

Financial Sustainability Of Microfinance Institutions In Kuningan Regency

Amir Hamzah*¹, Yudi Febriansyah²

¹⁻²Universitas Kuningan, Jl. Cut Nyak Dhien No 36 Cijoho Kuningan, 45513, Indonesia,
amir.hamzah@uniku.ac.id, yudi.febriansyah@uniku.ac.id

*Corresponding author: amir.hamzah@uniku.ac.id

Original Article

ABSTRACT

Article History

Received : April 20, 2025
Accepted : June 25, 2025
Published : July 20, 2025

Keyword:

Financial Reporting Quality,
Internal Control, Financial
Risk Behavior, Accounting,
Microfinance Institutions

Introduction: This study investigates the influence of Financial Reporting Quality, Internal Control Effectiveness, and Financial Risk Behavior on the Financial Sustainability of Microfinance Institutions (MFIs) in Kuningan Regency from an accounting perspective. **Method;** Using a quantitative approach, data were collected from 116 respondents—including directors, managers, and finance heads of MFIs—through structured questionnaires and analyzed using Partial Least Squares - Structural Equation Modeling (PLS-SEM). **Results;** The results show that Financial Reporting Quality and Internal Control Effectiveness positively and significantly affect financial sustainability, while Financial Risk Behavior has a significant negative impact, with the model demonstrating strong predictive power ($R^2 = 0.984$), thus emphasizing the role of accounting quality and rational decision-making in sustaining MFIs. **Conclusion;** These findings support the theoretical frameworks of Agency Theory and Behavioral Accounting Theory and suggest the importance of extending research beyond Kuningan Regency to include other influencing variables such as regulatory support or technological advancement.

Cite This Article: Hamzah, A., & Febriansyah, Y. (2025). Financial sustainability of microfinance institutions in Kuningan Regency. *Sketsa Bisnis*, 12(1), 85–99. <https://doi.org/10.35891/jsb.v12i01.6260>

Sketsa Bisnis with CC BY-SA 4.0 license. Copyright © 2025, the author(s)

1. Introduction

In the face of increasing economic complexity, the financial sustainability of Microfinance Institutions (MFIs) has become a central concern in the financial sector, especially in rural areas. As critical players in fostering financial inclusion, MFIs help strengthen local economies, primarily through providing accessible financial services to underserved populations. Kuningan Regency, home to a significant rural population largely engaged in agriculture and micro-entrepreneurship, relies heavily on the continued success of MFIs, including savings and loan cooperatives and BMTs (Baitul Maal wat Tamwil). However, many of these institutions are struggling with financial stability, showing high non-performing loan (NPL) ratios, ineffective financial management, and challenges in maintaining trust among their members (Hamzah et al., 2025).

Specifically, several MFIs in Kuningan face financial instability due to weak financial reporting systems, poor internal controls, and mismanagement of financial risks. The lack of standardized financial reporting and reliable accounting systems hampers decision-making and contributes to declining financial health (Martika et al., 2024). Additionally, ineffective internal controls increase vulnerability to fraud, errors, and operational inefficiencies. Many MFI managers also engage in risky lending behaviors without conducting proper feasibility analyses, leading to a high default rate and financial losses. According to data from the Kuningan Regency Office of Cooperatives and MSMEs (2023), over 120 active MFIs are operating in the region, but many are reporting difficulties in maintaining financial sustainability, thus highlighting the need for more robust financial practices and management strategies.

Moreover, the financial literacy and managerial capacity within these institutions remain limited, with many lacking comprehensive training in financial management and internal control practices. This weak institutional structure is exacerbated by a lack of transparency in financial reporting, irregular bookkeeping, and insufficient oversight mechanisms. Such weaknesses threaten the long-term sustainability of MFIs, which are essential for supporting the local communities in Kuningan. Without intervention, these financial institutions risk further instability, directly impacting rural economies that rely on microfinance services for their economic activities.

The academic literature on the financial sustainability of MFIs is sparse, particularly at the regional level. Most research has focused on formal financial institutions like banks, leaving a gap in studies on MFIs, especially in developing economies. Additionally, while studies on financial reporting quality, internal controls, and financial risk behavior exist, they are often limited to larger, more formal institutions, which differ significantly from the operational realities of MFIs. Previous research, such as that by (Musyoka, 2023), (Umaru, 2023) and (Tijani, 2022), has emphasized financial sustainability in MFIs but has not integrated the combined effects of financial reporting, internal controls, and risk behavior on sustainability. This study, therefore, fills a significant research gap by focusing on these variables within the context of MFIs in rural Indonesia, a setting that has not been adequately explored (Tchuigoua et al., 2024), (Nandaula, 2022) and (Singh, 2024).

This study is grounded in the Theory of Financial Sustainability, which posits that the long-term viability of financial institutions depends on their ability to generate sufficient income to cover operating expenses and risks. Financial reporting quality, according to the stewardship theory, enhances the reliability of information, facilitating better decision-making. Internal control theory emphasizes the importance of robust systems to ensure operational efficiency and mitigate fraud. Meanwhile, the Risk Management Theory highlights the role of

risk behavior in financial institutions' performance. By combining these theories, this study aims to provide a comprehensive framework for understanding the key factors influencing the financial sustainability of MFIs.

This research is urgent because it addresses the financial challenges faced by MFIs in Kuningan Regency, which are crucial to the economic well-being of local communities. The novelty of this study lies in its integrative approach, combining financial, managerial, and behavioral dimensions to explore the sustainability of MFIs. While previous research has addressed these factors individually, this study offers a comprehensive model that considers the interactions between financial reporting, internal controls, and risk behavior in the context of rural MFIs. By focusing on the specific conditions of MFIs in Kuningan Regency, the study provides valuable insights for improving the financial resilience of these institutions, which can be applied to similar rural areas across Indonesia and beyond.

The primary objective of this study is to analyze and empirically examine the effects of financial reporting quality, internal control effectiveness, and financial risk behavior on the financial sustainability of MFIs in Kuningan Regency. The study aims to generate actionable insights that can guide policymakers, MFI managers, and other stakeholders in improving financial management practices and ensuring the long-term viability of microfinance institutions. Ultimately, the findings of this research are expected to contribute to strengthening the financial infrastructure of rural communities and enhancing the resilience of MFIs in the face of economic challenges.

2. Theoretical Framework

2.1 Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), is one of the foundational theories in accounting that explains the relationship between principals (owners) and agents (managers) within an organization. The theory is based on the assumption that conflicts of interest may arise between these two parties, as they often have differing goals. In the context of Microfinance Institutions (MFIs), members or funders act as principals who entrust their capital to the managers (agents) to be managed responsibly and efficiently. However, without adequate oversight mechanisms, agents may act in ways that do not align with the principals' interests, thereby posing a threat to the institution's long-term sustainability (Hamzah et al., 2023).

To minimize such conflicts, Agency Theory emphasizes the importance of mechanisms such as high-quality financial reporting and effective internal controls. Accurate and transparent financial reporting reduces information asymmetry between principals and agents, enabling principals to assess managerial performance more objectively. At the same time, internal control systems function as tools to monitor and restrict opportunistic behavior. In MFIs particularly those operating in rural areas like Kuningan Regency these mechanisms are critical, given their typically weaker governance structures and limited human resources.

Moreover, Agency Theory is also relevant in explaining how financial risk behavior influences financial sustainability. When internal control systems are weak and financial reporting lacks transparency, managers may be tempted to take excessive financial risks in pursuit of short-term gains, potentially jeopardizing the long-term health of the institution. This demonstrates that financial sustainability is heavily influenced by how well the principal-agent relationship is managed through appropriate accounting mechanisms and governance practices. Therefore, Agency Theory provides a strong theoretical foundation to examine the

effects of financial reporting quality, internal control effectiveness, and financial risk behavior on the financial sustainability of MFIs.

2.2 Behavioral Accounting Theory

Behavioral Accounting Theory explores the psychological and behavioral aspects that influence accounting and financial decision-making. This theory highlights how individuals' perceptions, biases, and cognitive limitations affect their decision processes in financial reporting, budgeting, and risk assessment. In the context of Microfinance Institutions (MFIs), the financial decisions made by managers and key stakeholders are often not entirely rational but are influenced by personal biases, past experiences, and psychological factors. These elements can distort financial judgments and lead to suboptimal outcomes, affecting the financial stability and sustainability of the institution.

For example, managers with a risk-averse mindset might limit lending and growth opportunities, thereby hindering the institution's potential to scale and serve more clients, while those with a risk-seeking attitude may approve risky loans without proper evaluation, exposing the MFI to significant financial losses. This type of behavior is critical in understanding financial risk behavior and its impact on MFI sustainability. Behavioral accounting theory suggests that these biases and psychological tendencies can be mitigated by designing better accounting systems, more effective controls, and enhanced financial literacy programs to encourage more balanced, objective decision-making (Lilian et al., 2023; Laila, 2024; Nuraeni et al., 2023; Putri, 2025).

Moreover, Behavioral Accounting Theory also ties into how internal control systems and financial reporting are perceived by decision-makers. Even if an MFI implements formal internal controls, managers may not follow these systems effectively due to cognitive biases or a lack of trust in the controls themselves. Similarly, financial reporting, while technically accurate, may be underutilized or misunderstood if decision-makers lack the skills or training to interpret it properly. This theory, therefore, underscores the importance of understanding the psychological dimensions of decision-making in accounting and financial management, which significantly influences the financial sustainability of MFIs.

2.3 Financial Reporting Quality On Financial Sustainability of MFIs

Financial reporting quality refers to the extent to which financial statements provide relevant, reliable, and unbiased information. In the context of Microfinance Institutions (MFIs), which often serve marginalized communities and operate under limited regulatory oversight, high-quality financial reporting is crucial for maintaining stakeholder trust—including donors, social investors, and regulators. The theoretical foundation underpinning this relationship is Agency Theory, which highlights potential conflicts of interest and information asymmetry between principals (e.g., donors, regulators, investors) and agents (e.g., MFI management). High-quality financial reporting reduces information asymmetry and enhances transparency, thereby limiting the risk of opportunistic behavior by management. Reliable and informative reports build confidence among external stakeholders, increasing their willingness to provide sustained funding and long-term partnerships, which ultimately supports the financial sustainability of MFIs.

Logically, when financial reports are trustworthy, stakeholders are more confident in the institution's financial stability and performance, which promotes continued funding and strengthens capital structure. Conversely, low-quality reporting may erode trust and lead to a

withdrawal of financial support. Prior research supports this connection: (Sunday et al., 2023) found a positive correlation between financial reporting quality and the sustainability of nonprofit organizations. Similarly, (Elrayah & Jalingo, 2023; Safitri & Oktaviani, 2024) emphasized the role of accounting information in maintaining accountability for socially driven institutions in the eyes of their stakeholders.

H1 : Financial Reporting Quality has a positive effect on the Financial Sustainability of Microfinance Institutions

2.4 Internal Control Effectiveness On Financial Sustainability of MFIs

Internal control effectiveness refers to the ability of an organization's internal systems and procedures to ensure accurate financial reporting, safeguard assets, ensure operational efficiency, and enforce compliance with applicable regulations. For Microfinance Institutions (MFIs), which typically operate in high-risk environments with limited resources and significant accountability to donors and lenders, the presence of strong internal control mechanisms is critical to sustaining financial health over time. Among the most suitable theoretical frameworks to explain this relationship is Agency Theory. According to this theory, there exists a principal-agent relationship where donors, investors, and regulators (principals) rely on the management of MFIs (agents) to act in their best interest. However, due to differing objectives and information asymmetry, agents may act opportunistically. Effective internal controls act as governance mechanisms that limit such risks by ensuring transparency, enforcing accountability, and aligning managerial actions with stakeholder expectations.

From a logical standpoint, when an MFI has effective internal controls, it is more likely to prevent fraud, minimize operational errors, and improve financial accuracy all of which contribute to the confidence of external stakeholders and encourage ongoing financial support. This increased trust translates into more stable funding, improved creditworthiness, and stronger long-term financial sustainability. On the other hand, weak internal controls may lead to misuse of funds, inefficiencies, or even financial collapse. Empirical studies, such as that by (Tadele et al., 2022; Sahabuddin et al., 2023); Murtadlo & Nuraeni, 2022), have established a positive association between strong internal control systems and sustainability in nonprofit financial institutions. Similarly, (Nzimirinda & Kengere, 2023) emphasized that control systems are instrumental in managing organizational risk and enhancing long-term viability.

H2 : Internal Control Effectiveness has a positive effect on the Financial Sustainability of Microfinance Institutions

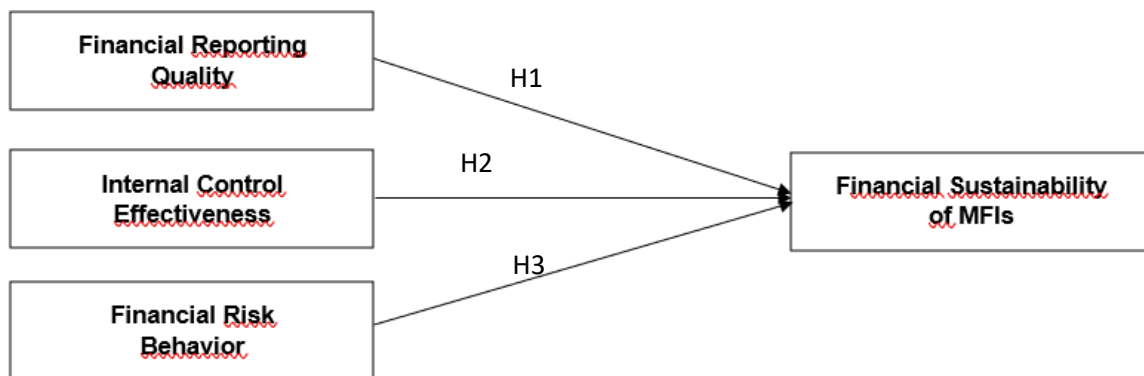
2.5 Financial Risk Behavior On Financial Sustainability of MFIs

Financial risk behavior refers to how decision-makers within an organization perceive, respond to, and manage financial risks such as credit risk, liquidity risk, and operational risk. In the context of Microfinance Institutions (MFIs), which often operate in uncertain, resource-constrained environments and serve high-risk borrower segments, the financial behavior of managers plays a crucial role in determining organizational outcomes. Unlike traditional financial theories that assume rational decision-making, Behavioral Accounting Theory emphasizes the influence of cognitive biases, emotions, experience, and psychological factors in financial decision-making. This theory posits that individuals particularly decision-

makers may not always act rationally due to biases such as overconfidence, risk aversion, or herd behavior, which can significantly affect financial outcomes.

In MFIs, poor risk behavior such as excessive lending to high-risk clients without adequate risk assessment, reluctance to adopt conservative financial practices, or ignoring early warning signs can lead to loan defaults, liquidity crises, and erosion of capital. These behaviors, driven by psychological and behavioral tendencies, may compromise financial stability and long-term sustainability. Conversely, prudent and well-balanced financial risk behavior rooted in awareness, data-informed judgment, and disciplined financial controls can strengthen an institution's resilience and ability to weather financial shocks. Studies such as those by (Oppong et al., 2024; Kendo & Tchakounte, 2022; Wiharno et al., 2023; Rakhmawati et al., 2023) provide empirical support for the impact of behavioral factors on financial decision-making and risk outcomes. In the MFI context, where managerial discretion often plays a larger role than formal systems, behavioral tendencies can either support or undermine sustainability efforts.

H3 : Internal Control Effectiveness has a negative effect on the Financial Sustainability of Microfinance Institutions



Source: (Musyoka, 2023),(Singh, 2024), (Nandaula, 2022),(Zhang et al., 2022)

Figure 1. Research Model

3. Methods

This study employs a quantitative causal research design aimed at examining the effects of Financial Reporting Quality, Internal Control Effectiveness, and Financial Risk Behavior on the Financial Sustainability of Microfinance Institutions (MFIs) in Kuningan Regency, Indonesia. The population of this study consists of all active Microfinance Institutions (MFIs) in Kuningan Regency, totaling 160 institutions. The sample size was determined using Slovin's formula with a 5% margin of error to ensure statistical representativeness.

$$n = \frac{N}{1 + Ne^2}$$

Description

n : the sample size to be determined.

N : the population size (the total number of individuals in the population).

e : the margin of error or the tolerated level of error (expressed in decimal form).

$$n = \frac{160}{1 + 160 \times 0,05^2}$$

$$n = 116$$

The sampling technique employed was purposive sampling, selecting respondents who hold strategic roles in financial management, such as directors, managers, and heads of finance units. Based on the applied criteria, a total of 116 respondents were used in this study. These individuals were selected based on their strategic roles and in-depth knowledge of financial reporting, internal control, and risk-related decision-making processes.

Table 1. Measurement of Variables

Variable	Indicator	Source	Scale
Financial Sustainability (FS) (Variabel Dependen)	1. Operating Self-Sufficiency (OSS).	(Zhang et al., 2022) – CGAP & MIX Market benchmarks	Likert 1–5
	2. Return on Assets (ROA)		
	3. Financial Self-Sufficiency (FSS)		
	4. Loan portfolio growth		
Financial Reporting Quality (FRQ) (Variabel Independen)	1. Relevance	(Musyoka, 2023), PSAK	Likert 1–5
	2. Reliability		
	3. Comparability		
	4. Understandability of financial reports		
Internal Control Effectiveness (ICE) (Variabel Independen)	1. Control environment	(Singh, 2024), COSO Framework	Likert 1–5
	2. Risk assessment		
	3. Control activities 4. Information & communication		
	4. Monitoring		
Financial Risk Behavior (FRB) (Variabel Independen)	1. Risk-taking	(Nandaula, 2022), Prospect Theory	Likert 1–5
	2. Risk aversion		
	3. Overconfidence.		
	4. Risk management attitude		

The table presents the characteristics of respondents based on gender, age, job position, years of experience, and education level. The majority of respondents are male (58.62%) and most are over 40 years old (42.24%), followed by those aged 30–40 years (38.79%). In terms of job position, most respondents are managers (45.69%), followed by finance heads (38.79%) and directors (15.52%). Regarding work experience, the largest proportion of respondents have 5–10 years of experience (44.83%), while 34.48% have over 10 years of experience. In terms of education, most respondents hold a Bachelor's degree (63.79%), followed by those with a Diploma (D3) at 26.72%, and only a small portion hold a Master's degree (S2) or higher (1.72%). This data provides an overview of the human resource profile within MFIs in Kuningan Regency.

4. Results and Discussion

4.1 Measurement Model Evaluation (Outer Model)

This study conducted a validity and reliability analysis to assess the constructs of Financial Reporting Quality, Internal Control Effectiveness, and Financial Risk Behavior in relation to the Financial Sustainability of Microfinance Institutions (MFIs), with the outcomes presented in Table 2. The evaluation utilized five key statistical indicators: factor loadings, Cronbach's Alpha, rho_A, composite reliability (CR), and average variance extracted (AVE). This analysis aimed to ensure that each measurement item accurately and consistently represented its intended construct. The findings confirm that the indicators used are both valid and reliable, thus reinforcing the credibility and robustness of the study's measurement model.

Table 2. Validity and Reliability Analysis

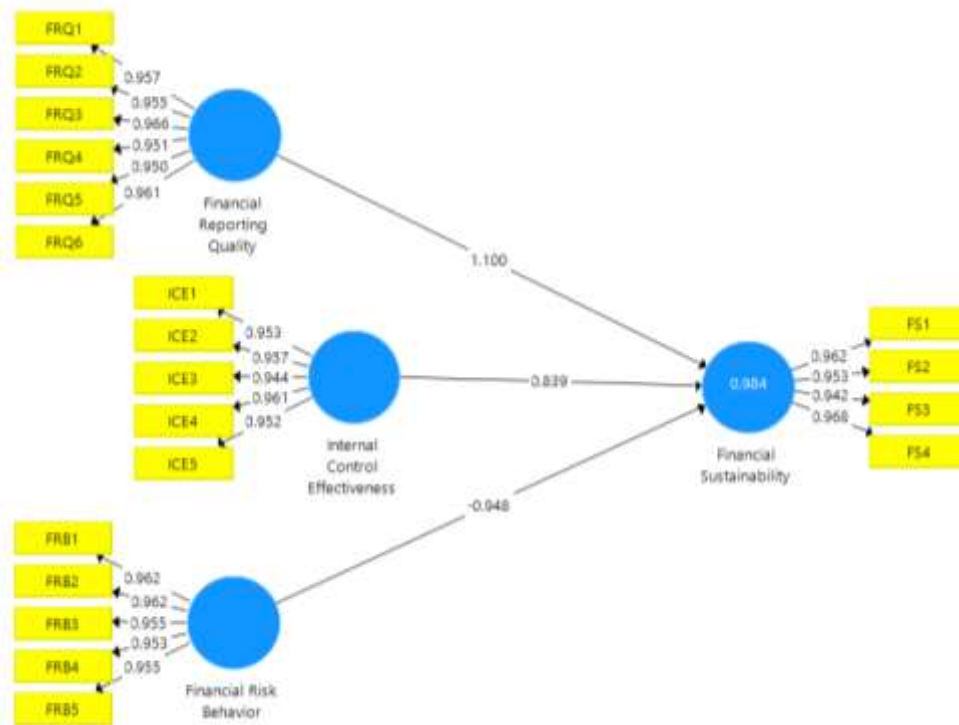
Variable	Item	Loading	Alpha	rho_A	CR	AVE
Financial Reporting Quality	FRQ1	0.957	0.981	0.982	0.985	0.915
	FRQ2	0.955				
	FRQ3	0.966				
	FRQ4	0.951				
	FRQ5	0.950				
	FRQ6	0.961				
Internal Control Effectiveness	ICE1	0.953	0.975	0.975	0.980	0.909
	ICE2	0.957				
	ICE3	0.944				
	ICE4	0.961				
	ICE5	0.952				
Financial Risk Behavior	FRB1	0.962	0.977	0.978	0.982	0.917
	FRB2	0.962				
	FRB3	0.955				
	FRB4	0.953				
	FRB5	0.955				
Financial Sustainability of MFIs	FS1	0.962	0.969	0.969	0.977	0.914
	FS2	0.953				
	FS3	0.942				
	FS4	0.968				

Source: processed data, 2025

The validity and reliability assessment of the constructs in this study Financial Reporting Quality, Internal Control Effectiveness, Financial Risk Behavior, and Financial Sustainability of MFIs demonstrates strong statistical support for the measurement model. All indicator factor loadings exceed the recommended threshold of 0.70, ranging from 0.942 to 0.968 for Financial Sustainability, 0.953 to 0.962 for Financial Risk Behavior, 0.944 to 0.961 for Internal Control Effectiveness, and 0.950 to 0.966 for Financial Reporting Quality. These high values indicate that each item strongly represents its respective construct.

In terms of internal consistency, Cronbach's Alpha values are all well above the 0.70 benchmark, with the highest being 0.981 for Financial Reporting Quality, followed by 0.977, 0.975, and 0.969 for the other variables, reflecting excellent reliability. Similar results are observed for rho_A and Composite Reliability (CR), all of which are above 0.90, further confirming the consistency of the measurement items.

Lastly, the Average Variance Extracted (AVE) for all constructs exceeds the minimum acceptable value of 0.50, with scores ranging from 0.909 to 0.917, indicating strong convergent validity. Overall, these results affirm that all items used in the study are both valid and reliable in measuring the latent constructs, thereby ensuring the robustness and credibility of the measurement model for examining financial sustainability within Microfinance Institutions (MFIs).



Source: Processed Data, 2025

Figure 2. Outer Model

4.2 Measurement Model Evaluation (Outer Model)

Evaluating the structural model involves calculating path coefficients and determining the R² values to assess the explanatory power of the independent variables on the dependent variable. The analysis is conducted using SmartPLS, which generates t-statistic values through a bootstrapping procedure for hypothesis testing. The path coefficients indicate the strength and direction of the relationships between the variables under study (Haryono, 2016). A path coefficient is considered statistically significant if the t-statistic exceeds 1.96 or the p-value is less than 0.05, which confirms that the relationship between the variables is meaningful within the model.

Table 3. Summary of Structural Equation Modelling Analysis

Hypothesis	Direct Connection	T-Value	P-Value	Finding
H1	FRQ ---> FS	4.802	0.000	Accepted
H2	ICE ---> FS	4.461	0.000	Accepted
H3	FRB ---> FS	14.135	0.000	Accepted
R Square	0.984			
Adj R Square	0.984			
Effect Size	0.888 Large			
Predictive Value Relevant	0.871			

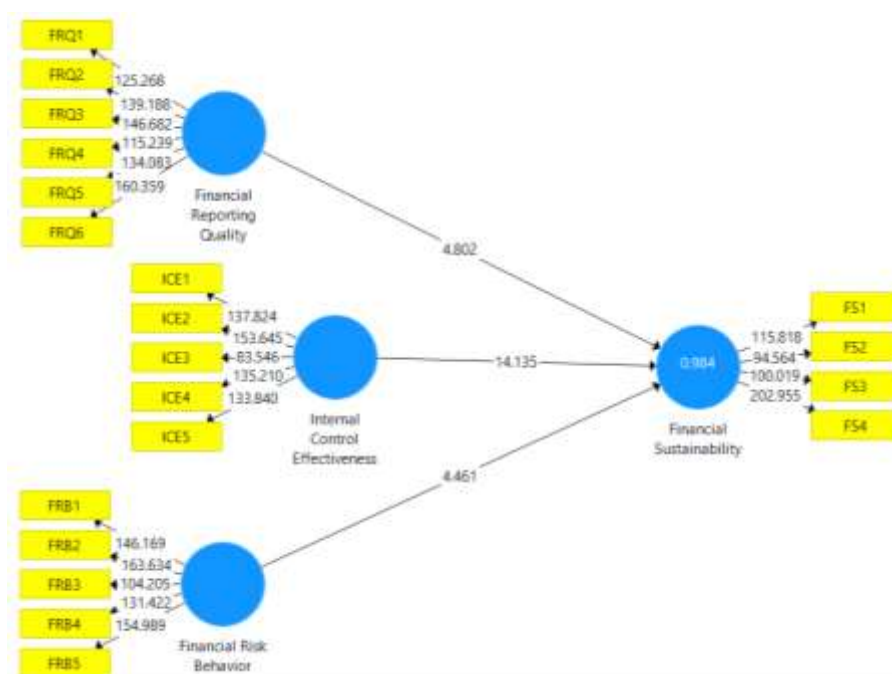
Source: processed data, 2025

The structural model analysis provides strong empirical support for all three proposed hypotheses. Financial Reporting Quality (FRQ) has a significant positive effect on Financial Sustainability (FS), as indicated by a t-value of 4.802 and a p-value of 0.000, meeting the

significance threshold ($t > 1.96$; $p < 0.05$). Similarly, Internal Control Effectiveness (ICE) shows a statistically significant impact on FS, with a t-value of 4.461 and p-value of 0.000, confirming the acceptance of H2. The strongest relationship is observed between Financial Risk Behavior (FRB) and FS, which records a t-value of 14.135 and a p-value of 0.000, signifying a highly significant influence.

The model also demonstrates a very high level of explanatory power, with an R^2 value of 0.984 and an adjusted R^2 of 0.984, indicating that 98.4% of the variance in Financial Sustainability can be explained by the three independent variables. The effect size (f^2) of 0.888 is categorized as large, highlighting the substantial contribution of the predictors to the dependent variable. Additionally, the model's predictive relevance (Q^2) score of 0.871 confirms that the model has strong predictive accuracy.

Overall, these results affirm that Financial Reporting Quality, Internal Control Effectiveness, and Financial Risk Behavior all have significant and meaningful influences on the Financial Sustainability of Microfinance Institutions, with the model demonstrating both statistical robustness and practical relevance.



Source: Processed Data, 2025

Figure 3. Inner Model

4.3 The Influence of Financial Reporting Quality on the Financial Sustainability of MFIs

Financial Reporting Quality plays a vital role in supporting the financial sustainability of Microfinance Institutions (MFIs), particularly in areas such as Kuningan Regency. Accurate, transparent, and timely financial reports serve as the foundation for effective decision-making, accountability, and strategic planning. High-quality financial reporting enables MFIs to monitor their financial position, manage risks efficiently, and maintain trust among stakeholders, including investors, regulators, and clients.

According to Agency Theory, financial reporting acts as a key mechanism to reduce information asymmetry between the management (agent) and the owners or external parties (principal). In this context, high-quality financial reporting serves as an internal control tool

that ensures managers act in the best interest of the institution and its stakeholders. Reliable and transparent reports minimize the potential for conflicts of interest and enhance managerial accountability, ultimately contributing to the long-term sustainability of MFIs.

The results of this study confirm that Financial Reporting Quality has a significant positive effect on the Financial Sustainability of MFIs, reinforcing the view that quality reporting is not merely an administrative requirement but a strategic asset. MFIs with robust reporting systems are better positioned to withstand financial shocks, attract funding, and sustainably expand their services.

These findings are consistent with previous studies. (Kendo & Tchakounte, 2022) and (Fersi & Abbes, 2023) found that transparent financial reporting enhances investor confidence and improves operational efficiency in MFIs. (Masavu, 2022) also reported that the quality of financial statements significantly impacts an institution's long-term performance, including profitability and liquidity. Similarly, (Eghe-Ikhrhe et al., 2024) emphasized that financial reports adhering to generally accepted accounting principles reduce the risk of manipulation and increase stakeholder trust.

Therefore, regulators, MFI associations, and support institutions should prioritize efforts to improve financial reporting standards through training, technical assistance, and the adoption of standardized reporting frameworks. Strengthening this internal capability not only improves the credibility of MFIs but also enhances the overall resilience of the microfinance sector.

4.4 The Influence of Internal Control Effectiveness on the Financial Sustainability of MFIs

Internal Control Effectiveness plays a crucial role in maintaining and enhancing the financial sustainability of Microfinance Institutions (MFIs). An effective internal control system allows institutions to prevent and detect errors and fraud, ensure compliance with policies and regulations, and support operational efficiency and accountability. In the context of MFIs, strong internal controls are a critical foundation for safeguarding financial integrity and sustaining stakeholder trust.

According to Agency Theory, internal control effectiveness serves as a key mechanism to mitigate agency problems, which arise from potential misalignment between the interests of managers (agents) and those of owners or external stakeholders (principals). A well-functioning internal control system acts as a monitoring tool to reduce moral hazard and enhance transparency in resource management. Therefore, effective internal controls reinforce governance structures and support the institution's long-term financial sustainability.

The results of this study confirm that Internal Control Effectiveness has a significant positive effect on the Financial Sustainability of MFIs, highlighting that internal control systems are not merely tools for compliance but are also strategic assets for institutional stability and growth. MFIs that implement comprehensive and disciplined internal controls tend to achieve more stable financial performance, are better prepared to handle operational risks, and earn greater trust from regulators and funding partners.

This finding is consistent with previous research. (Li et al., 2022) reported that strong internal control systems enhance managerial efficiency and reduce the risk of asset loss. (Salifu, 2023) and (Lassoued, 2023) found that effective internal controls directly contribute to increased donor and investor confidence in MFIs. Similarly, (Tang, 2024) and (Kwanbo et al., 2023) emphasized that consistently implemented internal control systems help prevent

fraud and strengthen the long-term viability of small and medium-sized financial organizations.

Based on these findings, MFIs are encouraged to strengthen their internal audit functions, regularly update control policies and procedures, and invest in capacity building for staff in risk management and control. With effective internal controls, MFIs can not only sustain their operations but also grow steadily in the face of dynamic environmental challenges.

4.5 The Influence of Financial Risk Behavior on the Financial Sustainability of MFIs

Financial Risk Behavior refers to the extent to which individuals or institutional managers make financial decisions involving high levels of uncertainty and risk. In the context of Microfinance Institutions (MFIs), excessive risk-taking behavior can have detrimental impacts on financial sustainability. Decisions that are not grounded in rational analysis such as speculative investments, issuing loans without proper credit assessment, or mismanaging funds without adequate oversight can undermine the financial stability of the institution.

According to Behavioral Accounting Theory, financial decision-making is not solely based on objective data but is also shaped by psychological factors such as risk perception, cognitive biases, and social pressures. In practice, managers of MFIs may make overly optimistic decisions based on perceived returns while underestimating the associated risks particularly under uncertain or high-pressure environments. When this risky behavior becomes habitual, the likelihood of financial losses increases, jeopardizing the institution's ability to sustain itself in the long term.

The results of this study demonstrate that Financial Risk Behavior has a significant negative effect on the Financial Sustainability of MFIs, meaning that the greater the tendency of MFI managers to engage in risky financial decisions, the lower the institution's sustainability. This finding emphasizes the urgent need for disciplined financial management, improved managerial financial literacy, and strict internal monitoring systems to mitigate the consequences of imprudent financial behavior.

These findings are consistent with prior research. (Kadima et al., 2023) and (Agbana et al., 2023) found that impulsive, data-deficient financial decisions lead to operational losses in small financial institutions. (Mashalaghu & Mutunga, 2023) highlighted poor risk management behavior as one of the leading causes of microfinance institution failure. Furthermore, (Chepkurui et al., 2022) and (Hussain et al., 2023) emphasized that an institution's financial resilience is strongly influenced by cautious and well-considered investment and financing decisions.

Therefore, MFIs must implement ongoing training and supervision related to risk management, including the behavioral aspects of financial decision-making. A behavioral approach can help MFI leaders recognize biases, foster prudent attitudes, and strengthen the institution's resilience to unexpected financial shocks.

5. Conclusion

Based on the results of the study conducted on Microfinance Institutions (MFIs) in Kuningan Regency, it can be concluded that Financial Reporting Quality and Internal Control Effectiveness have a positive and significant influence on the Financial Sustainability of MFIs. This indicates that high-quality financial reporting and effective internal control are key

factors in maintaining the operational and financial sustainability of MFIs. Conversely, Financial Risk Behavior was found to have a significant negative effect on Financial Sustainability, meaning that the higher the tendency of managers to take irrational financial risks, the more vulnerable the institution becomes to instability and financial failure. With an R^2 value of 0.984, this model demonstrates a very strong predictive capability for financial sustainability. Theoretically, these findings support the Agency Theory and Behavioral Accounting Theory in explaining financial management behaviors that directly impact the long-term performance of the institution. However, this study is limited by its geographical scope and does not include other variables such as technological support or the influence of government policies, so generalizing the findings should be done with caution.

Based on these findings, several recommendations can be made for various stakeholders. For MFI management, it is recommended to enhance the quality of financial reporting and strengthen internal control systems through training, digitalization, and routine audits. Additionally, financial risk management education should be reinforced to ensure more rational and measured decision-making. For the government and supervisory bodies, it is important to provide continuous guidance and oversight programs, as well as to promote the implementation of good governance practices within MFIs. Meanwhile, for future researchers, it is suggested to expand the study's geographical scope and include other variables such as financial literacy, technological innovation, or regulation as mediating or moderating factors, in order to enrich the understanding of factors influencing the financial sustainability of MFIs more comprehensively.

REFERENCE

- Agbana, J., Bukoye, J. A., & Arinze-Emefo, I. C. (2023). Impact of Credit Risk Management on the Financial Performance of Microfinance Institutions in Nigeria: A Qualitative Review. *Open Journal of Business and ...*
- Chepkurui, T., Naibei, I. K., & Kemboi, R. K. (2022). *Relationship Between Financial Controls And Financial Sustainability Of Kericho County Government, Kenya*. ir-library.kabianga.ac.ke.
- Eghe-Ikhrhe, G. O., Roni, N. N., & Bonsu, M. O. A. (2024). Forensic accounting in fraud detection and prevention: A qualitative investigation of microfinance institutions. *International Journal of ...*
- Elrayah, M., & Jalingo, M. U. (2023). Capital Structure Dynamics: Evaluating Financial Performance through Financial Accountability and Investment Decision: Moderating Influence of Internal Control *Cuadernos de Economía*.
- Fersi, M., & Abbes, M. B. (2023). Comparative study of microfinance sustainability: Credit risk-taking and capital structure. ... *Journal of Management, Economics and Social ...*
- Hamzah, A., Febriansyah, Y., Martika, L. D., & Fitriani, C. (2025). Pengaruh Anggaran. Pelatihan Akuntansi dan Kesadaran Keuangan Terhadap Keberlanjutan Kuangan UKM. *Jurnal Riset Keuangan Dan Akuntansi*, 11(1), 85–97.
- Hamzah, A., Suhendar, D., & Arifin, A. Z. (2023). Factors Affecting Cloud Accounting Adoption In SMEs. *Jurnal Akuntansi*, 27(3), 442–464. <https://doi.org/10.24912/ja.v27i3.1520>
- Hussain, M. D., Muhammad, M., Ahmed, I., & ... (2023). Impact of stakeholders as board members on sustainability and social outreach of microfinance institutions in developing markets. ... *Accounting*. <https://doi.org/10.1504/IJMFA.2023.127523>

- Kadima, A., Sindani, M. N., & Maingi, M. (2023). Credit risk management on financial performance of selected microfinance institutions. *African Journal of Empirical Research*.
- Kendo, S., & Tchakounte, J. (2022). The drivers of the financial integration of microfinance Institutions: Do financial development, agency costs and microfinance performance matter? *The Quarterly Review of Economics and Finance*.
- Kwanbo, M. L., Baba, E. A., Akanet, S., & ... (2023). Financial Reporting Quality and Control System: A Mixed Approach Assessment. ... , *Finance and Accounting*.
- Laila, S. (2024). Dampak Intellectual Capital Terhadap Sustainability Report Dan Kinerja Perusahaan Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia (BEI) Periode 2017-2021. *JRAK (Jurnal Riset Akuntansi Dan Bisnis)*, 10(1), 25–32.
- Lassoued, N. (2023). Earnings management and ownership type in microfinance institutions: an international evidence. *Afro-Asian Journal of Finance and Accounting*. <https://doi.org/10.1504/AAJFA.2023.132962>
- Li, Y., Ashhari, Z. M., & Fan, Y. (2022). Financial sustainability and capital leverage of microfinance institutions in China: The mediating role of profitability. *Cogent Economics & Finance*. <https://doi.org/10.1080/23322039.2022.2153411>
- Lilian, N. N., Mpora, E. B., Sunday, A., & Turyahebwa, A. (2023). *Internal Control Systems and Performance of Microfinance Institutions in Uganda. A Case Study of Kabale Municipality*. core.ac.uk.
- Martika, L. D., Hamzah, A., & Puspasari, O. R. (2024). The Dynamics Of Financial Literacy And Accounting Literacy In Coastal Communities. *Jurnal Akuntansi*, 28(02), 300–318.
- Masavu, N. M. (2022). *Relationship Between Financial Risk Management And The Financial Performance Of Microfinance Institutions In Kenya*. 41.89.49.50.
- Mshalaghu, R. B., & Mutunga, O. (2023). Effect of Firm Characteristics on Financial Stability of MicroFinance Institutions in Kilifi County, Kenya. *International Research Journal of*
- Murtadlo, K., & Nuraeni. (2022). Good Corporate Governance and Risk Management on Financial Cooperative Performance. *AFRE Accounting and Financial Review*.
- Musyoka, A. (2023). *Effect of Financial Accountability on Financial Sustainability of Microfinance Institutions in Kenya*. 41.89.49.50.
- Nandaula, M. L. (2022). *Internal Control Systems and Performance of Microfinance Institutions in Uganda: A Case Study of Kabale Municipality*. idr.kab.ac.ug.
- Nuraeni, N., Ghofiri, A. F., & Huda, K. (2023). Pengaruh Pengetahuan Keuangan, Sikap Keuangan Dan Perilaku Keuangan Terhadap Kinerja. *Jurnal Penelitian Ilmu Ekonomi Dan Keuangan Syariah*, 1(3), 300–319.
- Nzimurinda, E., & Kengere, O. A. (2023). Internal Control System and Financial Performance of Cooperatives in Rwanda: A Case of Zigama Credit and Saving Society. ... *of Finance and Accounting*.
- Oppong, C., Atchulo, A. S., Fofack, A. D., & ... (2024). Internal control mechanisms and financial performance of Ghanaian banks: the moderating role of corporate governance. ... *Journal of Economic* <https://doi.org/10.1108/ajems-03-2023-0101>
- Putri, I. D. R. (2025). PERAN MEKANISME CORPORATE GOVERNANCE PADA STRUKTUR MODAL PADA PERUSAHAAN FOOD AND BAVERAGE. *Jurnal EBI*, 7(01), 8–15.
- Rakhmawati, A., Rahardjo, K., & Prakasa, Y. (2023). Dampak Kondisi Sosial Ekonomi, Respon Kebijakan Pemerintah Dan Pengaruhnya Terhadap Keberlanjutan Ukm Dan

- Kinerja KeuanganNo Title. *Jurnal Sekretaris Dan Administrasi Bisnis*, 7(2).
<https://jurnal.asmtb.ac.id/index.php/jsab/article/view/352>
- Safitri, B., & Oktaviani, A. A. (2024). Pengaruh Perencanaan Pajak, Penghindaran Pajak, dan Prudence Accounting terhadap Nilai Perusahaan. *SKETSA BISNIS (e-Jurnal)*, 11(1), 106–122.
<https://jurnal.yudharta.ac.id/v2/index.php/SKETSABISNIS/article/view/5446>
- Sahabuddin, R., Arief, A. A., Rauf, D. I., & Muhammad, A. F. (2023). Kualitas Pelayanan Anggota Koperasi Pegawai Republik Indonesia (KPRI) Universitas Negeri Makassar Ditinjau dari Kemampuan Manajerial dan Kinerja Karyawan. *SKETSA BISNIS*, 10(2), 214–235.
- Salifu, S. A. (2023). The Effect of Corporate Governance on Financial Reporting Quality in Financial Institutions: The Role of Internal Audit Quality. *ADRRJ Journal of Arts and Social Sciences*.
- Singh, K. (2024). Social performance, financial risk and financial performance in microfinance institutions. *International Journal of Bank Marketing*.
<https://doi.org/10.1108/ijbm-01-2023-0005>
- Sunday, A., Tamwesigire, C., Mpora, E. B., & Moses, M. A. (2023). *Management Control Systems and Performance of Micro Finance Institutions in Central Region Uganda*. academia.edu.
- Tadele, H., Roberts, H., & Whiting, R. (2022). Microfinance institutions' risk and governance in Sub-Saharan Africa. *International Journal of Social ...* <https://doi.org/10.1108/IJSE-10-2020-0719>
- Tang, X. (2024). Assessing Cash Flow Risk In Microfinance Institutions: A Bottom-Up Approach And Monte Carlo Simulation. *Journal of Developmental Entrepreneurship*.
<https://doi.org/10.1142/S1084946724500092>
- Tchuigoua, H. T., Mufur, D. N., & ... (2024). Internal control quality and earnings management. Lessons from microfinance institutions. ... *of Banking, Accounting ...* <https://doi.org/10.1504/IJBAAF.2024.142714>
- Tijani, G. A. (2022). *Internal control system and performance of microfinance banks in Osun State, Nigeria*. search.proquest.com.
- Umaru, K. A. (2023). *Internal Controls System, Managerial Ability and Performance of Microfinance Banks in Kwara State*. search.proquest.com.
- Wiharno, H., Martika, L. D., Hamzah, A., & Septiani, T. (2023). Analysis of Determinants Influencing Transfer Pricing. *SKETSA BISNIS*, 10(2), 198–213.
- Zhang, L., Saydaliev, H. B., & Ma, X. (2022). Does green finance investment and technological innovation improve renewable energy efficiency and sustainable development goals. *Renewable Energy*.