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A Multidisciplinary Peer Reviewed Open Access Journal**Email:** jore.centralcampus@gmail.com**Website:** <http://education.fwu.edu.np/>**Impact of Key Cooperative Variables on Performance of Cooperatives in Nepal****Tikaram Kharel**

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Abstract

This paper examine the impact of Cooperative variables on the performance of selected cooperatives in Nepal. A sample of 400 members from primary cooperatives in Sudurpaschim Province was selected using stratified random sampling, with primary data gathered through a semi-structured questionnaire. Data analysis was conducted using with statistical tools such as correlation and regression analysis. The results show a significant positive relationship between professionalization, accountability, and cooperative performance. Additionally, participation and transparency have a positive but insignificant effect on performance, while legitimacy shows an insignificant negative relationship. The study concludes that cooperative performance is influenced by like legitimacy, participation, professionalization, accountability, and transparency. The research highlights the critical role in enhancing the quality of life for cooperative members, contributing to performance improvements. This study adds to the literature by identifying key elements that impact cooperative performance in a developing nation context.

Keywords: Cooperative performance, Professionalization, Accountability, Transparency, Legitimacy.

Introduction

The significance of performance in cooperatives cannot be overstated, as it forms the core foundation that ensures their long-term success and sustainability. Cooperatives, as member-owned organizations, are designed to address the economic, social, and cultural needs of their members. Cornforth (2004) argued that Performance refers to the systems and processes that direct, monitor, and

ensure accountability within organizations. This research framework ensures that cooperatives align their operations with their mission while promoting legitimacy, transparency, member participation, professionalization, and accountability. Within cooperatives, performance encompasses more than just the management of financial resources; it plays a vital role in shaping decision-making processes, ethical standards, and the overall direction of the organization. Karki et al., (2014) underscore that effective performance is the cornerstone of thriving cooperatives, enabling them to strike a balance between economic efficiency and social responsibility, thus strengthening their contribution to community development.

In the context of Nepal, cooperatives have played an important role in fostering local economies, particularly in rural and semi-urban areas. However, the effectiveness of these cooperatives is largely determined by the quality of their performance. Poor practices, such as limited transparency, weak accountability, and insufficient member participation, often compromise the ability of cooperatives to fulfill their mission. As Chandarasorn (2014) argued that legitimacy is essential for safeguarding individual rights and freedoms, and within cooperatives, it ensures that the interests of members are protected while promoting collective well-being. Munyasia, (2016) highlights that professionalization is a key determinant of growth, development, and poverty alleviation. When cooperatives are governed effectively, they not only drive economic progress for their members but also contribute to the broader development of society. In this sense, professionalization becomes a tool for institutional effectiveness and fostering long-term growth and sustainability.

The unique structure of cooperatives, where members serve as both owners and beneficiaries, necessitates a model that encourages active participation and democratic decision-making. Unlike traditional investor-owned businesses, cooperatives do not prioritize profit maximization; instead, they focus on meeting the needs of their members. This creates a complex dynamic, requiring cooperatives to balance economic goals with social objectives. The success of cooperatives largely depends on how well they adopt cooperative principles such as accountability, transparency, participation, and fairness (Alliance, 1995). In this regard, cooperative standards extend beyond mere legal compliance; they involve fostering trust, collaboration, and the creation of social capital. Kyazze et al. (2017) examined that transparency plays a critical role in the functioning of cooperatives. It helps build strong relationships among members, communities,

and external stakeholders, ensuring that cooperatives address not only economic but also broader societal needs. In Nepal, cooperatives have provided farmers and grassroots communities with the bargaining power, economies of scale, and investment capacity to participate in various stages of the value chain, from storage and processing to marketing and distribution. However, these achievements are often limited by challenges, such as a lack of professional management, insufficient capacity building, and restricted access to credit. Dayanandan (2013) notes that the absence of good performance practices negatively impacts the ability of cooperative unions to engage in economic activities. This issue is especially prevalent in Nepal, where many cooperatives struggle with performance-related problems, resulting in inefficiencies and underperformance. Understanding various practices and their effect on the performance of cooperatives is therefore crucial.

The study of cooperative standards and their influence on the performance of cooperatives in Nepal is particularly important given the expanding role of cooperatives in the country's economy. This study has two primary objectives. First, it seeks to explore the cooperative practices of selected primary cooperatives within the study area, with the aim of identifying both best practices and areas needing improvement. Second, the study investigates the impact on cooperative performance, operating under the premise that cooperatives with strong structures are more likely to achieve favorable social and financial outcomes. Several studies have explored the relationship between cooperative variables and the performance of cooperatives across various contexts. Kyazze et al. (2017) found a positive and significant relationship between cooperative variables and non-financial performance in Uganda. Their research emphasized the importance of monitoring rights and innovation in improving social performance, though policy compliance was not found to be statistically significant. Similarly, Patrick et al. (2014) identified participation, accountability, transparency, and the rule of law as key factors influencing cooperative performance in Southern Ethiopia. These studies highlight the central role that variables play in determining the success of cooperatives. In Nepal, Acharya (2009) explored the performance and member participation in rural agricultural cooperative societies and found that active member involvement in financial, business, and management activities is crucial to the effective operation of cooperatives. These findings suggest that governance standards, particularly those related to participation and transparency, are vital to enhancing the performance of Nepalese cooperatives.

In Nepal, cooperatives face numerous challenges. Many cooperatives suffer from a lack of professional management, which undermines their ability to implement robust cooperative structures. Additionally, there is often a low level of awareness among members regarding their roles and responsibilities, resulting in limited participation in decision-making. Furthermore, Bharadwaj (2012) examined that cooperatives frequently encounter difficulties in performance, business development and growth. These cooperative-related issues not only affect the financial performance of cooperatives but also limit their ability to meet their broader social objectives.

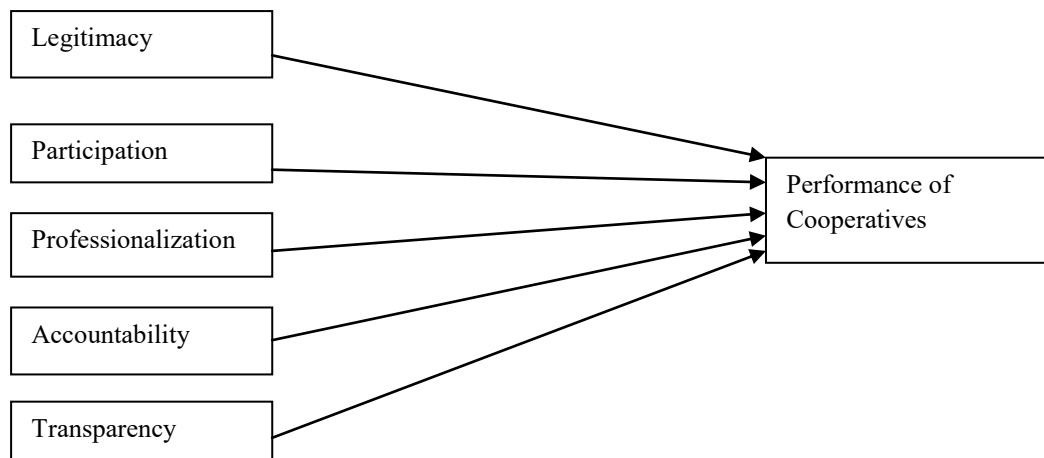
This study aims to provide a comprehensive analysis of various practices in Nepal's cooperatives. By examining the cooperative mechanisms in place, evaluating member awareness, analyzing the impact on performance, and identifying barriers to performance, the research seeks to contribute to the development of strategies that can enhance the effectiveness of cooperatives in Nepal.

Conceptual Framework

This study explores the essential elements of cooperatives such as legitimacy, participation, professionalization, accountability, and transparency. It assesses how cooperative members and leaders perceive and comprehend these core principles. The conceptual framework is developed through a thorough literature review, emphasizing the interplay between key factors and their impact on cooperative functioning.

Independent variable

Dependent Variable



Definition of the Variables and the Research Hypotheses

Legitimacy: legitimacy refers to the extent to which a cooperative's actions, governance, and objectives align with legal frameworks, ethical standards, and the expectations of its members and stakeholders. Legitimacy plays a crucial role in enhancing the perception of cooperatives as credible and trustworthy entities. It ensures that resources are managed effectively and stakeholder interests are addressed, ultimately impacting the overall performance of cooperatives. According to Deephouse and Carter (2005) legitimacy has a positive influence on organizational success by attracting resources, improving stakeholder relationships, and reducing resistance. In the context of cooperatives, legitimacy boosts their credibility, resulting in better performance outcomes.

H1: Legitimacy has a significantly positive impact on the performance of cooperatives.

Participation: participation refers to the active engagement of members in decision-making processes, governance, and activities to ensure collective ownership and shared responsibility. Participation refers to the active involvement of cooperative members in performance. This involvement enhances the performance of cooperatives by promoting trust, efficient resource utilization, and member satisfaction. According to Birchall and Simmons (2004) examined that the active participation fosters a sense of ownership, enhances trust, and improves cooperative performance by aligning members' goals with organizational objectives.

H2: Participation has a significantly positive impact on the performance of cooperatives.

Professionalization: professionalization refers to the adoption of skilled management practices, expertise, and standardized procedures to enhance efficiency, accountability, and sustainable growth. Professionalization involves the adoption of formal structures, expertise, and management practices within cooperatives. It ensures that decisions and operations are handled by qualified individuals using systematic approaches. This professionalism enhances the performance of cooperatives through better resource management and member satisfaction. Valentinov and Iliopoulos (2013) highlight that professionalized cooperatives are better equipped to address complex managerial challenges, adapt to market dynamics, and deliver superior value to their members.

H3: Professionalization has a significantly positive impact on the performance of cooperatives

Accountability: Accountability refers to the obligation of the cooperative's management and members to be transparent, answerable for their actions, and responsible for the outcomes of decisions made within the organization. Accountability in cooperatives involves the obligation of management and members to report, explain, and be answerable for their actions and decisions. High levels of accountability enhance cooperative performance by improving efficiency, member satisfaction, and goal achievement. Ebrahim (2003) accountability ensures transparency, trust, and ethical behavior, which are essential for achieving organizational goals. For cooperatives, accountability to members promotes better decision-making, resource allocation, and performance.

H4: Accountability has a significantly positive impact the performance of cooperatives.

Transparency: Transparency refers to the open sharing of information, decisions, and activities with members and stakeholders, ensuring clarity and trust in the cooperative's operations and governance. Transparency involves the clear and open sharing of information about the operations, finances, and decision-making processes of cooperatives with their members and stakeholders. High levels of transparency can enhance cooperative performance by improving decision-making, resource allocation, and member satisfaction. Hammad et al. (2016) transparency boosts member confidence, leading to increased participation and engagement, which are crucial for the success and longevity of cooperatives.

H5: Transparency has a significant positive impact on the performance of cooperatives.

Methodology

This research was conducted in Nepal, specifically selected due to the highest concentration of primary cooperatives in Sudurpaschim Province (Department of Cooperative, 2017), highlighting a contrast in cooperative presence. Karki, Mathema, & Upreti (2014) and Patrick et al. (2014) examined that the root causes of cooperative issues include legitimacy, participation, professionalization, accountability, and transparency. According to the Ministry of Land Management, Agriculture, and Cooperatives (MoLMAC), Sudurpaschim Province has 61,078 cooperative members, from which a sample of 400 was

selected using a stratified random sampling method. To maintain specificity, the study focuses solely on Savings and Credit Cooperatives, out of the 16 types of cooperatives identified by the Department of Cooperative (2017). Primary cooperatives were selected for the study, with an equal number of cooperatives under male and female leadership. The sample size was determined using Yamane's (1967) sample selection formula.

Primary data were collected via pre-tested semi-structured questionnaires, and the analysis was conducted using SPSS version 27. Descriptive statistical tools of analysis including Maximum, Minimum, Mean, and Standard deviation, and Causal tools of analysis including correlations and regression analysis tests, were applied to draw conclusions from the data.

Research Model

The econometric model used in this study aims to investigate the impact of factors of good governance on profitability of cooperatives in Nepal. The study focuses on five key independent variables: legitimacy, participation, professionalization, accountability, and transparency, which are believed to impact the dependent variable, cooperative performance. The performance of cooperatives is measured as an aggregate score that represents the overall success and efficiency of the cooperatives under study.

The general regression model used to analyze these relationships can be specified as follows:

$$\text{Performance} = B_0 + B_1(\text{Legitimacy}) + B_2(\text{Participation}) + B_3(\text{Professionalization}) + B_4(\text{Accountability}) + B_5(\text{Transparency}) + e$$

In the regression model mentioned above, the dependent variable is performance, measured by the average performance score. The study evaluates the effects of legitimacy, participation, professionalization, accountability, and transparency on cooperative performance.

Results and Discussion

This section presents the findings derived from both descriptive and causal analysis. Descriptive analysis tools, including mean, standard deviation, and frequency distribution, were applied to summarize and understand the key characteristics of the data. These methods provided a detailed overview of cooperative members' demographics and cooperative practices, offering foundational insights into the study variables.

Causal analysis techniques, such as correlation analysis and regression, were employed to examine the relationships of the cooperative variables: legitimacy, participation, professionalization, accountability, transparency, and cooperative performance. These advanced statistical methods identified significant predictors, quantified their impact, and provided deeper insights into the cooperative variables' performance dynamics within cooperatives.

Table 1

Analysis of descriptive statistics on Legitimacy, participation, professionalization, accountability, transparency and performance

Indicator	N	Minimum	Maximum	Mean	Std. Deviation
Legitimacy	400	3.2	5.0	4.4050	0.41352
Participation	400	2.5	5.0	4.2069	0.54656
Professionalization	400	3	5.0	4.4625	0.38960
Accountability	400	3	5.0	4.3608	0.46434
Transparency	400	2.67	5.0	4.3147	0.34298
Performance	400	11.23	19.56	17.052	2.02064
Valid N (list wise)	400				

The table presents descriptive statistics for key variables and performance measures in a study involving 400 observations from cooperatives. The variables include legitimacy, participation, professionalization, accountability, transparency, and performance, each recorded on a scale ranging from approximately 2.5 to 5.0. The mean values indicate generally high levels of governance practices, with professionalization having the highest mean (4.4625) and participation the lowest (4.2069), suggesting a consistent commitment to governance standards. The standard deviations are relatively small, with transparency showing the lowest variability (0.34298) and participation the highest (0.54656), indicating that most cooperatives maintain similar levels of these governance attributes. Additionally, a separate performance measure, likely assessing a different aspect of performance, ranges from 11.23 to 19.56, with a mean of 17.052 and a higher standard deviation of 2.02064, suggesting more variability in this aspect of cooperative performance. Overall, the data suggests that while cooperative practices are relatively uniform, there are more pronounced differences in certain performance measures among the cooperatives.

Table 2*Correlation analysis*

Indicator	Legitima cy	Participat ion	Professionaliza tion	Accountabi lity	Transpare ncy	Performa nce
Legitimacy	1					
Participation	0.515	1				
Professionaliza tion	0.571	0.451	1			
Accountability	0.366	0.386	0.479	1		
Transparency	0.298	0.370	0.326	0.415	1	
Performance	0.750	0.783	0.761	0.728	0.623	1

This table presents the correlation coefficients among six indicators of Legitimacy, Participation, Professionalization, Accountability, Transparency, and Performance. The diagonal values are all 1, indicating perfect self-correlation. Among the relationships, Performance has strong positive correlations with all other indicators, particularly Participation (0.783) and Professionalization (0.761), highlighting their significant influence on performance outcomes. Legitimacy shows moderate correlations with Participation (0.515) and Professionalization (0.571), suggesting its importance in fostering these factors, though its correlation with Transparency (0.298) is weaker. Similarly, Accountability has a moderate positive relationship with Performance (0.728) and Transparency (0.415). While Transparency exhibits the weakest correlations overall, its moderate link with Performance (0.623) and Accountability (0.415) underscores its relevance. Overall, the table illustrates the interconnectedness of these variables, with Participation and Professionalization emerging as the most influential factors in enhancing performance.

Regression analysis

Regression analysis was conducted to examine how performance in Nepalese cooperatives is influenced by various factors. The table below presents the results. Specifically, it shows the regression results of accountability, transparency, professionalization, legitimacy, and participation on performance. This finding is based on primary data from 18 cooperatives with 400 observations, using a linear regression model. The model for Performance is represented as: $\text{Performance} = \beta_0 + \beta_1 \text{Legitimacy} + \beta_2 \text{Participation} + \beta_3 \text{Professionalization} + \beta_4 \text{Accountability} + \beta_5 \text{Transparency} + e$.

Table 3

Estimated regression results on legitimacy, participation, professionalization, accountability and transparency on performance

Model	B	Std. Error	t	P-Value
Legitimacy	-0.029	0.056	-0.516	0.606
Participation	0.072	0.040	1.769	0.078
Professionalization	0.303	0.060	5.013	0.000
Accountability	0.198	0.047	4.245	0.000
Transparency	0.082	0.059	1.374	0.170
R square	0.260			
Adjusted R square	0.251			
SEE	0.357			
F statistics	27.735			

Where,

β = Beta Coefficient or Regression Coefficient

S.E. = Standard Error

SEE = Standard Error Estimate

The table presents the results of a regression analysis that examines the effects of various factors legitimacy, participation, professionalization, accountability, and transparency on the performance of cooperatives. The regression coefficients (β) indicate the strength and direction of the relationship between each independent variable and performance. Among these, professionalization ($\beta = 0.303$, p-value = 0.000) and accountability ($\beta = 0.198$, p-value = 0.000) show statistically significant positive effects on performance, suggesting that improvements in these areas are associated with better cooperative outcomes. This finding is consistent with the findings of existing body of literature such as Ebrahim (2003) and Valentinov and Iliopoulos (2013)

In contrast, legitimacy ($\beta = -0.029$, p-value = 0.606), participation ($\beta = 0.072$, p-value = 0.078), and transparency ($\beta = 0.082$, p-value = 0.170) do not show significant impacts, as their p-values are greater than 0.05. The insignificant regression coefficients confirm that legitimacy, participation, and transparency have no significant impact on performance on cooperative in Nepal. This finding is contradicts with the findings of Deephouse and Carter (2005) and Hammad et al. (2016).

The model's R-squared value of 0.260 indicates that approximately 26% of the variance in performance is explained by the five cooperative variables, while

the adjusted R-squared (0.251) accounts for the model's degrees of freedom. The standard error of the estimate (SEE) is 0.357, and the F-statistic of 27.735 suggests that the overall model is statistically significant, meaning that at least one of the independent variables is a significant predictor of performance.

Table 4

Data Analysis Tool: Regression and summary of its results

Hypotheses	Statements/ Propositions	Null Hypotheses (H0)	Conclusions/ Results
H1	There is a significant relationship between legitimacy and the performance of cooperatives	There is no significant relationship between Legitimacy and the Performance of cooperatives.	Rejected (0.606>0.05)
H2	There is a significant relationship between participation and the performance of cooperatives	There is no significant relationship between participation and the performance of cooperatives	Rejected (0.078>0.05)
H3	There is a significant relationship between professionalization and the performance of cooperatives	There is no significant relationship between professionalization and the performance of cooperatives.	Accepted (0.000<0.05)
H4	There is a significant relationship between accountability and the performance of cooperatives	There is no significant relationship between accountability and the performance of cooperatives.	Accepted (0.000<0.05)
H5	There is a significant relationship between transparency and the performance of cooperatives	There is no significant relationship between transparency and the performance of cooperatives	Rejected (0.17>0.05)

The study investigates the correlation between legitimacy, participation, professionalization, accountability, transparency, and the performance of cooperatives in Nepal. The results offer detailed insights into the significance of these factors.

Hypothesis testing indicates that professionalization and accountability have a significant positive impact on cooperative performance (p-value = 0.000), emphasizing the importance of skilled management and strong accountability mechanisms in enhancing outcomes. Conversely, legitimacy (p-value = 0.606), participation (p-value = 0.078), and transparency (p-value = 0.170) do not exhibit

statistically significant relationships with performance, suggesting that their current implementation or awareness among cooperative members may not effectively contribute to measurable improvements.

The rejection of hypotheses for legitimacy, participation, and transparency suggests that larger cooperatives or those with complex structures may encounter challenges, such as reduced member engagement or inefficiencies in transparent operations. Addressing these issues through targeted interventions, such as member empowerment programs and streamlined governance processes could potentially enhance their impact on cooperative performance.

These findings underscore the interconnected nature of variables, highlighting the importance of an integrated approach to prioritizing professionalization and accountability. By improving the effectiveness of legitimacy, participation, and transparency, cooperatives can achieve sustainable growth and enhance member livelihoods.

The results provide valuable insights into the performance in cooperatives. The lack of statistically significant effects of legitimacy ($p = 0.606$), participation ($p = 0.078$), and transparency ($p = 0.170$) on performance suggests that while these elements are essential components of good governance, their current implementation may not be sufficiently impactful. This underscores the need for stronger mechanisms or strategic interventions to leverage their potential influence.

With an R-squared value of 0.26, it is evident that variables—such as legitimacy, participation, professionalization, accountability, and transparency only explain 26% of the variance in cooperative performance.

This indicates that external or unexplored internal factors play a significant role in performance variation, necessitating further exploration of economic, social, or operational dynamics.

The strong interrelationships among governance variables, particularly the perfect correlation ($r = 1.000$) between governance and performance, emphasize the interconnected nature of these practices. Improvements in areas like accountability are likely to trigger positive changes in other governance aspects, such as professionalization, showcasing a systemic effect. Conversely, the negative correlation between the natural logarithm of share capital and variables like legitimacy and transparency suggests that larger cooperatives may face

challenges due to increased operational complexity or bureaucratic inefficiencies, underscoring the need for adaptable and scalable cooperative frameworks.

Overall, these findings stress the importance of tailored strategies and further research into complementary factors influencing cooperative performance.

Conclusion

This study highlights the significant role of professionalization and accountability in improving the performance of cooperatives in Nepal. The positive correlation between these factors and performance emphasizes the need for skilled management and robust accountability systems to drive better outcomes. However, the lack of statistically significant relationships for legitimacy, participation, and transparency suggests that their current implementation may not be as impactful, possibly due to reduced member engagement or operational inefficiencies, particularly in larger cooperatives. Addressing these challenges through targeted interventions, such as member empowerment and streamlined performance processes, could enhance their effectiveness.

Furthermore, with an R-squared value of 0.26, the study reveals that only a portion of the performance variation can be explained by governance factors, indicating the importance of exploring additional external or internal variables that may contribute to performance. The interconnectedness of governance practices also suggests that improvements in one area, such as accountability, can foster positive changes across other dimensions. These findings underline the need for tailored strategies and further research to unlock the full potential of cooperatives in Nepal, ensuring sustainable growth and better member outcomes.

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