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Leveraging Lending Institutions for Sustainable Growth: Implications for Sales Growth and Profitability in Small and Medium Enterprises

Ayeen O. Dacanay[1], Bleselle M. Gernalin[2], Haselle R. Miguel[3], Julianne Marie V. Cunanan [4], Kenneth L. Armas, Ph D[5]

[1]Department of Education Cuyapo East District – Cuyapo, Nueva Ecija
[2]Nueva Ecija University of Science and Technology – Cabanatuan City, Nueva Ecija
[3]Nueva Ecija University of Science and Technology – Gabaldon, Nueva Ecija
[4] Pamana Water Corporation – Guimba, Nueva Ecija
[5]Nueva Ecija University of Science and Technology – Cabanatuan City, Nueva Ecija

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Abstract**—*This study is titled, Leveraging Lending Institutions for Sustainable Growth: Implications for Sales Growth and Profitability in Small and Medium Enterprises. This research studies how small and medium enterprises (SMEs) utilize lending institutions to achieve sustainable growth. A descriptive research design was used in this study with a total of 45 respondents who answered the survey questionnaires. The respondents of this study are individuals or representatives from small and medium enterprises (SMEs) who have experience the borrowing process from lending institutions. The research objectives dealt with a description of the demographic profile of the respondents, factors influencing financing decisions, the impact of leveraging lending institutions, challenges and opportunities in leveraging lending institutions for SMEs, and a strategic plan for enhancing SMEs' access to and utilization of financing from lending institutions. The research aims to understand how SMEs' utilization of lending institutions contributes to their long-term sustainability and financial success. The study revealed that the main factor influencing SMEs financing decisions is Access to capital. Likewise, there's a strong consensus among respondents that lending institutions have positively contributed to SME's growth and expansion. Additionally, high interest rates emerge as a notable challenge, with respondents strongly agreeing on its negative impact. Lastly, access to capital emerges as a crucial opportunity, enabling SMEs to obtain the financial resources necessary for their expansion initiatives, thus facilitating market penetration and operational improvements.*

***Keywords*— financial institutions, lending institutions, profitability, sales growth, small and medium enterprise, sustainable growth**

I. INTRODUCTION

Access to finance is a critical barrier for small and medium enterprises (SMEs) to grow and thrive. While traditional bank lending remains an important source of financing, the limitations of this approach have motivated many countries to consider alternative avenues for SMEs to access growth capital (Beck, Demirguç-Kunt, & Levine, 2005; OECD, 2015). Insights from the literature suggest that developing a diversified financial system and enabling SMEs to leverage various funding sources can be instrumental in facilitating their sustainable growth and profitability (Berger & Udell, 2006; Beck, Demirguç-Kunt, & Singer, 2013).

Small and medium-sized enterprises (SMEs) play a vital role in economic growth and job creation, yet they often face significant challenges in obtaining the necessary financing to expand their operations (Abdulsaleh & Worthington, 2013). This challenge is particularly acute in developing economies, where informality, underdeveloped financial infrastructure, and other structural factors constrain SMEs' access to formal credit channels (Ayyagari, Demirguç-Kunt, & Maksimovic, 2011; Shinozaki, 2014).

Researchers have found that financial and institutional development can help alleviate these growth constraints and increase SMEs' access to external finance, thereby levelling the playing field between firms of different sizes (Beck & Demirguç-Kunt, 2006; Demirguç-Kunt et al., 2015).

While traditional bank lending remains an important source of financing, the limitations of this approach have motivated many countries to consider alternative avenues for SMEs to access growth capital. At the heart of addressing these challenges lies the essential contributions of financial institutions. From traditional banks to microfinance organizations and fintech companies, these entities serve as vital partners in nurturing small business success. By providing access to capital, offering financial advisory services, and mitigating risks, financial institutions play a multifaceted role in empowering small businesses to thrive and prosper (Cull et al., 2006; World Bank, 2022).

This paper seeks to unpack the essential contributions of financial institutions in nurturing small businesses' sustainable growth in sales and profitability. By examining the various ways in which financial institutions support small businesses, we gain insights into the symbiotic relationship between financial institutions and small enterprises and the transformative impact it has on local economies and communities. From facilitating access to finance to fostering innovation and resilience, financial institutions emerge as indispensable allies in the journey of small business growth and prosperity (Beck, Demirguç-Kunt, & Levine, 2005; World Bank, 2022).

Through a comprehensive exploration of the role of financial institutions in nurturing small business success, this paper aims to shed light on the importance of fostering a supportive ecosystem for entrepreneurship and economic development. By highlighting the pivotal role played by financial institutions, we can identify opportunities for collaboration, innovation, and policy intervention to empower small businesses and drive sustainable growth in the global economy (OECD, 2015; Demirguç-Kunt et al., 2015).

II. METHODOLOGY

The research was conducted in Guimba, Nueva Ecija, focusing on individuals or representatives from small and medium enterprises (SMEs) with experience in borrowing from lending institutions. These include SME owners, managers, and staff. A total of 45 purposively chosen respondents (Subia, 2018) participated by answering a survey questionnaire that will describe the factors that will influence SMEs' decisions to seek financing from lending institutions as well as the challenges and opportunities of leveraging lending institutions on sales growth and profitability. A consent form with confidentiality and other ethical considerations was utilized before data collection. Respondents were selected through purposive sampling from various SMEs in the municipality. Not all SMEs registered in the Guimba Business Unit are financed by lending institutions, hence purposive sampling was utilized to target specific criteria relevant to the research objectives. This method involves selecting samples based on predetermined criteria, making it a commonly used non-random technique. Basic descriptive statistics such as frequency count, percentages, and weighted mean were used (Babbie, 2016).

III. RESULTS AND DISCUSSION

1. Profile of Respondents: Demographic Information

1.1. Demographic Profile

Table 1 represents the demographic profile of respondents in terms of business type or industry, role in SME, and length of operation.

Table 1. Business Type / Industry

Profile	Frequency	Percentage
Retail Business Industry	20	44.45
Food Industry	19	42.22
Service-based Business Industry	6	13.33
Total	**45**	**100.00**

The findings illustrate a varied landscape of business sectors among respondents. A substantial portion is involved in retail, reflecting a focus on direct consumer goods sales through outlets like grocery stores and hardware supply shops. Furthermore, a significant number are affiliated with the food industry, indicating a diverse array of food production and distribution establishments, such as eateries and bakeries. Additionally, a notable percentage belongs to the service sector, highlighting the significance of consumer services like salons and water refilling stations. This diversity suggests a rich economic environment, with retail and food industries prominently featured, alongside essential consumer services, providing valuable insights into local economic dynamics and consumer preferences.

Table 2. Role in the SME

Profile	Frequency	Percentage
Owner	43	95.56
Manager	2	4.44
Staff	0	0.00
Others	0	0.00
Total	**45**	**100.00**

The analysis highlights a notable trend among respondents involved in small and medium enterprises (SMEs), emphasizing the prevalence of ownership roles. Specifically, a vast majority of respondents, without quantifying the exact percentage, identified themselves as SME owners, indicating a strong presence of individuals directly engaged in managing and making decisions for their businesses. This suggests that the survey primarily targeted individuals with ownership stakes or entrepreneurial leadership responsibilities within SMEs. In contrast, a smaller proportion of respondents hold managerial positions within these enterprises.

Table 3. Length of Operations

Profile	Frequency	Percentage
Less than 1 year	2	4.44
1 – 3 years	27	60.00
3 – 5 years	9	20.00
More than 5 years	7	15.56
Total	**45**	**100.00**

The data regarding the operational duration of SMEs offers insights into the different stages of the businesses surveyed. Most respondents reported having relatively young businesses, suggesting a vibrant landscape of entrepreneurship. Many participants are in the early stages of building and establishing their ventures. However, there are also more established businesses represented, indicating a subset of enterprises that have likely experienced growth and maturity over time. Additionally, there is a presence of emerging businesses, with a small percentage of respondents indicating operations of less than one year. Overall, the data paints a picture of a diverse range of SMEs at various stages of development and maturity.

2. Factors Influencing SMEs Financing Decisions

Table 4. Factors Influencing SMEs Financing Decisions

Parameters	Weighted Mean	Verbal Description
1. Access to Capital	3.69	Strongly Agree
2. Interest Rates	3.53	Strongly Agree
3. Terms and Conditions of Loans	3.62	Strongly Agree
4. Reputation and credibility of the lending institution	3.67	Strongly Agree
5. Ease of application process	3.62	Strongly Agree
Overall Mean	**3.63**	**Strongly Agree / Significant Factor**

Legend: 3.25-4.00 Strongly Agree/Very Significant Factor; 2.50-3.24; Agree/Significant Factor; 1.75-2.49 Disagree/Insignificant Factor; 1.00 -1.74 Strongly Disagree/Very Insignificant Factor

Table 4 sheds light on the key factors influencing SMEs' strategies for acquiring capital. Access to capital emerges as a crucial consideration, with respondents strongly affirming its significance. This highlights the importance for SMEs to secure adequate funding to support their growth and operational needs. Additionally, interest rates and loan terms are deemed essential, indicating that favorable terms can impact the cost-effectiveness of borrowing and financial sustainability. The reputation and credibility of lending institutions also resonate strongly with respondents, emphasizing the importance of trustworthy partnerships. Furthermore, the ease of the application process is valued, suggesting that simplified procedures are preferred by SMEs. Overall, the study indicates a widespread consensus among respondents regarding the factors shaping SMEs' financing decisions.

3. Impact of Leveraging Lending Institutions

Table 5. Impact of Leveraging Lending Institutions

Parameters	Weighted Mean	Verbal Description
1. Leveraging lending institutions have positively contributed to our SME's growth and expansion.	3.42	Strongly Agree
2. Accessing financing from lending institutions has enabled our SMEs to invest in innovation and technology.	3.00	Agree
3. Utilizing loans from lending institutions has helped improve our SME's production capacity and efficiency.	3.13	Agree
4. Leveraging lending institutions has facilitated our SME's entry into new markets or expansion of existing operations.	3.02	Agree
5. Our SME has experienced increased sales volumes because of leveraging lending institutions.	3.18	Agree
6. Leveraging lending institutions has contributed to enhancing our SME's profitability.	3.22	Agree
Overall Mean	**3.16**	**Agree/Significant Factor**

Legend: 3.25-4.00 Strongly Agree/Very Significant Factor; 2.50-3.24; Agree/Significant Factor; 1.75-2.49 Disagree/Insignificant Factor; 1.00 -1.74 Strongly Disagree/Very Insignificant Factor

The findings from Table 5 highlight the significant role of utilizing lending institutions in driving the growth and progress of small and medium enterprises (SMEs). There's a strong consensus among respondents regarding the impactful nature of leveraging these institutions, as indicated by their weighted mean of 3.42. Accessing financing from these entities has been particularly beneficial, empowering SMEs to invest in innovation and technology, thereby enhancing their competitiveness in dynamic markets. Moreover, utilizing loans from lending institutions has proven effective in improving SMEs' production capacity and operational efficiency, facilitating their entry into new markets or expansion of existing operations. SMEs have experienced tangible benefits such as increased sales volumes and enhanced profitability through their collaboration with lending institutions. The overall mean of 3.16 further confirms the widespread recognition among respondents of the positive outcomes stemming from leveraging these institutions.

4. Challenges and Opportunities in Leveraging Lending Institution

Table 6. Challenges in Leveraging Lending Institutions

Parameters	Weighted Mean	Verbal Description
1. High interest rates pose a significant challenge for our SME in accessing financing from lending institutions with a weighted mean of 3.29 and verbal interpretation strongly agree	3.29	Strongly Agree
2. Strict eligibility criteria set by lending institutions make it difficult for our SME to qualify for loans with a weighted mean of 3.13 and verbal interpretation agree	3.13	Agree

3. Lack of understanding of financial products and services offered by lending institutions is a challenge for our SME with a weighted mean of 3.18 and verbal interpretation agree	3.18	Agree
4. Regulatory constraints hinder our SME's ability to leverage lending institutions for growth and profitability with a weighted mean of 3.16 and verbal interpretation agree	3.16	Agree
Overall Mean	**3.19**	**Agree/Significant Factor**

Legend: 3.25-4.00 Strongly Agree/Very Significant Factor; 2.50-3.24; Agree/Significant Factor; 1.75-2.49 Disagree/Insignificant Factor; 1.00 -1.74 Strongly Disagree/Very Insignificant Factor

The research findings from Table 6 shed light on the pervasive hurdles faced by small and medium enterprises (SMEs) when dealing with lending institutions, revealing significant barriers that impede their access to financial resources. High interest rates emerge as a notable challenge, with respondents strongly agreeing on its negative impact. This emphasizes how excessive interest rates hinder SMEs' ability to secure affordable financing, thus hindering their growth and financial stability. Additionally, the stringent eligibility criteria set by lending institutions present another formidable challenge, making it harder for SMEs to qualify for loans and limiting their access to essential capital for expansion and operational improvements. Moreover, the lack of comprehension of financial products and services offered by these institutions exacerbates the challenges faced by SMEs. This underscores the importance of initiatives focused on financial literacy and education to empower SMEs in navigating the complexities of engaging with lending institutions effectively. Additionally, regulatory constraints emerge as significant barriers, imposing compliance burdens and limiting the flexibility of SMEs in accessing financing options, thereby constraining their potential for expansion and innovation. The overall findings highlight the widespread recognition among respondents of the multifaceted challenges confronting SMEs in their interactions with lending institutions.

Table 7. Opportunities in Leveraging Lending Institutions

Parameters	Weighted Mean	Verbal Description
1. Access to capital for expansion is a significant opportunity that leveraging lending institutions can offer our SMEs.	3.20	Agree
2. Competitive interest rates and favorable loan terms present an opportunity for our SME to leverage lending institutions effectively.	3.18	Agree
3. Building creditworthiness and reputation through lending institutions can benefit our SMEs in the long term.	3.20	Agree
Overall Mean	**3.19**	**Agree/Significant Factor**

Legend: 3.25-4.00 Strongly Agree/Very Significant Factor; 2.50-3.24; Agree/Significant Factor; 1.75-2.49 Disagree/Insignificant Factor; 1.00 -1.74 Strongly Disagree/Very Insignificant Factor

Table 7 highlights the significant opportunities available to small and medium enterprises (SMEs) through strategic partnerships with lending institutions, offering a pathway for growth and expansion. Access to capital emerges as a crucial opportunity, enabling SMEs to obtain the financial resources necessary for their expansion initiatives, thus facilitating market penetration and operational improvements. Competitive interest rates and favorable loan terms provide another compelling opportunity for SMEs to leverage lending institutions effectively, enhancing their cost-effectiveness and financial sustainability. Moreover, establishing creditworthiness and a positive reputation with lending institutions offers long-term benefits, improving SMEs' credibility and access to future financing opportunities, thereby promoting resilience and stability in the competitive market environment. Additionally, respondents recognize broader societal benefits, emphasizing how lending institutions enable businesses to expand, invest, and consumers to access goods and services otherwise out of reach. The overall findings underscore the collective acknowledgement among respondents of the numerous opportunities presented by strategic engagement with lending institutions.

Part 5. Proposed Strategic Plan for enhancing SMEs' access to and utilization of financing from lending institutions.

Table 8. Proposed Strategic Plan

Phase	Objectives	Activities	Timeline	Responsible Parties
1. Assessment	- Evaluate current financial position	- Assess cash flow, creditworthiness, and debt levels	1 month	Financial team
	- Analyze market and competitive landscape	- Research lending options and criteria		
2. Goal Setting	- Set clear objectives for financing access	- Define target loan amounts and terms	1 week	Management team
	- Establish utilization goals	- Determine how borrowed funds will be used		
3. Strategy Development	- Develop a comprehensive plan	- Identify strategic initiatives for enhancing access and utilization	2 months	Strategy team
	- Prioritize strategic objectives	- Determine key focus areas for immediate action		
4. Implementation	- Enhance creditworthiness	- Improve credit scores through timely payments	Ongoing	Financial team
	- Diversify funding sources	- Explore alternative financing options		
	- Strengthen financial management	- Implement financial software for better management		
	- Promote sustainability	- Integrate sustainable practices into operations		
5. Monitoring & Evaluation	- Track progress towards objectives	- Monitor key performance indicators (KPIs)	Ongoing	Management team
	- Assess the effectiveness of strategies	- Conduct regular reviews and adjustments	Quarterly	Strategy team
6. Continuous Improvement	- Identify areas for improvement	- Solicit feedback from stakeholders	Ongoing	All teams
	- Adapt strategies based on feedback	- Update strategic plan as needed		

The table presents a comprehensive strategic plan to improve small and medium enterprises (SMEs) access to and use of financing from lending institutions. It divides the plan into phases, each with specific goals, activities, timelines, and responsible parties. The initial phase involves evaluating the current financial situation and market context to inform strategic decisions. Next, the management team sets clear financing objectives, followed by the strategy team identifying key initiatives and prioritizing objectives. Implementation involves executing strategies like improving creditworthiness and diversifying funding sources, with ongoing support from the financial team. Monitoring and evaluation track progress and effectiveness, with adjustments made quarterly. Lastly, continuous improvement involves all teams identifying areas for enhancement and adapting strategies based on stakeholder feedback. This comprehensive plan aims to empower SMEs in effectively navigating financing complexities, promoting their growth and sustainability.

IV. CONCLUSIONS AND RECOMMENDATIONS

The following conclusions were drawn from the above-mentioned results of the study:

1. The study's examination of respondents' demographic profiles provides a comprehensive understanding of small and medium enterprises (SMEs) involved in the research. It highlights a diverse representation across retail, food, and service sectors, emphasizing the entrepreneurial drive of SME owners and the dynamic lifecycle stages of these businesses. Tailored support mechanisms are essential to address the unique needs of SMEs across various industries, roles, and development stages.
2. Analysis of factors influencing SMEs' decisions to seek financing from lending institutions reveals critical insights into financial strategies. Access to capital, interest rates, loan terms, and the reputation of lending institutions are key considerations. Streamlined financing procedures are crucial for SMEs, reflecting the importance of accessibility and efficiency.
3. The evaluation of leveraging lending institutions' impact on SMEs' sales growth and profitability underscores the importance of strategic financial partnerships. Financing enables SMEs to invest in innovation, expand into new markets, and enhance competitiveness, resulting in increased sales and profitability.
4. Despite challenges such as high interest rates and regulatory constraints, opportunities exist for SMEs to collaborate effectively with lending institutions. Access to capital, competitive interest rates, and establishing creditworthiness are avenues for SMEs to leverage financial partnerships, driving growth and profitability.
5. The proposed strategic plan outlines a comprehensive roadmap for SMEs to enhance their access to and utilization of financing from lending institutions. Through systematic assessment, goal setting, strategy development, implementation, monitoring, and continuous improvement, SMEs can navigate financial complexities effectively. Adaptability to market dynamics ensures the plan's effectiveness, empowering SMEs to overcome challenges and achieve sustainable success.

Based on the findings and conclusions, the following were suggested:

1. SMEs should focus on creating and managing a solid credit profile. Ensuring payments on current loans and trade credit are made on time, responsibly handling debt levels, and promptly dealing with any inaccuracies in credit reports. A favorable credit history boosts trustworthiness with creditors and enhances the ability to secure advantageous financing terms.
2. Leverage government initiatives and support programs designed for SMEs to benefit from subsidized loans, grants for innovation and expansion, and help with navigating regulatory requirements. SMEs need to research and utilize these resources to complement their financing strategies.
3. Create a comprehensive financial strategy that combines immediate operational requirements with future growth goals. This strategy should encompass various economic situations and possible obstacles to ensure the company can adjust and succeed in different market conditions.
4. Interact with advisors who specialize in SME financing and growth strategies, industry experts, or mentors. These experts can offer insightful advice, connections to networks of possible lenders or investors, and direction on financial matters. With their experience, SMEs can minimize obstacles and make the most of their financing strategies.
5. Strong cash flow management procedures to maintain liquidity and financial stability. SME cash inflows and outflows should be routinely monitored, payment terms with suppliers and customers should be optimized, and efficient inventory management should be put in place. SMEs can reduce their dependency on outside funding and strengthen their overall financial resilience by actively managing cash flow.

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