

## Pitfalls of Cooperatives: Framework for Effective Management: Qualitative Evidence from Developing Countries

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### **Abstract:**

Received: 5 March, 2023  
Revised: 25 May 2023  
Accepted: 16 July 2023

*This qualitative research investigates the difficulties of cooperatives in Nepal, concentrating on governance, management, and financial sustainability. The study used deliberate sampling to identify thirteen cooperative managers in Kathmandu, Nepal, as participants. Semi-structured interviews were performed, using an interview guide consisting of open-ended questions covering major topics such as challenges, decision-making processes, organizational structure, financial management, and sustainability plans. The sample size was set based on data saturation to ensure complete data collection. Thematic analysis was used to analyze the transcribed interviews, which included systematic data coding using a mix of deductive and inductive coding approaches.*

*The investigation found recurring mistakes and obstacles in cooperative governance, management, and financial sustainability. To enhance legitimacy, direct quotes from participants were used. The results emphasize the need of resolving governance concerns, enhancing communication and dispute resolution within cooperatives, and adopting good financial management practices. The research adds to the current literature by offering framework and insights into the unique issues encountered by cooperatives in Nepal and making suggestions to improve their sustainability.*

**Keywords:** *Pitfalls of Cooperatives, Nepal, Governance, Management, Financial sustainability.*

## 1. Introduction

A cooperative is a sort of organization in which members own and run it (Ben,1984). It is a voluntary group of people who come together to achieve their shared economic, social, and cultural needs and ambitions via a jointly owned and democratically managed firm (Majee & Hoyt, 2011). Agricultural cooperatives, consumer cooperatives, labour cooperatives, housing cooperatives, credit unions, and many more types of cooperatives exist (Novkovic, 2006). Members of a cooperative combine their resources and participate in decision-making, and any profits earned by the firm are dispersed among the members based on their involvement or patronage. Collaboration principles include open and voluntary membership, democratic member control, economic involvement by members, autonomy and independence, education, training, and information, cooperative collaboration, and community concern (Oczkowski et al., 2013). These principles assist to guarantee that cooperatives are administered in the best interests of its members and the larger community.

Cooperatives need to follow set of guidelines for the effective operation. The International Co-operative Alliance (ICA) created these principles as a foundation for cooperative firms worldwide. While the underlying concepts may fluctuate significantly among cooperative industries and nations, they remain similar. The ICA (2020) identifies seven basic principles of cooperative organizations: Voluntary and Open Membership, Democratic Member Control, Economic Participation of Members, Autonomy and Independence, Education, Training, and Information, Cooperation Among Cooperatives, Concern for the Community. According to research (Fulton, 2016; Birchall, 2014; Bauermann, 2019), cooperative organizations give member empowerment, social benefits, economic rewards, risk reduction, local development, and chances for skill development and education.

Cooperatives play a major role in the Nepalese economy and social fabric. The cooperative movement in Nepal started in the 1950s and has evolved tremendously since then. Cooperatives in Nepal operate in a variety of industries, including agriculture, finance, energy, transportation, and services.

A disturbing phenomenon has been noted in the sphere of savings and credit cooperatives, notably the absence of directors as a result of their incapacity to perform financial commitments due to depositors (Annapurna,2022). A substantial number of cooperatives have found themselves in an unfavorable situation, having been put on the blacklists kept by the Credit Information Bureau (CIB) Nepal (Repubblica,2022). Due to poor oversight, several cooperatives in Nepal have been implicated in fraudulent operations (Acharya,2021). According to Repubblica (2022), the country's poor economic circumstances have had a significant influence on cooperatives in Nepal, with a

growing number of them encountering financial difficulties. The collapse of cooperatives in Nepal has left Nepalese who have saved money exposed, with their properties and embezzled assets at danger, since the government has failed to give enough security and aid. (Kumar,2023) Cooperatives have been functioning as commercial organizations in Nepal, according to Maharjan (2023). According to Poudel (2022), a liquidity crisis has beset Nepalese cooperatives, resulting in a scenario in which only 5% of the deposited money may be withdrawn at a time.

As a result, the goal of this research is to investigate the problems of cooperatives in Nepal, with a particular emphasis on governance, management, and financial sustainability. The study attempts to get a thorough knowledge of the issues that cooperatives encounter in these areas.

## **2. Methodology**

### **I. Sampling:**

The targeted population of this study was the cooperative managers having cooperative failure experience in Kathmandu Valley. Based on that, by using purposive sampling technique this research sampled thirteen cooperative managers. Purposive sampling ensured participants had relevant experience and understanding of the research subject (Patton, 2015). Data saturation (Guest, Bunce, & Johnson, 2006) determined sample size. This investigation saturated data after interviewing thirteen Kathmandu Valley cooperative managers. This sample size was sufficient to cover Nepal's cooperative governance, management, and financial sustainability issues (Mason, 2010).

### **II. Data Collection**

This study collected qualitative data via in-depth interviews. Semi-structured interviews were utilized to fully explore participants' perspectives on management, financial stability and governance. The interview guide contained open-ended questions about decision-making, organizational structure, financial management and cooperative sustainability. The research problems were thoroughly discussed in 50-55 minute interviews. The interviews were audio-recorded with participants' consent to ensure data accuracy. To analyze the data more thoroughly, the recorded interviews were transcribed.

### **III. Data Analysis**

To find themes, patterns and categories in the transcribed interviews, thematic analysis was done. To identify key points and themes, the transcriptions were thoroughly analyzed. Deductive and inductive coding was used to analyze the data. The interview guide provided codes for analysis. However, when the data

was coded, new codes automatically arose, allowing the investigation of previously unforeseen patterns and insights. This repetitive coding procedure allowed a deep investigation of both planned categories and unique findings from participants' remarks.

Coded and analyzed data revealed cooperative governance, management, and financial sustainability mistakes. Thorough study of the coded data revealed recurring themes and patterns, showing cooperatives' varied challenges. The research used participant testimonials to boost credibility and validity. Authenticity and data interpretation were enhanced by utilizing participants' remarks. This improved the study's credibility and validity.

### **3. Analysis and Findings**

#### **Theme 1: Governance**

Managers in cooperatives have identified a number of difficulties with cooperative governance. Problems with the decision-making process, such as a lack of member participation and opaqueness, were among these obstacles. Concerns were raised by participants concerning the efficiency of their cooperatives' decision-making processes.

Respondents have identified number of difficulties with cooperative governance. Problem associated with decision making procedure, such as lack of member's participation in decision making and implementation practices.

"Member engagement and transparency are delimited, undermining the democratic values of cooperative government. It often seems that choices are taken by a small group of influential investors, with other members having little representation and impact. We need a more inclusive and participatory decision-making process."

Respondents confronts that, decision making was ruled by few powerful investors which leads to a lack of representation of cooperative members and ineffective decision making.

Furthermore, there was a perceived absence of a rigorous regulatory framework and government practices to promote equitable governance in cooperatives.

The government's lax regulations also generate issues. Transparency visits big investors from monopolizing control. "We urge the government to adopt robust policies that foster fairness and collaboration". Participants called for a fair playing field and regulation to prevent powerful investors from monopolizing control. They stressed the

importance of enhancing transparency, accountability, and member participation to address these governance challenges

### **Theme 2: Management**

Several obstacles were noted by cooperative managers that went beyond organizational structure, roles, duties, and communication. They also brought up the problem of being unaware of the Department of Cooperatives' norms and regulations.

One manager said, "One of our challenges is the ignorance of Department of Cooperatives rules and regulations." Many members and even some managements are unaware of these restrictions. Our cooperation faces legal and operational risks due to this lack of understanding.

The managers also brought up the fact that loans were given without proper paperwork or due diligence.

"We have encountered loans issued without proper documentation or due diligence," said another manager. Financial stability and default risk reduction need rigorous review and documentation. To protect the cooperative's finances, strong loan review systems are needed.

They mentioned "instances where loans were approved without stringent evaluation processes or the required documentation, which could lead to financial instability and potential defaults."

Furthermore, significant investors' influence inside cooperatives was noted as a difficulty. Managers described situations in which these powerful investors applied excessive pressure or influence to further their own agendas, possibly jeopardizing the cooperative's and its members' overall aims and interests. When asked, a manager said,

"Powerful investors' influence within our cooperative poses a significant challenge. In certain cases, these investors use excessive pressure or influence to further their own agendas, which may be at odds with the cooperative's and its members' general aims and interests."

### **Theme 3: Financial Sustainability**

Financial sustainability has arisen as a major issue among cooperative management. Managers mentioned a number of obstacles, including low financial resources, insufficient income generating, and problems in obtaining financial services or finance. The managers emphasized the significance of competent financial resource management, which includes budgeting, revenue generating, and financial reporting.

One manager noted "Financial sustainability is a major concern for us as cooperative managers. Financial constraints and insufficient income creation offer considerable obstacles. We must priorities excellent financial resource management, which includes budgeting, income generating, and accurate financial reporting."

Another issue raised by the managers was the distribution of funding to unproductive industries such as real estate. They stressed the need of making better investment selections and developing strategies that concentrate on industries with high potential returns in order to maximize financial sustainability.

"One challenge we face is the allocation of funds to unproductive sectors like real estate," said another manager.

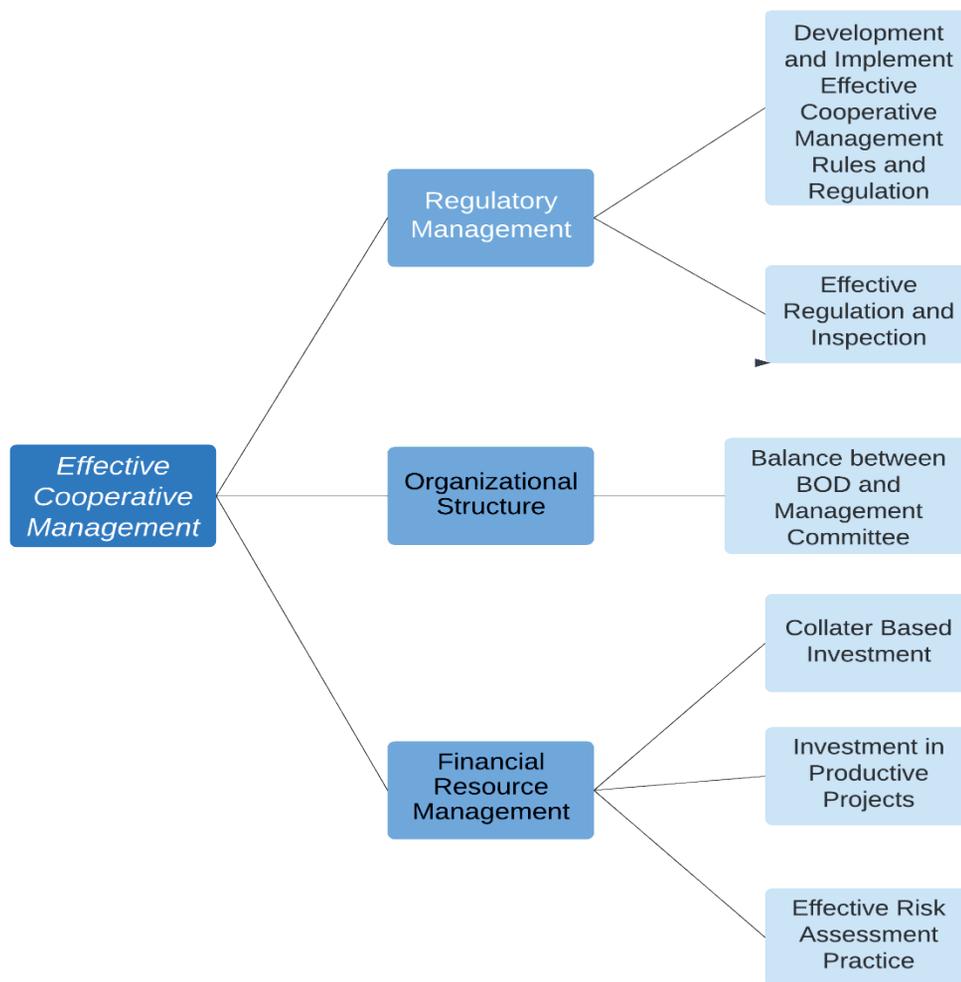
Additional issue highlighted was a lack of risk assessment knowledge and competence. To minimize possible financial instability, the managers emphasized the necessity of knowing and analyzing risks linked with financial choices.

#### **4. Conclusion**

To Several suggestions for cooperatives in Nepal may be made to solve the issues outlined in the topics presented. In terms of governance, clear communication lines, frequent meetings, and inclusive decision-making frameworks are critical for increasing member involvement and engagement in decision-making processes. Transparency and accountability procedures will be strengthened to guarantee fair governance practices. Furthermore, the creation of a strong regulatory framework and practices may help to avoid monopolistic control by big investors, therefore encouraging a fair playing field for all cooperative members. In terms of management, it is critical to improve organizational structure by defining roles and responsibilities, increasing effective communication, and providing conflict resolution processes. Providing cooperative members and management with training and capacity-building programmes will improve their management skills and knowledge. Furthermore, following the Department of Cooperatives' norms and regulations will reduce legal and operational risks. Diversifying revenue sources and developing income-generating possibilities that are connected with the cooperative's goal and objectives are critical for financial sustainability. Building excellent ties with financial institutions will make it easier to get money and financial services on favorable terms. Implementing strong financial management practices, such as effective loan management, repayment schemes, and risk assessment skills, can help financial sustainability even further. Finally, developing good connections with members and stakeholders, embracing innovation and flexibility, and pushing for supporting laws, regulations, and financing will all help to cooperatives' long-term viability in Nepal.

## 5. Framework for Effective Cooperative Management

Based on above investigation and the finding the purposed framework for effective cooperative management



*Figure 1: Framework based on the Study*

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