The Effect of Financial Risk on the Financial Performance of Cooperative Sectors in Nepal

A Dissertation submitted to the office of the dean, Faculty of Management in partial fulfillment of requirement for the Master's Degree

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "The Impact of Financial Risk on the Financial Performance of Cooperative Sectors in Nepal". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Ms. Puja Tamang has defended research proposal entitled **"The Effect of Financial Risk on the Financial Performance of Cooperative Sectors in Nepal"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asst. Prof. Bhoj Raj Ojha and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled **"The Effect of Financial Risk on the Financial Performance in the Cooperative Sectors in Nepal"** presented by Ms. Puja Tamang for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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Puja Tamang

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ABBREVIATIONS

CRA	:	Credit Risk Appraisal
CRC	:	Credit Risk Control
CRI	:	Credit Risk Identification
CRM	:	Credit Risk Monitoring
FP	:	Financial Performance
FRA	:	Financial Risk Analysis
FRI	:	Financial Risk Identification
FRM	:	Financial Risk Management
FRMI	:	Financial Risk Mitigation
IOFs	:	Investor Owned Firms
NSE	:	Nairobi Securities Exchange
ROA	:	Return on Assets
ROE	:	Return on Equity
SACCOs	:	Saving and Credit Cooperatives
SBP	:	State Bank of Pakistan
SMEs	:	Small and Medium Enterprises
SPB	:	Investment Decisions
SPSS	:	Statistical Package for the Social Sciences
VAR	:	Value at Risk

ABSTRACT

This study examines the effect of financial risk on the financial performance of cooperative sectors in Nepal**,** focusing on risk identification, analysis, monitoring, and mitigation. Using a descriptive and exploratory research design, data were collected via field survey in 2025 from 307 respondents engaged in Cooperative sectors. With a quantitative research design, data were collected from cooperative organizations to analyze the relationship between financial risk management practices and financial performance. The findings show that there is a significant positive correlation between financial risk management and financial performance, and the most effective of these are financial risk mitigation and monitoring. Regression analysis further implies that cooperatives that utilize formal risk management methods are more financially stable and profitable. Financial risk identification is not significantly impactful on performance by itself unless combined with good risk management practices. The findings support existing financial theory and highlight the importance of dynamic financial risk management in ensuring long-term sustainability. Based on the findings, recommendations are provided for cooperatives to adopt comprehensive risk management structures, improve financial governance, and enhance policy regulation to improve their financial performance. These findings have helpful implications for cooperative managers, policymakers, and financial institutions in Nepal.

Keywords: *Financial Risk Management, Cooperatives, Financial Performance, Risk Mitigation, Nepal, Regression Analysis*

CHAPTER – I
INTRODUCTION

1.1 Background of the Study

Cooperatives in Nepal have been fulfilling a very crucial function of advancing economic growth, financial access, and poverty reduction, particularly at the rural level. Such member-owned associations pool resources together to provide financial services such as savings and credit facilities to members, thereby improving community development and stability. Nevertheless, the financial health of the cooperatives primarily rests on prudent financial management strategies, specifically risk management.

Financial risk management entails identification, measurement, and reduction of potential financial uncertainty that could adversely affect the assets and earnings of an organization. In the context of Nepalese cooperatives, typical financial risks include credit default risk, leverage risk, liquidity risk, and investment risk. Based on a study carried out by Paudel (2022), typical risks were strongly associated with the governance frameworks of cooperatives, which means effective governance mechanisms are essential in managing financial weaknesses effectively. Paudel (2024) analyzes the financial performance of Nepalese cooperative societies in the aspects of leverage, liquidity, and risk management. Descriptive analysis, financial ratio analysis, correlation analysis, and regression analysis were employed, highlighting the requirement of managing liquidity and leverage to enhance profitability.

Transparency in cooperative societies is also a major cause of financial risk. Research indicates a strong correlation between transparency and the mitigation of financial risks such as credit default, leverage, and liquidity risks. For instance, Paudel (2023) found that greater transparency in finance reporting and operations is linked with lower financial risks, emphasizing the importance of openness and open communication channels in cooperatives. Transparency within cooperative societies is closely linked to financial risks

Despite the recognized importance of financial risk management, many Nepalese cooperatives lack effective risk management systems. This vulnerability often leads to

challenges in credit risk management, which is critical to the sustainability of such institutions. Bhusal (2023) emphasized that weak internal control systems and risk assessment processes may impact the financial performance of savings and credit cooperatives in Nepal in a negative manner. Closing this gap is central to making Nepalese cooperatives more sustainable and resilient. Good risk management not only safeguards the financial well-being of cooperatives but also their future capacity to play a role in local economic growth and community well-being. Through understanding and managing financial risks, cooperatives can enhance their stability, service delivery, and overall contribution to their communities.

Worldwide, studies have demonstrated the extent to which good financial risk management enhances the performance of cooperative societies. For instance, a study in Nairobi City County, Kenya, indicated that good liquidity, credit, and operating risk management practices enhance the financial performance of Savings and Credit Cooperative Societies (SACCOs) considerably (Mwaura & Njoka, 2020). Similarly, Indonesian studies explored the implementation of risk management in savings and loan cooperatives. The research was aiming to empirically analyze the effect of risk management practices on successful cooperative governance and overall performance. The research established that the use of holistic approaches to risk management had a positive effect on cooperative governance and performance (Sugiyanto & Rahaye, 2019).

This research seeks to fill the current research gap by presenting an in-depth examination of financial risks of Nepalese cooperatives and analyzing their existing risk management practices. By an in-depth analysis of these practices, the study will provide real-world recommendations for enhancing risk management practices and enhancing the financial health of Nepal's cooperatives.

The findings of this research will be useful for cooperative managers, policymakers, as well as financial institutions engaged in the cooperative movement. Through the adoption of the suggested strategies and resolution of the challenges identified, the stakeholders will improve the efficiency of financial risk management practices, which in turn will lead to the long-term success and sustainability of cooperatives in Nepal.

In summary, Nepal's cooperative sector is an integral part of the economic and social fabric of the nation. Its financial vulnerabilities, nonetheless, have to be handled meticulously and guided by informed interventions. This study aims to provide an in-depth understanding of these risks and offer practical recommendations to improve risk management practices to enable cooperatives to remain successful and play their important part in Nepalese society.

1.2 Problem Statement

Nepalese cooperative societies are vital in promoting economic development and financial inclusion, especially in rural areas. However, these cooperatives are not able to manage financial risks, which can adversely affect their sustainability and performance. It has been found through research that there is a significant relationship between financial risks such as credit default, leverage, and liquidity risks and the governance structures of the cooperatives. For instance, Paudel (2024) found that weak governance mechanisms tend to intensify such financial vulnerabilities, which reinforces the importance of powerful governance frameworks in mitigating risks effectively. Transparency of cooperative societies is also an important factor influencing financial risk.

Research has established that a lack of transparency is correlated with increased fiscal risks like defaults on credit and liquidity crises. Paudel (2023) indicated that enhancing transparency in financial transactions and reporting is fundamental to reduce the risks since such processes in obscure form tend to lead to financial mismanagement and instability. Although the significance of financial risk management and transparency has been recognized, the majority of Nepalese cooperatives do not have proper risk assessment systems, leaving them vulnerable to financial pressure and undermining their role in economic development.

The following are the research question of this study:

i. What is the role of financial risk management in enhancing the financial performance of cooperatives in Nepal?

ii. What is the relationship between financial risk management practices and the financial performance of cooperative societies in Nepal?
iii. How do financial risk identification, analysis, monitoring, and mitigation affect the financial performance of cooperative sectors in Nepal?

1.3 Objectives of the study

The specific objectives of this study are as follows:

i. To assess the role of financial risk management in enhancing the financial performance of Cooperatives in Nepal.
ii. To analyze the relationship between financial risk management practices and financial performance of cooperative societies in Nepal.
iii. To examine how financial risk identification, analysis, monitoring, and mitigation affect the financial performance of cooperative sectors in Nepal?

1.4 Rationale of the study

The cooperative stands out as a very important instrument for financial inclusion, particularly on the community development aspects of Nepalese rural and unserved segments of the society. Cooperatives are meant to and capable of playing their role in making available many necessary services, thus often contributing hugely to the local economies. However, their effectiveness is often undermined by inadequate financial risk management practices, which can compromise their stability and sustainability. Addressing these issues is crucial to ensuring that cooperatives can continue to effectively serve their communities and fulfill their important role.

Secondly, the financial risk landscape for Nepalese cooperatives is complex and presents various challenges. Cooperatives face multiple types of financial risks, including credit risk, market risk, liquidity risk, and operational risk. These risks are compounded by the limited resources and basic financial management tools available to many cooperatives. A detailed understanding of these risks and an evaluation of current risk management practices are essential for identifying gaps and improving the financial stability of cooperatives. This is

especially important given the economic volatility and political instability in Nepal, which further exacerbate the financial risks faced by these organizations.

Thirdly, there is a notable gap in empirical research focused specifically on financial risk management within the context of Nepalese cooperatives. Much of the existing research either addresses broader macroeconomic issues or focuses on cooperatives in other regions. This leaves a significant gap in understanding the specific risk management challenges and practices within Nepal. By addressing this gap, the study aims to provide a comprehensive analysis of the financial risks faced by Nepalese cooperatives and evaluate their risk management strategies. This research is essential for developing targeted recommendations that can enhance the resilience and effectiveness of these organizations.

Furthermore, examining risk management practices from other countries with similar socio-economic contexts can offer valuable insights and best practices that might be adapted to the Nepalese context. By learning from international experiences, this study can provide practical recommendations and strategies that may improve the risk management frameworks of Nepalese cooperatives. This comparative approach can help identify innovative solutions and successful practices that have been effective elsewhere, contributing to more robust and effective financial management in Nepal.

Overall, this study is significant because it addresses a critical issue affecting the stability and effectiveness of a key sector in Nepal's economy. By focusing on financial risk management, it aims to enhance the operational stability of cooperatives, improve their financial health, and strengthen their role in community development. The insights and recommendations derived from this research will be valuable for cooperative managers, policymakers, and other stakeholders, contributing to the long-term sustainability and impact of cooperatives in Nepal.

1.5 Limitations of the study

i. The study relied on primary data, which may be subject to respondent biases and inaccuracies in self-reported information.

ii. The findings may not be applicable to regions or contexts outside the scope of this research.
iii. This study is based on 307 respondents as sample size.
iv. This study has employed descriptive and causal comparative research design.
v. The analysis is based on results obtained from correlation analysis and regression analysis models which may have constraints related to model assumptions and data interpretation.

Chapter-II

Literature Review

2.1 Conceptual Review

A literature review is a critical and comprehensive analysis of existing research on a particular topic, aiming to summarize, evaluate, and synthesize the current state of knowledge. It involves systematically collecting and reviewing scholarly articles, books, and other relevant sources to provide an overview of key theories, findings, and methodologies. The purpose of a literature review is to establish the background for new research by drawing attention to what are already known, highlighting gaps or inconsistencies in the current knowledge, and indicating directions for further investigation. By assessing the strengths and limitations of previous studies, a literature review helps to build a foundation for new research, ensuring that it is informed by and contributes to the existing body of knowledge.

2.1.1 Introduction of Cooperative sectors

Cooperatives are autonomous associations of individuals who voluntarily unite to satisfy their common economic, social, and cultural needs through democratically controlled and jointly owned businesses. Cooperatives are distinct from traditional businesses that seek to maximize profits in that cooperatives prioritize member well-being and growth and are founded on values of self-help, self-responsibility, democracy, equality, equity, and solidarity (Novkovic, 2006).

The origins of the modern cooperative movement are traced to 19th-century Europe, with the establishment of the Rochdale Society of Equitable Pioneers in 1844. This group of weavers in Rochdale, England, sought to improve their economic conditions by purchasing goods at lower prices in bulk, laying the foundation for modern cooperative principles (Nilsson, 1996). Their success led to the expansion of cooperatives into many sectors, including agriculture, retail, and finance.

Cooperatives operate on seven internationally accepted principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among

cooperatives; and concern for community (Stocki & Hough, 2016). These principles assist cooperatives in maintaining economic viability without sacrificing social responsibility by including members in the decision-making process.

Globally, cooperatives have been flexible and resilient, performing a fundamental role in economic development and social cohesion. Cooperatives empower individuals and communities by promoting inclusive growth, building local entrepreneurship, and enhancing access to essential services. In numerous countries, cooperatives have had commanding positions in agriculture, banking, housing, and health, demonstrating their adaptability and ongoing relevance.

2.1.2 Development of Co-operatives sectors in Nepal

The cooperative movement in Nepalese has a deep history, driven by the noble goal of uplifting the socio-economic status of impoverished rural individuals. Nepal's rich tradition of promoting cooperation can be observed in various traditional practices such as Parm, Dhikuti, Manka Khal, Dharma Bhakari, etc. The history of modern cooperatives in Nepal is dated back to 1957 when the Bakhanpur saving and credit cooperative committee was established in Chitwan. As of mid-March 2023, sixty-six years after its establishment, the cooperative movement has registered phenomenal growth. The share capital amassed was 94.15 billion rupees, and the total deposits amounted to 478.03 billion rupees and the cooperatives had extended a total 426.35 billion rupees in loans to their members. This not only provided direct employment to 93,771 individuals but also provided numerous indirect employment opportunities. The scale of this movement is astounding, with 7,381,218 members being active members of 31,373 cooperative societies (Economic, 2023). This expansion reflects the significant contribution of the cooperative sector in Nepal's economic structure, as it serves a crucial function in advancing financial inclusion and sustainable development.

During the 1990s and early 2000s, the cooperative sector in Nepal experienced immense growth with increasing awareness of cooperatives as a solution to rural financial exclusion. Credit cooperatives, in particular, became universally prevalent as an alternative to traditional banking for the underserved. These cooperatives provided

members with simple financial services such as savings accounts, loans, and insurance, which reduced the reliance on informal moneylenders (Poudel, 2022). As a result, cooperatives were instrumental in improving the economic well-being of rural communities, promoting entrepreneurship, and facilitating the development of local infrastructure.

However, while they initially experienced success, cooperatives in Nepal have not been without issues, especially regarding governance, financial sustainability, and operational efficiency. Ineffective technical competence in financial management and weak internal controls has been chronic problems, leading to misappropriation of funds and, in some cases, the collapse of cooperatives (Khanal, 2023). Hitherto, political stability and spasmodic implementation of policies have also arrested the growth of the sector in a way that cooperatives cannot get the type of capital and assistance required to grow. It has underscored the necessity for regulation and improved managerial practices to entrench the long-term sustainability of the cooperatives.

In recent years, there has been increased focus on developing the capacity of Nepal's cooperative sector, better financial risk management, and enhanced regulatory oversight. Government initiatives, such as the establishment of the Department of Cooperatives, have played a critical role in reaching out with technical assistance and making the environment more favorable for cooperatives to thrive. Moreover, international organizations have also played significant roles through financial and technical support, which has helped cooperatives to modernize their operations and implement improved financial management practices (Poudel, 2024). The development of the cooperative movement in Nepal, despite being plagued by issues, continues to be a vital part of Nepal's socio-economic growth with ongoing efforts to establish stronger and financially sound institutions.

2.1.3 Financial performance of cooperatives

Financial management practices play a significant role in shaping the performance of cooperative organizations. Effective financial management, including prudent budgeting, financial planning, and internal controls, has been linked with improved

financial performance in cooperatives. Ineffective financial management practices, however, can lead to inefficiencies and financial instability (Sofoluwe at el., 2024).

The financial performance of cooperatives is particularly difficult to gauge due to the varying forms and objectives of such cooperatives in relation to typical investor-owned firms (IOFs). Typical measures of financial performance such as return on equity (ROE) and return on assets (ROA) cannot be said to accurately represent the performance of a cooperative since the latter does not account for the cost of members' equity when providing support for operations. Secondly, cooperatives lack stock market valuations, a factor that renders comparisons with IOFs in terms of finances even more difficult (Singh at el., 2019). Profit distribution policies have a key bearing on the finances of cooperatives. The majority of cooperatives generate equity from retained earnings; hence, decisions on profit retention or distribution have consequences for their development and finance sustainability. Balancing short-term member returns with long-term capital accumulation is essential to guaranteeing cooperative sustainability (Bond, 2009).

Research on the financial performance of cooperatives has been investigated in recent studies in specific contexts. For instance, a review of savings and loan cooperatives indicated that the solvency ratio, presented in terms of debt-to-equity and times interest earned ratios, indicated good financial health. However, activity ratios, including inventory turnover, indicated areas of improvement. Profitability measures, including ROA and ROE, indicated positive performance, highlighting the importance of continuous financial monitoring and strategic management (Hamsyah at el., 2023).

In summary, measurement of cooperatives' financial performance is a sophisticated process that takes their unique nature into account. While standard financial measures provide meaningful insights, they must be conditioned so that they reflect the special nature of the cooperative model. The use of effective financial management practices

and judicious profit sharing strategies is essential to enhance the financial sustainability and success of cooperatives.

2.1.4 Types of Financial Risk faced by Cooperatives sectors

Financial risk is the likelihood of losing money or other negative financial effect due to various factors affecting an organization's business, investments, or financial decisions. It encompasses uncertainties related to market movements, credit worthiness, liquidity, and operating effectiveness. Financial risk can arise from external sources, like changes in economic conditions or regulatory environments, or even internal sources, like management decisions and operating procedures. Successful financial risk management entails their identification, assessment, and reduction to safeguard the financial well-being of the organization and facilitate sustainable growth. Financial risk refers to the potential loss of money or encountering negative financial consequences as a result of numerous elements that have the potential to influence an organization's finances.

Credit Risk

Credit risk is the potential for loss if a borrower fails or is unable to meet the terms of a loan or credit agreement. It is the risk that a borrower, whether an individual, business, or institution, will not pay a debt, causing financial loss to the creditor or lender. Credit risk is particularly a concern given that such institutions provide loans to members, many of whom may have limited financial stability. Management of credit risk involves assessment of creditworthiness of the borrowers, establishing appropriate loan terms, and establishing mechanisms to mitigate defaulting, e.g., collateral or insurance (Olawale, 2016). Credit risk management is very important for maintaining the financial health as well as viability of cooperative institutions.

Liquidity Risk

Liquidity risk encompasses the possibility of an institution or an individual not being able to finance its short-term financial requirements by a lack of liquid resources or inability to readily convert assets into cash without sacrificing significant quantities of these resources. This kind of risk is realized whenever an organization faces a

mismatch in its short-term obligations and working capital or liquid resources. For financial cooperatives, liquidity risk is essential because a lack of liquid assets can

lead to the inability to meet withdrawal demands from members or to fund operations (Muriithi, 2016).

Market Risk

Market risk is the risk of financial loss due to fluctuations in the market value of assets, e.g., interest rates, stock prices, or commodity prices. It is the risk that fluctuations in market conditions, e.g., volatility or economic downturns, will adversely impact the financial performance of an organization. In cooperatives, market risk may be brought about by interest rate changes that affect lending and borrowing activities, or by the movement of prices of goods and services that are dealt with by cooperatives. Market risk is typically managed through hedging or diversification techniques to minimize potential losses (Oluwafemi at el., 2014).

Operational Risk

Operational risk refers to the risk of loss due to malfunctions or deficits in an organization's people, systems, processes, or external occurrences. Operational risk is induced by human errors, system collapse, fraud, or natural calamities and affects the cooperative's ability to run smoothly. Effective operational risk management is required to ensure cooperatives' stability and continuity through activities such as enacting good internal controls, training employees, and planning for contingencies (Pashchenko at el., 2023).

2.1.5 Impact of Risk Management on Financial Performance

Risk management is a formal risk identification, risk assessment, and ranking of the risks followed by an attempt to reduce or minimize the likelihood and size of such risks. In cooperatives, common types of risks insured include credit risk, liquidity risk, market risk, and operational risk. Risk management best practices reduce financial uncertainty and keep the institution stable and growing, resulting in better financial performance (Poudel, 2023).

Risk management systems are also significant in the financial performance of cooperatives. Cooperatives can identify potential risks and bypass them through effective risk management systems. It is a matter of striking a balance between

avoiding risks and taking risk, which helps cooperatives achieve sufficient profitability while sustaining sustainability (Mlawasi, 2022). For example, a cooperative with credit risk management by scrutinizing borrower profiles and sufficient collateral will be able to reduce defaults and thus ensure stable cash flows and improve its financial performance.

The risk management and financial performance relationship is also underscored by the Risk-Return Tradeoff principle, which states that investments or activities with higher risks usually have a possibility of higher returns, but naturally, higher losses as well. Effective risk management helps to make logical decisions about taking what risks and not. Through effective management of risk and return, cooperatives can improve profitability while not losing sight of the sustainability of their long-term survival (Madembu at el., 2016). Ineffective management of risk, however, translates to colossal losses of funds and capital exhaustion, consequently negatively affecting Enterprises' financial performance.

Furthermore, internal controls and corporate governance of the firm are also critical aspects of effective risk management, particularly in cooperative businesses. Agency theory dictates that cooperative managers (agents) and members (principals) must be strictly controlled to avoid conflict of interest and ensure decisions are being made for the good of the cooperative. Good governance structures and transparent internal control structures ensure that operating risks, fraud, and mismanagement are minimized, all of which can have a significant effect on financial performance (Lelgo & Obwogi, 2018). Therefore, cooperatives with better risk management and governance structures will have better financial performance compared to those with poor internal controls and governance.

In conclusion, the conceptual link between financial performance and risk management in cooperatives establishes that efficient risk management is important towards long-run financial well-being and profitability. The incorporation of good risk management practice alerts cooperatives to financial uncertainty, risk-return maximization, and safeguarding from financial sickness for maintaining beneficial finances.

2.2 Theoretical Review

A theoretical review is a structured examination of existing theories and models relevant to a particular research topic. It involves analyzing, comparing, and synthesizing theoretical perspectives that provide a foundation for understanding a study's subject matter. Unlike a literature review, which focuses on empirical findings and previous research studies, a theoretical review delves into the conceptual frameworks and principles that guide research in a given field.

2.2.1 Principles of Financial Risk Management

Financial risk management involves identifying, assessing, and mitigating risks that can adversely affect an organization's financial health. Here are the key principles:

Risk Identification

Risk identification is the foundational step in financial risk management, where organizations systematically pinpoint potential financial threats they may face. This requires appreciating diverse categories of risks including market risk (shocks in asset values), credit risk (defaulting by borrowers), liquidity risk (unsustainability in funding short-term obligations), and operational risk (defaults in internal activities) (Lagat & Tenai, 2017). By fully comprehending these risks, businesses can anticipate and respond more effectively to financial uncertainty.

Risk Assessment and Measurement

Once the risks are determined, the organizations must identify and measure them so that they know their potential effect and opportunity. These include quantitative techniques and instruments, like Value at Risk (VaR), which provides an approximate loss in value under normal market conditions, and stress tests, which investigates the impact that unfavorable market conditions would have on financial well-being (Wanjohi, 2013). Through the measurement of risks, companies are able to prioritize their response and better direct resources towards evading those that present the highest threat to them.

Risk Mitigation Strategies

In order to manage the risks that have been discovered and analyzed, organizations develop risk mitigation strategies that work to decrease the occurrence of injury from adverse events. The methods may include diversification, whereby investments are spread across different assets to ensure exposure to a specific risk is limited, and hedging, whereby financial instruments such as options or futures are used to decrease the occurrence of loss (Hopkin, 2018). Effective mitigation renders an organization immune to monetary shocks such that it will be stable.

Risk Monitoring and Reporting

Ongoing risk reporting and monitoring are critical components of effective risk management. The firms must continuously review their risk exposures and changes in the risk environment to respond beforehand. Having clear reporting channels helps ensure there is ongoing reporting of the risk situation to the stakeholders so that they can be alerted to threats and organizational risk management measures. This assists in instilling accountability and enhancing decision-making (Dionne, 2013).

Establishing a Risk Management Framework

A robust risk management structure is required to infuse risk management into the organizational structure. This involves the creation of well-specified policies and procedures in alignment with the objectives of the organization and defining the particular roles and responsibilities of risk management drills. A well-written structure will assist in ensuring uniformity in tackling risks and that all individuals at all organizational levels know his/her role in handling the risks (Hopkin, 2018).

Regular Review and Improvement

Regular review and improvements in the risk management methods are essential to stay abreast of changing market requirements and emerging risk exposures. There must be established feedback mechanisms that enable learning from previous activities, success or failure, to modify their game plan accordingly. This process will make risk management up-to-date and relevant in tackling newer problems as and when they arise (Jorion, 2021).

2.3 Empirical Review

Poudel (2024)) aimed to map and evaluate research about Cooperatives in Nepal, with huge interest in key aspects related to liquidity, leverage, and risk management, will be vital in understanding the ways in which these organizations maintain and operate their financial activities. The study will account for certain indicators of financial performance, including return on assets, net profit margin, net interest margin, and return on equity. Essentially, these provide insight into how well a co-operative is managing the set resources and reaping a profit. Descriptive analysis, financial ratio analysis, correlation analysis, and regression analysis: The present research methodology will show the findings in a strong way to outline the financial scenario of the studied cooperatives in a very reliable and informational way. The sample contains about 10% of the total number of cooperatives in Kathmandu District, and both primary and secondary data will be used. This is nonetheless done with care to ensure that the results can be representative of the broader cooperative sector in the region. Among the key findings is critical importance regarding leverage and liquidity management. The study evidences that the two factors have a big implication for the profitability of the societies; this would mean that improvements in their management lead to increased financial performance. It also provides insight into optimum leveraging and liquidity strategies, hence providing a sort of guide on how cooperatives can strategically ensure the optimization of their financial performances and long-term sustainability.

Olga at el, (2023) aimed to take a closer look at one of the most significant parts of modern business management, underlining the importance of financial risk management nowadays. They want to stress creative approaches to managing the risk but not reducing it as such-a common mistake when looking at the concept from the point of a wrong angle. The major objective of the research is to ensure that in management, business decisions are taken with full understanding of risks involved. The authors argue that risk management should not solely focus on minimizing risks but should also involve making informed decisions that consider potential risks. The authors employ a systematic approach to risk management, which includes identifying, analyzing, and prioritizing risks. They propose a structured process that

involves assessing financial risks, developing criteria for decision-making, and implementing methods to mitigate risks. The current paper is based on a methodology supported by many kinds of analytical methods that include the estimation of the probability and influence of financial risks. From the study, financial security regarding risk management is critical to enterprises. According to the authors, financial risks have emerged through various factors such as economic conditions and business decisions. They emphasize the establishment of internal financial rules and organizational mechanisms to handle the risks appropriately. This paper concludes that a well-organized risk management process will surely provide more strength to an enterprise for overcoming uncertainties in its attempts to reach its financial objectives.

Omedo and Wanjala (2023), established the influence of financial risk management strategies, including foreign exchange, liquidity, market, and credit risk management, on the financial performance of logistics companies in the Counties of Kilifi and Mombasa. The researchers used a cross-sectional research design targeting 132 logistics companies with structured questionnaires to collect primary data. Data analysis was done using SPSS version 26. The major findings are that all four financial risk management strategies have a significant impact on the financial performance of logistics companies. In particular, foreign exchange risk management was with the correlation of r=0.140 (p=0.003), liquidity risk management - with r=0.128 (p=0.008), market risk management - with r=0.112 (p=0.007), and credit risk management - with r=0.201 (p=0.004). Also, it was realized that such strategies contribute to the enhancement of the financial performance of the organizations with the following significant beta coefficients: foreign exchange β=0.127, t=2.037, p=0.044; liquidity β=0.218, t=2.741, p=0.007; market β=0.173, t=3.045, p=0.003; and credit risk management β=0.173, t=3.045, p=0.003.

Mlawasi, (2022) conducted a study aiming to explore the effects of various financial risks, namely credit risk, liquidity risk, market risk, and investment risk, on the profit persistence of deposit-taking savings and credit cooperatives in Kenya. The study also sought to determine the moderating

effect of operational efficiency on the financial risk-profit persistence relationship. This was a descriptive study and focused on the census of 174 deposit-taking SACCOs recorded by the Sacco Societies Regulatory Authority as of 2022. The secondary data used in this study were acquired from the audited financial statements of the cooperatives. Among these, the main results showed that credit risk and liquidity risk were negatively and significantly associated with profit persistence with β=-0.0224311, p=0.000 and β=-0.0522383, p=0.001, respectively, while market risk was positively and significantly associated with profit persistence with β=0.0305016, p=0.025, and investment risk impeded profit persistence with β=-0.0811061, p=0.040. The study also found that the operational efficiency significantly moderates the nexus between financial risk and profit persistence, implying that good management practices are critical in ensuring the financial stability of SACCOs in Kenya.

Davydenko and Karbivskyi (2022) investigated a study aiming to understanding and analyses of risk functions while developing the financial potential that occurs with functioning and the after-effects that would attach with agro-industrial activities. The authors tried to provide a rationale for why effective risk management can enhance the financial potential of agricultural enterprises and how one can manage these risks effectively. The authors applied an integrated approach, including analyses of available literature on the subject of risk management, the diagnostics of risks, and the elaboration of a strategic framework of managing financial potential. They used all kinds of analyses, simulation modeling, and cluster analysis to identify the influence of different factors of risk on agricultural enterprises. The study revealed that agricultural enterprises are subject to certain risks, such as seasonality and climatic factors, which significantly affect their financial potential. To this end, the authors made a conclusion that with the help of effective risk management strategies, these risks can be minimized and profitability enhanced. They underlined that a strategic map of development of financial potential must integrate risk management into the general business strategy. Besides, the study showed that a differentiation between financial and non-financial risks should be done, and stated that an inclusion of financial

instruments and technologies may develop risk management practices in agriculture. The research findings presented contribute to the cognition of how risk management can serve as the ground for the sustainable development of financial potential in business entities, especially in agriculture.

Omwenga at el.(2022) aimed to identify and analyze how financial risk management practices impact the financial performance of commercial banks operating in Nairobi County, Kenya. In this respect, the researchers used a descriptive research design based on secondary data obtained from annual reports of the 44 licensed commercial banks in the region for a period ranging from 2014 to 2019. Regression models were employed for analyzing the relationship between financial risk management and financial performance measured by ROA. The major findings showed that financial performance and financial risk management were significantly related, and most importantly, the NPLR had a strong correlation with ROA. In contrast, both cash to deposit ratio and current ratio exhibited a weak correlation with ROA. The study concluded that the effective management of financial risks is critical to improving the profitability of banks. It was recommended that banks develop strategies that minimize risks and manage dividends effectively in order to maximize profits.

Njoka et al. (2020) conducted to investigate the relationship between financial risk management and performance of Savings and Credit Cooperative Societies (SACCOs) in Nairobi City County, Kenya. The main objective of the study was to establish the effect of financial risk management on the financial performance of SACCOs. This study sought to establish how different aspects of financial risk management-liquidity risk management, credit risk management, and operational risk management-relate to the performance of such cooperative societies. The researchers applied a causal research design in a target population consisting of 41 licensed SACCOs in Nairobi. They obtained secondary data from the financial reports provided on the website of SASRA for the period 2014-2018. They analyzed the data using inferential statistics: correlation and regression analysis between the

financial risk management indicators and performance indicators, which are ROA and interest payout ratios. The relationship was positive and significant, as evidenced between financial risk management and the performance of SACCOs. More importantly, liquidity risk management, credit risk management, and operational risk management had a positive association with the level of financial performance. Regression analysis explained about 61.8% of the variation in financial performance through financial risk management, the strongest being the influence of liquidity risk management, having a beta of.549 and a p-value of.007, followed by the influence of operational risk management, with a beta of.581 and p-value of.004, followed lastly by credit risk management with a beta of.465 and a p-value of.002.

Sugiyanto (2019) examine the implementation of risk management and its influence on good governance and success of the cooperative. The main objective was to identify the role of risk management in savings and loan cooperatives and to empirically test its effects on good cooperative governance and overall cooperative success. In turn, the research design used is a descriptive quantitative analysis with saturation sampling and has a population of 73 comprising cooperative board members, supervisors, managers, and administrators; through the use of survey methodologies involving questionnaires and a structured interview. The key findings showed that there existed two classes of risks found, which were the minor ones, including credit and strategic risks, and the insignificant ones, which comprised of market, liquidity, operational, legal, reputation, and compliance risks. It was remarkably found that the implementation of risk management did not directly affect the success of a cooperative, though it influenced good cooperative governance to a positive effect leading to the success of the cooperative. This is to say that risk management indirectly influences the success of a cooperative through good governance as an intervening variable.

Ahmed et al. (2019) conducted a study to find out the various effects brought about by different aspects, such as identification, analysis, monitoring, and mitigation of risk arising in financial risk management in regard to the financial performance of SMEs in the region. The study design used was a

cross-sectional survey research, targeting a population of 2,657 SMEs in Hirshabelle State. Stratified sampling ensured representation across different strata, and the sample size obtained was 348 respondents. First, the researchers conducted a pilot study with 10% of the respondents who were not in the final analysis. Cronbach's Alpha has been used for the purpose of enhancing reliability, with a target above 0.7. In regard to data analysis, descriptive statistics and multiple regressions were computed through SPSS version 23. The results have come out to be that good financial risk management practices increase the chances of improvement in the SMEs' financial performance because for betterment in its financial outcome, techniques for risk identification, analysis, monitoring, and mitigation are involved.

Satyamoorthi at el. (2019) conducted to determine the impact of financial risk management practices on the financial performance of commercial banks in Botswana. A panel data approach was adopted for this study, drawn from 2011 to 2018, using secondary data sourced on a monthly basis from the Bank of Botswana Financial Statistics database. For this study, a total of 96 observations were analyzed using descriptive statistics, correlation, and regression analyses to interpret the data. Major findings were that interest rates had a negative and significant effect on both return on assets and return on equity, but total debt to total assets had a negative though insignificant effect on return on assets and a positive insignificant effect on return on equity. Also, loan deposit ratio had a negative and significant effect on the two financial performance metrics. The study, therefore, concluded that banks should strike a balance in financial risk management practices and its financial performance to ensure profit while managing the risks adequately.

Gill et al (2018), investigated the intention to analyze the perceived association of financial risk management with financial performance beliefs of the owners of small businesses in the service and manufacturing sectors of India. In conducting the research for this paper, the study adopted a survey method targeted at small business owners in seeking information about perceptions related to financial risk management and how it influences performance in their business. The key findings were that perceived valuation of financial risk management has a positive

association with small business owners' beliefs on their financial performance. Meanwhile, the study also documented that new small business ventures whose internal financing sources were ample postured somewhat stronger in financial performance compared with other types of new small business ventures. This research develops considerable insights into the existing body of literature on financial risk management and its consequences in respect of the performance of a new small business venture, besides adding practical implications for the use of financial managers, owners of businesses, and generally every industry stakeholder.

Kibera and Muturi (2018) investigated the effect of financial risk management on financial performance of firms listed in the Nairobi Securities Exchange. The general objective of this study was to establish the effect of financial risk management on the financial performance of firms listed at the Nairobi Securities Exchange. In this regard, the researchers tried to find out how different financial risk management strategies, such as asset structuring management and risk avoidance practices, influence the financial performance of the firms listed at the NSE. This study adopted a descriptive research design and a target population that consisted of all chief financial officers of the 61 listed firms in the NSE. A census survey was used, where the primary data was collected using a semi-structured questionnaire. Data analysis was done using SPSS 23, and the descriptive statistics are presented as frequencies, percentages, means, and standard deviation, while the inferential statistics were presented as regression model summaries and correlation coefficients. The findings indicated that the association between financial risk management strategies and financial performance was positive and significant, given an R^2 of 0.205. Precisely, the study established that asset structuring management and risk avoidance practices have a positive and significant influence on financial performance. The study concluded that proper asset structuring management practices may boost the performance of a firm on the stock exchange, and that risk avoidance practices may have a positive impact on the financial profitability of listed firms.

Wanjohi et al. (2017) draw much attention to a very important field of financial risk management, which they consider crucial for business

management in contemporary conditions. The main goal of the study was to analyze how financial risk management affects the financial performance of commercial banks in Kenya. The researchers aimed to establish a clear link between the practices of managing financial risks and the banks' ability to generate profits. The study utilized a descriptive research design, which is a method that provides a detailed account of the characteristics of a particular group or situation. Data was collected through a self-administered questionnaire distributed to staff in various commercial banks, allowing the researchers to gather firsthand information about risk management practices. Additionally, secondary data was obtained from the Central Bank of Kenya's reports to support the findings. The study revealed a strong positive correlation between effective financial risk management practices and the financial performance of commercial banks in Kenya. It was found that risk measurement practices had the most significant impact on financial performance, followed closely by risk mitigation practices. Overall, the findings suggest that banks that invest in robust risk management strategies are likely to perform better financially, reinforcing the need for continuous improvement in these areas

Iqbal at el. (2017) aimed to assess the effect of risk management practices on the financial performance of banks in Pakistan. The paper has used a mixed methodology for the collection of primary data through an adopted questionnaire and for secondary data pertaining to all the different firms listed in the Security Exchange Commission website or State Bank of Pakistan (SBP) for the time period 2011-2015. The major findings were that CRI, CRA, and CRC had a positive relationship with ROA, while CRM demonstrated a negative association with ROA. Besides, CRI, CRA, and CRM were positively related to ROE, while CRC was negatively associated with ROE. The study concludes that effective credit risk management, particularly focusing on CRI, is very important to enhance the financial performance of the banking sector in Pakistan.

Noor and Abdalla (2014) aimed to map and evaluate how financial risks impact the performance of the firm. In specific perspectives, the impacts of credit risk, liquidity risk, market risk, and foreign exchange rate risk will be put into consideration towards firm performance. The paper has adopted a literature review approach in order to assess the current knowledge of

financial risks and their consequences on firm performance. The paper discusses various financial risks, including credit risk, liquidity risk, and foreign exchange risk, and their implications for firms, especially within the perspective of the Kenyan economy. The results show that financial risks substantially affect the performance of the firm. The study, therefore, indicates that firms operating within developed economies use different instruments in managing financial risks, and the same may not be the case by firms operating within the developing world's economies, such as Kenya. In addition, this research relates risk to return, insinuating that one of the key benefits financial risks management presents to any firm is its better performance.

Table 1

Summary of Empirical Review

Authors	Title	Objectives	Methodology	Findings
Poudel (2024)	Financial Performance of Cooperative sectors in Nepal	Financial performance of Cooperatives sectors in Nepal.	Financial ratio analysis, correlation analysis, and regression analysis.	Financial management practices, which can enhance the sustainability and resilience.
Pashchenko at el. (2023)	Financial Risk Management	To ensure that business decisions are made with a full understanding of the risks involved.	Systematic approach to risk management, including identifying, analyzing, and prioritizing risks.	A well-organized risk management process strengthens enterprises, helping them overcome uncertainties.

Omedo and Wanjala (2023)	Influence of financial risk management on the financial performance of logistics companies in the coastal region.	To determine the effect of financial risk management strategies on the financial performance of logistics companies.	Structured questionnaires and data analyzed using SPSS version 26.	Foreign exchange risk, liquidity risk, market risk & credit risk management significantly affects financial performance.
Mlawasi (2022)	Financial Risk and Profit Persistence of Deposit-Taking Savings and Credit Cooperatives in Kenya.	The study aimed to determine the moderating effect of operational efficiency on the financial risk-profit persistence relationship.	Secondary data were acquired from the audited financial statements of the cooperatives.	Operational efficiency significantly moderates the relationship between financial risk and profit persistence.
Davydenko & Karbivskyi (2022)	Risk management as a ground for Development of Business Entities Financial Potential.	To analyze the role of risk management in enhancing the financial potential.	Simulation modeling, and cluster analysis.	The study identifies that effective risk management strategies can minimize these risks and enhance profitability.
Omwenga at el. (2022)	Effect of financial risk management on the financial performance of commercial banks in Nairobi County.	To analyze the effect of financial risk management on the financial performance of commercial banks in Nairobi County.	Descriptive research design using secondary data from annual reports and multiple regression analysis was employed.	The non-performing loans ratio has a strong correlation with ROA, while cash to deposit ratio and current ratio have a weak correlation with ROA.

Mwaura and Njoka (2020)	Financial Risk Management and Performance of Savings and Credit Cooperative Societies in Nairobi City County, Kenya	To assess the influence of financial risk management on the financial performance.	Data was analyzed using inferential statistics, correlation and regression analysis.	Each component of financial risk management positively influenced financial performance.
Sugiyanto at el. (2019)	The implementation of risk management and its effect on good cooperative governance and success.	To identify the role of risk management and to empirically test its effects on good cooperative governance and cooperative success.	Data collection was conducted through surveys that included questionnaires and structured interviews.	The study found that while the implementation of risk management does not directly influence the success of a cooperative.
Ahmed et al. (2019)	Effect of financial risk management on financial performance of small and medium enterprises in Hirshabelle State-Somalia.	To study the effect of financial risk identification on financial performance of SMEs in Hirshabelle State-Somalia.	Cross-sectional survey research design, stratified sampling technique for representation and data analyzed using SPSS version 23.	Key aspects such as risk identification, analysis, monitoring, and mitigation are crucial for better financial outcomes.
Satyamoorthi at el. (2019)	Financial Risk Management Practices on Financial Performance: Evidence from Commercial Banks in Botswana.	To examine the impact of financial risk management practices on the financial performance of commercial banks in Botswana.	Data analysis involved descriptive statistics, correlation, and regression analyses.	The study suggested that banks should balance financial risk management practices with financial performance to ensure profitability and safety.

Gill et al. (2018)	Financial risk management and financial performance of new small business ventures: evidence from Indian survey data.	To examine the perceived association between financial risk management and the financial performance.	Survey-based design, Literature review and analysis.	The study found a positive relationship between the perceived valuation of financial risk management and their financial performance.
Kibera and Muturi (2018)	Effect of Financial Risk Management on Financial Performance of Firms Listed in the Nairobi Securities Exchange.	The study aimed to explore how various financial risk management strategies influence the financial performance of these firms.	Semi-structured questionnaire to collect primary data from the CFOs.	Risk avoidance practices could positively impact the financial profitability of listed firms.
Wanjohi et al. (2017)	The effect of Financial Risk Management on the Financial Performance of Commercial Bonksin, Kenya.	To establish the effect of financial risk management on the financial performance of commercial banks in Kenya.	A systematic approach to risk management, including risk identification, analysis, and prioritization.	Risk measurement practices had the most substantial impact on financial performance, followed by risk mitigation practices.
Iqbal et al. (2017)	The Impact of Risk Management on Financial Performance of Banking Sector in Pakistan.	To examine the effect of risk management practices on the performance of the banking	Primary data was collected via an adopted questionnaire, and secondary data.	Emphasis on the importance of CRI for enhancing financial performance in

		sector in Pakistan.		the banking sector in Pakistan.
Noor and Abdalla (2014)	The Impact of Financial Risks on the Firms' Performance.	The main objective is to analyze the effects of financial risks on a firm's performance	The study utilizes a literature review approach.	The study reveals that while firms in developed economies use various instruments to manage financial risks, firms in developing economies like Kenya may not fully utilize these tools.

2.4 Research Gap

Financial risk management is a critical factor in enhancing financial performance of cooperative sectors, yet there are extensive research gaps with regard to how each individual risk management component such as financial risk identification, financial risk analysis, financial risk monitoring, and financial risk mitigation contributes to financial performance separately and cumulatively. Past studies have well covered risk management in banks and large financial institutions, but little research has been done in the cooperative sector, particularly in developing economies like Nepal (Poudel, 2023).

Cooperatives are defined by unique financial systems that primarily rely on member input and local action, and their risk exposure is therefore unique compared to traditional financial institutions. However, there is limited empirical evidence on the process of how cooperatives identify financial risks systematically and whether their

processes of identifying risks prevent financial instability effectively. Increased understanding of how cooperatives identify and classify financial risks can help in developing evidence-based interventions to improve financial sustainability.

The second important gap is the observation and study of financial risk in cooperatives. While sensitivity analysis and stress testing are common risk analysis tools applied in corporate finance, their application in cooperatives is hardly researched (Mwaura & Njoka, 2020). Cooperatives lack systematic methods for studying the impact of financial risk on their performance, which suggests reactive risk management strategies rather than proactive ones. In addition, financial risk monitoring is a continuous process that enables timely reactions to changing financial circumstances, but there are few empirical studies on the use of structured monitoring systems by cooperatives. Without systematic monitoring, cooperatives may not be able to identify emerging risks, and thus incur financial inefficiencies and increased exposure to market uncertainties. Limited studies conducted on risk monitoring and analysis of financial matters within cooperatives leave a gap within the process of creating evidence-based risk management policy specifically for the industry.

Furthermore, financial risk mitigation strategies are necessary to reduce adverse financial impacts, but little is understood about their effectiveness in cooperatives. Risk mitigation techniques such as diversification, hedging, and insurance are common in corporate finance, but they have not been widely studied for application in cooperative organizations (Sugiyanto at el., 2021). Most of these cooperatives lack good access to advanced tools for reducing risk in local markets, and their ability to withstand financial shocks is suspect. Additionally, the direct relation between reducing financial risk and financial performance in cooperatives is a research area that has been underexplored, and therefore best risk reduction practice is difficult to achieve. Filling these research gaps is critical to creating holistic financial risk management frameworks that improve the financial performance of cooperatives and make them sustainable in the long term.

CHAPTER – III
RESEARCH METHODOLOGY

Research methodology is the systematic process and procedures used by researchers to conduct a study and gather data to answer research questions or test hypotheses. It involves specifying the research design, data collection methods, and data analysis techniques to ensure that the study is conducted in an orderly and logical fashion. The methodology specifies the structure of the entire research process, including the gathering, analysis, and interpretation of data. It guides the researcher in choosing between qualitative, quantitative, or mixed methods, depending on the nature of the research problem and goals.

Research methodology also includes elements such as the sampling process, upholding ethics, and validity and reliability of the study. Research methodology aids researchers in affirming the credibility of findings as well as that the conclusions attained are grounded in quality evidence. Essentially, research methodology is a blueprint that signifies how a study will be set up, implemented, and measured to ensure that the research product is reliable as well as substantial.

3.1 Research Design

The study will utilize both qualitative and quantitative study methods for the provision of a detailed explanation of financial risk management in Nepalese cooperatives. This is because the qualitative method permits a proper understanding of the intricate forces influencing financial risks within cooperatives, and statistical verification of the established relationships through the quantitative method.

3.2 Population and Sample, and Sampling Design

The population of the study will be cooperatives operating in Nepal, multipurpose cooperatives, agricultural cooperatives, savings and credit cooperatives (SACCOs), and consumer cooperatives. These sectors are significant to the Nepalese economy,

and their financial health significantly impacts the national as well as the local economy. The survey has aimed at 307 respondents using purposive sampling so that research participants would at least be familiar with cooperative sectors. The size of the sample was 307 valid questionnaires, with each respondent giving answer on four independent variables and one dependent variable (financial performance). The questionnaire contains five questions per variable, and the data was gathered using a Likert scale, starting from Strongly Agree, Agree, Neutral, Disagree, to Strongly Disagree. Sample size estimation was done in order to calculate a representative sample size when the population is unknown using Cochran's 1977 formula.

3.3 Nature and Sources of Data, and the Instrument of Data Collection

The study has focused on the impact of financial risk management on the financial performance of Cooperatives Sectors in Nepal, utilizing primary data through questionnaires. The data in this study is gathered from primary sources utilizing a structured questionnaire survey approach. Previous studies and discussion with supervisors and senior researchers have guided the formulation of the questionnaire, hence making it significant and all-encompassing. Participants in the survey were asked to indicate their level of agreement with the statements regarding the financial risk management impact on the financial performance by choosing a five-point Likert scale from strongly disagree to strongly agree. The Likert points have been assigned numbers and the scores range from 1 to 5 for strongly disagree and strongly agree, respectively.

3.4 Method of Analysis

After the data collection was completed, the data collection has been imported into statistical software packages such as Microsoft Excel and SPSS Version 25 for analysis. Several statistical tools were put into practice in the process of data analysis: descriptive statistics summarizing the main characteristics of the dataset, correlation analysis describing the relationship between variables, and multivariate regression models used to appraise the impact of financial risk management on the financial performance of cooperative sectors in Nepal.

3.4.1 Descriptive Statistics

Descriptive statistics are used to summarize and describe the most important features of a dataset. In the case of this study, descriptive statistics will help provide an overview of the financial risk management practices and the financial performance measures of Nepalese cooperatives. The objective is to minimize and organize large amounts of data into meaningful patterns. They provide simple descriptions of the sample and the measures, offering information about patterns and trends in the data. Some examples of descriptive statistics include measures of central tendency (i.e., mean, median, and mode) and measures of variability (i.e., range, variance, and standard deviation). The following are the findings from the descriptive statistics:

Arithmetic Mean

Arithmetic mean is a central tendency measure that indicates the average value of a sequence of numbers. It is calculated by summing all the values within a dataset and then dividing the sum total by the number of values in the dataset. The arithmetic mean provides one number that indicates the overall data and is often used in many different disciplines, such as statistics, economics, and finance.

The formula for the arithmetic mean is as follows:

Arithmetic mean ($\bar{x}$) = $\frac{\sum x}{n}$

Where,

n = Total number of values in the dataset

$\sum x$= Sum of all values in the dataset

Standard Deviation

Standard deviation is a statistical measure that indicates the amount of variation or dispersion of a set of data. It quantifies the amount by which individual data deviate from the mean (average) of the data set. A low standard deviation indicates that the data points are close to the mean, while a high standard deviation indicates that the data points are scattered across a larger range of values. The formula for the Standard deviation is as follows:

Standard deviation (σ) = $\sqrt{\frac{\sum(x-\bar{x})^2}{N-1}}$

Where,

x Represents each individual data point in the dataset

$\bar{x}$ Represents the mean (average) of the dataset

N is the total number of data points in the dataset

3.4.2 Inferential statistics

Inferential statistics is that part of statistics where one makes conclusions or inferences about a population based on a sample. Unlike descriptive statistics, which describes characteristics of a data set, inferential statistics uses probability theory to predict or generalize about the entire group-the population-based on a smaller group or sample of data. Inferential statistics quantifies relationship and causation between independent variables and the dependent variable. The following are the findings from the inferential statistics:

Correlation Analysis

Correlation analysis is a statistical method used to measure the direction and strength of the relationship between two or more variables. It is used to determine if an increase or a fall in one variable accompanies an increase or a fall in another variable. Correlation analysis provides a correlation coefficient, which indicates how closely the variables correlate. Correlation coefficient is a number ranging from -1 to 1 that describes both the direction and strength of two-variable relationships. A +1 correlation coefficient indicates a perfect positive relationship (when one variable increases, the other does too, proportionally). There's a correlation coefficient of -1 if there's an ideal negative relationship (and one variable is increasing when the other falls proportionally). There's a correlation coefficient of 0 if there's no linear association between variables.

The Pearson correlation coefficient (r) is calculated using the formula:

$$r = \frac{n(\sum XY) - (\sum X)(\sum Y)}{\sqrt{[n(\sum X^2) - (\sum X)^2][n(\sum Y^2) - (\sum Y)^2]}}$$

Where;

n = the number of data pairs

$\sum XY$ = the sum of the product of each pair of scores

$\sum X$ And $\sum Y$ = the sums of X and Y scores respectively

Regression Analysis

Regression analysis is a statistical method used to examine and model the relationship between a dependent variable and one or more independent variables. The primary goal is to predict the dependent variable or understand how the independent variables influence it. In simple linear regression, this relationship is represented by a straight line, expressed in the form of an equation: Y=β0+β1X+∈Y = \beta_0 + \beta_1X + \epsilonY=β0+β1X+∈, where YYY is the dependent variable, XXX is the independent variable, and β0\beta_0β0 and β1\beta_1β1 are coefficients that represent the intercept and slope, respectively. In multiple regression, this principle applies to more than one independent variable. Regression analysis is widely applied in many fields such as business, economics, medicine, and social sciences to predict and measure the strength and type of relationship between variables. It requires linearity, independence of the errors, homoscedasticity, and normality of residuals. The performance of the model is typically quantified using measures like R2R^2R2 (coefficient of determination) and p-values, which indicate the predictors' significance. Regression helps to recognize patterns, make predictions for the future, and inform decisions by fitting the model into the data.

Modal Specification

The regression analysis was adopted for this study with the equation of form: The model provided a statistical technique for estimating the relationship between the financial risk management and the financial performance of the cooperatives.

Y=α+b1X1+b2X2+b3X3+b4X4+ ε

Where:

α =constant/the interception point of the regression line and the y-axis

b1, b2…..b5 are the coefficients of the independent variables that will be determined.

Y=Financial Performance (dependent variables)

X1= Financial Risk Identification

X2= Financial Risk Analysis

X3= Financial Risk Mitigation.

X4= Financial Risk Monitoring.

E = Error term

The independent variables X1, X2…… X4 were operationalized and measured using the questions posted in the questionnaire.

3.5 Research Framework and Definition of Variables

At the research framework and definition of variables section, using the research framework, it has been explained which one is independent and dependent variables. All variables are being properly defined. Under this system, financial risk identification, financial risk analysis, financial risk mitigation and financial risk monitoring are independent variables, while financial performance is dependent variable.

The research framework of this study has been presented in the following figure:

Independent Variables **Dependent Variable**

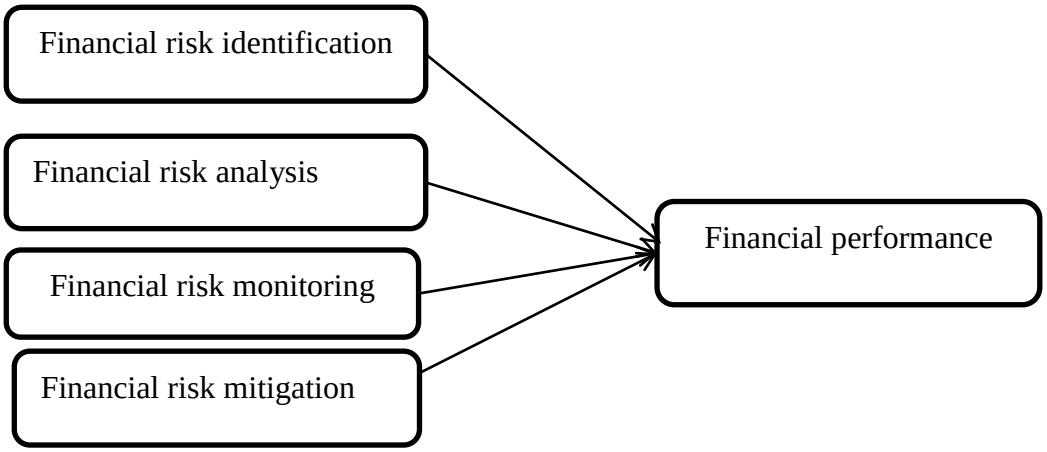

Figure 1

Research Framework

Modified From

(Source: Ahmed at el., 2019)

Dependent variables

Financial Performance

Financial performance refers to the measurement of the financial health of an organization or business, usually quantified in relation to a number of financial factors and metrics. It is a report of the extent to which a business has managed its finances

and resources successfully, and plays a crucial role in establishing its profitability, solidity, and development potential. Financial Performance is the dependent variable employed in this study, which refers to the financial outcomes derived from the operations of an organization, generally measured in terms of profitability, liquidity, solvency, and growth. The financial indicators are significant to assess the general health and sustainability of cooperatives. Profitability is usually measured using indicators like Return on Assets (ROA) and Return on Equity (ROE), while liquidity ratios like the current ratio indicate an organization's ability to meet its short-term obligations. Solvency is measured using ratios like the debt-to-equity ratio, which indicates the long-term financial well-being of the cooperative (Poudel, 2023). Financial performance is usually a function of a mix of various internal and external determinants, whereas sound financial risk management practices are commonly associated with improved financial performance by minimizing weaknesses and making better decisions.

Independent Variables

Financial risk identification

Financial risk identification is the act of discovering and categorizing the various forms of prospective risks that can impact the financial performance and wellbeing of an organization. These risks are either internal or external and may include credit risk, liquidity risk, operating risk, market risk, and interest rate risk. Discovery in advance allows organizations to assess their potential impact and make plans to neutralize them. For instance, credit risk can be applied to define the likelihood that borrowers will fail to repay loans, while liquidity risk is the risk of failure to meet short-term financial obligations on the basis of poor cash flow. Accurate identification of risks is core in preparing organizations to manage uncertainties and protect their financial health (Ahmed at el., 2019). The ability to accurately measure financial risks is a key part of effective risk management and a key component in achieving long-term financial sustainability.

Financial risk analysis

Financial risk analysis involves quantifying the probability and likely impact of identified financial risks on an organization's financial performance and stability. Financial risk analysis allows organizations to quantify risk exposures in money terms

and target risk management efforts. Financial risk analysis would typically utilize qualitative and quantitative approaches to examine different risk scenarios. Quantitative methods, for example, sensitivity analysis or statistical models, help estimate likely financial losses and measure risk (Ganegoda & Evans, 2014). Common risks analyzed are credit risk, operational risk, market risk, and liquidity risk. For example, Value at Risk (VaR) is widely used to measure market risk by determining the likely loss in value of an asset or portfolio over a given time horizon for a given confidence level. The aim of financial risk analysis is to support decision-making and enable organizations to take proactive measures to minimize adverse financial outcomes to ensure long-term stability.

Financial risk monitoring

Financial risk monitoring is the ongoing process of watching, analyzing, and scrutinizing the risks to which an organization is subjected with a view to ensuring that risk management strategies remain effective and responsive to changing circumstances. It involves reviewing the risk environment from time to time, evaluating the performance of risk mitigation strategies, and adjusting strategies where necessary to counter emerging risks or shifts in prevailing risk determinants. Effective financial risk monitoring typically entails using key risk indicators (KRIs), early warning systems, and financial reporting systems to detect the change in the level of risks, such as increasing credit risk or liquidity stresses (Sugiyanto, 2019). By closely monitoring financial risks, organizations are able to address risks preemptively prior to their escalation into crises, hence ensuring financial stability and minimizing potential losses. This is a process that is required for maintaining alignment with short-term and long-term financial goals.

Financial risk mitigation

Financial risk mitigation involves taking steps and measures to reduce or eliminate the negative effect of financial risks on a business. Financial risk mitigation aims to reduce exposure to credit risk, market risk, liquidity risk, and operational risk. Normal risk-reduction methods include diversification, through which investments are diversified across several assets or sectors to reduce the impact of one failure; hedging, through which financial instruments such as options or futures are employed to offset future losses; and insurance, through which financial protection against

specific types of risks is provided (Wanjohi, 2013). Risk reserves may also be established by organizations to protect against unexpected loss or economic fluctuations, thereby enhancing financial stability. Effective risk management helps firms safeguard their bottom lines by ensuring long-term sustainability and sparing them from risks before they turn into catastrophic losses (Tcankova, 2002).

CHAPTER – IV
RESULTS AND DISSCUSSION

This chapter has presented the results and discussion of primary data collected through a questionnaire to analyze key research questions. This study adopted the Likert scale in the collection and analysis of financial risk management practices. It used a 5-point scale for computing means and standard deviations to that effect computed. Presentation was done through tables, and appropriate explanations were made in prose. Results on financial performance for the cooperatives were presented in a table with a brief explanation. Regression analysis with correlation analysis is used to measure the effects of financial risk management on the financial performance. The chapter is concluded with a short interpretation of the findings.

4.1 Results

This section represents the results of the descriptive study, the correlation analysis, and the regression analysis through tables and in detail. Descriptive statistics have provided an overview of the distribution of data and pointed out the main tendencies and variations within the data. The correlation analysis was pursued to see how these independent variables were associated with each other, that is to say, financial risk identification, financial risk analysis, financial risk monitoring, and financial risk mitigation on one hand and the dependent variable, financial performance on the other. This was followed by a regression analysis which indicated how the various independent variables have collectively and individually affected the financial performance in the Nepalese cooperative sectors.

A. Respondent's demographic profile

The demographic profile of the respondents and the analysis and interpretation of the primary data acquired through questionnaires are discussed here. It has provided information about the demographic features of the respondents being studied. The information in the respondents' profile was on Gender, Education Qualification, Occupation, Membership duration, and types of cooperatives.

Table 2

Gender Specification of Respondents

Options	Frequency	Percent
Male	191	62.21
Female	116	37.79
Total	307	100.0

(Sources: Field Survey, 2025)

Out of the total 307 respondents, 191 (62.2%) are male and 116 (37.8%) are female, indicating that membership in the cooperatives is male-dominated. With higher male participation, the presence of 116 female respondents reflects an important female contribution to cooperative activities, pointing toward a growing trend of female participation in cooperative sectors.

Table 3

Educational Qualification of Respondents

Options	Frequency	Percent
Primary School	39	12.7
High School	98	31.92
Bachelor Degree	86	28.01
Master Degree	49	15.96
Others	35	11.4
Total	307	100.0

(Sources: Field Survey, 2025)

Table 3 depicts the educational background of the respondents. Out of the total 307, 39 or 12.7% have completed their Primary School, while 49 or 15.96% have completed Bachelor Degree. A major group comprises 98 or 31.92% who have completed their High school, followed by 86 or 28.01% who have completed their Bachelor's degree. Another 35 or 11.4% fall into the "Others" category. The more concentrated the membership of bachelor's or master's degree holders, the more sophisticated the financial management practices. Adding a mix of lower levels of

education to the mix provides further value by means of local knowledge and participation.

Table 4

Occupation Description of Respondents

Options	Frequency	Percent
Cooperative Member	146	47.56
Cooperative Manager/Staff	71	23.13
Self Employed	71	23.13
Student	16	5.21
Others	3	0.97
Total	307	100.0

(Sources: Field Survey, 2025)

Table 4 details the occupational status of the respondents in the study. Of the 307 participants, 146 (47.56%) are cooperative member, while 71 (23.13%) are cooperative manager/staff. Same as, 71 respondents (23.13%) are Self Employed, and 16 individuals (5.21%) are students. Another 3 or 0.97% fall into the "Others" category. These facts show how varied the occupation backgrounds of respondents in this regard could be-that is, an adequately big deal with active involvement in cooperative fields.

Table 5

Years of Membership of Respondents

Options	Frequency	Percent
Less than 1 years	7	2.28
1-3 years	118	38.44
4-6 years	117	38.11
7-10 years	59	19.22
More than 10 years	6	1.95
Total	307	100.0

(Sources: Field Survey, 2025)

Table 5 shows duration of member of the cooperative. Out of 307 participants, 7 individuals (2.28%) have member for less than 1 year, while 118 respondents (38.44%) have member for 1 to 3 years. Those with an investment duration of 4 to 6 years total 117 (38.11%), and 59 individuals (19.22%) have invested for 7 to 10 years. Finally, 6 respondents (1.95%) have member for over 10 years.

Table 6

Types of Cooperatives of Respondents

Options	Frequency	Percent
Saving and Credit Cooperative	147	47.8
Agricultural Cooperative	50	16.3
Consumer Cooperative	37	12.1
Multipurpose Cooperative	63	20.5
Others	10	3.3
Total	307	100.0

(Sources: Field Survey, 2025)

Table 6 illustrated the types of cooperatives of respondent. Out of 307 participants, 147 (47.8%) are saving and credit cooperative, while 50 (16.3%) are Agricultural Cooperative. Additionally, 37 respondents (12.1%) are Consumer Cooperative, and 63 (20.5%) are Multipurpose Cooperative. Another 10 or 3.3% fall into the "Others" category.

B. Descriptive Analysis

In this section, descriptive statistics have been conducted to analyze the overall summary of key factors, including financial risk identification (FRI), financial risk analysis (FRA), financial risk monitoring (FRM), financial risk mitigation (FRMI), and financial performance (FP). This analysis provides valuable insights into how these independent variables influence financial performance of cooperative sectors in Nepal.

Table 7

Descriptive Analysis of Financial Risk Identification

Scale Items of Financial Risk Identification	Mean	S.D.
I am aware of the common financial risks in my industry.	3.93	0.459
Our current financial risk identification practices are effective.	3.95	0.418
We regularly review and update our risk management practices.	4.00	0.443
The tools or software we use for identifying and managing financial risks are satisfactory.	4.04	0.487
We have experienced financial losses due to unidentified risks in the past.	4.59	0.549

(Source: SPSS Version 25)

Table 7 presents descriptive analysis for the scale items related to Financial Risk Identification. With a mean score of 3.93, respondents express a strong awareness of the common financial risks in their industry. The effectiveness of current risk identification practices is also acknowledged with a score of 3.95, suggesting that participants feel their efforts are largely successful. Regular reviews and updates of risk management practices are confirmed, as indicated by a mean score of 4.00, demonstrating that respondents prioritize keeping their practices current. The tools and software used for managing risks also receive a positive evaluation, scoring 4.04, though with slightly more variation in responses, as indicated by a standard deviation of 0.487. However, despite these generally favorable responses, the statement about experiencing financial losses due to unidentified risks is notably higher, with a mean score of 4.59, reflecting that some cooperatives have indeed faced financial setbacks due to overlooked risks. This highlights the need for further improvement in the identification and mitigation of potential financial risks.

Table 8

Descriptive Analysis of Financial Risk Analysis

Scale Items of Financial Risk Analysis	Mean	S.D.
Our organization is effective in identifying potential financial risks.	3.99	0.255
We have a systematic process for assessing the impact of identified financial risks.	3.14	0.479
Our strategies for mitigating financial risks are adequate and effective.	4.58	0.574
We regularly monitor and review our financial risk management practices.	4.54	0.549
Effective financial risk management positively impacts our organization's financial performance.	4.61	0.552

(Source: SPSS Version 25)

With a mean score of 3.99, respondents feel their organization is effective in identifying potential financial risks, indicating a strong awareness of potential threats. However, the score of 3.14 for having a systematic process to assess the impact of identified risks suggests that this aspect may be weaker, with some respondents indicating less confidence in their assessment processes. On the other hand, the strategies for mitigating financial risks are seen as highly adequate and effective, reflected in a high mean score of 4.58. Additionally, the organization's regular monitoring and review of risk management practices, scoring 4.54, indicates a strong commitment to ongoing risk oversight. Finally, the statement about the positive impact of effective financial risk management on the organization's financial performance received the highest score of 4.61, showing that respondents believe robust risk management practices significantly contribute to financial success. Overall, while most areas are rated positively, the need for a more systematic approach to risk assessment stands out as an area for potential improvement.

Table 9

Descriptive Analysis of Financial Risk Monitoring

Scale Items of Financial Risk Monitoring	Mean	S.D.
Our cooperative continuously monitors financial risks.	3.99	0.328
Risk monitoring tools and technologies are effectively used in our cooperative.	3.18	0.513
There are regular risk assessment reports generated in our cooperative.	4.63	0.587
The management team actively engages in monitoring financial risks.	4.51	0.591
Financial risks identified during monitoring are promptly addressed.	4.55	0.542

(Source: SPSS Version 25)

With an average rating of 3.99 and a low standard deviation of 0.328, it's evident that continuous monitoring of financial risks is a priority for your cooperative. The effectiveness of the risk monitoring tools and technologies, although rated slightly lower at 3.18 with a standard deviation of 0.513, indicates room for improvement but still highlights a solid foundation in place. The regular generation of risk assessment reports, scoring an impressive 4.63 with a standard deviation of 0.587, emphasizes the cooperative's commitment to staying informed about potential risks. The active engagement of the management team in monitoring financial risks, with a rating of 4.51 and a standard deviation of 0.591, shows strong leadership involvement. Lastly, the prompt addressing of identified financial risks, rated at 4.55 with a standard deviation of 0.542, demonstrates the cooperative's effective response mechanisms. Overall, your cooperative showcases a comprehensive and diligent approach to financial risk monitoring, ensuring a well-managed financial environment.

Table 10

Descriptive Analysis of Financial Risk Mitigation

Scale Items of Financial Risk Mitigation	Mean	S.D.
Our cooperative has effective risk mitigation strategies in place.	3.96	0.311
We regularly review and update our risk mitigation policies.	3.07	0.341
The cooperative invests in diversification to mitigate financial risks.	4.63	0.583
Insurance is utilized as a key risk mitigation tool in our cooperative.	4.57	0.564
Our cooperative has a contingency plan for potential financial risks.	4.52	0.538

(Source: SPSS Version 25)

Table 10 provides a detailed descriptive analysis of how Financial Risk Mitigation significantly influences financial performance. With an average rating of 3.96 and a low standard deviation of 0.311, it is clear that effective risk mitigation strategies are in place, providing a solid foundation for financial stability. The regular review and update of risk mitigation policies, although rated slightly lower at 3.07 with a standard deviation of 0.341, suggests that there is ongoing attention to ensuring these policies remain relevant and effective. The cooperative's investment in diversification as a risk mitigation strategy, scoring an impressive 4.63 with a standard deviation of 0.583, indicates a strong commitment to spreading risk across various assets or ventures. The utilization of insurance as a key risk mitigation tool, with a rating of 4.57 and a standard deviation of 0.564, underscores the importance placed on transferring risk to external entities. Finally, the cooperative's contingency plan for potential financial risks, rated at 4.52 with a standard deviation of 0.538, demonstrates preparedness for unforeseen financial challenges. Overall, cooperative's comprehensive and proactive risk mitigation strategies contribute to a well-managed and resilient financial environment.

Table 11

Descriptive Analysis of Financial Performance

Scale Items of Financial Performance	Mean	S.D.
Our organization has experienced consistent revenue growth over the past five years.	4.02	0.374
We have achieved our annual revenue targets consistently.	3.10	0.365
Our profit margins have improved over the past five years.	4.62	0.567
Our cost management practices have contributed to improved financial performance.	4.59	0.560
Our financial performance is well-positioned for future growth and success.	4.54	0.555

(Source: SPSS Version 25)

Respondents were further asked to indicate level of agreement with the various variables related to financial performance. With an average rating of 4.02 and a standard deviation of 0.374, it's evident that your organization has experienced consistent revenue growth, indicating a stable and sustainable financial foundation. Although the achievement of annual revenue targets is slightly lower at 3.10 with a standard deviation of 0.365, it still reflects a commendable level of consistency. The improvement in profit margins, rated at an impressive 4.62 with a standard deviation of 0.567, highlights the effectiveness of your strategies in enhancing profitability. Furthermore, the high rating of 4.59 with a standard deviation of 0.560 for cost management practices underscores their significant contribution to improved financial performance. Lastly, the rating of 4.54 with a standard deviation of 0.555 for the organization's financial positioning for future growth and success indicates a well-managed and forward-looking approach. Overall, organization demonstrates robust financial performance, paving the way for continued success and growth.

Table 12

Summary of Descriptive Analysis for All Variables

Code	Variables	Mean	S.D.
FRI	Financial Risk Identification	4.1029	0.31450
FRA	Financial Risk Analysis	4.1707	0.31817
FRM	Financial Risk Monitoring	4.1726	0.33844
FRMI	Financial Risk Mitigation	4.1402	0.33140
FP	Financial Performance	4.1752	0.32364

(Source: SPSS Version 25)

The descriptive analysis for all variables in cooperative sectors paints a comprehensive picture of a well-structured and effective financial risk management system, which in turn positively influences financial performance. Starting with Financial Risk Identification (FRI) which has a mean score of 4.1029 and a standard deviation of 0.31450, it is evident that the cooperative excels in identifying potential financial risks accurately and consistently. Financial Risk Analysis (FRA) shows an average rating of 4.1707 with a standard deviation of 0.31817, indicating a thorough and methodical approach in assessing and understanding these risks. Financial Risk Monitoring (FRM), with a mean score of 4.1726 and a standard deviation of 0.33844, highlights the cooperative's commitment to continually overseeing financial risks, ensuring that any issues are promptly detected and addressed. Financial Risk Mitigation (FRMI) demonstrates a proactive approach with an average score of 4.1402 and a standard deviation of 0.33140, reflecting the cooperative's efficiency in implementing strategies to minimize risks. Lastly, Financial Performance (FP), with a remarkable mean score of 4.1752 and a standard deviation of 0.32364, showcases the success and stability of the cooperative's financial outcomes. Overall, these variables collectively illustrate a well-coordinated financial risk management framework that substantially contributes to the cooperative's robust financial health.

C. Inferential Statistics

Inferential statistics help us understand the relationship between financial risk management and financial performance in Nepal’s cooperative sector. By using techniques correlation and regression analysis, we can determine whether better

financial risk management leads to improved financial performance. If the results show a strong positive relationship, it means that cooperatives with better risk identification, analysis, monitoring, and mitigation tend to perform better financially.

Correlation Analysis

In this section, correlation analysis has been employed to examine the impact of financial risk management on the financial performance of Cooperative sectors in Nepal. This technique aims to uncover the inherent relationships among these variables in the context of financial performance. Karl Pearson's correlation method has been applied using SPSS version 25, and the results have presented in Table 13.

Table 13

Correlation Matrix

Variables		FRI	FRA	FRM	FRMI	FP
FRI	Pearson Correlation	1				
	Sig. (2-tailed)					
FRA	Pearson Correlation	.248**	1			
	Sig. (2-tailed)	0.000				
FRM	Pearson Correlation	.211**	.556**	1		
	Sig. (2-tailed)	0.000	0.000			
FRMI	Pearson Correlation	.255**	.534**	.634**	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
FP	Pearson Correlation	.240**	.539**	.639**	.623**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

(Source: SPSS Version 25)

Table 13 presents the correlation between financial risk identification (FRI), financial risk analysis (FRA), financial risk monitoring (FRM), financial risk monitoring (FRMI), and the dependent variable, which is financial performance (FP). Financial risk monitoring (FRM) and financial performance (FP) have the strongest correlation (r = 0.639), highlighting the critical role of risk management in improving financial

outcomes. Financial risk analysis (FRA) is moderately correlated with financial performance (r = 0.539), indicating that organizations that assess risks effectively tend to perform better. Financial risk mitigation (FRMI) is also strongly linked to financial performance (r = 0.623), reinforcing the importance of proactive strategies in handling financial risks. Overall, financial risk identification (FRI) have the weakest correlations with other variables, suggesting that simply identifying financial risks is not enough—effective analysis, monitoring, and mitigation play a larger role in enhancing financial performance.

Regression Analysis

Regression analysis is a powerful statistical method used to examine the relationship between one dependent variable and one or more independent variables. In this study, multiple regression analysis evaluates the impact of financial risk management on the financial performance in the cooperative sectors in Nepal. The results are presented below.

Table 14

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.715[a]	0.512	0.505	0.22763

a. Predictors: (Constant),), FRI, FRA, FRM, FRMI

b. Dependent variable: Financial Performance (FP)

Table 14 presents the model summary of the regression analysis for predicting financial performance (FP). The model has an R value of 0.715, indicating a strong positive correlation between the predictors and the dependent variable. The R Square (0.512) shows that 51.2% of the variation in the dependent variable is explained by the independent variables, demonstrating a moderate-to-strong model fit. The Adjusted R Square (0.505) accounts for the number of predictors and adjusts for potential over fitting, slightly lower than R Square but still indicating a reliable model. The Standard Error of the Estimate (0.22763) represents the average deviation of actual data points from the predicted regression line, showing that the model's

predictions are relatively accurate. While the model captures a significant portion of the variation, 48.8% remains unexplained, suggesting that incorporating additional relevant variables could further improve its predictive power.

Table 15

Analysis of Variance (ANOVA[a])

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.404	4	4.101	79.149	0.000[b]
	Residual	15.648	302	0.052		
	Total	32.052	306			

a. Dependent variable: Financial Performance (FP)

b. Predictors: (Constant), FRI, FRA, FRM, FRMI

The Regression Sum of Squares (16.404) represents the variation in the dependent variable that is explained by the independent variables, while the Residual Sum of Squares (15.648) accounts for the unexplained variation. The Total Sum of Squares (32.052) is the sum of both, indicating the overall variability in the data. The degrees of freedom (df) for regression (4) correspond to the number of predictors, and for residuals (302), it reflects the remaining observations. The Mean Square for regression (4.101) is obtained by dividing the regression sum of squares by its degrees of freedom, while the Mean Square for residuals (0.052) shows the average unexplained variance. The F-statistic (79.149)**,** calculated as the ratio of the regression mean square to the residual mean square, tests whether the independent variables significantly improve the model. The p-value (Sig. = 0.000) indicates that the model is statistically significant at the 1% level ($p < 0.01$)**,** meaning that the independent variables collectively have a significant impact on the dependent variable.

Table 16

Regression Analysis for Dependent Variable Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Sd. Error	Beta		
(Constant)	0.647	0.229		2.823	0.005
Financial Risk Identification	0.049	0.043	0.047	1.124	0.262
Financial Risk Analysis	0.181	0.052	0.178	3.496	0.001
Financial Risk Monitoring	0.325	0.053	0.340	6.165	0.000
Financial Risk Mitigation	0.294	0.053	0.301	5.505	0.000

(Source: SPSS Version 25)

$FP = 0.647 + 0.047FRI + 0.181FRA + 0.325FRM + 0.294FRMI + \varepsilon it$

For a regression model for determining the effects of various financial risk management variables on financial performance, the dependent variable is financial performance, having several independent variables: Financial Risk Identification, Financial Risk Analysis, Financial Risk Monitoring, and Financial Risk Mitigation.

The regression equation indicates that the constant (intercept) is 0.647 and is statistically significant at 0.005, indicating the base level of financial performance, where all independent variables are held at zero, is statistically significant. Financial Risk Identification has an unstandardized coefficient of 0.049 and a significance level of 0.262, indicating it is not statistically significant. Financial Risk Analysis has a coefficient of 0.181 and a p-value of 0.001, thus it is significant. Financial Risk Monitoring and Financial Risk Mitigation have coefficients of 0.325 and 0.294 and p-values of 0.000, therefore they are significantly high. The Beta (standardized coefficients) shows the relative importance of each variable, with Financial Risk Monitoring (0.340) and Financial Risk Mitigation (0.301) being the most important factors in financial performance, followed by Financial Risk Analysis (0.178) and

Financial Risk Identification (0.047). The t-values and p-values validate these findings, demonstrating that effective financial risk analysis, monitoring, and mitigation have important roles to play in enhancing financial performance. Overall, the model highlights that risk analysis, monitoring, and mitigation are key drivers of financial performance**,** while risk identification alone does not significantly impact outcomes.

4.2 Discussion

The main objective of this study is to analyze the impact of financial risk management on the financial performance of cooperative sectors in Nepal. The research has considered demographic aspects such as Gender, Education Qualification, Occupations, Years of membership and Types of Cooperatives and evaluates how independent variables like Financial Risk Identification, Financial Risk Analysis, Financial Risk Monitoring and Financial Risk Mitigation impact Financial Performance. Data have been collected using a structured questionnaire distributed among 307 individual. Data have analyzed through descriptive and inferential statistics to assess the relationships between these variables and their impact on Financial Performance.

The descriptive analysis provides an overview of how respondents rated different aspects of financial risk management and financial performance. The mean values for all variables are above 4.10**,** indicating that respondents generally agree that these factors are effectively implemented in their organization. Among them, Financial Performance (FP) has the highest mean (4.1752)**,** suggesting a strong overall confidence in the organization's financial success. Financial Risk Monitoring (FRM) (4.1726) and Financial Risk Analysis (FRA) (4.1707) also have high mean scores, showing that these areas are well-managed. Financial Risk Mitigation (FRMI) (4.1402) and Financial Risk Identification (FRI) (4.1029) have slightly lower means but are still rated positively. The standard deviations (S.D.) for all variables are relatively low (around 0.31 - 0.34)**,** meaning that most responses are close to the average, indicating consistency in opinions. Overall, the results suggest that the organization has strong financial risk management practices, which contribute to positive financial performance.

The correlation analysis has shown significant relationships between Financial Risk Identification, Financial Risk Analysis, Financial Risk Monitoring, Financial Risk Mitigation and Financial Performance. The Pearson correlation values tell us the strength and direction of these relationships, while the Sig. (2-tailed) values (0.000) confirm that all correlations are statistically significant. Financial Risk Identification (FRI) has a weak but positive relationship with all other factors, meaning that simply identifying risks alone does not strongly influence financial performance. Financial Risk Analysis (FRA) has a moderate positive correlation (0.539) with Financial Performance (FP), showing that analyzing risks helps improve financial success. Financial Risk Monitoring (FRM) and Financial Risk Mitigation (FRMI) have the strongest correlations with FP (0.639 and 0.623, respectively), meaning that companies that actively monitor and mitigate risks tend to perform better financially. The highest correlation is between FRM and FRMI (0.634), suggesting that companies that closely monitor risks are also proactive in mitigating them.

The regression analysis shows how different financial risk management factors affect financial performance. The constant (0.647, p = 0.005) represents the base financial performance when all risk factors are zero. Financial Risk Identification (B = 0.049, p = 0.262) has a weak and insignificant impact, meaning identifying risks alone does not strongly influence performance. However, Financial Risk Analysis (B = 0.181, p = 0.001) has a significant positive effect, indicating that analyzing risks improves financial outcomes**.** Financial Risk Monitoring (B = 0.325, p = 0.000) and Financial Risk Mitigation (B = 0.294, p = 0.000) have the strongest impact, showing that actively monitoring and mitigating risks significantly enhance financial performance. Since p-values for these factors are below 0.05**,** their effects are statistically significant. In summary, the results suggest that monitoring, mitigating, and analyzing risks are keys to improving financial performance, while just identifying risks has a minimal impact**.**

The analysis indicates that financial risk management significantly influences the financial performance of cooperative organizations. Cooperatives that utilize risk mitigation strategies and are actively involved in managing financial risks probably have better financial performance. For instance, Mwaura and Njoka (2020) confirmed that risk management practices positively impact the performance of saving and credit

cooperatives in Kenya. It was clear that such practices reduced financial uncertainty, hence enhancing profitability. Similarly, Mlawasi (2022) in a risk management study in SACCOs in Kenya observed that efficient risk management significantly improved the financial performance of cooperative societies. This is an indication that financial stability is promoted in cooperatives through effective risk management. Moreover, Pashchenko et al. (2021) observe that systematic risk management are likely to perform better financially.

Risk analysis is assessing possible risks and their effect on performance, while monitoring is continuous risk exposure monitoring and corrective action implemented in a timely fashion. Research revealed balancing financial risk management practices with financial performance for profitability and safety to its operating (Satyamoorthi et al., 2015). Studies have indicated that organizations employing robust risk analysis techniques such as sensitivity analysis and stress testing are positioned to handle uncertainties better (Omedo and wanjala, 2023). Furthermore, financial risk monitoring enhances transparency and accountability, which leads to increased stakeholders' trust (Kibera & Muturi, 2018). Despite its applicability, financial risk management remains underdeveloped in the majority of organizations due to the lack of finance literacy and technical know-how within management teams (Noor and Abdalla., 2023). Such risk management aspects can improve the bottom line with reduced possibilities for financial stress and operational inefficiencies (Iqbal et al., 2016 & Poudel, 2024).

Financial risk management is the ultimate shield, keeping risks that have been identified and evaluated in good order. Techniques that can be used to mitigate risks, such as diversification, hedging, and insurance, help counteract financial losses and enhance profitability (Wanjohi et al., 2021). However, the majority of organizations struggle with this because of insufficient access to financial instruments and poor regulatory backup (Omwenga et al., 2022 & Davydenko & Karbivskyi, 2022). Application of risk management doesn't directly impact the success of a cooperative (Sugiyanto et al., 2018). Lastly, incorporation of financial risk identification, analysis, monitoring, and mitigation into managerial practices has a large positive effect on

financial performance, as well as long-term stability and growth (Gill et al., 2018; Ahmed et al., 2019).

CHAPTER – V
SUMMARY AND CONCLUSION

This chapter provides a general overview of the research, highlighting its most significant findings and conclusions. It abstracts the principal outcomes, remarks on their theory and practical implications, and outlines how the research contributes to the existing knowledge. The conclusions are presented with focus on the significance of the findings, and the implications are given with focus on the practical implications and future research directions, providing a brief overview of the significance and contribution of the study.

5.1 Summary

This study examines the impact of financial risk management on the financial performance of cooperative sectors**,** highlighting the role of risk identification, analysis, monitoring, and mitigation in improving financial stability. The research employs a quantitative approach, analyzing data from cooperative organizations to assess the relationship between risk management practices and financial performance. Applying a descriptive and exploratory research methodology, the study has gathered and analyzed information from 300 participants who have engaged in Cooperative ventures. The study has also analyzed the respondents' demographic characteristics, including gender, educational level, profession, years of membership, and cooperatives type. Information gathering involved a guided self-completion questionnaire intended to solicit an array of varied responses. Statistical tests have been conducted with the help of Microsoft Excel and SPSS Version 25 using a variety of statistical techniques, including descriptive statistics, correlation analysis, and regression analysis to make inferences from the results and analyze the correlations and impacts of the independent variables and financial performance.

The descriptive analysis of the study shows that all financial risk management variables—Financial Risk Identification (FRI), Financial Risk Analysis (FRA),

Financial Risk Monitoring (FRM), and Financial Risk Mitigation (FRMI)—have high mean values**,** indicating that these practices are widely implemented in cooperative

organizations. The Financial Performance (FP) variable also has a high mean score, suggesting that cooperatives with strong risk management practices tend to perform well financially. The low standard deviation values across all variables indicate consistency in responses, meaning that most cooperatives follow similar financial risk management strategies. These findings suggest that effective risk management is a common practice in cooperatives, contributing to their financial stability and growth.

The correlation analysis reveals a positive relationship between financial risk management practices and financial performance in cooperative sectors. The Pearson correlation coefficients show that Financial Risk Analysis (FRA), Financial Risk Monitoring (FRM), and Financial Risk Mitigation (FRMI) have strong positive correlations with Financial Performance (FP), indicating that cooperatives implementing these strategies tend to perform better financially. Among these, Financial Risk Mitigation (FRMI) shows the highest correlation, suggesting its crucial role in reducing financial uncertainties and improving stability. However, Financial Risk Identification (FRI) has a weaker correlation, implying that merely identifying risks is not sufficient unless followed by proper analysis and mitigation measures. These findings align with existing research, reinforcing that effective financial risk management is essential for the financial sustainability of cooperatives.

The regression analysis shows that financial risk management practices significantly impact the financial performance of cooperatives. The Adjusted R-Square value indicates that a substantial portion of financial performance variations is explained by financial risk management variables. Among them, Financial Risk Mitigation (FRMI) and Financial Risk Monitoring (FRM) have the strongest positive influence**,** confirming their critical role in ensuring financial stability. Financial Risk Analysis (FRA) also has a significant impact**,** while Financial Risk Identification (FRI) does not show a strong effect**,** suggesting that risk identification alone is insufficient without further action. The overall model is statistically significant **(**$p < 0.05$), meaning that financial risk management practices contribute meaningfully to the financial success of cooperatives. These results support existing financial theories and empirical studies that emphasize the importance of structured risk management strategies in enhancing financial performance.

5.2 Conclusion

The first objective of this study is to explore the role of financial risk management in enhancing the financial performance of Cooperatives in Nepal. Financial risk management plays a central role in enhancing the financial performance of cooperatives in Nepal, according to the research. Cooperatives that adopt formalized risk management strategies have better financial stability and profitability. The findings suggest that risk management and monitoring are most essential in dealing with uncertainties and ensuring long-term sustainability. The findings validate the conclusions of financial theories and current literature to justify the imperative that cooperatives incorporate good risk management practices in their financial decision-making.

The second objective of this study is to examine the relationship between financial risk management practice and financial performance of Nepalese cooperative societies. Regression and correlation tests provide a significant and positive relationship between financial risk management practice and financial performance. Those cooperatives that prioritize risks, monitor risks, and mitigate risks tend to have higher financial performance. FRMI and FRM are shown by the research to have the largest impacts, validating that active risk management is mirrored in financial performance. The findings validate current literature that emphasizes the role of scientific financial risk management in the success of cooperatives.

The third objective of this study is to examine how financial risk identification, analysis, monitoring, and mitigation affect the financial performance of cooperatives sectors in Nepal. The study concludes that Financial Risk Identification (FRI) has less impact on financial performance individually, but is most effective when combined with risk analysis, monitoring, and mitigation. Financial Risk Mitigation (FRMI) is most impactful, followed by Financial Risk Monitoring (FRM) and Financial Risk Analysis (FRA), meaning cooperatives have to actively monitor and respond to identified risks in order to improve their financial performance. These results indicate the necessity of an integrated risk management system, and not just identification of risks, for financial stability and development of Nepalese cooperatives.

5.3 Implications

Implications for the Study on the impact of financial risk management on the financial performance of cooperative sectors in Nepal are as follows:

a) Theoretical Implications

This study corroborates financial theories such as Risk Management Theory and Modern Portfolio Theory, which emphasized that good risk management equates to financial stability and improved performance. The results confirm that risk avoidance and monitoring are crucial in reducing financial uncertainties, which leads to the overall financial health of cooperatives.

b) Practical Implications

For the stakeholders and cooperative managers, the study highlights the need for prioritizing planned risk management strategies ahead of risk identification alone. The cooperatives can attain better profitability, reduced financial volatility, and long-term sustainability through the implementation of sound risk monitoring and mitigation mechanisms. Risk management best practice training modules need to be introduced in order to enhance financial decision-making.

c) Policy Implication

The policymakers and regulatory bodies of Nepal need to address the enhancement of financial risk management regulations for cooperatives. Regulations encouraging the application of risk management frameworks, making financial reports public, and regular risk assessment will help cooperatives avoid financial risks effectively. Financial institutions providing finance for lending to cooperatives also need to adopt risk management compliance as a lending finance measure, whereby cooperatives use robust risk management measures for sustainable development.

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APPENDIX

Questionnaire

Dear Sir/Madam,

In Partial Fulfillment of the Requirements for the Degree of Masters of Business Studies, I, the student of Shanker Dev Campus, Putalisadak, an undertaking a dissertation on "The Effect of Financial Risk Management on the Financial Performance of Cooperative Sectors in Nepal". I would like to assure you that all information provided by you in the questionnaire will be kept confidential and would be used for academic purposes and not for any commercial activity. Your kind cooperation will be highly appreciated.

Thanking You.

Section A: Demographic Information

1. Gender

a) Male

b) Female

2. Educational Level

a) Primary School

b) High School

c) Bachelor Degree

d) Master Degree

e) Others

3. Occupation

a) Cooperative Member

b) Cooperative Staffs/ Manager

c) Self Employed

d) Students

e) Others

4. How long have you been a member of the cooperative?

a) Less than 1 year

b) 1-3 years

c) 4-6 years

d) 7-10 years

e) More than 10 years

5. What type of cooperatives are you associated with?

a) Saving and Credit Cooperatives

b) Agriculture Cooperatives

c) Consumer Cooperatives

d) Multipurpose Cooperatives

c) Others

Section B: Questionnaires for Study Variables

Following are questionnaires for the variables of study topic "Financial Risk Management". Please select your option that shows your level of agreement or disagreement. The answer will be measured on a five-point Likert scale, explained as follows:

5 - Strongly Agree

4 - Agree

3 - Neutral

2 - Disagree

1 - Strongly Disagree

Financial Risk Identification

S.N.	Statement	Response				
		5	4	3	2	1
FRI1	I am aware of the common financial risks in my industry.					
FRI2	Our current financial risk identification practices are effective.					
FRI3	We regularly review and update our risk management practices.					
FRI4	The tools or software we use for identifying and managing financial risks are satisfactory.					
FRI5	We have experienced financial losses due to unidentified risks in the past.					

(Source: Field Survey, 2025 and author's calculation)

Financial Risk Analysis

S.N.	Statement	Response				
		5	4	3	2	1
FRA1	Our organization is effective in identifying potential financial risks.					
FRA2	We have a systematic process for assessing the impact of identified financial risks.					
FRA3	Our strategies for mitigating financial risks are adequate and effective.					
FRA4	We regularly monitor and review our financial risk management practices.					
FRA5	Effective financial risk management positively impacts our organization’s financial performance.					

(Source: Field Survey, 2025 and author's calculation)

Financial Risk Monitoring

S.N.	Statement	Response				
		5	4	3	2	1
FRM1	Our cooperative continuously monitors financial risks.					
FRM2	Risk monitoring tools and technologies are effectively used in our cooperative.					
FRM3	There are regular risk assessment reports generated in our cooperative.					
FRM4	The management team actively engages in monitoring financial risks.					
FRM5	Financial risks identified during monitoring are promptly addressed.					

(Source: Field Survey, 2025 and author's calculation)

Financial Risk Mitigation

S.N.	Statement	Response				
		5	4	3	2	1
FRMI1	Our cooperative has effective risk mitigation strategies in place.					
FRMI2	We regularly review and update our risk mitigation policies.					
FRMI3	The cooperative invests in diversification to mitigate financial risks.					
FRMI4	Insurance is utilized as a key risk mitigation tool in our cooperative.					
FRMI5	Our cooperative has a contingency plan for potential financial risks.					

(Source: Field Survey, 2025 and author's calculation)

Financial Performance

S.N.	Statement	Response				
		5	4	3	2	1
FP1	Our organization has experienced consistent revenue growth over the past five years.					
FP2	We have achieved our annual revenue targets consistently.					
FP3	Our profit margins have improved over the past five years.					
FP4	Our cost management practices have contributed to improved financial performance.					
FP5	Our financial performance is well-positioned for future growth and success.					

(Source: Field Survey, 2025 and author's calculation)

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