

The Role of Social Entrepreneurship in Empowering Local Governance: A Study of Kalikot District, Karnali Region, Nepal

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Abstract: This study seeks to establish the link between social entrepreneurship and local governance in Kalikot district, Karnali Region, Nepal. It aims to identify how socially inspired and innovative approaches to business can help address some of the drawbacks of conventional governance systems and contribute to good governance ideals such as accountability, transparency, participation, and efficiency. A descriptive and causal-comparative study was conducted using survey data collected from 396 respondents in Kalikot district. The study established a strong positive correlation among social entrepreneurship, its perceived characteristics, prevalence, support from municipal governments, and its relevance relative to conventional approaches and good governance. The results from regression analysis confirm that all these factors are significant determinants of governance outcomes. The study concludes that, though local governments are still developing and consolidating within the federal structure, social entrepreneurship is a viable alternative route to promote sustainable socio-economic development and governance in the Karnali Region.

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1. Introduction

Nepal's adoption of a three-tier federal democratic structure in 2015 represented a fundamental departure from its historically centralized governance model (Acharya, 2021). This constitutional restructuring established federal, provincial, and local tiers with the intent of devolving authority to local bodies and enhancing administrative accessibility for citizens (Chaudhary, 2019). Local governments were subsequently assigned a pivotal function in addressing the everyday needs of the population. The overarching objective of decentralization was to strengthen local leadership, accelerate development initiatives, and deepen democratic practices through broader civic engagement.

Despite these institutional reforms, governance practices continue to reflect the legacy of centralization. Suvedi (2024) observes that local governments persistently contend with deficiencies in transparency, accountability, and operational efficiency, issues further compounded by corruption, nepotism, and favoritism. Consequently, local-level development and innovation have been constrained, with many perceiving the reforms as largely symbolic (Ghimire, 2018). Public administration in Nepal remains heavily bureaucratic and centralized, which restricts equitable participation. As a result, decentralization and poverty alleviation programs have yielded limited impact, particularly in marginalized regions such as Karnali (Rijal, 2024). These persistent challenges have prompted a search for alternative approaches.

Social entrepreneurship has emerged internationally as a promising alternative: a practical approach that integrates a core social mission with innovative business models to create self-sustaining organizations that deliver market-based solutions to underserved communities (Mukul et al., 2024). Its three defining features—innovation, a primary social mission, and financial sustainability—differentiate it from both traditional non-profits and purely commercial ventures.

Elkington and Hartigan (2008) characterize social entrepreneurs as change agents dedicated to generating social value, identifying new opportunities, and maintaining accountability to the communities they serve. The present study investigates the potential of social entrepreneurship to assist local governments in addressing complex socio-economic challenges within the Karnali Region. Karnali, which encompasses the districts of Jumla, Humla, Kalikot, Mugu, and Dolpa, constitutes

Nepal's most underdeveloped region, characterized by extreme poverty, food insecurity, and inadequate infrastructure. Although the region possesses considerable untapped resources, developmental progress has remained slow, and social entrepreneurship is only beginning to take root (Pokhrel, 2018).

Conventional public management approaches have proven insufficient in resolving these enduring problems, underscoring the necessity for innovative alternatives (Bhul, 2023). This study posits that social entrepreneurship—with its emphasis on innovation, social value creation, and sustainability—holds potential for strengthening local governance and improving economic outcomes. Through collaboration with public and private sectors, social entrepreneurs can engage with communities and local governments to pursue social objectives while advancing good governance principles (Gigauri & Damenia, 2020). This research aims to generate empirical evidence on how social entrepreneurship contributes to improved local governance, particularly within the understudied context of Nepal's Karnali Region, and to demonstrate how the distinctive attributes of social entrepreneurship can address the limitations inherent in traditional public administration.

2. Relevant Literatures

2.1. Theoretical Framework

Good Local Governance

This study uses the concept of good local governance as the primary concept to analyze the situation, using this as the basis to assess the current state of affairs in Nepal, especially in the Karnali region. The addition of the word "good" is important as it represents the fundamental principles that are the foundation of democracy and sustainable development. The concept is consistent with the universally accepted principles of local governance, as espoused by ESCAP (2009), which are participation, rule of law, transparency, responsiveness, consensus orientation, equity, efficiency, and accountability. However, following the federalist system, these principles have been incorporated into the Nepali Constitution to ensure the redressal of historical injustices and the empowerment of local communities (GoN, 2015). Nevertheless, the gap between the Constitution and the ground reality is substantial, as stated by Adhikari (2022), as local governments in Nepal are still grappling with issues related to fiscal transparency, public participation, and impunity, among other issues.

The major challenge, therefore, is how to transform from traditional, centralized governance towards more collaborative, citizen-centric governance. Theories of New Public Governance (NPG) propose that effective governance today involves collaboration between public agencies, private organizations, and civil society organizations to create public value, moving away from centralized state control (Osborne, 2010). The NPG perspective would be particularly relevant in Nepal, which has been trying to consolidate peace and state stability after a long period of conflict. Constructing strong local governance and trust among communities would be critical in consolidating peace and stability (Ghimire, 2024). In areas like Karnali, where there has been a long history of underdevelopment, poor governance has been a major factor in sustaining underdevelopment, thereby sustaining poverty and exclusion. The emergence of new governance actors would, therefore, be a major area for research and development.

Social Entrepreneurship as a Catalyst for Governance Reform

Within this understanding, social entrepreneurship is seen as an innovative and pragmatic approach to social issues that neither the state nor the market effectively addresses. The understanding is rooted in Joseph Schumpeter's (2017) theory of entrepreneurship, where he explains that entrepreneurs use the dynamic of combining new resources to create something innovative. Social entrepreneurs, however, use this approach to create social value rather than to make a profit (Rahdari et al., 2016). Through social innovation, social entrepreneurs are able to deliver a product or service that is both better and fairer than the one that exists. This may involve developing a supply chain for local agricultural products, health services, or technology to deliver educational opportunities.

This is because social enterprises seek to unite the social goals of non-profit organizations with the financial discipline of for-profit organizations (Ghatak, 2021). As such, social enterprises seek to operate in areas where both conventional businesses and governments fail. The achievement of social entrepreneurship, therefore, relies not only on personal entrepreneurial abilities, but also on the availability of an enabling environment. According to Diaz and Dentchev (2021), access to finance, enabling, and partnerships, especially with local governments, form critical components in supporting social entrepreneurship. The support from local governments has a significant multiplier effect on social enterprises.

Interest in social entrepreneurship is on the rise in Nepal, but the social entrepreneurs are facing challenges like the lack of proper policy frameworks and cultural challenges in the process of funding (Nepal, 2024). Social entrepreneurs are helping in good governance at the local level by focusing on the needs of the people and being answerable to the people

(Ashoka & McKinsey, 2021). They are also introducing innovations to overcome the limitations of traditional public service systems. So, social entrepreneurship is not just seen as a tool for service delivery but as a tool for governance transformation.

Based on the theoretical framework and literature reviewed, the following hypotheses are proposed:

H1: There is a positive influence of perceived characteristics of social entrepreneurship on good local governance.

Using Schumpeter's (2017) theory of entrepreneurship and previous literature (Rahdari et al., 2016), it can be argued that the key characteristics of social entrepreneurs, i.e., innovation, social mission, and accountability, theoretically match good governance indicators such as transparency, responsiveness, and efficiency (Ashoka & McKinsey, 2021). Therefore, it is proposed that the more these characteristics are perceived, the stronger governance would be.

H2: There is a positive influence of perceived prevalence and municipal support for social entrepreneurship on good local governance.

On the other hand, the perspective of ecosystems (Diaz & Dentchev, 2021) and the theoretical perspective of New Public Governance (Osborne, 2010) indicate that an appropriate institutional setting, along with the involvement of local governments, is likely to help social enterprises achieve scaling-up and collaborative governance (Gigauri & Damenia, 2020). Therefore, the expected outcome is an improvement in prevalence and in the involvement of local governments, which is likely to enhance.

H3: There is a positive influence of the relevance of social entrepreneurship on good local governance compared to traditional approaches.

The limitations of traditional public management have also been observed in such marginalised areas as Karnali, as noted by Bhul (2023) and Rijal (2024). Social entrepreneurship is a flexible, community-focused approach considered more relevant than traditional approaches, as noted by Ghatak (2021), and this perceived relevance is expected to have a positive effect on governance.

3. Methodology

This study used both descriptive and causal-comparative methods. The descriptive method looked at how public management techniques are used, while the causal-comparative method examined how social entrepreneurship relates to local government services. The study aimed to find out how changes in social entrepreneurship influence local governance. To explore this, the research used correlation and regression analysis. Data was gathered from both primary and secondary sources. Primary data were collected through structured surveys and interviews with a variety of participants, including policymakers, social activists, NGO and INGO representatives, businesspeople, and members of the public.

The study used secondary data from scholarly articles, academic journals, and official local government records. Kalikot district was chosen because of its large population and wide range of ethnic and cultural groups. The study included all 60,000 residents aged 18 and older with voting rights. The sample size was then calculated using the formula shown below.

$$n = \frac{z^2 p(1 - p)}{e^2}$$

The study considered a population of 60,000. Using a Z-score of 1.96 for a 95% confidence level, a 5% margin of error, and a standard deviation of 0.5, the estimated sample size was about 385. In total, 396 valid questionnaires were collected, which is slightly more than needed. This technique was chosen primarily for its appropriateness in an exploratory study of a specific, geographically concentrated population (Kalikot district), where the goal was to deliberately select knowledgeable participants (policymakers, activists, business leaders, and engaged citizens) who could provide informed perspectives on governance and social entrepreneurship. It is also a cost-effective and logistically feasible strategy in this remote region. However, it is important to acknowledge a key limitation: purposive sampling restricts the generalizability of the causal-comparative findings. Because the sample was not randomly selected, the statistical relationships observed cannot be confidently projected onto the entire population of Kalikot district or Nepal as a whole without further validation.

4. Results

4.1. Demographic Details

The study included 396 people from the Kalikot district. Of the participants, 72% were men and 28% were women, indicating that women remain less involved in the socio-economic activities of the Karnali region. Most people taking part (74.7%) were between 26 and 50 years old, which suggests this age group is most active in the region's social and economic life. Regarding marital status, 80.1% of respondents were married. The percentage of widowed respondents was 2%, which is a bit higher than expected and may be related to deaths during the Maoist insurgency. By ethnicity, Brahmins were the largest group at 33.1%, followed by Dalits at 32.1% and Chhetris at 23.2%. These data point to a steady increase in Dalit participation. Most respondents (56.8%) live in rural municipalities (Gaupalika). More than 70% of respondents reported

having an education at or below the intermediate level. This shows that many people involved in local socio-economic and political activities are from rural areas and have limited formal education,

4.2. Reliability Test

A reliability test was done before analysing the data to check the internal consistency and stability of the constructs using Cronbach's alpha. The results, as shown in Table 1, indicate that all constructs had a Cronbach's alpha coefficient above the commonly accepted threshold of 0.70. This confirms that the variables have good internal consistency and are measuring the same underlying constructs

Table 1: Reliability Test

Constructs	Items	Cronbach's Alpha	Reliability Levels
PCSE	5	.708	Good
PMSE	3	.706	Good
RSE	4	.702	Good
LG	3	.704	Good

Note: PCSE=perceived characteristics of social entrepreneurship; PMSE= perceived prevalence and municipal support for social entrepreneurship; RSE=relevance of social entrepreneurship; LG= local governance.

4.3. Correlation Analysis

A correlation analysis was performed to examine the relationships between the study's variables. As shown in the tables below, the correlation coefficients indicate the strength and direction of these relationships.

Table 2: Correlation Matrix

	PCSE	PMSE	RSE	LG
PCSE	1	.397**	.515**	.546**
PMSE	.397**	1	.520**	.421**
RSE	.515**	.520**	1	.505**
LG	.546**	.421**	.505**	1

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

Table 2 shows the significant correlation among the perceived characteristics of social entrepreneurship, perceived prevalence and municipal support for social entrepreneurship, relevance of social entrepreneurship and local governance.

Table 3: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.619 ^a	.383	.379	.55856

a. Predictors: (Constant), PCSE, PMSE, RSE

Table 3 shows that 38.3% of the local governance is explained by the above model.

Table 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	77.743	3	25.914	83.063	.000 ^b
Residual	125.106	401	.312		
Total	202.849	404			

a. Dependent Variable: LG

b. Predictors: (Constant), PCSE, PMSE, RSE

Table 4 shows that the model is significant at the 1% level of significance, as the p-value (0.00) is less than the level of significance (0.01). So, a multiple linear regression model can be used to analyse the data.

A simple linear regression method was followed to identify the impact of independent variables (PCSE, PMSE, RSE) on a dependent variable (LG). Table 5 showed that PCSE significantly impacted LG ($\beta = 0.331$, $t = 2.286$). Similarly, PMSE significantly impacted LG ($\beta = 0.354$, $t = 7.795$). RSE significantly impacted LG ($\beta = 0.143$, $t = 3.282$).

Table 5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients (β)	t	Sig.
	B	Std. Error			
1 (Constant)	.331	.145		2.286	.023
PCSE	.354	.045	.362	7.795	.000
PMSE	.143	.044	.153	3.282	.001
RSE	.248	.052	.239	4.783	.000

a. Dependent Variable: LG

It means PCSE plays the most significant role in predicting LG. The study confirms that perceived characteristics of social entrepreneurship positively influence good local governance. It means H1 is accepted. Similarly, perceived prevalence and municipal support for social entrepreneurship positively influence good local governance. It means H2 is accepted. Additionally, the relevance of social entrepreneurship positively influences good local governance compared to traditional approaches. It also confirmed the H3.

5. Discussion

The positive influence of the perceived characteristics of social entrepreneurship on good local governance (H1) resonates with Schumpeter's (2017) conceptualisation of entrepreneurs as agents of creative disruption. In the Karnali context, where traditional public administration has struggled to deliver services effectively, social entrepreneurs introduce innovative solutions that prioritise social value over private gain (Rahdari et al., 2016). The significant correlation ($r = 0.546$, $p < 0.01$) and regression coefficient ($\beta = 0.362$, $p < 0.001$) indicate that attributes such as innovation, accountability to beneficiaries, and mission-driven orientation are strongly associated with governance outcomes like transparency, participation, and efficiency. This supports the theoretical assertion that social entrepreneurship can catalyse governance reform by embedding new norms of responsiveness and accountability (Ashoka & McKinsey, 2021).

The second hypothesis (H2), which posited a positive influence of perceived prevalence and municipal support for social entrepreneurship on good local governance, was also confirmed. The correlation ($r = 0.421$, $p < 0.01$) and regression ($\beta = 0.153$, $p < 0.001$) suggest that the ecosystem surrounding social enterprises—particularly the role of local government in fostering an enabling environment—matters significantly. This aligns with the work of Diaz and Dentchev (2021), who emphasize that a supportive infrastructure, including access to resources, policy backing, and collaborative partnerships, amplifies the social impact of entrepreneurial initiatives. In Karnali, where formal institutional capacity is weak, municipal support may serve as a crucial bridge, legitimizing social enterprises and facilitating their integration into local development planning. The finding also echoes the principles of New Public Governance (Osborne, 2010), which advocate for collaborative networks rather than hierarchical state control as a means of achieving public value.

The third hypothesis (H3), concerning the positive influence of the relevance of social entrepreneurship compared to traditional approaches, was likewise supported. The significant correlation ($r = 0.505$, $p < 0.01$) and regression ($\beta = 0.239$, $p < 0.001$) indicate that respondents perceive social entrepreneurship as more effective in addressing local challenges than conventional public management. This perception likely stems from the demonstrated limitations of traditional bureaucratic approaches in Karnali, where centralised systems have historically failed to deliver equitable development (Bhul, 2023; Rijal, 2024). Social entrepreneurship's emphasis on community engagement, flexibility, and sustainability offers a complementary pathway that resonates with the region's needs. Moreover, the finding underscores the importance of contextual relevance: in isolated, resource-constrained settings, hybrid models that combine social mission with business discipline may be particularly suited to filling governance gaps (Ghatak, 2021).

This study fills a notable gap in the literature by providing empirical evidence from a region that has been largely overlooked in discussions of social entrepreneurship and governance (Aryal, 2025; Silwal, 2021). Prior studies have often focused on urban or more developed settings, whereas Karnali's extreme marginalisation and historical neglect create a unique context that tests the applicability of existing theories. The findings confirm that the principles of good governance—participation, accountability, transparency—can be advanced through social entrepreneurship even in challenging environments. Moreover, the study highlights the importance of social contracts and community trust as foundational elements for sustainable development in post-conflict federal Nepal.

This study provides useful insights, but it still has some limitations. A notable limitation is the significant gender imbalance in the sample, which comprised 72% male and only 28% female respondents. This disparity is a potential source of bias, as both governance and social entrepreneurship are recognized as gendered domains. Perceptions of what constitutes 'good governance,' the characteristics of a social entrepreneur, and one's level of civic participation may differ systematically between men and women. The underrepresentation of women's voices in this study means the findings may reflect a predominantly male perspective, potentially overlooking gendered barriers to or experiences with social entrepreneurship and local governance. Future research must employ gender-disaggregated sampling strategies and analytical frameworks to explicitly examine these differences. While the quantitative approach identified correlations, it did not examine in detail the qualitative dynamics between social entrepreneurship and local governance. Using mostly survey data can lead to response bias. Future research could examine detailed case studies of successful social enterprises in the Karnali region to better understand how these organizations operate and the impact they have. Using a qualitative approach, such as in-depth interviews, could provide a deeper understanding of how social entrepreneurs interact with local government officials. Future studies should also focus on creating and testing a policy framework to support social entrepreneurship in Nepal.

6. Conclusion

This study shows that social entrepreneurship helps improve local governance in Nepal's Karnali Region. As local governments continue to develop, working with social entrepreneurs could help solve ongoing problems in the area. Government support is important for the growth of social enterprises. This support can include targeted financial assistance, raising public awareness, making resources more accessible, and establishing clear rules for collaboration. The study points out that more research is needed to understand how local governments and social enterprises can work well together. When local governments work with social entrepreneurs, they gain access to real-world experience and practical skills. This approach helps generate fresh ideas, build trust, and make a lasting difference in the community.

The findings show that social entrepreneurship can help address governance gaps in the Karnali region. Given the positive link between social entrepreneurship and effective local governance, local authorities should consider creating policies that support and encourage social entrepreneurs. Supporting social enterprises helps them secure funding, participate in training programs, and comply with legal requirements. The study also shows that women and people with lower levels of education participate less often in socio-economic activities. Social enterprises can help close these gaps by creating programs and skill-building opportunities for these groups.

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