



ISSN: 0976-3376

Available Online at <http://www.journalajst.com>

ASIAN JOURNAL OF
SCIENCE AND TECHNOLOGY

Asian Journal of Science and Technology
Vol. 10, Issue, 11, pp.10493-10498, November, 2019

RESEARCH ARTICLE

GOOD GOVERNANCE FOR PERFORMANCE OF NEPALESE COOPERATIVES: A STUDY OF SAVINGS AND CREDIT COOPERATIVES IN KATHMANDU DISTRICT

^{1,*}Drona Lal Puri and ²Chanchai Bunchapattanasakda

¹PhD (M) Program, Shinawatra University, Thailand

²School of Management, Shinawatra University, Thailand

ARTICLE INFO

Article History:

Received 25th August, 2019
Received in revised form
09th September, 2019
Accepted 17th October, 2019
Published online 27th November, 2019

Key words:

Financial Performance,
Good Governance,
Nepalese Cooperatives,
Panacea.

ABSTRACT

The main purpose of this study was to examine the association of good governance practice with financial performance (ROA) of Nepalese savings and credit cooperatives of Kathmandu district under province number three. This research is a mixed method (explanatory sequential design) using survey questionnaire to collect quantitative data from the representatives of 353 primary cooperatives, and in-depth interview to collect qualitative data from the representatives of 10 primary cooperatives. The association of good governance with financial performance has been carried out by testing one main hypothesis and five sub-hypotheses using linear regression to analyze the data. The research findings showed that 1) Good governance has a statistically significant and positive association with financial performance (ROA) of savings and credit cooperatives in the area of study. 2) Participation has not only a statistically significant but also positive relationship with financial performance of savings and credit cooperatives. 3) Accountability has not only a statistically significant but also positive association with financial performance of savings and credit cooperatives. 4) There is a statistically significant and positive relationship between transparency and financial performance of savings and credit cooperatives. The research findings from qualitative data revealed that there is lack of cooperative friendly policies, act and regulations in Nepal in the context of legitimacy. Similarly, professionalization does not work well due to nepotism, favoritism and political pressure. It is concluded that the cooperatives should enhance participation, accountability and transparency if they want to increase their performance because they are not only significant but also positive panacea for the performance (ROA).

Citation: Drona Lal Puri and Chanchai Bunchapattanasakda. 2019. "Good Governance for Performance of Nepalese Cooperatives: A Study of Savings and Credit Cooperatives in Kathmandu District", *Asian Journal of Science and Technology*, 10, (11), 10493-10498.

Copyright © 2019, Drona Lal Puri and Chanchai Bunchapattanasakda. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

INTRODUCTION

Good governance in cooperatives leads to good performance of cooperatives. Good performance of cooperatives depends on good governance practice. Poor governance leads to malfunctioning of the cooperative societies (Dayanandan & Dagnachew, 2015). Good performance helps to make a cooperative 'A-one competitive choice for excellence in service and soundness' (ACCESS). Here are the main reasons that why there is a need to carry out this research to examine and find out about the association of good governance on financial performance of Nepalese savings and credit cooperatives: In the past researches, there are lots of scholars who studied good governance for better performance (Dayanandan, 2013; Chen, Haga & Fong, 2016; Jose, Ligerio, Altonso & Sanchez, 2012 etc.) but none of them has

specifically focused yet on the good governance for financial performance of Nepalese savings and credit cooperatives. Therefore, it is the one of the main reasons the researcher intended to carry out an empirical study with a view to establishing the extent to which good governance associates with the performance of the savings and credit cooperatives in context of Nepal.

Statement of Problem: Here are the main reasons that why there is a need to carry out this research to examine and find out about the association of good governance on financial performance of Nepalese savings and credit cooperatives: In the past researches, there are lots of scholars who studied good governance for better performance (Dayanandan, 2013; Chen, Haga & Fong, 2016; Jose, Ligerio, Altonso & Sanchez, 2012 etc.) but none of them has specifically focused yet on the good governance for financial performance of Nepalese savings and credit cooperatives. Therefore, it is the one of the main reasons the researcher intended to carry out an empirical study with a view to establishing the extent to which good

*Corresponding author: Chanchai Bunchapattanasakda,
School of Management, Shinawatra University, Thailand.

governance associates with the performance of the savings and credit cooperatives in context of Nepal. Currently, in Nepal, there are 34,512 cooperatives, 6,305,581 members, 60,517 employees, approximately \$2,627,517,504 deposit in the field of cooperatives (Statistics of Cooperative Enterprises, 2018). However, neither the current literature or the empirical studies on good governance have paid much attention on the topic. Cooperatives started to abscond day by day specially in Kathmandu valley and gradually all over Nepal by taking heavy amount of money away deposited by the members (Kantipur, 2019). Why? What are the causes of the effect? Why cooperatives failed to pay back the money deposited by the members? Can good governance be the solution of the problem? These basic problems with more specific questions as outlined here are yet to be credibly answered.

Research Hypotheses: Based on the conceptual framework of the study, this research puts forward six research hypotheses corresponding to research question and research objectives. One main research hypothesis and five sub-hypotheses are presented as follows:

Main research hypothesis (Measuring combined effect)

H₀: There is not a statistically significant and direct influence of good governance on performance of cooperatives.

H₁: There is a statistically significant and direct influence of good governance on performance of cooperatives.

Sub-hypotheses (Measuring one by one effect)

H_{0.1}: There is not a statistically significant and direct influence of legitimacy on performance of cooperatives.

H_{1.1}: There is a statistically significant and direct influence of legitimacy on performance of cooperatives.

H_{0.2}: There is not a statistically significant and direct influence of participation and performance of cooperatives.

H_{1.2}: There is a statistically significant and direct influence of participation on performance of cooperatives.

H_{0.3}: There is not a statistically significant and direct influence of professionalization on performance of cooperatives.

H_{1.3}: There is a statistically significant and direct influence of professionalization on performance of cooperatives.

H_{0.4}: There is not a statistically significant and direct influence of accountability on performance of cooperatives.

H_{1.4}: There is a statistically significant and direct influence of accountability on performance of cooperatives.

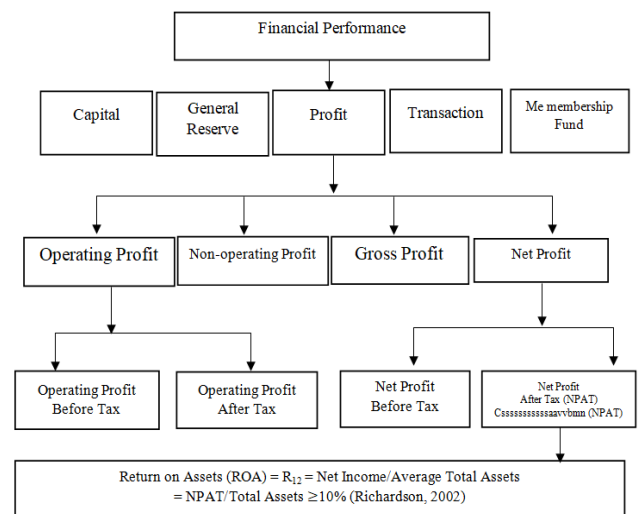
H_{0.5}: There is not a statistically significant and direct influence of transparency on performance of cooperatives.

H_{1.5}: There is a statistically significant and direct influence of transparency on performance of cooperatives.

Concept of Cooperative: Primitive concept of cooperation is that it is a way of life than a type of business. Modern concept of cooperation is that it is a special method of doing business

(Pradeesh, 2014). Co-operation means working together with others for a common purpose. The word co-operation literally means Working Together or Acting Together for better business, better farming and better living (Kunhu, 2011). The business operated by cooperative should be social oriented business similar to the business operated by non-trading concern. It should do members centered business, community-based business serving and supporting the professions of members rather than focusing on profit. A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise (ICA, 1995). Co-operatives are an alternative that can alleviate the negative effect of laissez faire (Choi, 2010).

Concept of Performance



Source. Developed by Author from Various Sources of Information

Figure 1. Concept of Financial Performance

There are two types of performance financial and non-financial. Financial performance can be reflected through different items of the profit and loss account and balance sheet of the annual report such as: profit, total transaction, capital, general reserve etc. However, only one item, profit has been chosen for this study. There are many kinds of profit viz. operating profit, gross profit, net profit etc. Operating profit is the profit generated only from the activities and functions mentioned in the article of association (BINIYAM) of the savings and credit cooperatives. It is also of two types: operating profit before tax and operating profit after tax. Similarly, net profit comes from the gross profit and it is also divided into two types: net profit before tax and net profit after tax as shown in figure 1 above.

The concept of good governance: Since the early 1990s, the notion of good governance as necessary for sustainable development and poverty reduction has gained widespread currency, especially among international organizations, lenders and donors (Prasidenten & Projekte, 2004). The governance is complex and multi-faceted concept that is difficult to define in precise ways. There is still no clear-cut unanimity as to its meaning among them. The terms good governance has been defined in many ways but it lacks uniformity (Khawaja, 2011). Based on its etymology, governance refers to the steering or governing, or directing and controlling, a group of people or state (Tamayao, 2014).

The English word governance derives from Latin and ancient Greek and originally meant control, guidance and manipulation. Good governance is organically combined with democracy. Keping (2018) stated that legitimacy, transparency, accountability, rule of law, responsiveness and effectiveness are the six essentials to be good governance. Han and Hong (2018) found a significant positive association between accountability and organizational performance. Godfrey Wafula Munyasia (2016) found management assessment of SACCO governance has a significant effect on SACCO performance. The study concludes that managers are not fully assessing the performance of the SACCOS. Simkhada (2017) found 32 financial ratios under nine performance measurement dimensions and 25 self-governance related indicators are needed to assess the performance of financial cooperatives in Nepal and elsewhere. Chen, Haga & Fong (2016) found institutional legitimacy plays a positive role in organizational performance in emerging economies in Taiwan. Performance is the dependent variable of the study and the good governance is the independent variables. From the literature, it is also vivid that legitimacy, participation, professionalization, accountability and transparency are the five most important factors of the good governance that affect performance of the Nepalese cooperatives. Hypotheses have been set accordingly for each factor along with the confirmations and supports of each proposition with review of literature.

METHODOLOGY

The explanatory sequential design occurs in two distinct interactive phases. This design starts with the collection and analysis of quantitative data, which has the priority for addressing the research questions. This first phase is followed by the subsequent collection and analysis of qualitative data. The second qualitative phase of the study is designed so that it follows from the result of the first, quantitative phase. The researcher interprets how the qualitative results help to explain the initial quantitative results.

Sample distribution

Table 2. Population and Sample Size of Kathmandu District for Quantitative Approach

S.N.	Province	District	Population (N)	Sample (n)
1.	3	Kathmandu	2,997	430
		Less pilot tested		50
		Less Incomplete		7
		Less no response		20
		Net sample after adjustment (n)		353

Population and Sample Size of Kathmandu District for Qualitative Approach

Table 3. Population and Sample Size of Kathmandu District for Qualitative Approach

S.N.	Province	District	Population (N)	Sample (n)
1.	3	Kathmandu	2,997	10
		Net sample (n)		10

Source. Developed by Author from Various Sources of Information.

Model Specification: The econometric models employed in this study are to analyze the relationship between good governance and firm performance variables. The following regression model is used in this study to examine the empirical

relationship between the effects of good governance on firm performance of Nepalese cooperatives. Thus, the following model equation is designed to test the hypothesis. From the conceptual framework, the function of dependent variables (i.e. firm performance) takes the following form: More specifically, the given model has been segmented into the following models:

Model 1

$$Performance (ROA) = \alpha + \beta_1 L + \beta_2 P + \beta_3 PF + \beta_4 A + \beta_5 T + e$$

Analysis and findings of Quantitative Data:

Regression analysis and hypothesis testing: The linear regression analysis has been carried out to examine the net impact or relative importance of good governance on performance in case of Nepalese saving and credit cooperative. The results are presented in the table below. More specifically, Table 4 shows the linear regression results of legitimacy, participation, professionalization, accountability. *This result is based on primary data of 353 representatives from cooperatives with performance for the period of 2017/18 by using linear regression model. The model is: Performance (ROA) = $\alpha + \beta_1 L + \beta_2 P + \beta_3 PF + \beta_4 A + \beta_5 T + e$.*

Hypotheses Testing: Table 4.14 shows that the beta coefficient for legitimacy is negative showing that there is negative influence with the performance. Moreover, it is statistically not significant at 5 percent level of significance. The beta coefficient of participation is positive and significant at 5 percent level of significance. It shows that there is positive and significant influence between participation and the performance of the cooperatives in the study area. The beta coefficient of professionalization is negative and statistically not significant at 5 percent level of significance. It indicates that there is negative influence of professionalization on the performance of Nepalese cooperatives. Likewise, the beta coefficient of accountability is positive and statistically significant at 5 percent level. This indicates that there is positive and significant influence of accountability on the performance of Nepalese cooperatives. Similarly, the beta coefficient for transparency is positive and statistically significant at 5 percent level. Therefore, there is positive and significant influence between transparency and performance of Nepalese cooperatives.

The coefficient of determination (R-square) is 0.595 which shows that 59.5 percent of total variation in performance is explained by the change in independent variables such as legitimacy, participation, professionalization, accountability and transparency in the regression analysis. The adjusted R-square is 0.590 also verifies that 59 percent of total variation in performance is explained by the change in independent variables after adjusting the degree of freedom and number of independent variables. The F-statistics of the regression model is 102.147 which is statistically significant at 5 percent level of significance. It shows the overall significance of the regression results obtained in above model.

Analysis and Findings of Qualitative Data: As based on the information from the informants on cooperatives in Nepal as noted above, following are listed as the main causes for those factors that appeared insignificant including Cooperative act 2017 is not cooperative friendly,

Table 4. Results of Linear Regression of L, P, PF, A and T on dependent variable ROA

Variables	β	t-Value	P-Value	Level of Significance (5%)	Value
Legitimacy	-0.172	-1.754	0.080	0.05	-
Participation	0.605	5.908	0.000**	0.05	-
Professionalization	-0.207	-1.760	0.079	0.05	-
Accountability	0.635	5.950	0.000**	0.05	-
Transparency	0.875	11.157	0.000**	0.05	-
Constant	-5.468	-17.743	0.000	0.05	-
F-statistics			0.000**	0.05	102.147
R-square					0.595
Adjusted R-square					0.590
Standard Error of the Estimate (SEE)					0.97624

The Formula for Regression Equation Model (REM) is:
 ROA = -5.468 + 0.605 P + 0.635 A + 0.875 T + 0.97624

Note.

1. β = Beta Coefficient
2. The asterisk (**) sign indicates that the result is significant at 0.01 or 1% level of significance.
3. Dependent variable is ROA.

Table 5. Data Analysis Tool: Regression and Summary of its Results

Hypotheses (Individual)	Results
H _{1,1} : There is a statistically significant and direct influence of legitimacy on performance of cooperatives.	Rejected (0.08 > 0.05)
H _{1,2} : There is a statistically significant and direct influence of participation on performance of cooperatives.	Accepted (0.00 < 0.05)
H _{1,3} : There is a statistically significant and direct influence of professionalization on performance of cooperatives.	Rejected (0.07 > 0.05)
H _{1,4} : There is a statistically significant and direct influence of accountability on performance of cooperatives.	Accepted (0.00 < 0.05)
H _{1,5} : There is a statistically significant and direct influence of transparency on performance of cooperatives.	Accepted (0.00 < 0.05)
Hypotheses (Overall)	
H ₁ : There is a statistically significant and direct influence of good governance variables (legitimacy, participation, Professionalization, accountability and transparency) on performance of cooperative.	Accepted because F statistics is 102.147 and (0.00 < 0.05)

Source. Developed by Author from Various Sources of Information.

Professionalization does not work well in the context of Nepal, and the 3 variables participation, accountability and transparency work well and these are important in the context of Nepal. It is to summarize that good governance is the panacea for financial performance of Nepalese savings and credit cooperatives because participation, accountability and transparency are significant.

Merging both Quantitative and Qualitative Results: There is not a statistically significant relationship between legitimacy and financial performance (ROA) of the cooperatives because the cooperative act 2017 is not cooperative friendly. The act is not following the fourth international principle of cooperatives out of seven which is autonomy and independence. Many clauses and sub-clauses of the act should be amended in order to make it cooperatives friendly. However, there is a statistically significant relationship between participation and performance of the cooperatives. There is not a statistically significant relationship between professionalization and performance of the cooperatives because professionalization does not work well in the context of Nepal due to nepotism, favoritism and impunity systems in the cooperatives. On the other hand, there is a statistically significant relationship between accountability and performance of cooperatives. Similarly, there is a statistically significant relationship between transparency and performance of cooperatives. In overall, there is a statistically significant relationship between good governance variables (legitimacy, participation, professionalization, accountability and transparency) and financial performance (ROA) of cooperatives.

Research Discussion with Conclusion Model: From the findings after statistical tests (i.e. linear regression analysis), it is clear that there is positive and significant impact of good governance on performance of cooperatives of Nepal.

Therefore, the conceptual framework, that allowed to use good governance (i.e. legitimacy, participation, professionalization, accountability and transparency as H1, H2, H3, H4 and H5 respectively) as independent variables and performance of cooperative as dependent variable, has been confirmed. Hence, the conceptual framework does not need amendments. There is association between good governance and performance of cooperatives of Nepal which is further made clear in the following discussion:

Answer to the main research question: For the main research question, there is statistically significant influence of good governance on the financial performance of Nepalese cooperatives at 1% level of significance which corresponds with the finding of research as conducted by R. Dayanandan, 2013 in Ethiopia. As the F statistics is 102.147, it can be claimed that there is strong relationship of good governance with the financial performance of Nepalese cooperatives. Moreover, the overall model of performance with legitimacy, participation, professionalization, accountability and transparency also fits in context of Nepal. Legitimacy is the rule of law which covers proclamation by act, policy, rules and regulations, standards, bylaws and directives, values norms and principles of cooperatives. Similarly, participation is the involvement of members which includes general assembly, member size, and solidarity with voice, democracy, equity and equality. Likewise, professionalization incorporates predictability and proactivity, effectiveness and efficiency, resource utilization, strategic planning, and leadership. Correspondingly, accountability refers to liability and consequence, responsiveness, compensation, double responsibility and board-member relationship. Moreover, transparency indicates consensus and information, education and training, notice communication, reporting to authorities and combatting corruption.

National model of good governance in cooperatives (proposed): Five pillar of cooperative good governance model is proposed as shown in figure 3:

From the above figure it is clear that there are five pillars such as: 1) Legitimacy 2) Participation, 3) Professionalization, 4) Accountability and 5) Transparency. Of course, these are the selected five factors of good governance for the context of Nepal according to the opinion leaders. However, all of the five pillars are based on international values, norms, philosophy & principles of cooperatives. Honest execution of those five pillars leads to the better performance to savings and credit cooperatives of Nepal. Finally, the sincere practice and heartfelt implementation of the five pillars of good governance results in not only better performance but also golden formula for success. The major conclusion of this study is that good governance significantly associates with the performance of cooperatives in Nepal. Good governance is the single most important factor for cooperatives because there is statistically significant relationship between good governance and performance of the cooperatives. The integration of good governance in cooperative management intends to improve its service delivery methods. Legitimacy, participation, professionalization, accountability and transparency are the five indicators of governance that could be practiced in cooperatives of Nepal. However, only three pillars i.e., participation, accountability and transparency are the most important indicators of good governance because they are not only statistically positive but also significant at one percent level of significance. Remaining two factors (legitimacy and professionalization) do not work well statistically for the context of Nepal resulting into financial performance due to various reasons.

Linking the findings with the research objectives, only three variables participation, accountability and transparency have positive and significant association with the financial performance of the Nepalese cooperatives. After examination of the relationship with linear regression analysis, it is found that their beta coefficients are positive, and P-values are less than 0.05 only for the three variables participation, accountability and transparency. Therefore, the cooperatives willing to enhance their performance, should increase the participation, accountability and transparency respectively. They have to give first priority to three factors namely participation, accountability and transparency out of five factors because only three factors are significant. The conclusion of this study as stated also corresponds with the conclusion of a study on cooperatives by Dayanandan (2013) in Ethiopia. Moreover, this conclusion partly corresponds with the conclusion of another study by Acharya (2009) in Nepal which can be considered for external validity. Good governance, therefore, is very important for the sustainability of cooperatives for the reasons e.g.: to prevent fraud and mismanagement, promote sound decision making, avoid costly fine, create and maintain a positive corporate image, attract retain financing and investment. In this study, effort has been made to look into the management board and individual members' contribution in practicing governance issues and impacts of such practices on performance of cooperatives.

Contribution to Knowledge: First, this study confirms the findings of an empirical study in Ethiopia by Dayanandan (2013) that spells out associations between five variables e.g.

legitimacy, participation, professionalization, accountability, and transparency and performance of cooperatives. However, as this current study accepts only four variables namely participation, professionalization, accountability and transparency with performance of the cooperatives, this is presented as the first contribution to knowledge. Besides, as this current study doesn't show the variable e.g. legitimacy statistically associated with performance of cooperatives in context of Nepal, this finding is presented as contribution to new knowledge. Second, this study also contributes to policy knowledge. In this regard, the finding that there is a significant association between participation, accountability and transparency as the key variables of good governance and performance of the cooperatives, can be used as a reference point in formulating cooperative friendly policies, especially at local level governments in Nepal. Finally, this study contributes to knowledge concerning the major question of decision making process in the primary cooperatives in Kathmandu district that in various ways represent cooperatives of Nepal.

REFERENCES

- Acharya, B. M. 2009. Rural agricultural cooperative societies in Nepal: Performance and member participation (Doctoral dissertation). Kathmandu: Tribhuvan University.
- Chen, S.-T., Haga, K. A. and Fong, C. M. 2016. The effects of institutional legitimacy, social capital, and government relationship on clustered firms' performance in emerging economies. *Journal of Organizational Change Management*, 29 (4), 529-550.
- Christensen, T. and Lagreid, P. 2013. Performance and accountability- A theoretical discussion and an empirical assessment. *Uni Rokkan Centre, The Stein Rokkan Centre for Social Studies*, 23.
- Creswell, J. W. and Clark, V. L. 2011. *Designing and conducting mixed methods research*. California, USA: SAGE Publications, Inc.
- Dayanandan, R. (2013). Good Governance for better performance of community organizations - myths and realities !! *Journal of Power, Politics & Governance*, 1 (1), 12-24.
- Dayanandan, R. and Dagnachew, S. 2015. Good Governance Practice for Cooperative Development in Ethiopia ! How it works? *National conference on cooperative development in Ethiopia* (p. 2). Hawassa: Hawassa University.
- Jose, F., Ligerio, R., Alfonso, & Sanchez, V. 2012. Social legitimacy versus business performance in the environmental social responsibility policies of Andalusian golf courses. *Vision de Futuro Ano*, 9 (16), 1-5.
- Jyotsna, G. B. and Pankaj, M. 2013. Corporate governance practices, transparency and performance of Indian companies. *The IUP Journal of Corporate Governance*, XII (13), 72.
- Kantipur Daily 2019. Next cheating of cooperative. Directors fled by taking more than 240 Million. *Kantipur National Daily*, (1)16.
- Khatoon, N. 2014. *Employee participation and its impact on their performance*. 1-4.
- Moolhuijsen, L. 2011. The impact of legitimacy strategies on the performance of companies. *Utrecht University*,

- Faculty of Geosciences, Department of Innovation and Environmental Science*, 1-10.
- Mrope, N. P. 2017. The effect of professionalism on performance of procurement function in the public sector: Experience from the Tanzanian public entities. *Internatinal Journal of Business and Management Review*,5 (6), 48-59.
- Paudel, G. P. 2019. *Credit risk management in Nepalese cooperative societies*. Kathmandu: Aashish Paudel.
- Sharma, A. 2003. *A study of Hinduism*. South Carrolina: University of South Carolina Press.
- Statistics of Cooperative Enterprises 2018. New Baneshwor, Kathmandu: Government of Nepal, Ministry of Cooperative and Poverty Alleviation, Department of Cooperative.
- Yamane, T. 1967. *Statistics: An introductory analysis*. New York: Haper and Row.
