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## Financial Environment and Growth Potential of Small and Medium Enterprises in Bukidnon

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### Abstract

This study investigates the relationship between the financial environment and the growth potential of small and medium enterprises (SMEs) in Malaybalay City and Valencia City, Bukidnon. Despite numerous national initiatives aimed at financial inclusion, SMEs in provincial settings continue to experience systemic challenges such as limited access to financing, high operational costs, poor financial literacy, and insufficient government support. The research employed a quantitative approach, utilizing structured questionnaires distributed to 377 SME owners and managers across various sectors including agriculture, services, and retail.

The study measured four components of the financial environment—access to financing, financial management practices, operational costs, and access to government support programs—and their influence on key growth indicators: revenue growth, market expansion, sustainability, and innovation capacity. Descriptive statistics, correlation analysis, and regression techniques were used to analyze the data. Results showed that the overall financial environment was perceived as minimally challenging, with relatively favorable access to financing but ongoing barriers in cost control and strategic planning. A statistically significant relationship was found between the financial environment and SME growth potential, with financial management and government support emerging as strong predictors. The findings underscore the need for more localized, accessible, and responsive financial policies tailored to the unique needs of rural enterprises.

This study contributes empirical evidence that can guide policymakers, business development agencies, and financial institutions in creating sustainable growth strategies for SMEs operating in non-metropolitan regions.

**Keywords:** Financial environment, SME growth potential, small enterprises, medium enterprises

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### 1. Introduction

Small and medium enterprises (SMEs) are widely recognized as critical drivers of economic development and employment, representing over 90% of businesses and more than 50% of jobs globally (World Bank, 2020). In the Philippine context, SMEs account for more than 99% of registered businesses and contribute significantly to regional development and livelihood

generation (Department of Trade and Industry [DTI], 2020). Despite their importance, many SMEs remain constrained by limited financial access, poor financial management practices, high operational costs, and underutilized government support systems.

Existing literature often highlights financial environment as a determinant of business performance. For instance, Nguyen and Tran (2022) emphasized that financial literacy and access to capital are positively associated with SME profitability in Southeast Asia. However, most prior research has focused on urban enterprises, neglecting the realities of SMEs in provincial areas where infrastructural, informational, and institutional barriers are more pronounced. In Bukidnon—a predominantly agricultural province in Northern Mindanao—SMEs frequently encounter challenges such as reliance on informal lenders, limited digital infrastructure, and inadequate policy outreach (Delgado & Moreno, 2021; Diokno, 2019).

Moreover, this study is grounded on three interrelated theories that deepen the understanding of SME growth in constrained environments. The Resource-Based View (Barney, 1991) highlights how internal capabilities—such as effective financial management and innovation—enable firms to achieve a competitive advantage even when external resources are scarce. The Pecking Order Theory (Myers & Majluf, 1984) explains the financial behavior of SMEs that prefer internal funds and informal credit due to difficulties in accessing formal loans. Complementing these is Institutional Theory (Scott, 2001), which examines how government structures, policies, and norms shape SME decision-making and access to support systems. These theories collectively guide the analysis of how both internal resourcefulness and external institutional factors interact to influence SME growth. While modern research tools like AI-assisted writing platforms can help structure thoughts and improve clarity, the insights and contextualization in this paper reflect localized realities and the lived experiences of the researcher and respondents—ensuring that the essence of the work remains authentically human.

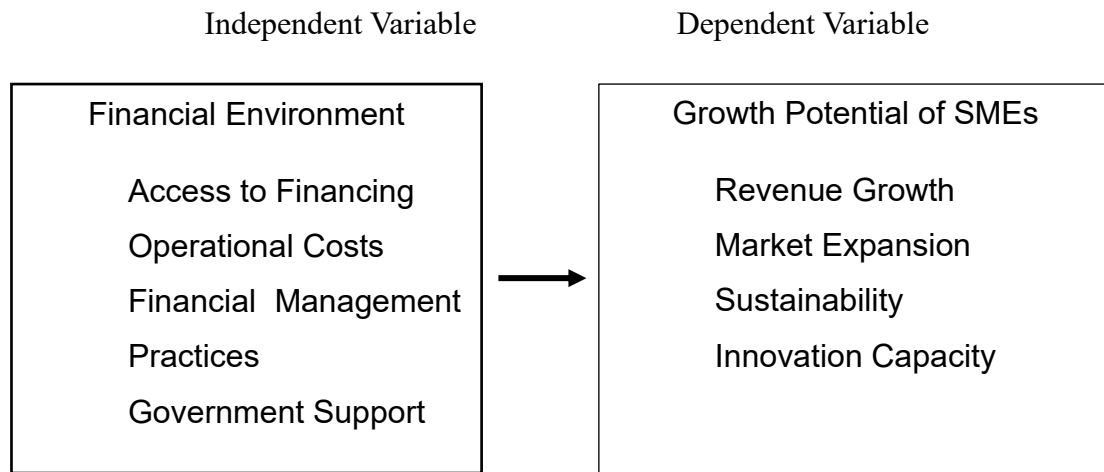
The purpose of this paper is to examine how the financial environment influences the growth potential of SMEs in Malaybalay City and Valencia City, Bukidnon. This study evaluates the relationship between four financial environment components—access to financing, financial management practices, operational costs, and government support—and key growth indicators, including revenue growth, market expansion, sustainability, and innovation capacity.

This paper contributes to the limited body of literature on rural SME development in the Philippines by providing empirical evidence from a regional perspective. Its findings offer insights for policymakers, financial institutions, and development agencies to design more inclusive, accessible, and regionally responsive financial strategies for sustainable SME growth.

### **1.1. The Framework Identifies**

**Independent Variable:** Financial environment, including access to financing, operational costs, financial management practices, and government support.

**Dependent Variable:** Growth potential of SMEs, measured through revenue generation, market expansion, sustainability, and innovation capacity.



**Figure 1. Schematic diagram showing the interplay of the independent variables; access to financing, operational cost, financial management practices, and government support, and the dependent variables: revenue generation, market expansion, sustainability, and innovation capacity.**

## 2. Methodology

This study adopted a quantitative research design to explore the relationship between the financial environment and the growth potential of SMEs in Bukidnon. The approach was chosen for its strength in providing objective, measurable data that can reveal patterns and correlations between variables. By using numerical data and statistical tools, the study ensured the reliability and generalizability of its findings within the provincial context.

The locale of the study was Malaybalay City and Valencia City, two major commercial hubs in Bukidnon. These cities were chosen due to their economic activity and the concentration of SMEs in agriculture, retail, and service industries. Despite their vibrancy, SMEs in these areas continue to face unique financial challenges, making them ideal for a focused inquiry into regional business constraints.

The respondents included 377 SME owners and managers across different sectors. A stratified random sampling method was used to ensure fair representation of each industry, with proportional allocation based on local SME distribution. These individuals were selected for their direct involvement in financial decision-making, providing rich insights into both operational practices and strategic growth goals.

A structured questionnaire served as the main research instrument. It was divided into three sections: business profile, financial environment, and growth potential. Each item was rated using a Likert scale, allowing respondents to indicate the degree of agreement or experience. The instrument underwent pilot testing in Maramag, Bukidnon to ensure reliability, with a Cronbach's Alpha score above 0.70 confirming its internal consistency.

In terms of data collection, surveys were administered both online and in person, depending on the accessibility of respondents. Ethical guidelines were strictly observed, including informed consent, voluntary participation, and data privacy in accordance with Republic Act 10173 or the Data Privacy Act of 2012. Confidentiality was maintained by collecting only non-identifiable data and summarizing responses at the group level.

Statistical techniques such as descriptive statistics, Pearson correlation, and multiple regression analysis were used to analyze the data. These tools allowed the researcher to describe the level of financial environment and SME growth, test for significant relationships, and identify predictive variables. Software such as SPSS was used to ensure accurate computation and interpretation of results.

The insights drawn from this study reflect a deep understanding of the local challenges faced by SMEs in Bukidnon. All data collection, analysis, and interpretation were carried out directly by the researcher to ensure accuracy and relevance. Conclusions were based on authentic interactions with respondents and grounded in empirical evidence, upholding the study's originality, integrity, and academic rigor.

### 3. Results and Discussion

#### 3.1. Level of Financial Environment

Table 1 shows the summary of the level of financial environment among SMEs in Bukidnon. It consists of four components: access to financing ( $M = 3.985$ ), financial management practices ( $M = 4.054$ ), operational costs ( $M = 4.022$ ), and government support programs ( $M = 3.782$ ). The overall weighted mean is 3.961, with a standard deviation of 0.983, which falls under the interpretation "Minimally Challenging."

Among the four indicators, financial management practices recorded the highest mean ( $M = 4.054$ ), indicating that most SMEs in Bukidnon are actively applying budgeting, planning, and financial oversight strategies. Operational costs ( $M = 4.022$ ) and access to financing ( $M = 3.985$ ) follow closely, suggesting that while costs and financing remain concerns, SMEs are coping reasonably well. The lowest-rated component was access to government support programs ( $M = 3.782$ ), pointing to persistent challenges in accessing or navigating public assistance mechanisms.

**Table 1: Level of Financial Environment**

Table Summary of the Level of Financial Environment				
	Financial Environment	Mean	SD	Interpretation
1	Access to Financing	3.985	0.991	Minimally Challenging
2	Financial Management Practices	4.054	0.978	Minimally Challenging
3	Operational Costs	4.022	0.929	Minimally Challenging
4	Government Support Programs	3.782	1.035	Minimally Challenging
	<b>Overall</b>	<b>3.961</b>	<b>0.983</b>	<b>Minimally Challenging</b>

The overall result indicates that SMEs in Bukidnon face only minimal financial difficulties across the board. However, it is evident that government support mechanisms remain the least accessible or least effective, potentially due to bureaucratic barriers, lack of awareness, or program design mismatches with local needs. These findings suggest that while SMEs demonstrate resilience and initiative in internal financial management, external institutional support systems must be strengthened to promote more inclusive growth. The interpretation aligns with the observed entrepreneurial behavior in provincial settings, where businesses rely more heavily on internal strategies than external aid.

This result is supported by Nguyen and Tran (2022), who noted that while financing options are present, SME owners in Southeast Asia often lack sufficient financial education to fully utilize them. Abad and de Guzman (2023) also emphasized that many governments financial programs in the Philippines fall short in rural areas due to procedural complexity and weak dissemination of information. Additionally, Delgado and Moreno (2021) stressed that provincial SMEs experience limited institutional engagement, reinforcing the idea that government support in Bukidnon needs further localization and accessibility to be truly effective. These studies collectively reinforce the view that while financial tools exist, making them work for rural SMEs requires more adaptive and responsive policy implementation.

### 3.2. Level of Growth Potential

Table 2 presents the summary of the level of growth potential among SMEs in Bukidnon. The four measured indicators—revenue growth ( $M = 3.987$ ), market expansion ( $M = 3.969$ ), sustainability ( $M = 3.990$ ), and innovation capacity ( $M = 4.018$ )—all received mean scores interpreted as “Very High.” The overall mean is 3.991, with a standard deviation of 0.962, reflecting a strong sense of growth orientation across all surveyed SMEs.

**Table 2: Level of Growth Potential**

Table Summary of the Level of Growth Potential				
	Growth Potential	Mean	SD	Interpretation
1	Revenue Growth	3.987	0.938	Very High
2	Market Expansion	3.969	0.997	Very High
3	Sustainability	3.99	0.941	Very High
4	Innovation Capacity	4.018	0.971	Very High
	<b>Overall</b>	<b>3.991</b>	<b>0.962</b>	<b>Very High</b>

Among the indicators, innovation capacity received the highest mean ( $M = 4.018$ ), indicating that most SMEs are actively engaged in adopting new ideas, improving products or services, and exploring creative solutions for market demands. This was followed closely by sustainability ( $M = 3.990$ ), showing strong practices in operational continuity and long-term viability. Revenue growth and market expansion also scored very high, suggesting that SMEs in Bukidnon are optimistic and confident in their financial performance and ability to reach new markets.

These results reflect a positive and progressive mindset among Bukidnon SMEs. Despite operating in a provincial context with some structural limitations, local enterprises show resilience and agility in managing growth. Their high innovation scores point to a willingness to evolve, while strong sustainability and market expansion indicators demonstrate their ability to remain competitive. These findings affirm that SMEs in the region are not only surviving but are actively striving to thrive, driven by entrepreneurial commitment and strategic foresight.

This outcome is consistent with Mendez and Santos (2021), who emphasized that innovation plays a key role in SME competitiveness across Southeast Asia, particularly in less urbanized areas. Likewise, Prajogo and Ahmed (2006) argued that firms with strong innovation cultures and leadership support tend to experience higher growth rates. The sustainability dimension is supported by García-Villaverde et al. (2018), who found that integrating

sustainability with innovation enhances SME adaptability and long-term performance. Finally, Drechsler and Natter (2023) confirmed that open innovation and targeted market strategies contribute significantly to the successful expansion of SMEs into new segments—an insight that resonates with the experiences of SMEs in Bukidnon.

### 3.3. Correlation Analysis

Table 3 presents the correlation result between the financial environment and the growth potential of SMEs in Bukidnon. The Pearson correlation coefficient ( $r$ ) was found to be 0.867, with a  $p$ -value of  $2.113 \times 10^{-115}$ , indicating a statistically significant relationship.

**Table 3: Correlation Analysis Between Financial Environment and Growth Potential**

Variable	Financial Environment
Growth Potential	Pearson's $r$ 0.867
	$p$ -value $2.113 \times 10^{-115}$

The Pearson's  $r$  value of 0.867 suggests a very strong positive correlation between the two variables. This means that as the financial environment improves—particularly in terms of access to financing, financial management, operational cost control, and government support—SMEs are more likely to experience higher levels of growth in revenue, market expansion, sustainability, and innovation. The extremely low  $p$ -value further confirms the significance of this result, indicating that the probability of this strong correlation occurring by chance is practically zero.

This strong correlation implies that the financial environment plays a crucial role in enhancing the growth potential of SMEs in the region. SMEs with better access to financial resources and more effective financial practices are more likely to expand, innovate, and sustain operations. This also indicates that financial stability and institutional support are not just facilitators but actual growth enablers for provincial businesses. The results reinforce the importance of strengthening local financial systems and support programs to empower SMEs sustainably.

This finding aligns with Nguyen and Tran (2022), who reported that access to credit and sound financial practices significantly improve SME performance in emerging economies. Similarly, Delgado and Moreno (2021) emphasized that rural SMEs thrive when financial support is both accessible and aligned with their specific needs. Furthermore, Barney's (1991) Resource-Based View supports the idea that financial capabilities are critical resources that influence sustained competitive advantage. These studies support the empirical evidence from Bukidnon, suggesting that financial environment reforms can meaningfully boost SME development.

### 3.4. Multiple Regression Analysis Between the Four Predictor Variables to the Growth Potential

Table 4 shows the results of the multiple regression analysis conducted to determine how the four components of the financial environment—access to financing, financial management practices, operational cost, and government support—predict the growth potential of SMEs in

Bukidnon. The model presents both unstandardized and standardized coefficients, with significance values (p-values) for each predictor.

**Table 4: Multiple Linear Regression Analysis that Examines the influence of the Four Predictor Variables to the Growth Potential**

*Coefficients*

Model		Unstandardized	Standard Error	Standardized	t	p
M <sub>0</sub>	(Intercept)	3.991	0.037		106.686	3.419×10 <sup>-283</sup>
M <sub>1</sub>	(Intercept)	0.402	0.108		3.731	2.204×10 <sup>-4</sup>
	Access to Financing	0.130	0.041	0.145	3.158	0.002
	Financial Management Practices	0.333	0.044	0.372	7.500	4.726×10 <sup>-13</sup>
	Operational Cost	0.211	0.040	0.224	5.238	2.730×10 <sup>-7</sup>
	Government Support	0.232	0.027	0.278	8.647	1.601×10 <sup>-16</sup>

All four independent variables were found to be statistically significant predictors of SME growth potential, with p-values well below 0.05. Among them, financial management practices had the highest standardized coefficient ( $\beta = 0.372$ ), followed by government support ( $\beta = 0.278$ ), operational cost ( $\beta = 0.224$ ), and access to financing ( $\beta = 0.145$ ). This means that improvements in financial management practices have the strongest unique contribution to predicting SME growth, while access to financing contributes the least, though still significantly.

The regression model suggests that all aspects of the financial environment collectively influence SME growth, but their impact varies. Financial management practices—such as budgeting, record-keeping, and cost monitoring—play the most critical role in shaping business growth outcomes. Meanwhile, government support, cost control, and financing access are also key, but to slightly lesser extents. These results highlight those internal capabilities, when supported by favorable institutional and financial conditions, significantly enhance growth potential. This also reflects how proactive financial behavior among SME owners can amplify the benefits of external support systems.

#### 4. Conclusion

The findings are consistent with Barney's (1991) Resource-Based View, which emphasizes that internal resources like financial skills and management competence drive sustainable advantage. Nguyen and Tran (2022) further reinforce that financial literacy and internal planning are stronger predictors of SME success than access to credit alone. Moreover, Abad and de Guzman (2023) and Delgado and Moreno (2021) emphasized that while government support is essential, its effectiveness depends on how well SMEs are positioned internally to leverage those programs. The evidence from Bukidnon validates these theoretical insights,

confirming that financial strategy and external support must go hand in hand for SMEs to grow sustainably.

This study offers valuable empirical evidence on the role of the financial environment in shaping the growth potential of SMEs in Bukidnon. One of its key advantages is the use of a localized and data-driven approach, which captures the unique financial realities faced by provincial businesses outside of urban financial centers. By analyzing the four major financial components—access to financing, financial management practices, operational costs, and government support—the study identifies not only the challenges but also the enabling factors that allow SMEs to scale and innovate. The research also emphasizes the critical influence of internal financial practices, which proved to be the strongest predictor of growth potential.

Another significant strength of the study lies in its practical relevance to multiple stakeholders, including SME owners, government agencies, policymakers, and development practitioners. The findings serve as a foundation for crafting region-specific financial support policies, capacity-building programs, and SME development initiatives. By pinpointing which financial factors matter most, the study provides actionable insights that can lead to more targeted interventions and improved resource allocation at the local level.

However, the study is not without limitations. It is geographically limited to Malaybalay and Valencia Cities in Bukidnon, which may affect the generalizability of the results to other regions in the Philippines. Additionally, the use of self-reported data may introduce some subjectivity, as perceptions of financial difficulty and growth potential can vary from one respondent to another. Time and resource constraints also limited the study to a cross-sectional design, leaving room for longitudinal approaches in future research.

Despite these limitations, the results of the study have meaningful applications. Policymakers can use the insights to redesign government financial programs that are more accessible and better aligned with the actual needs of rural SMEs. Financial institutions may develop more inclusive lending frameworks that account for the strengths and weaknesses of SME financial behavior. Educators and business mentors may also draw from the findings to enhance training modules on financial management for entrepreneurs.

In a broader sense, the study contributes to the growing body of literature that seeks to understand SME resilience and growth in non-metropolitan areas. It highlights the value of looking beyond capital access to focus on how businesses internally manage their resources and respond to institutional support. Future research may expand this model by including digital financial tools, informal lending, or regional policy variables, thus offering a more comprehensive view of SME ecosystems in the countryside.

Ultimately, this research underscores that creating a balanced and supportive financial environment—one that empowers SMEs both internally and externally—is essential for sustainable local economic development. Its contributions are not just academic but practical, pointing the way toward more grounded, inclusive, and actionable strategies for strengthening SMEs in similar contexts.

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