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## THE CONTRIBUTION OF SMES ENTREPRENEURSHIP TO SOCIO-ECONOMIC DEVELOPMENT IN TERENGGANU

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### Abstract:

Small and medium enterprises (SMEs) are widely acknowledged as the backbone of socio-economic development, particularly in emerging regions where they play a vital role in employment generation, poverty alleviation, and cultural preservation. This article explores the contribution of SMEs entrepreneurship to socio-economic development in Terengganu, Malaysia, and critically examines the constraints that limit their growth. By synthesizing recent scholarship, the study situates SME development within five central dimensions: financial accessibility, digital transformation, entrepreneurial capacity, global competitiveness, and inclusivity for women and youth. The analysis demonstrates that SMEs in Terengganu contribute to economic diversification through tourism, fisheries, handicrafts, and cultural industries while reinforcing community resilience and sustaining local identity. Yet persistent barriers such as restricted capital access, uneven digital adoption, skills deficiencies, exposure to global market pressures, and limited inclusivity undermine their potential impact. These challenges are interconnected and require integrated approaches that align institutional reforms with ecosystem-based strategies. Building on this foundation, the article proposes practical suggestions including hybrid financing models, targeted digitalization programs, localized training and mentorship, differentiation strategies rooted in cultural heritage, and inclusive entrepreneurship policies. These strategies reflect both global best practices and local realities, positioning SMEs as catalysts for sustainable development in Terengganu. The conclusion affirms that strengthening SMEs is not solely an economic agenda but a holistic pathway toward inclusive, competitive, and resilient regional growth, offering insights relevant for policymakers, scholars, and practitioners.

### Keywords:

Entrepreneurship, Development, Finance, Digitalization, Competitiveness

## Introduction

Small and medium enterprises (SMEs) have been consistently recognized as a cornerstone of economic development around the world. They account for more than 90 percent of enterprises globally and contribute significantly to employment creation, innovation, and social development (Rahman et al., 2023). In developing and emerging economies, SMEs form the backbone of local economic activities, often providing opportunities for those excluded from large corporate structures (Kannan, 2025). In Malaysia, SMEs are central to the government's national agenda, playing a vital role in economic diversification, regional inclusivity, and industrial upgrading (Falahat et al., 2020). The state of Terengganu offers a unique case to examine the contributions of SMEs entrepreneurship to socio-economic development, due to its reliance on traditional industries, fisheries, tourism, and growing service-based sectors.

Globally, scholars and policy makers have emphasized the importance of SMEs in driving inclusive and sustainable growth (McKinsey Global Institute, 2024). SMEs are often described as the lifeblood of local economies because they generate employment opportunities and stimulate innovation at community levels where large corporations are less present (Ndlovu et al., 2025). Studies show that SMEs collectively contribute nearly half of value-added in emerging economies and employ more than two-thirds of the workforce (McKinsey, 2024). They are particularly crucial for achieving the Sustainable Development Goals since they are capable of reducing poverty, fostering gender inclusion, and bridging urban-rural divides (Rahman et al., 2023). In the Malaysian context, SMEs represent over 90 percent of registered businesses and contribute approximately 38 percent to national GDP (SMEs Impediments, 2022). Beyond their macroeconomic footprint, SMEs provide resilience to communities by spreading opportunities more evenly, especially in regions where heavy industry or large corporations are scarce.

Terengganu's economy has a distinct character that makes SMEs particularly relevant. Located on the east coast of Peninsular Malaysia, Terengganu's economic activities are a mixture of traditional and modern sectors. Its long coastline sustains fisheries and related processing industries, while its cultural heritage underpins batik and handicraft enterprises. The state is also known for its tourism assets, particularly its islands and beaches, which provide fertile ground for SMEs in hospitality, food, and services (Ahmad et al., 2022). At the same time, Terengganu faces challenges due to its dependence on oil and gas, seasonal variations in tourism, and rural underdevelopment. These factors make entrepreneurship an essential tool for diversifying the economy and promoting inclusive development. SMEs in Terengganu not only contribute to economic growth but also sustain cultural identity and community cohesion.

Entrepreneurship in SMEs provides multiple pathways for socio-economic development. First, it creates employment, particularly in rural and semi-urban areas where formal jobs may be scarce (Haron et al., 2021). By employing youth, women, and low-income groups, SMEs reduce unemployment and enhance social mobility (Alfaiza et al., 2025). Second, SMEs generate income for households, supporting poverty alleviation and creating opportunities for upward mobility (Nair et al., 2022). Third, SMEs preserve cultural and traditional practices by commercializing heritage-based products, such as Terengganu's boat-making or textile crafts, which combine cultural continuity with market opportunities (Yusof & Khalid, 2020). Fourth, SMEs promote innovation by experimenting with new products, adopting digital platforms, and integrating technology into traditional sectors (Chatterjee et al., 2023). These contributions

align with the goals of balanced and sustainable regional development, where economic growth is accompanied by cultural preservation and social inclusivity.

Despite their contributions, SMEs face multiple challenges that limit their potential. Access to finance remains one of the most persistent barriers. Many entrepreneurs lack collateral or formal credit histories, which restricts their ability to secure loans from banks and financial institutions (Sharma et al., 2023). Alternative financing mechanisms such as microcredit and cooperative loans are emerging but remain limited in scale. Another challenge is low technology adoption. Many SMEs in Terengganu still rely on traditional production methods, and digitalization is slow despite government initiatives promoting e-commerce and Industry 4.0 (Zhu et al., 2022). Skills and human capital are also pressing issues, as many entrepreneurs lack formal training in financial management, marketing, or export readiness (Rauschnabel et al., 2023). Competition from large firms and imported products creates pressure on SMEs, particularly those in food processing and tourism-related sectors (Moghaddam & Nof, 2022). In addition, SMEs that depend on seasonal industries such as tourism or fisheries face unstable income flows that challenge long-term sustainability (McKinnon, 2018).

The experience of Terengganu shows how regional contexts shape entrepreneurial outcomes. Unlike metropolitan centers such as Kuala Lumpur or Penang, Terengganu's SMEs operate in an environment where infrastructure and market access are more limited. Rural-urban disparities also affect opportunities, as urban SMEs in Kuala Terengganu have better access to resources compared to those in remote coastal or inland districts (Abdullah et al., 2022). However, this also creates opportunities for place-based entrepreneurship that draws on local resources and identity. For example, tourism-linked SMEs often market Terengganu's cultural heritage and natural attractions, differentiating themselves from competitors in other states (Ismail et al., 2021). Such strategies reflect the adaptive capacity of SMEs to use local strengths to overcome structural disadvantages.

Recent scholarship highlights the importance of entrepreneurial ecosystems in supporting SMEs. Entrepreneurial ecosystems are defined as networks of institutions, policies, norms, support organizations, finance, infrastructure, and human capital that collectively enable entrepreneurship (Mason & Brown, 2014; The Influence of Entrepreneurial Ecosystem on SMEs, 2022). In Terengganu, the ecosystem includes state agencies, local universities, cooperative societies, and business associations. Government programs aimed at digitalization, youth entrepreneurship, and women's empowerment are critical parts of this ecosystem (Kassim et al., 2022). However, ecosystem weaknesses such as fragmented coordination, limited mentoring, and gaps in training reduce the effectiveness of these programs (Nair & Lim, 2021). Strengthening entrepreneurial ecosystems is thus vital for enabling SMEs to fully contribute to socio-economic development.

SMEs in Terengganu also contribute to sustainability and resilience. With climate change and monsoon cycles affecting fisheries and tourism, entrepreneurs must develop adaptive business models that withstand shocks. Studies show that SMEs with flexibility in operations and diversified revenue streams are more resilient to external shocks such as pandemics, economic downturns, or natural disasters (Alfaiza et al., 2025). Social entrepreneurship, which combines profit-making with community benefits, is also gaining traction in Terengganu, particularly in sectors such as eco-tourism and handicrafts (Rahman et al., 2023). These ventures demonstrate

how SMEs can simultaneously address environmental and social challenges while generating income.

The significance of SMEs in Terengganu also extends to regional policy objectives. Malaysia's long-term development plans highlight the importance of regional inclusivity, aiming to reduce disparities between states. By empowering SMEs, Terengganu can diversify its economy beyond oil and gas and reduce vulnerability to external shocks (Falahat et al., 2020). Policies that support SMEs through training, financial access, and digital infrastructure can enhance the state's competitiveness. Moreover, fostering youth entrepreneurship aligns with national strategies to harness demographic dividends and reduce rural-urban migration (Yusof & Khalid, 2020). Thus, SMEs entrepreneurship serves as a bridge between national objectives and local realities.

The introduction of this study emphasizes that SMEs are not only economic entities but also social and cultural institutions embedded in local contexts. Their contributions to employment, poverty alleviation, innovation, cultural preservation, and resilience illustrate the multidimensional role they play in socio-economic development. In Terengganu, SMEs entrepreneurship reflects both opportunities and challenges. On one hand, SMEs empower communities, sustain traditions, and diversify the economy. On the other hand, structural constraints in finance, technology, and infrastructure limit their growth. By investigating these dynamics, this study seeks to contribute to scholarly debates on regional entrepreneurship and provide policy insights for enhancing SMEs' contributions.

This study is guided by three major theories that explain how SMEs grow, adapt and contribute to socio-economic development. The Resource Based View highlights that unique capabilities such as cultural knowledge, artisanal skills and community-based networks can strengthen SME competitiveness, especially in regions with strong traditional identities like Terengganu. The Dynamic Capabilities Theory explains that SMEs must be able to adjust their strategies when facing changes in technology, market demand or seasonal fluctuations such as those experienced by tourism and fisheries enterprises. Institutional Theory emphasises how policies, regulations, financial institutions and social norms influence entrepreneurial behaviour and opportunities. These three theories provide a strong analytical foundation for understanding the strengths, challenges and development pathways of SMEs in Terengganu.

## **Literature Review**

A literature review provides the foundation for understanding how SMEs entrepreneurship influences socio-economic development. By synthesizing international, national, and regional studies, this section positions Terengganu's experience within broader academic debates. The review is organized into five major themes: the global significance of SMEs, the Malaysian context, economic and social roles, innovation and digitalization, and resilience with inclusivity. These themes reflect the multidimensional contributions of SMEs while acknowledging the structural challenges they face.

### ***Global Significance of SMEs***

Small and medium enterprises dominate global business landscapes, representing more than 90 percent of enterprises worldwide and generating over half of total employment (Zhu et al., 2022). They are widely regarded as engines of growth because of their ability to stimulate competition, foster innovation, and diversify economies (Moghaddam & Nof, 2022). In

emerging economies, SMEs often serve as the largest employers, providing opportunities for low-income households and marginalized groups (Rahman et al., 2023). Global studies also highlight their critical role in achieving the Sustainable Development Goals by reducing poverty, enhancing gender inclusion, and promoting rural development (Ndlovu et al., 2025).

Empirical evidence shows that economies with vibrant SME sectors experience stronger GDP growth and greater adaptability to crises. For example, SMEs in Europe and East Asia contributed significantly to recovery after financial downturns due to their flexibility and localized operations (McKinnon, 2025). SMEs are also integral to global value chains, linking local producers to international markets and enhancing competitiveness (Kannan, 2025). Despite these strengths, SMEs worldwide face persistent challenges such as financing constraints, technological gaps, and exposure to globalization pressures (Zhu et al., 2022). These global patterns provide a useful framework for analyzing the role of SMEs in Malaysia and specifically Terengganu.

### ***SMEs in the Malaysian Context***

In Malaysia, SMEs have been consistently recognized as the backbone of the national economy. They contribute approximately 38 percent of GDP, 48 percent of employment, and 40 percent of exports, making them essential to balanced development (SMEs Impediments, 2022). Policies such as the SME Masterplan emphasize digital transformation, innovation, and inclusivity as pathways for SME competitiveness (Falahat et al., 2020). National institutions have created financing schemes, training programs, and internationalization strategies to strengthen SMEs (Sharma et al., 2023). However, scholars argue that the impact of these policies varies across regions, with rural and coastal states often lagging behind urban centers (Abdullah et al., 2022).

Terengganu presents a distinctive context because of its reliance on fisheries, tourism, handicrafts, and oil and gas. SMEs in the state are not only economic actors but also custodians of cultural identity. Local enterprises producing batik, songket, and traditional foods illustrate how SMEs preserve cultural heritage while generating income (Ahmad et al., 2022). Yet, the state also faces challenges such as seasonal dependence on tourism, monsoon-related disruptions, and limited infrastructure in rural districts (Ismail et al., 2021). These regional dynamics highlight why a location-sensitive approach to SME development is necessary. National statistics may present averages, but the lived realities of entrepreneurs in Terengganu often reveal greater vulnerability and unique opportunities for inclusive growth.

### ***Economic and Social Roles of SMEs***

The literature consistently emphasizes the economic and social significance of SMEs. Economically, SMEs are major job creators, particularly in regions where large firms are absent (Nair et al., 2022). They offer flexible employment opportunities, absorbing youth and women into the workforce and reducing unemployment (Alfaiza et al., 2025). SMEs also promote income diversification, enabling households to accumulate assets and improve living standards (Rauschnabel et al., 2023). For rural areas such as Terengganu, SMEs are critical for reducing poverty and preventing excessive outmigration to urban centers (Yusof & Khalid, 2020).

On the social dimension, SMEs foster community empowerment and social mobility. They create platforms for marginalized groups to participate in economic activities, thereby enhancing inclusivity and reducing inequality (Rahman et al., 2023). Women entrepreneurs in

particular contribute significantly to household welfare, yet often face barriers in finance and training (Haron et al., 2021). Youth entrepreneurship has also received scholarly attention, with evidence showing its potential to reduce unemployment and cultivate innovation (Abdullah et al., 2022). In Terengganu, youth-led SMEs in tourism and digital services are emerging as important contributors to local economies. Collectively, these studies underscore that SMEs are not just economic entities but also vehicles for social transformation.

### ***Innovation and Digitalization in SMEs***

Innovation and technology adoption are recurring themes in SME research. SMEs that adopt digital platforms, e-commerce, and automation gain competitive advantages by accessing new markets and improving efficiency (Chatterjee et al., 2023). However, barriers such as limited infrastructure, lack of skills, and high costs restrict adoption, particularly in rural regions (Zhu et al., 2022). Moghaddam and Nof (2022) argue that managerial capacity plays a decisive role in overcoming these challenges, as entrepreneurs with leadership training are more likely to embrace technological change.

In Malaysia, government initiatives encourage SMEs to participate in Industry 4.0, yet adoption rates remain uneven across states (Kassim et al., 2022). Terengganu SMEs have been slower to adopt digital tools compared to firms in Kuala Lumpur or Penang. This digital divide risks exacerbating regional disparities, making targeted interventions essential (Rauschnabel et al., 2023). Scholars emphasize that ecosystem support, such as training programs, mentoring, and access to affordable technologies, is vital for accelerating SME digitalization (The Influence of Entrepreneurial Ecosystem on SMEs, 2022). By integrating technology into traditional industries, Terengganu's SMEs could expand beyond local markets and strengthen resilience against competition.

### ***Resilience and Inclusivity of SMEs***

Resilience has become a central focus in SME literature, especially in the aftermath of the COVID-19 pandemic. SMEs with diversified revenue streams and adaptive business models were better able to withstand disruptions (Alfaiza et al., 2025). Social entrepreneurship, which combines profit-making with community benefits, has emerged as a sustainable pathway for resilience (Rahman et al., 2023). In Terengganu, eco-tourism and cultural enterprises illustrate how SMEs can link resilience with inclusivity by promoting environmental conservation while generating community income (Ahmad et al., 2022).

Inclusivity is another critical theme. Studies show that SMEs are platforms for integrating marginalized groups, including women, youth, and rural communities, into economic activities (Nair et al., 2022). Women entrepreneurs often contribute disproportionately to household welfare, yet structural barriers such as financing constraints and gender norms remain significant (Yusof & Khalid, 2020). Youth entrepreneurship is equally vital for addressing unemployment and preventing rural depopulation (Abdullah et al., 2022). In Malaysia, inclusive policies that target women and youth entrepreneurship have demonstrated measurable socio-economic benefits (Haron et al., 2021). These findings indicate that SMEs are most impactful when inclusivity and resilience are integrated into their business models.

SMEs in Terengganu operate in different sectors and each sector faces unique constraints that require targeted solutions. Tourism-based SMEs include homestays, boat operators and tour services that depend heavily on visitor arrivals and seasonal demand. Handicraft SMEs

specialise in cultural products such as batik, songket, wood carvings and woven crafts, yet many struggle with branding and marketing. Fisheries-based SMEs involve seafood processing, fish cracker production and supporting marine industries, which are sensitive to weather patterns and supply fluctuations. Food-based SMEs produce traditional foods and bakery products that support household income but face competition from commercial manufacturers. Understanding these variations is important to ensure strategies and policies match the specific needs of each SME category.

### ***Conceptual Model***

The conceptual model used in this study explains the connection between the challenges faced by SMEs, the strategic responses available to them and the outcomes expected from these interventions. SMEs in Terengganu encounter several limitations including restricted access to finance, slow adoption of digital technologies, limited managerial skills, high competition and insufficient inclusion of vulnerable groups such as women and youth. Strategic responses to these challenges include strengthening digital capabilities, improving financial accessibility, enhancing entrepreneurial skills, promoting cultural-based branding and expanding market linkages. When implemented effectively, these strategies contribute to stronger SME resilience and increased competitiveness while also supporting community prosperity and sustainable regional development. This model provides a structured way to understand how constraints can be transformed into long-term opportunities.

### ***Constraints in SMEs Contribution to Socio-Economic Development***

Although SMEs entrepreneurship contributes significantly to socio-economic development in Terengganu, the literature reveals persistent issues that constrain their potential. These issues are deeply interconnected, spanning financial exclusion, technological lag, skills deficiencies, globalization pressures, and inclusivity challenges. Addressing these matters is crucial because they shape the extent to which SMEs can sustain growth, preserve culture, and promote inclusive development. This section examines five major issues that are consistently highlighted in contemporary scholarship.

### ***Financial Limitations and Restricted Access to Capital***

Access to finance remains one of the most fundamental issues for SMEs. Numerous studies confirm that SMEs struggle to obtain credit due to limited collateral, lack of formal credit histories, and perceived riskiness by banks (Sharma et al., 2023). As a result, many entrepreneurs rely on personal savings or informal borrowing, which restricts their capacity for expansion, innovation, or investment in technology (Rahman et al., 2023). In Malaysia, although financing schemes exist through agencies such as SME Corp and government-backed banks, their accessibility remains uneven across states, particularly in Terengganu where rural enterprises are dominant (Falahat et al., 2020).

Microfinance has emerged as an alternative, but the scale of funding is often too small to support growth-oriented projects (Nair et al., 2022). Cooperative credit systems and Islamic financing provide some relief, yet they remain underdeveloped in coastal and rural areas (Haron et al., 2021). Venture capital and crowdfunding are increasingly popular in urban centers but remain largely absent in Terengganu (Chatterjee et al., 2023). According to Ndlovu et al. (2025), limited access to capital leaves SMEs financially fragile, preventing them from adopting resilience strategies and reducing their competitiveness. Without diversified and

inclusive financing mechanisms, financial exclusion will continue to be a structural barrier for SMEs in regional economies.

### ***Slow Digital Transformation and Technological Gaps***

Another critical issue for SMEs entrepreneurship is the slow pace of digital adoption. Research highlights that firms adopting digital platforms and e-commerce are better positioned to expand markets and enhance efficiency (Chatterjee et al., 2023). Yet, many SMEs in Terengganu continue to rely on traditional production methods and face challenges in adopting new technologies (Zhu et al., 2022). Digital literacy is often low, infrastructure is limited in rural areas, and costs of adoption are prohibitive (Kassim et al., 2022).

Rauschnabel et al. (2023) emphasize that the digital divide is widening between urban and rural enterprises, creating regional inequalities. Even when technology is available, cultural attitudes and generational gaps often reduce willingness to adopt new tools (Yusof & Khalid, 2020). Moghaddam and Nof (2022) argue that managerial competence is decisive, with firms led by skilled entrepreneurs more likely to integrate digital systems. In Terengganu, many SMEs in handicrafts, fisheries, and tourism remain confined to local markets due to their limited online presence (Ahmad et al., 2022). This technological lag not only restricts competitiveness but also leaves SMEs vulnerable to global market disruptions.

### ***Skills Deficiencies and Human Capital Gaps***

Human capital is central to the success of SMEs, yet skills shortages are widely documented. Many entrepreneurs lack training in financial management, marketing, innovation strategies, and international standards (Nair & Lim, 2021). McKinnon (2018) stresses that inadequate skills in supply chain integration and quality assurance reduce SMEs' ability to compete globally. In Terengganu, family-based SMEs often prioritize continuity of traditional practices over modernization, which limits their growth potential (Ahmad et al., 2022).

Educational institutions provide entrepreneurship programs, but integration with SMEs on the ground is weak (Kassim et al., 2022). Haron et al. (2021) emphasize that training programs are often generic and not tailored to the needs of rural or cultural industries. Rahman et al. (2023) point out that many entrepreneurs lack exposure to international best practices, which restricts their ability to expand into global markets. As a result, SMEs often operate with outdated methods and miss opportunities for innovation (Moghaddam & Nof, 2022). Addressing skills deficiencies is therefore critical to improving productivity and enabling SMEs to move up the value chain.

### ***Globalization and Competitive Market Pressures***

Globalization has created new opportunities for SMEs to access international markets, but it has also intensified competition. McKinnon (2018) observes that SMEs face pressure from cheap imports and multinational corporations with economies of scale. In Malaysia, small producers in textiles and handicrafts are particularly vulnerable to competition from mass-produced goods (Yusof & Khalid, 2020). Terengganu SMEs, which specialize in artisanal products such as batik and songket, struggle to differentiate themselves in saturated markets (Ahmad et al., 2022).

Chatterjee et al. (2023) argue that integration into global value chains is essential, but SMEs often lack export readiness, certification, and branding capacity. According to Ndlovu et al. (2025), SMEs that fail to adapt remain confined to small local markets, leaving them exposed to seasonal fluctuations and demand volatility. Kannan (2025) emphasizes that SMEs must adopt internationalization strategies to remain relevant in a global economy. For Terengganu, dependence on tourism and local consumption makes SMEs particularly vulnerable to global economic downturns and shifting consumer trends. Without stronger market positioning and innovation, competitive pressures will continue to erode their sustainability.

### ***Inclusivity Challenges for Women and Youth Entrepreneurs***

While SMEs provide platforms for inclusivity, barriers remain for women and youth. Female entrepreneurs often face gendered restrictions in accessing finance, training, and networks (Haron et al., 2021). Social norms may limit women's participation in certain industries, reinforcing inequalities (Yusof & Khalid, 2020). In Terengganu, women-led SMEs in handicrafts and food processing contribute significantly to household welfare, but their visibility in policy frameworks is limited (Abdullah et al., 2022).

Youth entrepreneurship also faces challenges. Many young entrepreneurs lack start-up capital and access to mentorship (Nair et al., 2022). Migration of youth to urban centers reduces innovation in rural areas, weakening the entrepreneurial base (Rahman et al., 2023). Chatterjee et al. (2023) note that while youth-led SMEs in tourism and digital services are emerging, they remain vulnerable without sustained institutional support. McKinnon (2018) stresses that inclusive policies targeting women and youth are essential for unlocking untapped potential in entrepreneurship. For Terengganu, inclusivity challenges represent a major issue, as excluding women and youth undermines both economic and social development outcomes.

### **Evaluating Challenges and Opportunities for SMEs Entrepreneurship**

The analysis of issues facing SMEs entrepreneurship highlights the complex environment in which these enterprises operate. While financial exclusion, technological gaps, human capital deficiencies, global competition, and inclusivity challenges constrain growth, the discussion of these issues also reveals avenues for addressing them. This section engages with the identified issues, situating them within broader theoretical debates and empirical evidence. It emphasizes how SMEs in Terengganu can navigate challenges through institutional reforms, ecosystem strengthening, innovation, and inclusive development strategies. By doing so, the discussion not only reflects on the barriers but also explores how these barriers can be transformed into opportunities for sustainable socio-economic progress.

Recent national reports show that SMEs contribute more than one third of Malaysia's GDP, demonstrating their significance as a major engine of economic growth. In Terengganu, SMEs make up more than ninety five percent of registered enterprises, which indicates their strong role in sustaining household income, rural livelihoods and community resilience. Many SMEs in Terengganu provide employment opportunities for women, youth and low-income families, particularly in food processing, cultural crafts and tourism-related services. However, the rate of digital adoption remains relatively low compared to more urbanised states due to constraints in infrastructure, digital literacy and access to technology-based support. These indicators show that SMEs provide meaningful socio-economic contributions but continue to face structural limitations that reduce their competitiveness and long-term growth potential.

### ***Financial Accessibility and Institutional Innovation***

The issue of financial exclusion has long been recognized as a barrier to SME growth, but recent scholarship highlights institutional innovation as a way forward. According to Karim et al. (2024), blended finance models that combine public, private, and cooperative resources can expand credit access for small firms. Evidence from Indonesia shows that cooperative lending institutions have been effective in mobilizing community savings for SME growth (Suharto, 2023). In Malaysia, digital banking and fintech solutions are emerging as tools for overcoming geographic and bureaucratic barriers to finance (Lee et al., 2023).

For Terengganu, institutional reforms that expand Islamic microfinance and cooperative models may be particularly relevant, given the state's socio-cultural context. A study by Omar and Hassan (2024) emphasizes that culturally tailored financial products enhance trust and participation among rural entrepreneurs. The literature also suggests that training programs linked to financial products improve repayment rates and sustainability (Ismail et al., 2024). While capital limitations remain, integrating technology-driven financing with cooperative systems provides a pathway for SMEs to overcome exclusion (Moghaddam & Nof, 2022).

While efforts to improve access to finance and strengthen institutional support provide important opportunities for SMEs, they also involve trade-offs that require careful management. Expanding cultural based products to meet wider market demand can risk reducing the authenticity and craftsmanship that make these products valuable. Promoting digitalisation may improve productivity and marketing reach, but older entrepreneurs or small family-run firms may struggle with the skills and costs involved in technology adoption. Tourism related SMEs also experience strong income flows during peak seasons, yet they remain highly vulnerable to monsoon periods or sudden drops in visitor numbers. These examples show that SME development strategies must be designed to balance growth ambitions with the need to preserve cultural identity, protect vulnerable groups and maintain long-term sustainability.

### ***Digital Transformation as a Pathway to Competitiveness***

Slow adoption of technology is a persistent issue, yet the discussion of digitalization points to significant opportunities for transformation. Scholars argue that digital tools lower barriers to market entry and enable SMEs to compete beyond local boundaries (Nguyen et al., 2024). Research in Thailand demonstrates that SMEs adopting e-commerce platforms increased sales by over 25 percent within three years (Pongpanich & Jirawan, 2023). In Malaysia, government-backed programs such as MyDigital and SME Digitalization Grant are designed to accelerate adoption (Kaur et al., 2024).

The discussion also emphasizes the role of digital ecosystems. According to Li and Wang (2024), SMEs embedded in digital ecosystems benefit from knowledge sharing, reduced costs, and innovation spillovers. For Terengganu, participation in tourism-related digital platforms could be transformative, especially as tourists increasingly rely on online services (Ahmad et al., 2024). However, infrastructure development remains a prerequisite. A study by Lim et al. (2024) finds that SMEs in rural Malaysia adopt digital platforms only when supported by adequate internet penetration and local training centers. The implication is that digitalization is not merely a technological upgrade but a systemic shift requiring ecosystem-wide support (McKinnon, 2025).

***Strengthening Human Capital and Entrepreneurial Capacity***

The skills deficiencies observed in SMEs highlight the importance of human capital development. Literature shows that entrepreneurial capacity is shaped not only by formal training but also by networks, mentorship, and experiential learning (Rahman et al., 2024). Studies in Vietnam reveal that SMEs with leaders exposed to international business practices outperform those with locally constrained experience (Pham et al., 2023). Similarly, collaborative programs between universities and SMEs improve innovation and competitiveness (Hashim et al., 2024).

For Terengganu, the discussion centers on bridging traditional knowledge with modern practices. Ahmad and Yusof (2024) argue that cultural industries such as batik and songket can thrive when artisans receive training in branding, digital marketing, and quality assurance. Programs that integrate universities, vocational centers, and SME associations create a dynamic skills ecosystem (Tan et al., 2024). International research underscores that entrepreneurial ecosystems with strong mentorship culture foster sustainable SMEs (Martinez & Lopez, 2024). Thus, addressing human capital deficiencies requires both formal education and informal capacity-building initiatives (Moghaddam & Nof, 2022).

***Navigating Global Market Pressures***

Globalization creates both challenges and opportunities for SMEs. The literature suggests that SMEs able to integrate into global value chains benefit from knowledge spillovers and higher income stability (Hobday et al., 2024). However, meeting international standards remains a barrier for many small firms (Patel et al., 2024). Scholars argue that certification, branding, and logistics are the primary hurdles preventing SMEs from entering export markets (Singh & Chandra, 2024).

For Terengganu SMEs, differentiation strategies based on cultural uniqueness may provide a pathway forward. A case study in Indonesia demonstrates how heritage-based SMEs leveraged cultural identity to penetrate international tourism markets (Sutanto, 2023). Malaysian handicraft SMEs that adopted branding and storytelling strategies improved their export readiness significantly (Latif et al., 2024). The discussion highlights that SMEs in Terengganu can similarly use cultural authenticity as a competitive advantage. At the same time, partnerships with larger firms or cooperatives can facilitate entry into global value chains (Ali & Hussin, 2024). The implication is that global pressures cannot be avoided, but SMEs can adapt by leveraging niche markets and adopting cooperative strategies (McKinnon, 2025).

***Enhancing Inclusivity through Women and Youth Entrepreneurship***

Inclusivity challenges highlight missed opportunities for maximizing the developmental impact of SMEs. The literature shows that women entrepreneurs are often more likely to reinvest profits into household welfare and education, amplifying socio-economic benefits (Khan et al., 2023). However, barriers such as access to finance and cultural norms restrict their participation (Noor & Sulaiman, 2024). Recent studies in Malaysia confirm that targeted support for women-owned SMEs enhances community resilience and contributes to poverty reduction (Chong et al., 2024).

Youth entrepreneurship is equally critical. According to Park and Kim (2023), youth-led SMEs are often more innovative and more open to digital tools, yet they face constraints in capital and mentorship. In rural Malaysia, youth migration to cities reduces the pool of potential

entrepreneurs, creating a structural challenge (Ghazali et al., 2024). Programs that provide seed funding, incubators, and mentoring networks are shown to retain youth in local entrepreneurship (Rahim et al., 2023). For Terengganu, inclusivity requires not only targeted programs but also integration into broader SME policies. By embedding inclusivity into mainstream development, the region can harness the untapped potential of women and youth for socio-economic transformation (Moghaddam & Nof, 2022).

### ***Toward Integrated Strategies for Sustainable SMEs***

The discussion of these issues illustrates that challenges cannot be addressed in isolation. Financial access is linked to technology adoption, which in turn depends on human capital development. Global market competitiveness requires both innovation and inclusivity, while inclusivity itself is strengthened by institutional reforms. The literature emphasizes the importance of integrated strategies where finance, skills, technology, and inclusivity are addressed simultaneously (Hashim et al., 2024; Karim et al., 2024).

For Terengganu, this means aligning state-level policies with national strategies while ensuring that local contexts are considered. Regional entrepreneurial ecosystems must be strengthened through partnerships between universities, government agencies, cooperatives, and the private sector (Tan et al., 2024). Such integration ensures that SMEs not only overcome constraints but also become active drivers of socio-economic development.

The future development of SMEs in Terengganu will be shaped by several emerging trends that create both opportunities and challenges for long-term growth. Increasing use of digital technologies, including artificial intelligence tools and data-driven marketing platforms, can help SMEs improve customer engagement and operational efficiency. Global market trends also show a rising demand for authentic, culturally-based products, which could benefit heritage crafts and traditional food enterprises in Terengganu. At the same time, changing consumer behaviour towards online shopping requires SMEs to strengthen their digital competitiveness and adopt more innovative business approaches. Entrepreneurs who actively invest in skills development, technology readiness and broader market exploration will be in a stronger position to expand and sustain their businesses in a rapidly evolving economic environment.

### **Advancing SMEs Entrepreneurship for Socio-Economic Development**

The issues confronting SMEs entrepreneurship in Terengganu require practical and context-sensitive solutions. While these enterprises contribute to economic diversification, cultural preservation, and community empowerment, their growth is hindered by barriers in finance, digital adoption, human capital, global competitiveness, and inclusivity. The literature emphasizes that solutions must be multidimensional, aligning institutional reforms with ecosystem integration and innovative practices. This section presents five suggestions that build directly on the discussion of current issues.

The strategies proposed in this study align closely with national and state level policies that support SME development. At the national level, initiatives such as the SME Masterplan, MyDigital and the Twelfth Malaysia Plan emphasise the importance of innovation, digitalisation and building competitive regional economies. At the state level, Terengganu provides entrepreneurship support through agencies that offer training, digital capacity building, microfinancing and business advisory programmes. Aligning SME strategies with

these policy frameworks ensures that development is systematic, coherent and capable of producing long-term benefits for communities. Strengthening collaboration between state agencies, universities, cooperatives and the private sector can also improve resource efficiency and enhance overall entrepreneurial ecosystems.

### ***Suggestion in Expanding Financial Inclusion and Capital Access***

SMEs remain constrained by limited access to finance, and therefore, innovative financial mechanisms are essential. Scholars emphasize that blended finance models combining public, private, and cooperative resources can improve access to capital (Lee et al., 2023). In Terengganu, expanding Islamic microfinance and cooperative credit schemes could enhance participation, as these models align with socio-cultural norms (Omar & Hassan, 2024). Evidence from Southeast Asia demonstrates that community-based financial institutions mobilize local savings and provide inclusive loans for SMEs (Suharto, 2023).

Digital finance platforms also provide opportunities for rural entrepreneurs. Studies in emerging economies reveal that fintech reduces transaction costs and expands access for unbanked populations (Nguyen & Tran, 2024). Venture capital and crowdfunding initiatives should be promoted to support SMEs seeking growth and export opportunities (Villanueva, 2024). Research confirms that linking finance with capacity-building programs improves repayment and strengthens sustainability (Ismail et al., 2024). For Terengganu, a hybrid financial system that integrates Islamic banking, digital platforms, and cooperative models is suggested to close financial gaps and promote resilience (Moghaddam & Nof, 2022).

### ***Suggestion in Accelerating Digital Transformation and Ecosystem Support***

Digitalization must become a strategic priority for SMEs. Research shows that digital adoption improves competitiveness, enables global market access, and fosters innovation (Nguyen et al., 2024). For Terengganu, expanding broadband infrastructure and creating digital hubs in rural districts are critical prerequisites (Kaur et al., 2024). Training programs in e-commerce, social media marketing, and digital finance can close literacy gaps (Tan et al., 2024).

The literature highlights that SMEs thrive when embedded in digital ecosystems where knowledge sharing and collaborative innovation occur (Li & Wang, 2024). In tourism, SMEs using online platforms have increased visibility and resilience, as demonstrated in Thailand and Vietnam (Pongpanich & Jirawan, 2023). Incentive schemes for SMEs to adopt technology should be paired with mentoring and ecosystem partnerships (Rahman et al., 2024). Terengganu's cultural and tourism industries could benefit from such strategies by attracting global consumers and improving efficiency. Embedding SMEs into collaborative digital ecosystems is suggested as a pathway for transformation (McKinnon, 2025).

### ***Suggestion in Strengthening Human Capital and Entrepreneurial Capacity***

Human capital development is central to SME sustainability. Studies highlight that training, mentoring, and experiential learning significantly enhance entrepreneurial performance (Hashim et al., 2024). In Terengganu, integrating universities, vocational institutions, and SME associations to co-create localized training modules is suggested (Ahmad & Yusof, 2024). These should focus on bridging traditional skills with modern business knowledge, particularly in cultural industries such as batik and songket.

Mentorship networks are another effective approach. Research from Europe shows that SMEs with access to mentors demonstrate higher innovation and survival rates (Martinez & Lopez, 2024). International exposure through trade fairs and exchange programs can also expand entrepreneurial perspectives (Patel et al., 2024). Experiential approaches are more impactful than classroom-only training, especially for artisans and family-run SMEs (Rahman et al., 2024). For Terengganu, strengthening entrepreneurial ecosystems with localized, practice-oriented training and mentorship is suggested to overcome skills deficiencies (Moghaddam & Nof, 2022).

### ***Suggestion in Enhancing Global Competitiveness through Differentiation***

Global market pressures require SMEs to adopt differentiation strategies. Research confirms that heritage-based SMEs succeed internationally when they leverage authenticity and cultural storytelling (Sutanto, 2023). For Terengganu, SMEs should position products such as handicrafts and traditional foods as premium and authentic, supported by certification and geographical indications (Latif et al., 2024).

Partnerships with larger firms and cooperatives can help SMEs integrate into global value chains (Ali & Hussin, 2024). Branding and export readiness training are essential, as studies show that SMEs with recognized certification achieve higher export performance (Singh & Chandra, 2024). Investment in logistics infrastructure also strengthens competitiveness by reducing costs and improving reliability (Hobday et al., 2024). The suggestion for Terengganu is to combine product differentiation with strategic partnerships and export facilitation to transform global competition into opportunities (McKinnon, 2025).

### ***Suggestion in Promoting Inclusivity for Women and Youth Entrepreneurs***

Inclusivity remains a critical area where SMEs can maximize socio-economic benefits. Studies show that women entrepreneurs reinvest more in household welfare and education, creating multiplier effects (Khan et al., 2023). Programs such as women-focused incubators, mentorship, and targeted financing are suggested to overcome barriers (Chong et al., 2024). For Terengganu, expanding women's participation in handicrafts and food processing industries is vital, supported by formal recognition and policy integration (Noor & Sulaiman, 2024).

Youth entrepreneurship is equally important. Research demonstrates that youth-led SMEs are more innovative and more likely to adopt digital tools (Park & Kim, 2023). Seed funding, incubators, and competitions have proven effective in supporting young entrepreneurs (Ghazali et al., 2024). In Terengganu, retaining youth in rural entrepreneurship requires sustained mentoring and integration into state-level programs (Rahim et al., 2023). Inclusivity should not be treated as an add-on but embedded into mainstream SME policies to ensure broad developmental impact (Moghaddam & Nof, 2022).

### ***Research Gaps and Future Studies***

There are several areas where additional research is needed to strengthen SME development in Terengganu. Future studies could examine the long-term impact of youth entrepreneurship programmes, especially in rural districts where business opportunities vary widely. More research is also needed to understand how digital ecosystems can enhance SME performance, particularly for micro-sized enterprises and cultural-based producers. Studies on global market integration can provide insights on how handicraft and traditional food SMEs can enter wider

markets. Furthermore, empirical work that measures the effectiveness of financial schemes, skills training and technology adoption will be valuable for guiding policy decisions. These gaps highlight the need for continuous research to support a more competitive and resilient SME sector.

## Conclusion

The study has highlighted that small and medium enterprises serve as vital drivers of socio-economic development in Terengganu, linking economic, social, and cultural dimensions into a comprehensive development pathway. SMEs not only generate employment and reduce poverty but also preserve cultural identity, sustain traditional industries, and provide platforms for women and youth to participate in entrepreneurship. Their role in tourism, fisheries, handicrafts, and emerging service sectors demonstrates the ability of SMEs to foster both economic diversification and community resilience.

At the same time, the analysis of literature and issues has shown that the contribution of SMEs remains constrained by persistent challenges. Financial exclusion, technological lag, human capital limitations, global competition, and inclusivity barriers continue to restrict their potential. These challenges are interrelated, reinforcing one another and creating systemic barriers to growth. However, the discussion also revealed that solutions are available through institutional reforms, digital ecosystem development, targeted skills training, product differentiation, and inclusive policies. Such strategies can transform existing weaknesses into opportunities for sustainable and competitive SME growth.

The suggestions outlined in this article provide practical strategies for enhancing the role of SMEs in Terengganu's socio-economic development. Expanding financial inclusion through hybrid financing models, accelerating digital transformation, strengthening human capital, adopting cultural differentiation strategies, and promoting inclusivity for women and youth are all critical pathways. By embedding SMEs into broader entrepreneurial ecosystems and aligning regional initiatives with national policies, Terengganu can maximize the developmental impact of its SME sector.

Ultimately, SMEs entrepreneurship in Terengganu illustrates the dual nature of opportunities and challenges in regional development. While structural barriers persist, the adaptability, resilience, and cultural richness of SMEs present a strong foundation for advancing inclusive growth. Strengthening entrepreneurial ecosystems and fostering innovation will ensure that SMEs continue to play a pivotal role in shaping Terengganu's future. The findings of this article underscore that empowering SMEs is not merely an economic agenda but a holistic approach to achieving sustainable, inclusive, and resilient regional development.

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