**THE INFLUENCE OF TRANSGENERATIONAL TRAUMA ON THE VOTING PATTERNS IN NAKURU COUNTY, KENYA**

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**Abstract**

Microfinance banks (MFBs) in Kenya play a vital role in financial inclusion, serving over 850,000 active borrowers and holding 1.2 million deposit accounts, which represent 34 percent of the national microfinance portfolio. Despite this critical role, the sector has experienced worrying sustainability challenges. In 2022, liquidity assets fell by 13.4 percent, while deposits declined by 7.8 percent to KShs. 46.5 billion. Several institutions failed to meet the statutory minimum liquidity ratio of 20 percent, and collective pre-tax losses increased from Kshs. 877 million in 2021 to Kshs. 980 million in 2022. This study examined the effect of monitoring practices on the sustainability of 14 Central Bank of Kenya-regulated MFBs from 2016 to 2023. Monitoring practices were measured through portfolio-at-risk and operating expense ratios, while sustainability was assessed using financial self-sufficiency. Employing a positivist philosophy and a longitudinal panel design, secondary data were extracted from audited statements and analyzed using panel regression in E-Views, with Hausman specification tests guiding model selection. Findings revealed that monitoring practices negatively affected sustainability in both current (β=-0.05, p=0.000) and lagged periods (β=-0.07, p=0.000). The study concluded that intensive surveillance undermined institutional performance and recommended outcome-based regulation and streamlined monitoring systems. These results extend Management Control Theory by demonstrating that excessive monitoring can generate dysfunctional outcomes that weaken rather than strengthen sustainability.

**Keywords:** Monitoring practices, sustainability, microfinance banks, Kenya

**INTRODUCTION**

Monitoring practices have become key factors of institutional sustainability, which include systematic surveillance and assessment of portfolio quality and operating efficiency by monitoring portfolio at-risk levels and operating costs that guarantee institutional viability (Ndikubwimana, Abel, Mukamanzi, Twesige, and Byukusenge, 2023). Portfolio at risk is the main surveillance tool that allows institutions to determine the

declining credit quality by determining the ratio of gross non-performing loans to gross loan portfolio, which gives early warning signs of financial instability. This type of monitoring enables MFBs to monitor the performance of their portfolios over time, take corrective actions before issues arise, and ensure the quality of credit that can sustain the organization in the long term (Gatimu, 2022).

Monitoring practices have become increasingly significant in the microfinance banking sector in Kenya after the sector experienced a dramatic financial decline, with microfinance banks registering combined losses of KSh 2.4 billion in 2023 and KSh 3.5 billion in 2024, which is a 48 percent increase in financial distress (CBK, 2025). This research addressed a critical gap in understanding by empirically examining whether monitoring practices, as currently implemented in Kenyan microfinance banks, contribute to or detract from institutional sustainability measured through financial self-sufficiency ratios. The investigation is particularly timely given the sector's ongoing crisis and the urgent need to identify if monitoring practices supported long-term viability versus those that may be creating administrative overhead without corresponding benefits. By analyzing eight years of panel data from all fourteen regulated microfinance banks, this study provided crucial evidence about monitoring effectiveness that can inform both institutional management decisions and regulatory policy development in the microfinance sector.

## Statement of the Problem

Microfinance banks in Kenya support essential social needs through delivering the necessary financial services to more than 850,000 active borrowers and having 1.2 million deposit accounts, constituting 34 percent of microfinance portfolio in the country (CBK, 2024). These institutions serve as a boost to the economy with their KSh 43.3 billion asset base, and KSh 42.7 billion in domestic credit (KNBS, 2025), and offer services to underserved populations, such as SMEs and women entrepreneurs, as well as populations not included in conventional banking (World Bank, 2025).

Sustainability issues have remained within the Kenyan MFBs regardless of the attempts by the regulators to emphasize on the importance of the internal control systems, and this fact is critical in terms of the effectiveness of monitoring practices as far as sustainability is concerned (Masavu, 2022; Tadele, 2021). CBK (2024) argues that the microfinance banks in operation in Kenya remain susceptible to financial shocks and that total assets have decreased by 4.8 percent to Kshs. 70.4 billion at December 2022, mainly because of poor quality of portfolios and poor management of expenses which compromises the sustainability goals.

MFBs' sustainability indicators have shown concerning trends, with liquidity assets falling by 13.4 percent and total deposits decreasing by 7.8 percent to Kshs. 46.5 billion in 2022, indicating weaknesses in asset utilization efficiency and management effectiveness (CBK, 2024). These financial performance issues suggest inadequate internal financial control systems, as evidenced by some MFBs failing to meet the statutory minimum liquidity ratio of 20 percent and experiencing collective pre-tax losses of Kshs. 980 million in 2022, up from Kshs. 877 million in 2021.

While empirical studies have examined various aspects of internal controls and MFB sustainability, significant gaps remain regarding the specific measurement and effectiveness of monitoring practices in the Kenyan context. Recent studies have focused on general internal control effectiveness (Masavu, 2022; Uddin, Akter, Al Mahi, & Mollah, 2024), financial sustainability determinants (Durango‐Gutiérrez et al., 2023), and technology adoption impacts (Ndikubwimana et al., 2023), but have not comprehensively examined how monitoring practices measured through portfolio at risk and operating expense ratios affect financial self-sufficiency ratios in Kenyan MFBs. This study examined the impact of monitoring practices on the sustainability of microfinance banks.

## Research Objective

To examine the influence of monitoring practices on the sustainability of microfinance banks in Kenya.

## Hypothesis

**H0:** Monitoring practices has no significant effect on the sustainability of microfinance banks in Kenya.

## Conceptual Framework

Figure 1 in this study demonstrates a diagrammatic representation of the conceptual framework.

**Dependent Variable**

##### Figure 1: Conceptual framework

**Independent Variables**

**Monitoring Practices**

* Portfolio at risk (PAR)
* Operating expense ratio

**Sustainability of MFBs**

* Financial self-sufficiency ratio

##

## LITERATURE REVIEW

The section is about prior literature reviews and is divided into sections.

## Review of Theory

The research was based on the theory of management control, which was developed on the basis of the works of scholars like Anthony (1965) and refined by Simons (1995, 2019). It describes the ways in which control systems are used in organizations to ensure that employee behavior and use of resources are aligned with strategic objectives. The theory focuses on the use of formal (budgets, audits, performance measures) and informal (culture, shared values) mechanisms to steer activities towards organizational objectives. It appreciates

that effective control is dynamic so that there needs to be systems that adapt to changing strategies and external conditions. Within the management control systems in financial institutions, accountability, transparency, and alignment of performance are guaranteed.

The theory presupposes that the managers set performance standards and that these standards are measurable and can be compared to the actual results (Simons, 2019). It further on the basis that appropriate corrective action can be undertaken to seal the gap between desired and actual performance. Moreover, it presupposes the possible design of control systems that help make the individual behavior consistent with the organizational objectives and reduce agency problems. Another assumption made by the theory is that feedback loops are essential since they enable organizations to make changes in their strategies following the results of performance (Merchant and Van der Stede, 2007). Through these assumptions, it is noted how feedback, accountability, and alignment contribute to the success of organizations.

The theory has been criticized on the basis that it places an emphasis on the formal controls in lieu of informal ones, where a cultural and social aspect of performance are ignored (Merchant and Van der Stede, 2007). Other people observe that management control systems can be too simplistic and fail to recognize resistance and contradictions of interests because they believe that systems can easily integrate employee behavior with organizational goals. Moreover, intense dependence on control mechanisms may lead to the stifling of innovation and autonomy and the formation of inflexibility. In spite of these criticisms, the theory continues to have an impact on the understanding of the way an organization constructs governance mechanisms.

The theory was deemed applicable in order to guide the goal on observing practices in MFBs. Through accountability and feedback, the management control will guarantee that the financial resources are effectively utilized, the risks are minimized, and the staff activities and activities meet the interest of the institutions. The mechanisms make the sustainability stronger in minimizing waste and financial self-sufficiency and resilience to operational risks. By doing so, the management control theory can be an effective conceptual framework to explain the effectiveness of monitoring practices in improving the sustainability of MFBs.

Nonetheless, theory does not cover all aspects of sustainability, which necessitates integration with other perspectives. While it explains how systems align behavior with goals, it does not fully address the nature of risks, which is central to risk management theory. Nor does it capture the role of external legitimacy pressures, which institutional theory emphasizes. Management control also benefits from RBV’s focus on resources and capabilities, since controls are only effective when resources exist to manage. Thus, combining these theories creates a more holistic framework for analyzing sustainability.

## Empirical Review

A study was conducted on the impact of credit risk analysis on loan quality in Rwandan microfinance institutions by Ndikubwimana, Abel, Mukamanzi, Twesige, and Byukusenge (2023), particularly in relation to Cooperative COPEDU Ltd. The research used a descriptive methodology and focused on thirty managers and credit officers who were chosen at random. The data was examined using descriptive and inferential statistics after being gathered via surveys and institutional financial reports. A significant proportion of the respondents (66.70) linked poor loan monitoring to deteriorating loan performance and the results revealed that the inadequacy of loan assessment techniques, improperly structured credit regulations and ineffective loan monitoring were the major reasons behind non-performing loans (NPLs). Non-performing assets (NPAs) are similar to non-performing asset ratios as a measure of asset health degradation, portfolio at risk (PAR), the measure of loan quality. This emphasizes the significance of good loan monitoring techniques in reducing credit risk, as well as an effective loan portfolio, which remains of high quality. Nevertheless, a gap in contexts existed because the study was conducted in Rwanda which has a different set of regulations.

To establish which aspects affect the quality of loan portfolios in microfinance institutions (MFIs), Teferi (2019) conducted research in Ethiopia. The study employed quantitative designs, such as pooled Ordinary Least Squares (OLS) and random effects generalized least squares specifications, in investigating the influence of institutional and borrower level variables on the outcome based on panel data collected on fifteen MFIs over a period of seven years (2003-2009). The research variables included the Loan Loss Reserve (LLR), Portfolio at Risk greater than 30 days (PAR-30) and the Write-Off Ratio (WOR) which the researcher used as the dependent variables in the study to determine the quality of the loan portfolio. The outcomes revealed that the relationship between institutional size and institutional size and LLR and PAR-30, had negative and significant results, meaning that larger institutions would have more systems to manage the risk. Conversely, both PAR-30 and write off ratio went up as the percentage of outstanding loan continued to go up. The proportion of female borrowers was negatively correlated with both LLR and WOR, which might indicate that a lending facility can be stricter with loans made by women. To the surprise, operating expenditure ratio was positively correlated to WOR, however variations in the total loan ratio influence the portfolio risk measures. The indicators of loan quality were also not considerably linked to macroeconomic variables. This indicates that external economic forces that an organization is not able to control have minimal influence on the quality of the portfolio compared to the influence of the internal institutional processes. Due to the limited scope of the research, which only focused on Ethiopian MFIs and the reliance on the information produced between 2003 and 2009, the study did not offer the required contextual applicability to the modern analysis.

The impact of credit management on the sustainability of microfinance organizations in Cameroon was studied by Mbah and Wasum (2019). The study was carried out during a trend when leading MFIs were swiftly shuttering their doors, with poor loan portfolio management being the main reason given. To evaluate successful microfinance institutions, questionnaires, on-site observations, and secondary sources were used for data collection. The results were summed together using descriptive statistics. High provisioning, inadequate recovery procedures, a dearth of credentialed credit officers, manual loan implementation, sluggish credit management procedures, customer bad faith, and inadequate loan follow-up were some of the credit monitoring gaps uncovered by the research. The paper highlighted the importance of credit management to microfinance institutions (MFIs) in Cameroon and their ongoing operations, while also highlighting the need for better techniques and monitoring.

Gatimu (2022) also explored the impact of the deposit-taking SACCOs and their impact on management strategies in Kenya on the percentage of non-performing loans. The effect of four significant management strategies on the outcome of nonperforming loans, namely, loan restructuring, guarantee policies, monitoring procedures, and loan recovery, were tested in the present descriptive research study that incorporated the use of regression analysis. All the four approaches had a positive impact on the reduction of nonperforming loans (NPLs), and the credit monitoring proved to be the most significant approach in halting the flood of bad loans. These findings created a strong association between non- performing assets, institutional credit risk management and long-term financial viability resulting in a tightening of a monitoring process. Nevertheless, there existed a theoretical gap in that the study failed to test monitoring practices on the basis of such key proxies as Portfolio at Risk (PAR) or operating expense ratio. Wafula et al. (2023) examined the behaviour of microfinance institutions (MFIs) in the Nairobi County, Kenya, regarding non-performing loans (NPLs). The case was able to collect quantitative data of 128 respondents comprising of senior managers, credit officers and accountants in 48 MFIs. The study methodology was the Information Asymmetry Theory. The statistical data indicated a high dependence between the level of credit monitoring procedures and non-performing loans (NPLs).

Bitok et al. (2020) empirically examined the relationship between 30 Kenyan microfinance institutions (MFIs) of portfolio quality and financial self-sufficiency with panel data covering 201018. To establish the effect of changes in the loan performance on the financial sustainability of the MFIs, the study employed the panel regression models to assess the portfolio quality measures, such as the portfolio at risk. The results, which exhibited a positive and statistically significant association indicated that institutions with less default on their loan portfolios had a higher chance to become financial independent. The researcher says this was due to the heightened financial resilience and profitability in the tracking of default risks and more forecastable cash flows. The empirical findings used in this paper demonstrated the importance of credit monitoring and risk management strategies as internal financial controls that promoted the success of microfinance banks in the long term in Kenya. The finding failed to directly analyze the portfolio at risk and operating expenses as a monitoring practice that influences sustainability of MFBs hence there was a conceptual gap.

Mwango et al. (2019) conducted county-level research in Kisumu County, Kenya, to establish the relationship between monitoring practices and performance in microfinance institutions in the area. The study involved the polling of 255 participants who worked in seven various MFIs and applied a pragmatism and descriptive research methodology. Organizations that encompass effective reporting procedures and timely feedback in their performance management plans appear to be superior in terms of operational results according to the information which substantiates strong statistically significant connection between the two variables. This demonstrated that performance communication is not a technical activity but an aspect of strategy that assists the decision-making process. However, the research study showed a contextual weakness, in that it was a study of a limited range, specifically, Kisumu County, and thus, its applicability to MFBs was limited.

## RESEARCH METHODOLOGY

The research philosophy used in this study was positivism, based on secondary quantitative data in the form of regulatory reports and audited financial statements, which is consistent with the principles of empirical evidence-based scientific inquiry (Maksimovic and Eytimoy, 2023). The study adopted a longitudinal panel research design to investigate monitoring practices and sustainability relationships in all fourteen Central Bank of Kenya-regulated microfinance banks between 2016-2023, which offered a complete census coverage that removed sampling bias and dynamic linkages and temporal causality across 112 bank-years of observations. The research tool was a pre-developed data extraction template that was systematically applied to CBK regulatory filings, audited financial statements, and supervision reports, which guaranteed reliability by following the International Financial Reporting Standards and cross-checking with various supporting sources. The data collection methods included systematic extraction of income statements, balance sheets, and regulatory disclosures in panel data format, which was analyzed using E-views statistical software, and NACOSTI approval was made to ensure that ethical standards were met, even though the data collection was based solely on publicly available secondary data sources.

The operationalization of monitoring practices was based on portfolio at risk ratios (gross non-performing loans/gross loan portfolio) and operating expense ratios (total expenses/total operating income) derived from financial statements and regulatory disclosures, and sustainability was measured using Financial Self-Sufficiency ratios (operating income/total expenses). The study carried out diagnostic tests such as correlation analysis, Test for Multicollinearity, Unit Root Tests, Serial correlation test, and the Hausman Test was used to find out which model, between the fixed effects model and the random effects model, was appropriate for the data. The tests were carried out in order to minimize errors that would give biased and inconsistent parameter estimates. The tests enhanced the statistical soundness of regression models. Panel regression equations evaluated the aspects pertaining to monitoring and the sustainability of microfinance banks. The dependent variable in the equation was sustainability measures, whereas the independent variable was monitoring practices.

Ethical issues were upheld by ensuring that data sources were properly attributed, academic integrity standards were upheld, and findings were reported without manipulation, which is responsible conduct of research involving regulated financial institutions under the supervision of CBK.

**PRESENTATION, DISCUSSION, AND INTERPRETATION OF FINDINGS**

This chapter details the study's results and analysis.

**Trend Analysis**

From 2016 to 2023, the research tracked all of the study variables using a trend analysis. This allowed the researcher to spot cyclical trends, systemic changes, and structural shifts in the 14 microfinance banks' adoption of fintech, sustainability outcomes, and internal financial control factors. Figure 2 presents the trend analysis of monitoring practices



**Figure 2: Trend Analysis of Monitoring practices**

The trend in monitoring practices among Kenyan microfinance banks, measured through portfolio at risk (PAR) and operating expense ratio, showed significant fluctuations from 2016 to 2023. During 2016 to 2018, monitoring practices decreased from 2.203 to 1.577, suggesting heightened portfolio at-risk levels and elevated operating expenses as MFBs responded to increased default risks and operational challenges. However, monitoring practices improved from 2019 to 2021, from 1.576 to 2.599 (a 65% increase from 2018). The partial recovery reflected renewed attention to monitoring

practices through improved portfolio at-risk oversight and better operating expense ratio management. This improvement indicated that MFBs began strengthening their monitoring practices by implementing enhanced portfolio at-risk tracking mechanisms and more disciplined operating expense ratio monitoring. However, in 2022, there was a decline from 2.3237 to 2.1416 in 2023, which showed a weakening portfolio at risk surveillance with a rising operating expense ratio, highlighting reduced effectiveness in monitoring practices that track both portfolio at risk (PAR) and operating expense ratio. Figure 3 presents the trend analysis of the sustainability.



**Figure 3: Trend Analysis of the Sustainability of MFBs**

The sustainability of MFBs, measured through the financial self-sufficiency ratio, demonstrated cyclical performance patterns. The initial adjustment phase from 2016 to 2018 showed mixed performance, starting at 0.6940 in 2016, declining to 0.6816 in 2017, and recovering to 0.6935 in 2018, representing relatively stable performance around the 0.69 level with minor variations. The peak performance phase in 2019 revealed significant improvement to 0.7466, representing the highest financial self-sufficiency level achieved during the study period and indicating enhanced bank capacity to cover costs through internally generated revenue. This 2019 peak represents a 7.6% improvement from the 2016 baseline, suggesting successful implementation of financial efficiency measures and revenue enhancement strategies. The declining phase from 2020 to 2021 showed deteriorating performance, with the ratio decreasing from 0.6999 in 2020 to 0.6817 in 2021, representing the lowest level observed during the study period and indicating challenges in maintaining sustainability during this period. The recovery phase, beginning in 2022, demonstrated improved performance with the ratio increasing to 0.7158, representing a significant 5% improvement from the 2021 trough and approaching the 2019 peak levels. The recent adjustment phase in 2023 showed a slight decline to 0.7057, maintaining levels above the initial study period but below the peak performance achieved in 2019 and 2022. The overall pattern indicated cyclical performance in financial sustainability, with banks demonstrating resilience in recovering from performance declines while maintaining levels generally above the 0.69 threshold. The stable periods indicated that MFBs maintain financial self-sufficiency ratio, though this metric may not capture all aspects that may threaten long-term sustainability. This explained why institutions can maintain adequate income-expense coverage while experiencing severe financial stress that undermines sustainability.

## Descriptive Statistics

The study conducted descriptive statistics. The study showed general trends of the variables by observing the means to the standard deviations, as seen in Table 1 below.

Table 1: Descriptive Statistics Results

|  |  |  |
| --- | --- | --- |
|  | SMFBs | MN |
|  Mean |  0.702 |  2.125 |
|  Median |  0.730 |  1.5173 |
|  Maximum |  1.668 |  9.273 |
|  Minimum |  0.000 |  0.000 |
|  Std. Dev. |  0.443 |  1.665 |
|  Skewness |  0.117 |  1.766 |
|  Kurtosis |  2.163 |  6.308 |
|  Jarque-Bera |  3.527 |  109.292 |
|  Probability |  0.171 |  0.000000 |
|  Sum |  78.661 |  238.037 |
| Sum Sq. Dev. |  21.742 |  307.594 |
| Observations |  112 |  112 |

Monitoring practices **(MN)** was proxied by portfolio at risk measured by Gross-Non-Performing loans/Gross loan portfolio and operating expense ratio measured by total expenses ÷ total operating income. The dependent variable was the sustainability of microfinance banks (SFMBs) proxied by Financial Self-Sufficiency **(FSS) ratio,** which was determinedby operating income/total expenses costs.

The descriptive statistics reveal significant operational disparities and distributional challenges across monitoring practices and sustainability variables that have important implications for understanding institutional performance dynamics. Monitoring practices exhibited the highest mean value of 2.125, indicating that Kenyan microfinance banks maintain intensive oversight systems through portfolio at risk tracking and operating expense ratio management, though this high average suggests potentially excessive surveillance that may be creating operational burden rather than efficiency gains. The substantial standard deviation of 1.665 demonstrates wide variability in monitoring intensity across institutions, ranging from minimal oversight (minimum 0.000) to extremely intensive surveillance (maximum 9.273), indicating inconsistent risk management approaches within the sector that create competitive disadvantages for institutions with costly monitoring frameworks.

The severe distributional characteristics of monitoring practices present critical methodological and operational concerns, with positive skewness of 1.766 and excessive kurtosis of 6.308 indicating highly asymmetric distributions with extreme outliers, as confirmed by the significant Jarque-Bera test (109.292, p < 0.001). This distribution pattern suggests that some microfinance banks employ minimal oversight while others implement surveillance systems that may be counterproductively intensive, creating fundamental heterogeneity in monitoring approaches that challenges assumptions about optimal control system design. In contrast, sustainability outcomes demonstrated relatively normal distribution (Jarque-Bera = 3.527, p = 0.171) with a mean financial self-sufficiency ratio of 0.702, indicating that institutions on average achieve approximately 70% sustainability levels while maintaining sufficient distributional properties for valid parametric statistical analysis, though the wide performance range from complete failure (0.000) to full self-sufficiency (1.668) indicates polarized institutional capabilities that warrant deeper investigation into monitoring system effectiveness.

##

## Correlation Analysis

Table 2: Correlation Analysis Results

|  |  |  |
| --- | --- | --- |
| **Correlation** |  |  |
| **Probability** | **SMFBs** | **MN** |
| **SMFBs** | 1.000 |  |
| **MN** | -0.577 | 1.000 |
|  | 0.000 | -----  |

SMFBs=Sustainability of Microfinance Banks, CA=Control Activities, RA=Risk Assessment strategies, MN=Monitoring Practices, CE=Control Environment, FA=Fintech Adoption., LEV=Leverage, FSIZ=Firm size.

The correlation analysis revealed a statistically significant strong negative relationship between monitoring practices and sustainability of microfinance banks (r = -0.577, p < 0.001), indicating that institutions with more intensive portfolio at risk tracking and operating expense ratio management tend to achieve lower financial self-sufficiency ratios. This substantial negative correlation suggests that comprehensive surveillance systems may be creating operational constraints and administrative costs that outweigh their risk mitigation benefits, with the relationship strength indicating that monitoring practices alone explain approximately 33.3% of the variance in sustainability performance (r² = 0.333). The highly significant p-value confirms that this counterintuitive relationship is not due to random variation but represents a systematic pattern across the 14 microfinance banks studied, challenging conventional assumptions about the beneficial effects of intensive monitoring systems in financial institutions.

The strong negative association contradicts traditional management control theory expectations that systematic oversight mechanisms should enhance institutional performance, instead supporting the possibility that excessive monitoring creates rigidities that impede efficient service delivery and client relationship management in microfinance contexts. This finding aligns with emerging evidence that microfinance operations, which rely heavily on behavioral and relational characteristics, may be particularly vulnerable to monitoring systems that prioritize quantitative metrics over qualitative relationship factors that drive actual sustainability outcomes. The magnitude of this negative correlation indicates that monitoring practices, rather than functioning as performance enhancers, may be operating as institutional constraints that systematically undermine the operational flexibility and cost efficiency necessary for achieving financial self-sufficiency in the competitive microfinance environment.

## Unit Root Tests at Intercept and Level I (0)

Table 3: Correlation Analysis Results

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | Method | Statistic | Prob.\*\* |
| SMFB\_RATIO | Levin, Lin & Chu t\* | -4.3536 | 0.0000 |
| MONITORING\_PRACTICES | Levin, Lin & Chu t\* | -8.98359 | 0.0000 |

All the variables were found to be stationary at level I (0) with the p-values of the Levin, Lin, and Chu t\* statistic being significant at 5 percent level of significance. The null hypothesis of the

existence of a unit root was rejected for all the variables.

## Regression Analysis

Table 3: Hausman Test

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob.  |
|  |  |  |  |  |
|  |  |  |  |  |
| Cross-section random | 7.523281 | 4 | 0.1107 |
|  |  |  |  |  |
|  |  |  |  |  |

The Chi-square statistic had a p-value of 0.1107, which was not significant at 5 percent level of significance; hence, the random effects model was chosen as suitable for the study.

Table 4: Regression Equation results

Random Effects Regression Equation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Variable | Coefficient | Std. Error | t-Statistic | Prob.   |
|  |  |  |  |  |
|  |  |  |  |  |
| Monitoring Practices | -0.051613 | 0.014740 | -3.501516 | 0.0007 |
| Monitoring Practices (-1) | -0.070290 | 0.016222 | -4.332854 | 0.0000 |

The findings demonstrate a highly significant negative effect of monitoring practices on sustainability in both current (β = -0.05, p = 0.00) and lagged periods (β = -0.07, p = 0.00), leading to rejection of H₀₃ that monitoring practices have no statistically significant influence on sustainability. These results indicate that intensive monitoring through portfolio at risk tracking and operating expense ratio management actually undermines rather than enhances sustainability outcomes, contradicting fundamental assumptions about internal control effectiveness. The negative coefficients suggest that each unit increase in monitoring intensity corresponds to measurable decreases in financial self-sufficiency ratios, with cumulative effects potentially reaching -0.12 when both current and lagged impacts are considered. The consistency of negative effects across time periods strengthens the reliability of this unexpected finding, indicating that the relationship represents a systematic pattern rather than statistical anomaly. This paradoxical finding begs more fundamental questions concerning the design of monitoring systems, costs of implementation as well as operational implications within the microfinance setting that can be subject to too much control that can create inflexibility adversely affecting effective service delivery and management of client relations.

Wafula et al. (2023) discovered that the credit monitoring processes are strongly related to non-performing loan shares and this might imply that intense supervision can lead to operational inefficiencies. According to Gatimu (2022), credit monitoring is the most significant factor when it comes to the origin of bad loans, but the study involved NPL reduction and not the wider scope of sustainability. Mwango et al. (2019) observed the strong statistically significant relationships between those institutions where there are effective reporting practices, timely feedbacks, and improved operational results.

The analysis has demonstrated that the existing monitoring strategies in Kenyan microfinance banks are costly and have limitation of operation that exceeds their mitigation of risks of the institutions and there are systemic obstacles to the attainment of sustainability. The H03 rejection confirms the fact that monitoring practices play an important role in determining the sustainability outcome. Therefore, the results imply that microfinance banks should get a basic redesign of their monitoring systems that should concentrate on financial efficiency tracking mechanisms as opposed to the conventional credit risk monitoring mechanisms, with strategic performance indicators that should not impede but promote sustainable operations.

## CONCLUSIONS

One of the essential findings of this research is that heavy monitoring mechanisms especially the use of portfolio at risk (PAR) and operating expense ratio are likely to have a negative effect on the sustainability of microfinance banks (MFBs) instead of supporting it. However, opposing the traditional belief that heightened monitoring is always followed by an improved performance, the results reveal that too much surveillance is a fiscal waste, and operational cost that is not compensated with the risk reduction value. It was discovered that microfinance banks in Kenya were under immense monitoring pressures where it was found that thorough tracking of all portfolio segments and expense ratios did not allow sustainable operations. Reliance on current approaches to monitoring created inefficiencies in comparison with the continuous increase in sustainability, which might imply that the strategic distribution of monitoring resources would produce superior results. As an example, a bank might consider specializing in the high-risk client base or non-performing loan groups in order to handle credit risk in a more efficient manner and sustain high growth rates and minimize unnecessary administration overhead. This is a gap that the research has bridged since the literature has been dominated by the study of MFBs within the jurisdiction of the Central Bank of Kenya; a setting that has received minimal attention against its very important consequences on sustainability. The research contributes to the management control theory by showing that the efficiency of monitoring can be better explained by the financial self-sufficiency instead of conventional focuses on the quality of the portfolio and operation costs. It also emphasizes the significance of real time economically oriented monitoring systems, especially under resource limiting settings where inefficiencies can easily jeopardize institutional survivability. Through demonstrating that strategic, outcome-oriented monitoring is more efficient than thorough surveillance, the study offers a novel theoretical framework to address monitoring practices in MFBs by structuring and prioritizing them to increase sustainability.

Moreover, the results indicate that the management of microfinance banks must be more efficient and result-oriented in monitoring instead of the procedural compliance. The emphasis of the monitoring systems must be on the quality of client service, financial performance and sustainability outcomes with indicators that directly gauge the effectiveness and operational efficiency and not use resources but not achieve meaningful improvement. On the same note, the regulatory bodies especially the Central Bank of Kenya ought to rethink prescriptive monitoring mandates which can impose operational limitations that are more than the risk mitigation gains. The regulatory frameworks are supposed to move to result-based compliance, which is focused on real sustainability performance and protection of the clients instead of strict internal control processes. There is the need to implement differentiated policies that can recognize the operational realities that are unique to microfinance institutions and emphasize empirical indicators of sustainability as opposed to procedural checklists. With suggestions that strategic and results-oriented monitoring should be encouraged on the institutional and regulatory level, this research arrives at the conclusion that microfinance banks can become more viable, efficient, and effective in serving their clients, which can be a useful roadmap to sustainable microfinance operations in Kenya. These conclusions are all aimed at questioning the traditional assumptions regarding the monitoring and control and emphasizing the necessity to place greater stress on resource-efficient and financially-driven oversight in order to attain sustainable performance of the institution.

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