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Balancing Tradition and Innovation: A Comparative Analysis of SME Financing Approaches in Practice

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ABSTRACT

The financial stability of small and medium-sized enterprises (SMEs) depends on their ability to identify and effectively combine available financial resources in the context of a dynamically evolving economic environment. Traditional forms of capital financing remain dominant despite the growing availability of innovative instruments whose potential often goes underutilized. Limited awareness of alternatives and the absence of a systematic approach to financial diversification reduce the capacity of enterprises to respond effectively to changing market conditions. The study draws on primary data collected through a questionnaire survey conducted on a sample of SMEs operating within the Slovak Republic. The segment of innovative external financial resources is marginally represented in the analyzed sample. The observed low level of utilization highlights the need for systematic development and improved information flows on alternative capital. Given their increasing accessibility, lower costs compared to conventional sources, and flexibility in addressing the specific characteristics of enterprises, modern approaches constitute a strategically significant tool with high application potential. Effective implementation of modern financial practices requires purposefully designed interventions that support combined models of traditional and innovative funding, along with the systematic enhancement of financial literacy at the level of enterprise decision-making. The limited size of the survey sample restricts the generalizability of the findings. Results confirm the importance of strategic diversification of financial resources for SME resilience and highlight the need for a systematic approach to financial management.

Keywords: Traditional financing methods, Innovative financial instruments, Small and medium-sized enterprises (SMEs), Access to finance, Financial constraints.

Introduction

Crisis periods marked by sudden demand disruptions, rising operational costs, and uncertainty in input price development intensify existing vulnerability of SMEs, particularly in terms of liquidity, capital readiness, and financial adaptability. Worsening of structural weaknesses limits the ability of enterprises to respond to changing market conditions, optimize cost efficiency, and implement sustainable financial planning (Eslambulchi *et al.*, 2018). Absence of preventive mechanisms and limited capacity for strategic management (Aldhairyan *et al.*, 2022; Almohmmadi *et al.*, 2022; Almuhanha *et al.*, 2022; Alqurashi *et al.*, 2022; Mulu *et al.*, 2023; Najjar, 2023; Rehman *et al.*, 2023; Sharma *et al.*, 2023; Bu, 2024; Guo, 2024; Jun, 2024; Thottoli, 2024; Bani Atta, 2025; Qiu, 2025) reduce effectiveness of decision-making processes, thereby widening the gap between available resources and current enterprise needs (Cannistrà *et al.*, 2022; World Bank, 2023). Persistent reliance on traditional financing models and lack of flexible solutions hinder enterprises from leveraging the innovative potential of available mechanisms, whose practical relevance lies in enhancing operational flexibility and reinforcing resilience to macroeconomic volatility (Calabrese *et al.*, 2021). Persistent information deficit concerning accessible financing options, combined with the unstructured nature of approaches to practical application of alternative capital instruments, leads to limited integration of innovative capital solutions into enterprise decision-making processes (Jin & Liu, 2024; Hornuf & Denga, 2025; Popescu & Spulbar, 2025; Sidelov, 2025).

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Innovative financing sources constitute instruments distinguished by application flexibility, decision-making autonomy, cost efficiency, and ability to reflect specific characteristics of diverse business models. Belás *et al.* (2021) conceptualize innovative financing sources as instruments designed to reduce reliance on conventional lending structures, stimulate entrepreneurial capacity, and foster diversification of funding sources. Although benefits of innovative financing sources are acknowledged in practice (Alharbi *et al.*, 2022; Al-Johani *et al.*, 2022; Mathew *et al.*, 2022; Shawky *et al.*, 2022; Demircuc-Kunt *et al.*, 2023; Ahammed *et al.*, 2024; Botsari *et al.*, 2024; Cantile *et al.*, 2024; Chauhan & Angadi, 2024; Mei, 2024; Yang, 2024; Wang, 2025), several enduring constraints restrict their wider deployment and contribute to fragmented understanding of their effectiveness (Vartiak, 2015).

Traditional financing mechanisms, including bank credit and informal capital injections, offer entrepreneurs stability, predictability, and dependable access to funding in times of economic and social distress, accompanied by low risk and constrained flexibility (Khan *et al.*, 2020; Jaseckova *et al.*, 2022; Camelo-Ordaz *et al.*, 2023). Expansion of capital access via alternative financing channels enables SMEs to eliminate funding entry barriers and align financial strategies more closely with distinct features of their business models (Kolbari, 2019; Mashruwala, 2024; Borri, 2025; Tanchangya, 2025). The potential of available solutions in the current economy establishes a foundation for strategic adjustment of financial mechanisms towards greater stability (Boccaletti *et al.*, 2025).

Limited understanding of the structure of traditional and innovative finance utilization in company practice reveals a research gap with consequences for developing successful capital-providing alternatives. Understanding the dynamics of corporate capital decision-making requires a fundamental understanding of the extent to which financial sources are used within the examined survey sample. The literature identifies strategic diversification of financing sources as a critical driver of SME resilience in the face of economic crises (Civelek *et al.*, 2023; Wahjono *et al.*, 2023; Alessandrini *et al.*, 2024; Gonzalez-Varona *et al.*, 2024; Leo *et al.*, 2024). A balanced combination of modern institutional instruments of public support, innovative external financing, and traditional capital acquisition methods creates a stabilizing framework that reduces reliance on individual sources, optimizes cash flow, and strengthens SME competitiveness (Bhimani, 2022; Challoumis, 2024; Mills, 2024; Puschmann & of Liechtenstein, 2024).

This study explores the utilization of traditional and innovative financing forms in business practice, with the aim of identifying structural patterns that influence the selection and composition of accessible capital instruments. Results of the conducted analysis address the identified research gap by expanding the theoretical framework for understanding SME capital structures, thereby creating scope for improving financial management through the application of revitalization principles in capital sourcing processes.



Materials and Methods

The methodological framework of the article is based on the application of quantitative research techniques aimed at identifying structural patterns in the use of financial resources by SMEs. Data collection was conducted through a structured questionnaire survey, the content of which was consistently designed to ensure verifiability and replicability of responses within the socio-economic context of the Slovak Republic. A five-point Likert scale was used as a standardized instrument for capturing the extent of subjectively perceived financing behavior across key dimensions of enterprise practice. Traditional financial resources were defined to include commercial bank loans, owner equity contributions, loans from family or friends, leasing instruments, and retained earnings. The classification of innovative financing included modern forms of state support and external market-based instruments such as crowdfunding, peer-to-peer lending, and startup-oriented investment tools. These categories were derived from the conceptual framework established in the theoretical section.

Data collection was conducted through a questionnaire survey distributed both electronically and physically to business entities operating in various sectors of the economy. Selection of respondents was based on the criterion of active business activity in the years 2020 to 2024. The survey was conducted in the second half of 2024. Prior to main data collection, the questionnaire was pilot tested to verify clarity of formulations and ensure consistency of interpretation across individual items. Results cannot be generalized to the entire population of SMEs but provide representative insight into the analyzed sample in terms of individual experiences and preferences. The research sample consists of SMEs based in the Slovak Republic, categorized based on questionnaire responses by enterprise

size, sectoral affiliation, and length of operation. Enterprise size, defined by the number of full-time employees, was selected as the main classification criterion. Forms of employment with a lower degree of engagement, such as informal arrangements and part-time contracts, were excluded. Methodological classification of categories is based on the conceptual framework outlined in the theoretical section and on the objectification of data presented in the study by Ahinful *et al.* (2021), ensuring greater accuracy in assigning respondents to size groups based on employment structure.

Descriptive analysis included calculation of mean values (arithmetic mean), frequency distributions, and ordinal rankings. Results were presented separately by enterprise size, sectoral focus, and length of operation. Data processing included ordering of items by ordinality and comparisons across respondent categories. Visualization was performed using tabular and graphical representations. Results of the descriptive phase reflect the diversity of financial practices across respondent groups and contribute to the interpretive foundation of heterogeneity in SME financing patterns.

Results and Discussion

The results are structured into two analytical segments. The first segment presents findings from a descriptive analysis focused on identifying utilization patterns of financial resources across enterprise categories. The second segment expands the analysis by comparing variability in financial behavior based on sectoral affiliation and duration of business activity, offering complementary insights into the structural diversity of SME financing practices.

Financial Resource Utilisation: Structural Insights and Aggregate Patterns

Financial stability of MSP is closely linked to the composition and adaptability of financing structures. This section presents the overall distribution of traditional and innovative financial resources utilized by surveyed enterprises, based on ordinal-scale self-assessments (İlhan *et al.*, 2022; Yoong *et al.*, 2022; Cambridge Centre for Alternative Finance, 2024; Financial Times, 2024; Reuters, 2024; UK Times, 2024; Wolderslund *et al.*, 2024; EBRD & European Union, 2025; Economic Times, 2025; World Bank, 2025). Results provide foundational understanding of the financial decision-making environment within the analyzed sample and establish a baseline for subsequent comparisons across enterprise categories. **Figure 1** illustrates the mean utilization of traditional financial instruments across enterprise size categories, emphasizing structural differences in capital strategies between self-employed (SE), micro, small, and medium-sized firms.

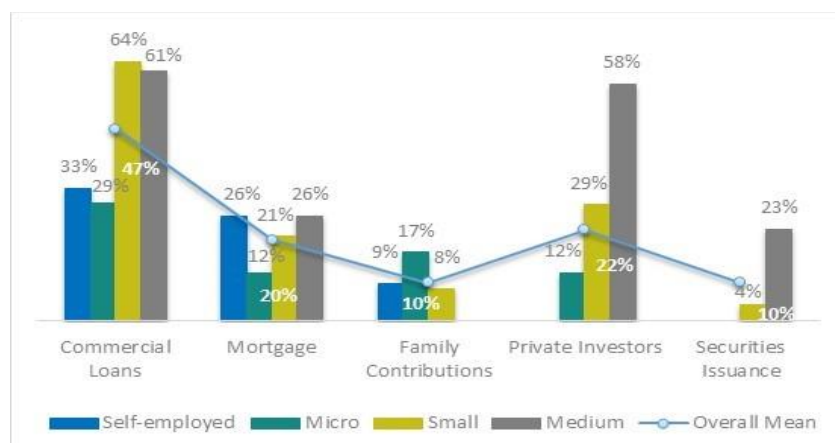


Figure 1. Mean Utilisation of Traditional Financial Instruments by Enterprise Size Segment [mean] (own calculations based on survey data)

Commercial loans constitute an established and widely accessible instrument of external business financing. Increasing requirements for obtaining business loans over the past decade have significantly restricted enterprises' access to debt financing. Rising interest rates and the influence of European central banks on commercial lending practices represent the main factors behind coordinated efforts to reduce risks in loan provision. Acquiring a larger volume of capital through commercial loans currently requires stable and balanced financial management. In terms of

creditworthiness, medium sized and small enterprises demonstrate higher potential compared to micro enterprises and SE. As illustrated by Graph 1, these categories of SMEs show approximately twice the average rate of commercial loan usage compared to smaller segments.

Mortgage loans follow the same logic in an ordered hierarchy, with utilization growing according to the size of the firm. SE is an exception, since their mortgage utilization rate is comparable to that of medium-sized firms. This group is distinguished by a high level of structural variety and varying financial circumstances. Many SE laborers work as contractors under work agreements with other legal businesses, frequently because of the preferences of unofficial employers. Their financial behavior is therefore determined by restricted cash resources and the need to leverage personal holdings. The relatively high percentage of mortgage utilization reflects the availability of real estate-secured loans and real estate's importance as an entrance point to finance.

Family and friends' contributions show a low mean usage rate, most notably in the microenterprise segment (17%). In contrast, their usage among medium sized enterprises is virtually nonexistent. Micro enterprises often consist of newly established entities or traditional business models that have not undergone an expansion phase. These conditions make them suitable for informal financing from private networks, aimed at stabilizing financial performance. In contrast, private investors generally seek to maximize returns or acquire ownership. Larger and more established enterprises are more likely to be recipients of this form of capital due to their higher investment potential and credibility. The difference in usage rate of private investors between medium sized and other enterprises confirms this fact, with medium sized enterprises showing an average usage rate of 58%, while small enterprises show 29%. Issuing securities represents an alternative form of traditional financing, the availability of which is significantly restricted by the legal form of the enterprise. Issuing shares is typically limited to joint-stock companies. Issuing bonds represents a more accessible route but is associated with a high degree of administrative complexity. The low proportion of this instrument in the analyzed SME sample corresponds with expectations given its structural and legislative limitations.

Figure 2 expands analytical perspective by illustrating mean utilisation of innovative instruments across enterprise size categories.

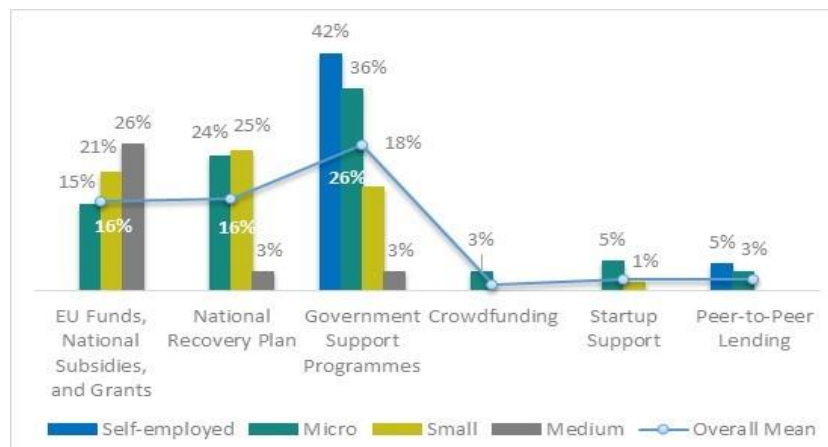


Figure 2. Mean Utilisation of Innovative Financial Instruments by Enterprise Size Segment [mean] (own calculations based on survey data)

Results highlight structural differences in the adoption of non-traditional financing approaches among SE, micro, small, and medium sized firms. Modern institutional instruments of public support and innovative external financing constitute the core structure of the analyzed alternative capital instruments. Government programmes supporting entrepreneurship show the highest usage rate among SE (42%) and micro enterprises (36%), with over 25% of the total sample reporting their application. Frequency of uptake systematically declines as enterprise size increases, with medium sized enterprises accounting for 18%. Distribution observed under the Recovery and Resilience Plan reflects a related trend, with micro and small enterprises constituting the majority share. Medium sized enterprises account for a minimal share (3%), while SEs are entirely absent from this category. Distribution of EU funds and national subsidies shows the highest share among medium sized enterprises (26%), followed by small and micro entities. Diversity of



recorded values reflects characteristics of individual schemes linked to distinct financial mechanisms and their conditions.

Innovative external financing includes crowdfunding, startup support, and peer-to-peer lending. Such instruments exhibit very low usage rates, which can be attributed to selective eligibility and accessibility criteria. Startup support and peer-to-peer lending are primarily targeted at newly established enterprises, whereas crowdfunding favors innovative business concepts, potentially even from established entities. Successful acquisition of this type of capital depends on the quality of the submitted proposal, its persuasiveness, and the perceived value of the product within the community. The range of available opportunities depends on the conditions of platforms accessible on the global market. Crowdfunding and startup support both account for 3%, while peer-to-peer lending shows the highest share within the group at 5%.

Sectoral Patterns and Operational Longevity in Financial Resource Utilisation

Analysis of financial resource utilization across sectors and business longevity provides additional perspective on capital behavior dynamics. Given the analytical coverage of traditional financing forms in the preceding section, the following interpretation focuses primarily on the segment of innovative capital sources. Focus is placed on modern institutional instruments of public support, with results presented through a combination of tabular and graphical outputs.

Figure 3 illustrates sectoral utilization of modern institutional public support instruments by enterprise size. Sectoral variability in the use of modern institutional public support instruments reveals pronounced distinctions across enterprise categories. Trade, manufacturing, and service sectors record the highest concentration of small and medium sized enterprises accessing public support, which suggests a heightened strategic orientation toward mitigating operational exposure through available financing instruments. In the trade sector, nearly half of respondents utilize at least one public support instrument. Small enterprises represent the largest share within this group, accounting for 21% of respondents.

The combined share of micro and small enterprises prevails across other sectors as well, while medium sized enterprises are often only marginally represented. A plausible interpretation relates to stricter eligibility requirements and reduced reliance of larger enterprises on external public resources. The accommodation and food service sector represents an outlier, with a disproportionately high share of enterprises receiving public support, as 88% of enterprises in this segment reported the use of at least one accessible instrument.

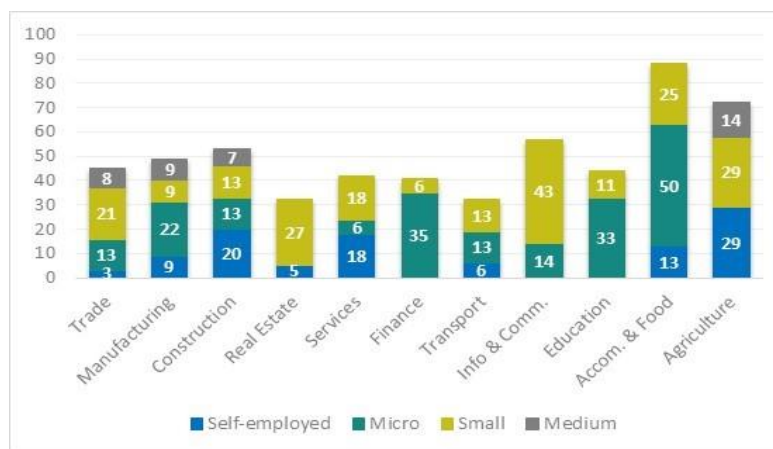


Figure 3. Sectoral Utilisation of Modern Institutional Public Support Instruments by Enterprise Size [%] (own calculations based on survey data)

Note: Values represent the percentage of enterprises within each size category that reported using the respective instrument.

This value indicates the pronounced vulnerability of the sector and the strong reliance of smaller enterprises on available stabilization mechanisms. **Table 1** presents the use of modern institutional public support instruments across operational longevity categories by enterprise size.

Table 1. Operational Longevity Utilisation of Modern Institutional Public Support Instruments by Enterprise Size [%] (own calculations based on survey data).

Operational Longevity	SE	Micro	Small	Medium	Overall
1–2 years	25	17	8	0	25
3–7 years	7	15	19	7	7
8–15 years	9	12	22	5	9
16–20 years	3	13	20	0	3
21+ years	8	28	11	3	8

Data analysis reveals a marked concentration of recipients of modern institutional public support instruments in two contrasting categories of business history. The highest share was identified among entities with a short operational history ranging from one to two years, with activity in this group being particularly prevalent among SE and micro enterprises. Micro enterprises with an extended operational history exceeding 21 years also exhibit significant representation.

The observed pattern indicates the presence of two distinct approaches to capital strategy, with the first reflecting efforts to consolidate early-stage business activity and the second signalling systematic reinforcement of long-term operational stability among established entities. Medium sized enterprises demonstrate only marginal representation across the entire range of business longevity, which aligns with previous findings regarding their limited participation in modern institutional public support systems. The observed value distribution does not present a definitive directional trend, indicating divergent motivational structures and capacity readiness among enterprise groups to engage with support mechanisms, while simultaneously confirming the relevance of business longevity as an interpretive framework for analyzing behavior in the domain of public support.

The segment of novel external finance was included in the study based on enterprise size; nevertheless, its presence in the processed sample was only negligible, ranging from 1% to 5% depending on the individual instrument. The lack of representativeness precludes a methodologically justified expansion of the analytical framework to incorporate sectoral membership and business longevity without significantly sacrificing interpretative consistency and decreasing analytical explanatory power. The resulting results for the investigated segment corroborate the low use of innovative external finance in business practice and its restricted application breadth within the SME environment. The observed disparities highlight the interpretative relevance of sectoral structure and operational history as determinants of capital behavior in the setting of current institutional public support tools.



Sectoral Patterns and Operational Longevity in Financial Resource Utilisation

Analysis of intensity in the use of diversified capital instruments across SME size categories constitutes a complementary approach to identifying differences in capital behavior. Incorporating mean levels of capital deployment enables deeper interpretation of prior findings and contributes to a more comprehensive understanding of financing diversity across segment-specific characteristics.

Table 2 summarizes mean intensity values of traditional and innovative financial instrument use by respondent size category. Observed values express the intensity of capital instrument use among enterprises that identified these instruments as part of their capital portfolio, with a five-point Likert scale rating representing relative weight within the overall financing structure. Findings indicate the level of capital deployment associated with specific forms of financing and allow identification of differences across enterprise segments based on intensity of available instrument use.

Traditional forms of financing ranked highest in mean intensity for commercial loans and mortgage credits, with peak ratings recorded among micro- and medium-sized enterprises. Higher mean values likely reflect the standardized nature of access conditions and generally broader availability of these instruments. Elevated mean values in the micro segment (4.0) and among medium-sized enterprises (3.9) indicate the role of mortgage credits as a security mechanism for capital acquisition under conditions of elevated financial uncertainty.

Intensity of private investor involvement increases proportionally with enterprise size, with the highest mean values recorded in the medium-sized segment. This upward trend is likely associated with broader investment opportunities

and greater transparency among larger entities. Despite low occurrence, securities issuance demonstrates high mean intensity when applied, as evidenced by a rating of 3.0 in the small enterprise segment.

Table 2. Enterprise-Level Intensity of Traditional and Innovative Capital Instruments [mean] (own calculations based on survey data).

Traditional	SE	Micro	Small	Medium	Overall
Commercial Loans	2,9	3,1	2,9	3,0	2,9
Mortgage	2,4	4,0	3,6	3,9	2,4
Family Contributions	1,5	1,4	1,2	-	1,5
Private Investors	-	1,6	2,4	2,8	-
Securities Issuance	-	-	3,0	1,3	-
Overall	1,8	2,2	2,5	2,2	1,8
Innovative	SE	Micro	Small	Medium	Overall
EU Funds, National Subsidies, and Grants	-	2,6	2,9	2,6	-
National Recovery Plan	-	2,2	2,7	3,0	-
Government Support Programmes	1,7	2,0	2,0	2,0	1,7
Crowdfunding	-	5,0	-	-	-
Startup Support	-	4,0	5,0	-	-
Peer-to-Peer Lending	3,0	4,5	-	-	3,0
Overall	0,8	3,4	2,1	1,3	0,8

Note: The symbol ‘-’ indicates the absence of respondents within the respective size category reporting the given financing instrument. Values represent mean values on a 5-point Likert scale

Previous findings presented in **Figure 2** highlight the low representation of innovative external financing within the analyzed sample, while revealing above-average intensity of capital engagement when these instruments are applied. The analyzed financial instruments, including crowdfunding, startup support, and peer-to-peer lending, are typically directed at entities in early growth stages with limited capital history. Peer-to-peer lending achieved the highest intensity rating among SE (3.0) and micro enterprises (4.5), followed by crowdfunding within micro segments (5.0) and startup support among small enterprises (5.0).

Modern institutional public support instruments demonstrate greater presence and structural diversity. Mean use of funds provided through the Slovak Recovery Plan increases progressively with enterprise size. Mean values ranging from 2.2 to 3.0 suggest substantial presence among funding sources and are comparable to commercial loans, which register values between 2.9 and 3.1. The National Recovery Plan therefore constitutes an accessible and more favorable alternative to debt financing. Key limitations include substantial administrative complexity and the specificity of eligibility criteria across individual calls. Despite these constraints, financing from the Recovery Plan may represent a significant opportunity for SMEs to pursue modernization and growth. An illustrative case involves innovation and digitalization grants designed to enhance competitiveness and foster innovation among SMEs.

Entrepreneurship support programmes serve a specific function within the system of public assistance, representing the sole modern form of public financing accessed by SE as part of the survey sample. Low intensity of engagement with modern institutional public support instruments among SE reflects restricted access to external financing resulting from the specific nature of their business operations. Intensity levels associated with modern institutional public support and innovative external financing reflect targeted capital strategies under constrained access conditions, whereby such instruments operate as purpose-specific mechanisms that facilitate initial participation in entrepreneurial activity.

Divergent financing approaches across SME segments highlight a persistent imbalance between traditional and innovative capital sources, while simultaneously revealing key behavioral patterns that significantly influence development prospects and access to innovation within the business environment. Varied approaches to financing across SME segments uncover a marked disparity in engagement with capital instruments. Medium-sized enterprises benefit from access to commercial loans and private investors, whereas SE and micro enterprises rely on mechanisms



such as family contributions and crowdfunding. The identified structural imbalance indicates persistent barriers limiting smaller enterprises' access to institutional capital sources.

Low engagement with innovative external financing, particularly crowdfunding and startup support, confirms the assumption of limited interest driven by insufficient awareness and specific acquisition conditions. Low engagement with innovative external financing, particularly crowdfunding and startup support, substantiates the view that limited interest stems from insufficient awareness and specific conditions governing capital acquisition.

Research findings indicate a higher share of private investor engagement within the medium sized enterprise sample, representing a competitive advantage over small and micro firms. Innovative external financing constitutes a potential solution for SME segments with lower credit capacity. Crowdfunding, peer-to-peer lending, and startup support, particularly in early stages of business development, contribute to more effective mobilization of capital, foster diversification in capital sourcing, and reduce dependency on traditional instruments through mechanisms with international reach (Abbasi *et al.*, 2021; Bigos, 2024; Adwani, 2025). Identified disparities in the use of capital sources across enterprise segments confirm the rationale for applying diversified financing models that combine traditional and innovative mechanisms based on specific structural and sectoral conditions.

Modern institutional public support programmes are more frequently accessed by smaller business segments than by medium sized enterprises. Despite the recognized application potential and increasing interest from SMEs, administrative and procedural barriers persist, significantly constraining effective implementation of available financial instruments. A systematic review of public financing conditions and content frameworks conducted by Crawford *et al.* (2024) identifies persistent ambiguity regarding the effectiveness of public financial mechanisms, particularly in the absence of clearly defined funding targets and a tailored delivery approach. Persistent prioritization of quantifiable outputs, combined with neglect of non-financial support dimensions such as systematic awareness-raising regarding availability of public financial mechanisms, substantially limits the capacity of state initiatives to effectively support innovation potential and long-term growth trajectories of SMEs.

Limited effectiveness of public support is frequently attributable to inadequate readiness of recipients to apply available mechanisms in practice. Research by Shah and Al-Malkawi (2022) identifies entrepreneurial financial literacy as a decisive factor influencing willingness to accept and seek out alternative forms of financing. The identified findings reinforce the need for a comprehensive evaluation of the effectiveness of available financial instruments and subsequent alignment of business activity with specific conditions of the internal and external environment.

Future study should delve deeper into the behavioral characteristics that influence corporate entities' financing decisions, particularly in times of increased economic uncertainty. Priority should be given to evaluating the success of hybrid finance models that incorporate public, private, and decentralized sources. Follow-up research is urged to discover optimum portfolios that improve financial stability, minimize reliance on low capital diversification, and promote SMEs' long-term innovation potential.

Findings of conducted research confirm a pronounced segmentation of financing approaches across enterprise categories. An integrated model that links traditional capital acquisition with innovative mechanisms and public support offers a conceptual framework with the potential to strengthen financial stability, strategic flexibility, and adaptive capacity of SMEs in the context of evolving market challenges.

Conclusion

This study reveals substantial structural imbalances in access to capital across SME segments, driven by divergent financing strategies and limited engagement with innovative instruments. Findings indicate that while medium sized enterprises benefit from established lending channels and private investors, smaller firms, particularly SE and micro enterprises, remain dependent on informal and decentralized funding mechanisms. Despite the recognized potential of modern institutional public support programmes, persistent administrative barriers and low awareness constrain their broader utilization. The identified disparities underscore the necessity of tailoring financial frameworks to match enterprise-specific capacities and sectoral conditions. Enhancing the practical accessibility of hybrid financial models,



supported by targeted awareness initiatives and reduced procedural burdens, may offer a viable pathway to improving financial resilience and unlocking innovation potential across the SME landscape.

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Ethics Statement: The research was conducted in accordance with the principles of research ethics, ensuring respect for the dignity, rights, and welfare of all participants. Informed consent was obtained from all respondents prior to their participation.

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