Beta = .238, p = .038) demonstrated significant positive effects. Cooperative members emphasized the crucial role of transparency, accountability, integrity, and fairness in shaping trust within cooperatives. Transparency built trust through clear communication, while accountability reinforced perceptions of ethical governance. Integrity's role in upholding ethical standards and fairness in decision-making further bolstered public trust. Effective ethical leadership in Nepali cooperatives requires rigorous training in ethical decision-making, transparency, and accountability, alongside comprehensive codes of ethics and regular audits. Mentorship and inclusive decision-making were crucial strategies supported by transparent reporting, community engagement, stringent ethical standards, and responsive service delivery. These findings were relevant for policymakers and cooperative managers aiming to enhance governance practices and foster enduring public trust. Future research could explore additional contextual factors that influenced leadership efficacy and trust dynamics within cooperative settings, advancing strategies for sustainable organizational governance.

1. INTRODUCTION

The emergence of public trust in cooperative organizations in Nepal is deeply rooted in their historical evolution and socio-economic impact. Originating in the early 1950s, the cooperative movement in Nepal began as part of the government's strategy to promote rural development and self-sufficiency,

with the first cooperative established in Chitwan district in 1953 (Neupane et al., 2022; Poudel & Mamoru, 2015). The establishment of cooperatives aims to address socio-economic challenges by promoting mutual aid, self-help, and democratic governance (Puri & Walsh, 2018; Khatiwada, 2014). Over the decades, cooperatives have expanded across various sectors, including agriculture, finance, housing, and consumer goods, adapting to diverse cultural and economic contexts (Nilsson et al., 2009; Majee & Hoyt, 2009). Agricultural cooperatives enable small farmers to access markets and resources, thereby enhancing their economic stability and resilience (Dhakal et al., 2021). Additionally, financial cooperatives such as credit unions and savings and credit cooperatives offer affordable financial services to underserved populations, thereby promoting financial inclusion and fostering trust in cooperative banking models (Gupta & Nath, 2024).

The Cooperative Act of 1992 provides a legal framework that promotes transparency, accountability, and democratic governance, further bolstering public confidence. Public trust is reinforced by the resilience of cooperatives during times of crisis, such as the Maoist insurgency and the 2015 earthquakes, when they continue to provide essential services and support community rehabilitation (Dhakal, 2018; Puri & Sujarittanonta, 2016). The alignment of cooperative principles with local cultural values, such as mutual aid and collective action, also strengthens their acceptance and trustworthiness (Kharel et al., 2022). In recent years, cooperatives in Nepal have focused on promoting social and environmental sustainability, addressing issues such as gender equality, social inclusion, and environmental conservation, aligning with global trends and the sustainable development goals of the government (Risal, 2020; Simkhada, 2017). Thus, this comprehensive approach to sustainable development enhances public trust, cementing cooperatives as credible and reliable institutions in Nepali society.

Despite the significant contributions of cooperatives to Nepal's socio-economic development, several critical issues emerge in recent years that threaten their stability and effectiveness. Financial mismanagement and fraud, including cases of embezzlement and misuse of funds, erode public trust and underscore the need for stronger regulatory oversight and governance mechanisms (Bhattarai & Pandit, 2023; Kharel et al., 2020). The rapid growth of cooperatives has outpaced the capacity of regulatory bodies to enforce compliance, allowing malpractices to flourish (Paudel & Acharya, 2022). Moreover, governance challenges, such as inadequate leadership, lack of transparency, and limited member participation, further hinder the effective functioning of cooperatives, often leading to internal conflicts and inefficiencies (Bastakoti et al., 2021; Bharadwaj, 2012). Addressing these issues requires strengthening regulatory frameworks, enhancing democratic governance, and promoting leadership training.

Furthermore, leadership challenges significantly affect many Nepali cooperatives. These issues include a lack of leadership competence, transparency, accountability, integrity, and fairness. Leaders often face allegations of nepotism and favoritism, undermining the ethical standards required for cooperative management (Pandey, 2024; Simkhada & Bhattarai, 2023). Furthermore, internal conflicts and power struggles within cooperatives exacerbate inefficiencies and hinder the fulfillment of members' needs, continuously eroding public trust in Nepal. Public opinion suggests that the issues facing Nepali cooperatives arise from unethical and illegal actions by leaders who misappropriate public savings. Prominent business figures and political leaders are believed to be involved in this mismanagement. As a result, the matter is now under scrutiny by various government bodies, including the executive, parliamentary, and legislative branches. Thus, an empirical analysis is essential to examine how leadership can ensure public trust in cooperatives. Addressing these issues requires pragmatic studies to ensure ethical leadership, the implementation of stringent transparency and accountability measures, and the establishment of robust conflict resolution mechanisms to restore ethical governance and rebuild

trust in cooperative management. Therefore, this study examines the current status and impact of leadership on public trust within the context of Nepali cooperatives.

2. REVIEW OF LITERATURE

Through the systematic analysis of previous studies, this section delineates the current state of knowledge concerning cooperatives, public trust in cooperatives, leadership, and the relationship between public trust and leadership. It helps to identify existing research gaps. In the context of investigating public trust and leadership in Nepali cooperatives, this literature review is instrumental in constructing a robust conceptual framework and elucidating the interrelationships between these elements, which are crucial for the development of research questions, study design, and interpretation of findings within the broader academic discourse. Some key concepts are addressed from both theoretical and empirical perspectives.

Cooperatives are member-owned associations that meet shared economic, social, and cultural needs through democratic control. Originating in the early 19th century with the Rochdale Society of Equitable Pioneers in 1844 England, cooperatives have expanded globally into various forms such as agricultural, consumer, and credit cooperatives (Chandran & Kumar, 2024; Henry, 2013). Guided by principles like voluntary membership and community concern, they are vital for economic development, poverty reduction, and social inclusion. The International Cooperative Alliance, founded in 1895, continues to support and promote these organizations worldwide (Fairbairn, 2016; Ortmann & King, 2007).

Furthermore, trust in cooperatives is crucial for member engagement, investment, and viability, leading to increased participation, better financial performance, and community support (Shamim et al., 2024). However, trust is fragile and can be undermined by unethical practices, lack of transparency, and governance issues (Mozumder, 2018). On the other hand, leadership requires competence, transparency, accountability, integrity, and fairness (Chanley et al., 2000). Ethical leaders set high standards, foster trust, and promote transparency; ensuring actions align with these principles (Hejkrlik et al., 2023). Good leaders inspire ethical behavior, handle dilemmas effectively, and support sustainable success. In cooperatives, ethical leadership is crucial for building trust, enhancing reputation, and ensuring effectiveness (Forgacs, 2007).

In cooperatives, the relationship between public trust and leadership is symbiotic and essential. Research shows that leaders who embody competence, transparency, accountability, integrity, and fairness foster higher trust levels among members and stakeholders (Bentzen, 2023; Forgacs, 2008). Similarly, trust facilitates effective governance, member participation, and adherence to cooperative principles, while also enabling leaders to implement ethical practices and policies successfully (Asencio, 2016). Furthermore, ethical leadership aligns operations with cooperative values, strengthening reputation, member satisfaction, and long-term success (Tomazevic & Aristovnik, 2019; Van Wart, 2012). On the other hand, trust leads to increased participation, better financial performance, and community support, but it is fragile and can be undermined by unethical practices and governance issues (Zhao & Hu, 2017; Asencio & Mujkic, 2016). Thus, the present study examines the interplay between public trust and ethical leadership, which is critical for the sustained success and positive impact of cooperatives.

Development of conceptual framework

The development of a conceptual framework and hypotheses on public trust and leadership in Nepali cooperatives involves establishing a theoretical foundation that integrates key concepts from the literature. This framework aims to investigate how leadership practices influence public trust within Nepali cooperatives, considering factors such as leadership competence, transparency, accountability, integrity, and fairness that are pertinent to Nepal's context.
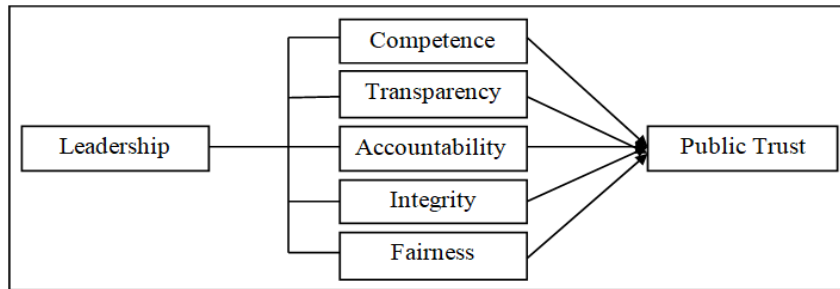

Figure 1: Conceptual Framework of the Study

Formulation of hypothesis

Hypotheses propose that higher levels of ethical leadership positively correlate with increased public trust among cooperative members. Empirical analysis seeks to validate these hypotheses through quantitative surveys, aiming to contribute insights that enhance understanding of effective leadership strategies in fostering public trust and sustainability in Nepali cooperative settings. Ethical leadership, exemplified by competence, transparency, accountability, integrity, and fairness, is essential for building trust and credibility within cooperatives. In this regard, esteemed researchers such as Bello (2012) and Trevino and Brown (2005) posit that leaders who uphold these standards cultivate a positive organizational culture that promotes ethical behavior, drives sustainable success, and enhances the overall well-being of stakeholders.

Competence: Leadership competence encompasses the skills, knowledge, and abilities necessary for making informed and effective decisions. Ethical leaders prioritize continuous professional development; remain current with industry trends and best practices (Mihelic et al., 2010). Moreover, good leaders dedicate themselves to competence, empowering them to effectively address challenges, guide their teams with proficiency, and propel organizational goals forward while adhering to ethical standards (Van Den Akker et al., 2009). Stakeholders place trust in leaders who exhibit competence, perceiving them as capable of steering the organization with skill and integrity (Wang & Wan Wart, 2007). Thus, trust plays a crucial role in cultivating collaborative relationships and contributing to organizational success. However, H1: There is a significant positive influence of leadership competence on public trust within Nepalese cooperatives.

Transparency: Usually, it involves openness and honesty in communication and actions. Ethical leaders maintain transparency by sharing relevant information with stakeholders, including employees, customers, and shareholders (Hassan & Ahmed, 2011). Similarly, openness fosters trust, as it allows stakeholders to understand decision-making processes and organizational operations. Transparent leaders are clear about their intentions, policies, and practices, ensuring that there are no hidden agendas (Vikaraman et al., 2021). This transparency reassures stakeholders that the organization operates with

integrity and accountability, thereby strengthening their trust in the leadership. However, H2: There is a significant positive impact of leadership transparency on public trust within Nepalese cooperatives.

Accountability: It is a fundamental aspect of effective leadership, where leaders take responsibility for their actions and decisions. Ethical leaders hold themselves and their teams accountable for their performance, behavior, and outcomes (Tahir et al., 2020). Furthermore, leaders do not shift blame but rather acknowledge mistakes and work towards rectifying them. This accountability fosters trust among stakeholders, as it demonstrates the leaders' commitment to ethical standards and transparency (Sami et al., 2016). Moreover, accountability involves setting clear expectations and providing regular feedback, which creates a culture of responsibility and continuous improvement within the organization, further enhancing trust and credibility. Therefore, H3: There is a significant positive impact of leadership accountability on public trust within Nepalese cooperatives.

Integrity: Effective leadership is grounded in integrity, defined as the adherence to moral and ethical principles, even when faced with challenges or temptations. Ethical leaders demonstrate integrity by being honest, consistent, and trustworthy in all their actions and decisions (Guinaliu & Jordan, 2016; Carnevale & Wechsler, 1992). Moreover, good leaders uphold their values and principles, leading by example and earning the respect and trust of their followers. This integrity builds trust, as stakeholders can rely on leaders to act ethically and consistently (Wijaya et al., 2022). Integrity is the cornerstone of ethical leadership, fostering an environment where ethical behavior is the norm and further strengthening trust within the organization. Hence, H4: There is a significant positive impact of leadership integrity on public trust within Nepalese cooperatives.

Fairness: Another crucial aspect of effective and ethical leadership is fairness in transactions and interactions. Fairness entails treating all individuals equitably and justly (Avolio & Gardner, 2005). In a similar vein, ethical leaders practice fairness by making impartial decisions, providing equal opportunities, and ensuring that rewards and recognitions are based on merit rather than favoritism (Beshi & Kaur, 2020). Usually, good leaders actively listen to diverse perspectives and consider the impacts of their decisions on all stakeholders. By promoting fairness, ethical leaders create an inclusive and respectful workplace where everyone feels valued and respected, thereby fostering trust and collaboration among stakeholders (Lim et al., 2016). However, H5: There is a significant positive influence on public trust in Nepalese cooperatives.

3. METHOD AND MATERIALS

The study utilized a mixed-methods research design to gain a comprehensive understanding of the research problem by combining numerical data with detailed, contextual responses to investigate the relationship and impact of leadership on public trust within Nepalese cooperatives. According to the Financial Sector Stability Review Report by the International Monetary Fund (2023), Nepal encompasses 30,879 cooperatives, including 14,484 savings and credit cooperatives, encompassing a membership base of 6.5 million individuals and employing 68,400 personnel across various sectors. Respondents were selected using convenience sampling, targeting individuals knowledgeable about contemporary issues facing Nepalese cooperatives from diverse regions. The survey questionnaire was effectively employed for a single set of closed and open-ended questions. The sample size of 736 respondents was determined based on practical considerations and researcher discretion rather than a formulaic approach. The survey instrument consisted of a structured questionnaire featuring five-point Likert-scale items assessing leadership competence, integrity, transparency, accountability, fairness, and public trust.

In this study, questionnaire distribution methods included online dissemination, resulting in a 68.33% response rate (410 respondents from 600 distributed questionnaires), and physical distribution with an 81.5% response rate (326 respondents from 400 printed copies), totaling 736 respondents. The data collection period was from 10th March to 25th April 2024. Out of the total sample, 414 were male and 322 were female cooperative members who provided their perceptions towards the survey questionnaire. Analysis of membership duration revealed that most respondents had a membership duration of 3-6 years (37.91%), followed by 6-9 years (23.77%), less than 3 years (22.42%), and more than 9 years (15.90%). Overall, this indicated a stable and moderately long-term membership base in Nepalese cooperatives during the study period.

Data analysis involved inferential statistics and thematic analysis. Correlation analysis and regression examined the ethical perspective of leadership's impact on public trust, while open-ended responses underwent thematic analysis. Prior to full-scale administration, the questionnaire underwent rigorous pre-testing and revision to ensure validity and reliability. Exceptional internal consistency, with Cronbach's Alpha of 0.952, indicated strong interrelation among the 30 items across six study constructs, affirming the survey instrument's reliability. Content validity was ensured through an expert review process, where two specialists evaluated the five-point Likert scale questions and provided feedback that refined the study's items. The study strictly adhered to ethical guidelines following APA 7th style, including procedures for obtaining informed consent, ensuring confidentiality, and de-identifying responses to uphold participant rights and research integrity.

4. RESULTS

In this section, the study employed inferential statistical techniques, specifically correlation and regression analyses, to elucidate the impact of ethical leadership on public trust within Nepalese cooperatives. Additionally, the research integrated a thematic analysis of open-ended responses, which provided recommendations for improving ethical leadership in cooperatives and strategies for enhancing cooperative operations and fostering public trust.

Analysis of Inferential Statistics

Table 1

Results of Cronbach's Alpha and Correlation Analysis

Variables	Cronbach's Alpha	Competence	Transparency	Accountability	Integrity	Fairness	Public Trust
Competence	.840	1					
Transparency	.915	.351**	1				
Accountability	.808	.525**	.589**	1			
Integrity	.897	.382**	.535**	.524**	1		
Fairness	.798	.851**	.720**	.670**	.530**	1	
Public Trust	.953	.398**	.616**	.629**	.646**	.593**	1

Note: **. Correlation is significant at the 0.01 level (2-tailed); Sample size: 736

Table 1 demonstrates the reliability and correlation analysis for six key variables related to public trust in Nepalese cooperatives: Competence, Transparency, Accountability, Integrity, Fairness, and Public Trust. Cronbach's Alpha coefficients, ranging from .798 to .953, indicated high internal consistency for all variables. The correlation analysis revealed significant positive relationships among the variables: Competence was moderately correlated with Transparency ($r = .351^{**}$), Accountability ($r = .525^{**}$),

Integrity (r = .382**), Fairness (r = .851**), and Public Trust (r = .398**); Transparency showed strong correlations with Accountability (r = .589**), Integrity (r = .535**), Fairness (r = .720**), and Public Trust (r = .616**); Accountability demonstrated significant correlations with Integrity (r = .524**), Fairness (r = .670**), and Public Trust (r = .629**); Integrity notably correlated with Fairness (r = .530**) and Public Trust (r = .646**); and Fairness exhibited strong relationships with Public Trust (r = .593**). These findings underscored the interconnectedness of these constructs and their collective impact on public trust, supported by a robust sample size of 736, thereby enhancing the reliability of the results.

Table 2

Results and Analysis of Model Summary and ANOVA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.758ᵃ	.574	.571	.38505		

			ANOVA			
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	145.815	5	29.163	196.699	.000ᵇ
	Residual	108.231	730	.148		
	Total	254.046	735			

Note: a. Dependent Variable: Public Trust; b. Predictors: Competence, Transparency, Accountability, Integrity and Competence

Table 2 presented the results of the model summary and ANOVA analysis, investigating the influence of Competence, Transparency, Accountability, Integrity, and Fairness on Public Trust. The model summary revealed a robust relationship, with an R-value of .758 and an R Square of .574, indicating that these predictors accounted for 57.4% of the variance in Public Trust. The adjusted R Square of .571 further validated the model's robustness, while the standard error of the estimate was .38505. The ANOVA analysis substantiated the model's statistical significance, evidenced by an F-value of 196.699 and a p-value of .000, underscoring the substantial collective impact of the predictors (independent variables) on Public Trust (dependent variable).

Table 3

Results of Linear Regression Analysis

Variables	Beta	SE	B	P	VIF	Status
Competence	-.104	.071	-.098	.142	7.606	Insignificant
Transparency	.211	.066	.165	.002	4.620	Significant
Accountability	.340	.043	.273	.000	2.003	Significant
Integrity	.495	.043	.353	.000	3.575	Significant
Fairness	.238	.115	.188	.038	4.106	Significant

Note: Dependent variable (Public Trust); Significance Level: 0.05

Table 3 displayed results from a linear regression analysis that explored how Competence, Transparency, Accountability, Integrity, and Fairness influenced Public Trust in Nepalese cooperatives. The findings indicated that while Competence did not significantly impact Public Trust (Beta = -.104, p = .142), Transparency (Beta = .211, p = .002), Accountability (Beta = .340, p = .000), Integrity (Beta = .495, p = .000), and Fairness (Beta = .238, p = .038) all had significant positive effects. Cooperative members placed substantial importance on leadership's transparency, accountability, integrity, and fairness when evaluating trust in cooperatives. Transparency enhanced trust through clear

communication and openness, while accountability reinforced perceptions of ethical governance. Integrity's role in maintaining ethical standards and fairness in ensuring equitable treatment further enhanced public trust. Low Variance Inflation Factor (VIF) values confirmed minimal multicollinearity among predictors, affirming the reliability of the regression analysis.

Thematic Analysis of Open-Ended Responses

Recommendations to Enhance Ethical Leadership in Cooperatives: A significant number of respondents highlighted the critical recommendations to strengthen ethical leadership within Nepalese cooperatives. They mostly advocated that—

> The implementation of robust training programs focused on ethical decision-making, transparency, and accountability to equip leaders with essential competencies. The establishment and periodic revision of a coherent code of ethics were emphasized as pivotal in guiding conduct and aligning decision-making processes with ethical norms. The importance of independent ethics audits to assess and improve adherence to ethical guidelines, ensuring transparency and accountability. Mentorship by experienced leaders was identified as crucial for perpetuating a culture of ethical leadership. Additionally, transparent and inclusive decision-making processes that engage all stakeholders were deemed essential for fostering trust and integrating diverse perspectives in cooperative governance. Collectively, these measures aim to strengthen ethical governance, uphold integrity, and cultivate enduring trust within Nepalese cooperatives.

Strategies for Enhancing Cooperative Operations and Public Trust: Respondents suggested several strategic initiatives to enhance operational efficiency in Nepalese cooperatives and build public trust. They primarily suggested that—

> Transparency was identified as pivotal through regular dissemination of information about cooperative activities, financial status, and decision-making processes, ensuring accessibility and comprehensibility of reports and updates. Clear accountability mechanisms, such as independent audits and transparent reporting systems, were proposed to hold cooperatives accountable for their actions. Active community engagement, including forums, town hall meetings, and feedback surveys, was highlighted as crucial for addressing public concerns and demonstrating a commitment to community interests. Upholding rigorous ethical standards and integrity across all operations, including equitable treatment of members and impartial conflict resolution, was seen as fundamental to cultivating public trust. Furthermore, responsive and inclusive services tailored to public needs and preferences, informed by ongoing feedback and improvement efforts, were noted to further enhance trust and strengthen cooperative relationships with stakeholders.

5. DISCUSSION

The discussion of the findings underscores the significant influence of leadership qualities—transparency, accountability, integrity, and fairness—on public trust within Nepali cooperatives. These results align with existing literature highlighting the critical role of ethical leadership in organizational trust and effectiveness. Leadership competence does not show a significant direct impact on public trust in this study, but competent leaders are crucial for making informed decisions and guiding teams effectively, indirectly contributing to trust through sound organizational management (Mihelic et al., 2010). Ethical leaders foster trust through transparency, openly sharing information and maintaining clear communication channels with stakeholders (Vikaraman et al., 2021; Hassan & Ahmed, 2011).

Moreover, leadership accountability emerges as a significant predictor of public trust. Ethical leader who take responsibility for their actions and decisions, while holding their teams accountable, demonstrate a commitment to ethical standards and organizational integrity (Tahir et al., 2020; Sami et al., 2016). Similarly, integrity serves as a cornerstone of ethical leadership, enhancing trust by consistently upholding moral principles and ethical behavior (Guinaliu & Jordan, 2016; Carnevale & Wechsler, 1992). Effective leaders also practice fairness, treating stakeholders equitably and making an impartial decision, which fosters an inclusive and respectful workplace environment (Lim et al., 2016; Avolio & Gardner, 2005).

The comparative discourse underscores the critical role of transparency, accountability, integrity, and fairness in shaping public trust within Nepali cooperatives, contrasting with the impact of leadership competence. Ethical leadership, characterized by these attributes, is essential for fostering stakeholder trust and enhancing organizational credibility. At last, according to thematic analysis, enhancing ethical leadership in Nepalese cooperatives requires rigorous training in ethical decision-making, transparency, and accountability, alongside implementing a comprehensive code of ethics and regular ethics audits. Mentorship and inclusive decision-making processes are pivotal, supported by strategic initiatives like transparent reporting, robust accountability mechanisms, active community engagement, rigorous ethical standards, and responsive service provision tailored to public needs, crucial for operational efficiency and enduring public trust in cooperative governance.

6. CONCLUSIONS

This study explores how leadership influences public trust in Nepali cooperatives, focusing on transparency, accountability, integrity, and fairness. While leadership competence shows minimal impact on trust, transparency, accountability, integrity, and fairness significantly enhances organizational credibility and stakeholder engagement. Transparency fosters trust through clear communication, while accountability reinforces perceptions of ethical governance. Integrity and fairness in decision-making also bolster public trust, vital for cooperative sustainability and community support. Enhancing ethical leadership requires rigorous training in ethical decision-making, transparency, and accountability, alongside a comprehensive code of ethics and regular audits. Mentorship and inclusive decision-making are crucial, supported by transparent reporting, robust accountability, community engagement, ethical standards, and responsive service provision tailored to public needs, ensuring operational efficiency and enduring public trust in cooperative governance.

Practically, these results emphasize the importance of cultivating ethical leadership practices in Nepali cooperatives to bolster organizational resilience and member satisfaction. Addressing governance challenges, such as financial mismanagement and leadership deficiencies, requires robust regulatory frameworks and leadership development initiatives. Prioritizing transparency, accountability, integrity, and fairness can enhance public confidence, help cooperatives navigate socioeconomic challenges effectively, and align with sustainable development goals. The study findings are valuable for policymakers in cooperative management. Future research could delve into additional contextual factors that influence leadership effectiveness and trust dynamics within cooperative settings, further advancing people's understanding of sustainable organizational governance.

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