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CHALLENGES IN CROSS BORDER ENTREPRENEURSHIP: A CASE STUDY OF MALAY SMES IN MALAYSIA

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Abstract:

Cross-border entrepreneurship (CBE) offers small and medium-size enterprises (SME) potential growth, it also entails with crucial challenges that can prevent sustainable international expansion. This study investigates the challenges faced by Malay SMEs in engaging with CBE, focusing on operational management issues, financial constraints, and national policy issues. This study employs a qualitative case study approach, drawing on Cyert and March's Theory of Firm Behaviour. **Sarong (SME 1) and Batik (SME 2)** are Malay SME owners who have been engaged in international trade for over three years and represent a broader trend of leveraging traditional cultural products in international markets. The study uncovers a range of issues including poor accounting practices, financial mismanagement, natural disaster disruptions, price objection, limited market visibility, and complex regulatory barriers. It also highlights the critical role of trust in family and international business relationships, as well as the negative impacts of monopolistic practices and overreliance on intermediaries. The findings also reveal that SMEs lack the internal capacity to effectively navigate cross-border trade complexities, and are further constrained by bureaucratic inefficiencies, tax policy confusion, and inadequate access to financial support. These finding shows that Malay SMEs respond to internationalisation challenges through adaptive but irrational decision making shaped by internal routines and external pressures. The study highlighted practical recommendations include streamlining trade regulations, improving tax literacy, strengthening internal business competencies, and promoting inclusive policy frameworks. In short, this study calls for a more supportive ecosystem to enhance the global competitiveness and resilience of Malay SMEs.

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Keywords:

Cross-Border Entrepreneurship, Malay SMEs, Operational Management Issues, Financial Constraints, National Policy Issues

Introduction

Historical-Political Context

Since the racial tensions of the 1969 May 13 incident, Malaysia has consistently pursued socio-economic policies aimed at addressing the ethnic imbalances that emerged from its colonial legacy. The British "divide and rule" approach entrenched disparities between the Malay majority and other ethnic groups, including Chinese and Indian, leading to longstanding economic inequality (Ravillion, 2019). This resulted in major economic disparities: Chinese Malaysians dominated trade and industry, while Indians were highly concentrated in estate work and civil services roles, leaving Malays underrepresented in modern economic sectors.

The economic imbalance among ethnic groups, notably the underrepresented of Malays in business sectors, has become a flashpoint for national discontent. Following the 1969 violence, the Malaysian government recognised the urgent need to restructure society to promote unity and equity, which led to broad socio-economic reforms. (citation)

Policy Evolution

In response to the aftermath of May 13, Malaysian governments introduced landmark strategies aimed at socio-economic restructuring that particularly focused on uplifting the primarily Malay population. This include the New Economic Policy (NEP) (1970–1990), Vision 2020 (1991–2020), and the National Entrepreneurship Policy (2021–2030), aiming to elevate Malay economic participation, including the ambitious goal of achieving 30% Malay equity ownership (MEA, 2019; Muhammad & Wasiuzzaman, 2020; Lee, 2023; Lee, 2024).

The New Economic Policy (NEP) (1970-1990) aimed to reduce poverty and address economic imbalances by increasing Malay ownership in the business sector to 30%. It supported this through state-owned enterprises, education and training for Malays, and privileged access to business opportunities. Building on this, Vision 2020 (1991-2020), introduced by Prime Minister Mahathir Mohamad, set the goal of making Malaysia a fully developed country, while continuing to promote Malay economic participation through initiatives such as the National Development Policy and National Vision Policy, which focused on inclusive growth and social harmony. Recently, the National Entrepreneurship Policy (2021-2030) responds to current economic issues by promoting a dynamic business environment, with continued support for Malay entrepreneurs in innovation-driven industries and global sectors, to ensure fairer economic participation.

Malay ownership in corporate equity

Despite notable policy interventions, Malay ownership in corporate equity remains far below target, fluctuating between 16.2% and 18.4% from 2015 to 2020 (MEA, 2019; KEB, 2024), while Malay SMEs' involvement in cross-border entrepreneurship (CBE) continues to lag (MSME, 2019). Although Malaysia has actively participated in global trade through frameworks like the WTO, ASEAN, and Free Trade Agreements, Malay SMEs represent a

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small fraction of exporters and international business operators (MATRADE 2018; DOSM 2023). For instance, while Malaysia's furniture export rose to RM 24.54 billion in early 2019, the Malay contribution was merely RM 6.63 million, constituting less than one percent in comparison to non-Malay exporters (Darus, Bakar, Yusof & Shaharuddin, 2020). Given this disparity, cross border entrepreneurship has become a key avenue for advancing Malay economic empowerment, offering opportunities for broader market access, wealth creation and inclusive participation in the global economy (Sabiu, et al., 2018). Recognising this, the Malaysian government has announced the implementation of Open Approved Permits (Open APs) for the importation of vehicles, enabling any Malay individual who has not previously participated in the automotive trade to be authorised as an Open APs firm for vehicle importation and sales operations in Malaysia (Birruntha, 2024).

Scholarly studies on CBE have increasingly focused on globally large multinationals, with limited attention to SMEs operating in developing economies, particularly those led by ethnic Malays (Hashim, Ahmad, & Zakaria, 2010; Senik, Isa, Sham & Ayob, 2014; Aslesen & Herirchi, 2015; Boso, Adeleye, Ibeh, & Chizema 2018). This gap is crucial given the persistent ethnic disparities in Malaysia's economic equity and participation in international business. Existing research on the internationalisation of Malaysian SMEs has highlighted five key issues; resources constraints, financial constraints, firm capability, political interference, and management incompetent (Senik, et al., 2014; Ahmad, 2014; Hashim, et al., 2010; Ooi & Richardson, 2019; Jaish, Murdipi, Razak, & Alwi, 2023). Through Cyert and March's (1963) behavioural theory of the firm, this study interprets these challenges not as isolated challenges, but as outcomes of bounded rationality, conflicting internal goals, and adaptive decision-making under uncertainty. This theoretical lens is particularly useful in examining how Malay SMEs, faced with limited information, evolving institutional environments, and constrained resources to make satisficing decisions rather than optimising ones in their internationalisation efforts. In response, this study presents a qualitative case study examining the challenges of selected Malay SMEs in their pursuit of internationalisation. The objective is twofold: first, to discuss the key challenges these firms face; and second, to offer insights that inform future research and policy measures designed to bridge the ethnic participation gap in international entrepreneurship.

Literature Review

Cross Border Entrepreneurship

Cross border entrepreneurship (CBE) refers to the entrepreneurial activities involving business operations across national borders. It is often used interchangeably with terms like international entrepreneurship, transnational entrepreneurship, and borderless business (Knight, 2003; Anna & Rahul, 2016). CBE plays a crucial role in integrating local enterprises into the global economy, enabling access to new markets, technologies, and knowledge. While the literature on CBE has primarily focused on large multinational corporations, there is a growing recognition of the importance of small and medium-sized enterprises (SMEs) in global value chains (Oviatt & McDougall, 2005; Smallbone & Welter, 2012). In Malaysia, Malay SMEs have not been widely studied in this regard, even though they operate within a unique policy and cultural environment (Afandi & Yaacob, 2021). Understanding how Malay SMEs engage with, or are excluded from, international markets is vital for assessing the inclusivity and effectiveness of Malaysia's broader internationalisation and economic equity strategies.

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Firm Behaviour Theory

Cyert and March's Theory of Firm Behaviour (1963) emphasizes that firms exist with their aspirations in satisfying responsive performance instead of maximizing profits. When the actual achievement falls under these aspirations, this situation triggers a challenge that needs to be solved and recover performance up to an acceptable level. At this stage, the firm must make decisions not purely based on economic rationality, but based on internal routines and behavioural biases, which are influenced by both organisational and external environments. In the context of CBE involvement among Malaysian SMEs, various challenges have been highlighted by previous studies during their process of engaging in the internationalisation process. In effort to encourage more involvement Malay SMEs in this arena, the highlighted challenge needs to unfold in understanding more about the what made them stuck and how these challenges should be cater.

Challenges to SMEs Internationalisation in Malaysia

SMEs often face a wide range of constraints when attempting to expand beyond domestic markets. As previous scholars revealed that, SMEs in CBE are struggling to adapt the resources and meet the global demand (Oviatt & McDougall, 1995; 2005). Other scholars also supported that, the CBE is not promising idea to gain benefits due to it involve with critical elements for SMEs to keep survive and sustain their operation (Toulova, Kubickova, & Votoupalvoa, 2015; Svante, 2004; Gjellerup, 2000). For Malaysian SMEs, despite various policies aimed at promoting SME internationalisation, Malaysian SMEs face challenges when involving in CBE, including resources constraints, financial constraints, firm capability, political interference, and management incompetent (Hashim, et al., 2010; Ahmad, 2014; Senik et al., 2014; Ooi & Richardson, 2019; Jaish et al., 2023) as revealed on Table 1.

According to the Senik, et al., (2014), financial constraints were classified as the most crucial major challenge for Malaysian SMEs, hence they recommended that SMEs enhance their awareness of how to utilise any government facilities and incentives to help overcome this issue. Non-financial challenges were also deemed critical, since Malaysian SMEs often deal competing demand. This required the SMEs to develop dynamic capabilities to adapt in the everchanging international market landscape (Taleb & Raju, 2020). Collectively, these financial and non-financial challenges impose constraints on Malaysian SMEs' decision-making process (Ray & Neck, 2007), limiting their ability to achieve economies of scale and compete effectively in global markets (Saleh & Ndubisi, 2008; Taleb & Raju, 2020).

While the firm behaviour framework offers valuable lenses to understand SME internationalisation, their application to the ethnic and policy-driven context of Malay SMEs remains limited. Existing literature on cross-border entrepreneurship has predominantly centred on multinational firms and SMEs in developed economies (Afandi & Yaacob, 2021), with insufficient attention to the socio-political and institutional challenges faced by ethnic entrepreneurs in emerging markets.

The review highlights that although Malaysia has made substantial gains in fostering SME internationalisation through policy instruments and trade agreements, Malay SMEs' involvement in global markets remains disproportionately low. This study aims to fill the gap by conducting a qualitative case study focused specifically on Malay SMEs, to uncover the lived challenges they face in pursuing internationalisation. The following section outlines the methodology adopted to explore these issues in-depth.

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Table 1: Malaysian SMEs Challenges Involvement In CBE

Adopted from study Senik et al., (2014); Ahmad, (2014); Hashim, et al., (2010); and Ooi & Richardson, (2019);

Resource Constraints	Financial Constraints	Firm Capability	Political Interference	Management Incompetence
• Lack of human resources • Lack of qualified staff • Lack of skilled resources to develop R&D • Lack of Knowledge of international suppliers • Lack of promotional support to reach customers • Unable to acquire new technology • Lack of transportation • Lack of raw materials for expansion	• Inadequate funds & international expansion • Need export financing facilities • Difficult to get government incentives • Long process in getting bank approval • Low exchange rate of Malaysian Ringgit • High freight charges • High cost of raw materials • Low profit	• Lack of product innovativeness • Lack of product quality • Lack of international market intelligence • Lack of international logistics • Lack of technology for capacity building • Lack of R&D • Competition from China and India • Unable to target the right market	• Host countries impose a lot of requirements • Different host countries enforce varies regulations • Different industries have different regulations • Too many governments regulations • Changes in government regulations • Problem with customs declarations • Constrained by a quota system • Difficulty getting a health certificate	• Difficulty in gaining trust • Lacking management capabilities • High turnover rate due to salary and job security

Jaish et al., (2023).

Methodology

This study adopts a qualitative case study approach to explore the challenges faced by Malay SMEs in CBE). A qualitative design is suitable for this research because it enables in-depth investigation of complex, context-dependent phenomena particularly the lived experiences, perceptions, and decision-making processes of entrepreneurs (Yin, 2015). Given the limited research on Malay SMEs in the internationalisation context, a case study approach allows for the development of rich, contextual insights that cannot be captured through quantitative methods alone.

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A purposive sampling strategy was used to select SME 1: Sarong and SME 2: Batik. Malay-owned SMEs are currently engaging in CBE. These firms were chosen based on criteria such as: first, Malay majority ownership; second, involvement in CBE (import, export, or import & export) for more than three years; third, dealing with physical base products.

Primary data was collected through semi-structured interviews with SMEs managers or key decision-makers. Interview questions focused on the challenges of internationalisation to discuss the actual barriers, support mechanisms utilised, and the influence of government policies. Each interview lasted approximately 60 to 120 minutes and was conducted in either Malay or English, depending on the participant's preference. In the process of reaching out to the right participant, this study searched available government reports, industry publications, and local newspapers to obtain related evidence about the target participants. PUNB is part of the government agencies that actively share the success stories of Malay SMEs dealing with product-based business in the CBE. From the availability of Malay SMEs, two of them have been contacted and have agreed to participate in this study.

Data was analysed using thematic analysis, following Corbin & Strauss, (2014), grounded theories and aimed to identify patterns of meaning across the empirical data (Crowe, Inder & Porter, 2015). The thematic analysis is a flexible and helpful data analysis method that offers an in-depth, comprehensive, and complicated explanation of data (Braun & Clark, 2006).

Transcripts were coded manually to have deep control over the data and avoid being trapped with multiple functions of software programs that may overload the data (Saldana, 2013). There are four basic steps thematic coding manual analysis followed in the study;

Step 1: Familiarisation with the data
The researcher read the interview transcripts multiple times to familiarise with the content and understand the data (Braun & Clarke, 2006; Crowe et. al., 2015).

Step 2: Initial coding – basic themes
They set out the most basic details about the phenomena abstracted recurring ideas in the participants' statement. These capture key points that appeared throughout the data (Attride-Stirling, 2001; Braun & Clarke, 2006; Cacciotti, Hayton, Mitchell, & Giazitzoglu, 2016).

Step 3: Grouping basic themes into organising themes
Similar codes of basic themes were grouped into organised themes. These themes reflected common ideas and viewpoints shared by different participants (Attride-Stirling, 2001; Cacciotti, et. al., 2016; Crowe, et. al., 2015; Neuman, 1992).

Step 4: Developing global themes
The organised themes were further set out into broader global themes. These global themes highlighted the main findings of the study and are directly related to the objective of this study (Attride-Stirling, 2001; Braun & Clarke, 2006; Cacciotti et al., 2016; Crowe et al., 2015).

Case Study Context
This study involved two Malay SMEs; first, specialized in batik and, second, in Sarong which have each engaged in Cross Border Entrepreneurship for over three years. By profiling these firms, this study highlights how traditional textile procedures navigate international markets,

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and the challenges that they face from the day they decide to engage in CBE until now they decide to keep surviving and engage with the CBE market.

SME 1: Sarong

Background & Operations

Founded in 1992 and headquartered in Kuala Lumpur, and a branch in Kota Bharu, Kelantan. Currently separated from it headquartered and remain main operation in Kelantan. The firm began as a sales agent for a well-known brand of sarong *Mangga* in Malaysia. Over the past thirty-three years, the firm has heritage over to second generation and employs six people family members. The firm specialised in cotton-style sarong made through machine-printed processes that imported from Indonesia.

Internationalisation & CBE Involvement (Import/Export)

Since 1995, Sarong SME decided to stop running as a sales agent, the firm focused to create own sarong product and dealing directly to Indonesian manufacturers. The firm has three well-known brands in Malaysia: *Serama*, *Horse Sitting*, and *Crocodile*. This brand has its unique touch of different themes, patterns, and colours inspired by Malaysian taste and manufacture, and imported from Indonesia. One of its brands, Sitting Horse, was exported into the Thai market. The brand is quite famous in the Thai market and markets it as the Ferrari brand due to the logo picture.

Import/Export Channels & Partnership

- B2B Contract (Imported): Long-term supply agreements with the manufacturer from Indonesia and collaboration with two business partners to support financial funding and the bare cost of the importation.
- B2B Contract (exported): Long-term sales distributor agreements with the two business partners that willing to expand the sarong market into Thailand market.
- Digital Presence: Active in direct selling through online shopping platform Shopee, Facebook, Instagram and TikTok to reach end-customers in a wide market.

SME 2: Batik

Background Operations

Started with an informal trading seller due to demand among family, friend and a few times travel to New York. After made the first sales from New York client, the firm was set up and established in 2008 in Kuala Lumpur and now downsize into Kota Bharu, Kelantan. The firm employs 15 batik painter and designers to produce premium batik-style that emphasis on *ketam guri* motive which originated from Langkasuka era of past 15th century. The firm active in innovating batik product and *ketam guri* motive as contemporary patterns to remain in trend and practical with current fashion style.

Internationalisation & CBE Involvement (Export)

On the early set up the firm decide focused on marketing exercise to start bring out own brand and design. The firm active joining fashion shows and utilised local talent to keep traditional batik motive of *ketam guri* in place locally and internationally. Started in 2012, the firm decided to managed own self in promoting out into international market include Tokyo, Milan, Dubai, London, New York, Budapest, and Paris without interfere of intermediary party. Through

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support from MATRADE, the firm manage to expand its business crowd by meeting international buyers, designers, and trader of textiles for upholstery. Currently the firm maintain receiving order from Paris and Tokyo.

Export Channels & Partnership
- B2B Contract: Remain receiving orders from Paris and Tokyo trader clients.
- Digital presence: Direct sales social-media marketing on Instagram, where it cultivates a global following of cultural-fashion enthusiasts.

Finding and Discussion
This section presents key findings from interviews with selected Malay SMEs engaged in CBE. Thematic analysis revealed the global theme of challenges, three organising themes (1) operational management issues; (2) financial constraints; (3) national policy issues, and 13 basic themes; (1) lack of communication; (2) disorganised in documentation; (3) betrayal; (4) supply chain complication; (5) unknown internationally / regionally; (6) natural disaster/disease; (7) customer demeanour (8) substantial capital investment; (9) unrealised revenue; (10) adverse effect on revenue; (11) financial losses; (12) bureaucratic hurdles; (13) changes in government policies. All these themes are revealed on Table 2, Table 3, and Table 4.

Table 2: Finding from Operational Management Issues Themes

Global Theme	Organising Theme	Basic Theme	Highlighted participant quote	
Challenges	Operational Management Issue	Lack of communication	Don't dare to speak	"We are artisan who have those issues in their character where they don't dare to speak out and then they feel like they are not good enough and don't know how to value their creativity their expertise and skills" [SME 2 / Batik]
		Disorganised in documentation	Past accounting error	"The accounting error has been passed down through generations until the shop debt is categorised as an asset." [SME 1 / Sarong]
			Not had a proper accountant	"Because the store has not had a proper accountant for two years, we have employed on and off accountants. So, there is a past accounting error that causes an inaccurate account." [SME 1 / Sarong]
		Betrayal	Breach of trust issues	"Actually, we are a subsidiary firm with our headquarters in KL. However, the company in KL has a breach of trust issue, and we have

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				case with the KL Revenue Board.” [SME 1 / Sarong]
		Supply chain complication	Monopolising	“During my era, there are a lot of groups of traders who seem to be monopolizing the industry.” [SME 2 / Batik] “My motivation was actually is on frustration about the manipulation in term of middleman or the traders in the batik industry.” [SME 2 / Batik]
		Unknown internationally / regionally	People don’t know that we are exist	“I was said batik the always straight away trigger to Indonesia and when I mention Malaysia they would like where is Malaysia!? So, people don’t know that we are exist. So, well it was a bit hard but then through accolade and through contact and after meeting them two times. I get to have business transaction to happened but in the small scale which is fine” [SME 2 / Batik]
		Natural disaster/disease	Flood	“We have a debt commitment with PUNB since they offered us a loan of $2 million to buy store items in 2013-2014. Until 2014, when we had a bad flood. The total loss was more than a million dollars, involving all items from the shops and warehouse.” [SME 1 / Sarong]
		Customer demeanour	Price objection	“I get a lot of rejection especially in terms of prices because our product is something a little bit high price.” [SME 2 / Batik]

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Table 3: Finding from Financial Constraints Themes

Global Theme	Organising Theme	Basic Theme	Highlighted participant quote	
Challenges	Financial Constraint	Substantial capital investment	Debt commitment	"We have a debt commitment with PUNB since they offered us a loan of $2 million to buy store items in 2013-2014. Until 2014, when we had a bad flood. The total loss was more than a million dollars, involving all items from the shop and warehouse." [SME 1 / Sarong]
			A bigger capital to deal	"Internally international business, you have to have a bigger capital to deal with and then you don't know whether the capital that investment will be return or not. So, you playing with risk and all that sense and you were having to do a lot a lots marketing." [SME 2 / Batik] "We don't have enough funds to import Serama ourselves from Indonesia right now. Each container costs us between RM250,000.00 to RM300,000.00" [SME 1 / Sarong]
		Unrealised revenue	The sales money not credited to the company's account	"Because the sales money is not credited to the company's account, it cannot roll. We've also faced a case with the KL Revenue Board. Store sales in KL begin to fall from there. It's still adequate for a store in Kelantan with sales of 1 million to 2 million." [SME 1 / Sarong]
			Suffering in dealing with credit	"Our sales continue as usual. The agent submits the order with cash payment, and I do not receive credit. I aim to reduce our financial commitment" [SME 1 / Sarong] "But, because he is an artist, he made his vision *Sarong*. He wants to sell pricey, high-end items, but we can only provide him a sarong cloth with a capital of twelve ringgit. But he sells it at a very expensive price, so much so

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				that he produces stocks in large quantities and no one buys them. Worse, Jalan Tar in KL is replete with others imitating his items. He can't fight the market, and even if he does, he'll fail. Finally, he is in debt with us and are unable to pay. He owes money not just to us, but also with the Indonesian manufacturer." [SME 1 / Sarong]
		Adverse effect on revenue	Decrease in sales	"Sales at the Kelantan branch fell in 2014, 2015, and 2016. We could see a decrease in sales from one million a year to two hundred to one hundred thousand a year. It really hurts us." [SME 1 / Sarong]
			Breach trust and lawsuit	"When compared to the shop in KL, the branch in Kelantan is doing well better. That is because the breach of trust lawsuit in KL. My cousin who was involved have been fired." [SME 1 / Sarong]
		Financial Losses	Need to pay extra cost	"We attempted to register on MyIPO, like the Sitting Horse brand, but were refused by Ferrari. We attempted to fight, but our agent informed us that if we had cash, we could fight Ferrari. But Ferrari's money is limitless, and this takes years. Ferrari sent us 20 to 30 lists of what the horse's head-to-toe logo and the style of the animal we utilised were the same." [SME 1 / Sarong]
			Damage cost	"We use a fire hydrant to wash items that have been immersed in flood water. Indeed, we are unable to sell a single item of sarong in the Penambang warehouse." [SME 1 / Sarong]

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Table 4: Finding From National Policy Issues Themes

Global Theme	Organising Theme	Basic Theme	Highlighted participant quote	
	National policy issues	Bureaucratic hurdles	Red tape to be delegate	"Challenge I would say a bit internally because except that they were little issues in New York in USA when they were like too much of red tape to be delegate." [SME 2 / Batik]
			Handle by the agent	"I don't really deal with Customs so much because it was be handle by the agent." [SME 2 / Batik]
		Changes in government policies	Movement Control Order (MCO) affects	"During the MCO, all employees are on unpaid leave, and the shop must be closed for four to six months. The MCO really affect our daily operation" [SME 1 / Sarong]
			Unaware of the customs issue	"The shop account is not prepared for the GST system, and we do not send reports. PUNB called me, SMEs called me, and Customs searched for me after I had been at work for two weeks. I was unaware of the Customs issue, and at the time I didn't even have time to navigate the GST system." [SME 1 / Sarong]

SME 1 - Sarong

Operational Management Issues

SME 1 - Sarong, a small but ambitious Malaysian family-run business, ventured into the complex world of CBE with dreams of growth beyond its national borders. However, the journey was anything but smooth. One of the first obstacles they encountered was a legacy of inaccurate and inconsistent accounting records. These past irregularities led to serious misrepresentations in their financial statements, which in turn made it difficult for the company to make informed decisions. More than just an internal issue, these discrepancies also posed potential risks related to legal and regulatory compliance, especially troubling in an international setting where financial transparency is closely scrutinised.

As Sarong expanded into foreign markets, it faced the daunting task of navigating multiple accounting standards, diverse tax systems, and varied reporting requirements. Unfortunately, the company lacked a qualified accountant who could effectively handle these complexities. This gap in expertise made it challenging to manage cross-border operations efficiently and exposed them to compliance risks in multiple jurisdictions.

On top of these technical challenges, Sarong also had to manage the delicate interpersonal dynamics common in family businesses. Trust among family members was the glue that held

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the company together. But in the high-pressure environment of international business, even small misunderstandings or perceived betrayals could strain family relationships. A single breach of trust could spark tensions that affect decision-making and daily operations. When dealing with foreign partners and culturally different stakeholders, the stakes were even higher. Misunderstandings due to cultural differences sometimes led to distrust, making collaboration more difficult and risking valuable international partnerships.

Then came a challenge that no business plan could fully prepare for natural disaster. A severe flood hit Sarong's operational area, damaging inventory and infrastructure. The warehouse was submerged, and many of the company's raw materials and finished goods were lost. Delivery schedules were thrown into chaos, and customers were left waiting as the supply chain ground to a halt. Financially, the company took a major hit. Repairing damages and replacing inventory required resources they had not anticipated spending, putting further strain on already limited capital.

For Sarong, operational management in the context of CBE wasn't just about logistics and finance, it was about resilience. They had to learn, adapt, and respond not only to technical and regulatory complexities but also to deeply personal and unpredictable challenges, all while trying to hold on to their cross-border dreams.

Financial Constraints

For Sarong, a family-owned SME eager to grow beyond Malaysia's borders, the pursuit of CBE was both exciting and financially demanding. Every step into a new market came with a price tag, whether it was acquiring new stock, handling international shipping, or complying with overseas regulations. To fund these ambitions, Sarong turned to various financial sources, including banks and private investors. But securing capital was far from easy, especially when foreign suppliers were involved. Lenders hesitated, scrutinising the risks, and sometimes the funding simply didn't come through.

Debt became a necessary burden. Loans were taken to keep operations running, stock levels maintained, and growth plans alive. But as Sarong learned, credit came with its own set of problems. In several cases, payments from customers, particularly international ones, were delayed or not credited properly to the company's account. This caused immediate cash flow disruptions. The money expected to support operations and cover expenses just wasn't there when needed. It became a cycle of tight cash flow, making it harder to grow, harder to repay debts, and harder to breathe.

Cross-border deals also carried greater credit risks. Assessing the reliability of new clients abroad wasn't easy, especially when business cultures and practices varied. Some clients were slow to pay, while others defaulted entirely. Sarong had to extend credit to stay competitive, but this tied up precious working capital. For a small business, that meant less money for daily operations and even less for unforeseen emergencies.

And emergencies did come hard and fast. A decline in sales hit the company following several external shocks. The COVID-19 pandemic brought movement restrictions (MCO) that froze trade. A new tax system introduced more confusion and cost. And natural disasters, like devastating floods, further weakened demand while damaging infrastructure and inventory.

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Then came legal trouble. A breakdown in trust with a partner led to a costly lawsuit. Sarong had to absorb steep legal fees, which directly impacted their financial reserves. As if that wasn't enough, the company faced an unexpected blow from a branding dispute. They had unknowingly marketed a product under a logo too similar to a luxury brand, "Ferrari". This trademark violation might result in further financial penalties and reputation damage.

Transporting goods across borders added more strain. During one shipment, poor packaging and handling resulted in significant product damage. Replacing the damaged goods, covering additional shipping fees, and dealing with customer dissatisfaction all piled onto Sarong's already fragile finances.

Despite all these setbacks, Sarong continued to persevere. But their story is a powerful reminder of the financial tightrope many small businesses walk when trying to take their ventures global. Every misstep, whether a missed payment, a legal issue, or a broken shipment, carried real consequences. For Sarong, navigating CBE wasn't just a matter of ambition; it was a constant battle to stay afloat financially.

National Policy Issues

Sarong had always relied on its agility and family-driven spirit to keep its cross-border business running. But when the COVID-19 pandemic struck and the Malaysian government enforced the Movement Control Order (MCO), everything changed almost overnight. The very foundations of Sarong's business operations were shaken.

Government directives aimed at protecting public health came with strict limitations. Operating hours were reduced, customer numbers were tightly controlled, and staff had to work from home whenever possible. Social distancing rules and hygiene protocols, while necessary, made everyday business interactions more difficult to manage, especially for a small enterprise that relied heavily on face-to-face operations and close customer relationships.

With fewer people visiting physical stores and cross-border movement restricted, Sarong saw a steep drop in sales. The ripple effects were immediate: reduced income, stalled expansion efforts, and growing uncertainty about the future.

Adding to the strain was a wave of confusion around new tax regulations. Changes to national tax policy, especially customs duties and the procedures for filing tax returns, caught many small businesses like Sarong off guard. The company found itself struggling to interpret the latest requirements, unsure of how to proceed with shipments and customs documentation.

One of the biggest issues was a lack of clear guidance. Without proper awareness or training, Sarong unknowingly overlooked several key compliance steps. This led to delays at tax return submission, and extra penalties fee for the late submissions.

What was once a relatively smooth cross-border trade process becoming bogged down in red tape. Every transaction started to feel like a gamble, with shifting rules and limited support making it hard for Sarong to operate with confidence.

For this family run SME, the combination of pandemic restrictions and evolving regulatory demands didn't just slow down business; it made survival itself a challenge. Yet, through resilience and adaptation, Sarong continued to search for ways to keep its CBE journey alive.

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SME 2 / Batik

Operational Management Issues

For SME 2 / Batik, a homegrown Malay business rooted in tradition and craftsmanship, the dream of reaching international customers with its beautiful, hand-made fabrics was always a powerful motivation. But translating that dream into reality through CBE proved to be an uphill battle.

One of the first hurdles Batik faced was an internal one: the reluctance to challenge middlemen who had long controlled access to key markets. Out of fear of disrupting relationships, Batik's owners hesitated to assert their rightful position as primary producers and entrepreneurs. This over-reliance on intermediaries weakened their bargaining power and limited their ability to negotiate fair prices. As a result, Batik struggled to strike a balance between setting competitive prices and maintaining sufficient profit margins to keep the business sustainable.

The challenge didn't stop there. In some markets, powerful monopolies dominated the industry landscape. These entities controlled distribution networks and could easily undercut smaller players like Batik. Batik's attempts to break into these tightly held markets were often met with resistance. Without the resources to challenge such market dominance, Batik found its growth ambitions constrained by invisible walls.

Compounding these challenges was a lack of awareness about the brand. In new international markets, very few people knew Batik even existed. Unlike established global brands with high marketing budgets, Batik had to work with limited resources to introduce itself to unfamiliar audiences. Building brand recognition in such a crowded and competitive space was no easy task. The company had to experiment with different marketing strategies, some worked, others didn't, and it constantly adapted its approach based on local market feedback. Still, visibility remained an elusive goal.

Then came the issue of pricing. When Batik finally managed to get its products in front of international buyers, price rejection became a recurring problem. Foreign customers, unfamiliar with the cultural and artisanal value of Batik, often balked at the prices. They compared it to cheaper local alternatives and questioned why they should pay more. To them, the quality differences weren't always compelling enough. Strong local competition offering similar products at lower prices made it even harder for Batik to convince new customers of its worth.

All these issues, lack of market presence, dependence on middlemen, monopolistic roadblocks, and pricing struggles to make Batik's international journey incredibly challenging. Operationally, the company had to walk a tightrope, juggling limited resources with high expectations, navigating unfamiliar market dynamics, and constantly adjusting its strategies just to stay in the game.

Yet, like the intricate patterns in its fabric, Batik's story is one of resilience, woven with challenges but rich in tradition, creativity, and determination.

Financial Constraints

For Batik, the journey into CBE wasn't just about shipping beautiful hand-dyed fabrics to other countries, it was about stepping into a much larger, more demanding arena. With dreams of

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expanding into international markets, the owners quickly realised that global exposure came with a hefty price tag.

To meet the expectations of international buyers, Batik needed to upgrade its operations significantly. This meant investing in research and development to innovate designs, improve production techniques, and ensure product quality matched global standards. It also meant spending on compliance, adhering to regulations that governed everything from environmental practices to labelling and safety requirements in different countries. These weren't optional upgrades; they were essential just to be taken seriously in the global market. But the funds weren't there.

As a small business with limited financial reserves, Batik found itself struggling to cover the costs needed for this transformation. Every decision, whether to purchase better equipment, improve packaging, or hire specialists for regulatory certification, had to be weighed against their tight budget. The pressure to meet international standards clashed with the harsh reality of not having enough capital to make the necessary changes.

The owner of Batik was fully aware that competing in a broader international market came with higher expectations and greater risks. He understood that cross-border trade wasn't just about selling more, it was about proving that their products could stand shoulder-to-shoulder with the best in the world. But without sufficient capital to invest in the required upgrades and expansion, Batik's growth was stalled before it could truly take off.

In the end, Batik's story reflects the financial tightrope that many Malay SMEs walk when trying to expand globally. The passion and potential were there, but so was the heavy cost of playing on a bigger stage.

National Policy Issues

For Batik, a small but determined family-run business eager to share its heritage beyond Malaysia's borders, stepping into international markets felt like a proud leap forward. But that leap quickly became a slow crawl, bogged down by a maze of regulations and administrative hurdles.

Before even reaching foreign customers, Batik had to navigate its way through an overwhelming number of requirements just to get started locally. From applying for export permits to dealing with internal trade documentation and compliance rules, the business found itself spending more time filling out forms than creating products. These bureaucratic demands drained valuable energy and delayed operations, making the internationalisation process far more complicated than it needed to be.

For a small team with limited experience in navigating government systems, every new regulation or procedural update brought confusion and stress. The process wasn't just complex, it was discouraging. Each step forward seemed to require another layer of paperwork, more approvals, and constant follow-ups with different authorities. It slowed progress and chipped away at the team's motivation to push forward into the global arena.

Customs clearance, in particular, became one of the biggest roadblocks. Batik often found the procedures difficult to understand and too technical to manage alone. To avoid mistakes and delays, they turned to customs agents who handled the documentation and ensured smooth

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cross-border shipments. While this was a common practice, relying heavily on these agents came at a cost. The added service fees put pressure on Batik's already tight budget, increasing operational costs with every shipment.

More importantly, this dependence also came with a long-term disadvantage. By outsourcing the process entirely, Batik missed the opportunity to build its internal capacity to manage customs and compliance. Without this knowledge, the business remained vulnerable, unable to adapt quickly to changes in policy or procedures without external help.

In essence, Batik's efforts to go global were repeatedly slowed down by national-level inefficiencies. The heavy load of red tape, complex policies, and reliance on third parties created a sense of frustration and helplessness. For a business that had the product, passion, and ambition to succeed internationally, it was the system, not the market, that held them back.

Conclusion
This study explored the multifaceted challenges faced by Malay SMEs engaged in CBE, using two cases Sarong and Batik, to illustrate the lived realities of navigating international trade. Both firms, though distinct in their products, faced overlapping operational, financial, and regulatory obstacles that significantly hindered their internationalisation efforts.

SME 1 (Sarong) struggled with unreliable past accounting practices, insufficient financial controls, and the disruption of natural disasters like floods. These issues were compounded by a lack of skilled accounting support and trust-based breakdowns within family business dynamics. Meanwhile, SME 2 (Batik) encountered challenges such as market entry barriers created by monopolistic practices, over-reliance on intermediaries, price rejection in foreign markets, and limited brand visibility. Both SMEs faced policy and regulatory burdens, including cumbersome customs procedures, inadequate awareness of tax reforms, and excessive bureaucracy, which collectively slowed their efforts to expand across borders.

The findings indicate that whereas CBE offers significant development prospects for SMEs, it simultaneously exposes them to dangers for which they are frequently unprepared. These exposures are not only internal (such as capacity limitations and financial mismanagement) but also external, shaped by structural, institutional, and market-based forces.

Recommendation
To enable Malay SMEs to not only survive but also flourish in the CBE environment, this study stresses the need for an integrated and inclusive support ecosystem. Despite the complexity of the issues, specific policy changes, initiatives to increase capacity, and a more thorough empirical analysis of SME behaviour can all work together to maximise potential in both domestic and international markets. As suggested by this study, policymakers, SMEs' practices, and upcoming empirical research should all be addressed.

To lessen the burden on SMEs, policymakers should streamline and digitalise export, permit, and customs procedures, ideally through a one-stop trade site. SMEs' understanding of tax and customs reforms should be increased by regular, simple-to-understand training, particularly in *Bahasa Malaysia*. Export insurance, grants, and easily available loans should all be used to increase financial assistance for international business ventures. To assist SMEs in recovering from natural disasters, specific disaster relief funds are also required. Last but not least, stricter

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enforcement of anti-monopoly legislation is essential to guarantee equal market access and stop powerful firms from obstructing the expansion of SMEs.

SME practitioners should strengthen their internal skills in finance, accounting, and regulations to reduce reliance on external help. Building a strong brand and marketing strategy tailored to international markets can improve visibility and overcome pricing challenges. Understanding and adapting to local market preferences through research is key to meeting customer expectations. SMEs should also prepare for disruptions by managing supply chain risks with insurance and backup suppliers. In family-run businesses, clear agreements and governance structures are essential to maintain trust and prevent conflicts, especially when dealing with international partners.

Future research should explore more about how gaps in trade support systems and complex bureaucracy impact SMEs in developing countries engaging in CBE. Studies should also explore how family dynamics, such as trust, conflict, and internal governance, are affecting the international success of family-run SMEs. Long-term research is needed to evaluate how policy changes, like improved customs procedures or export financing, influence SME growth over time. Additionally, comparing the experiences of Malay SMEs with those of other ethnic or regional groups can help design more targeted and inclusive support policies.

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