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## BARRIERS HINDERING THE APPLICATION OF THE VALUE CHAIN IN RURAL SMES IN MALAYSIA

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### ABSTRACT

This article explores the significant barriers hindering the effective application of the value chain framework in rural small and medium enterprises (SMEs) in Malaysia. Rural businesses face unique challenges, including limited access to financial resources, inadequate infrastructure, and technological gaps, which prevent them from fully participating in broader value chains. These barriers are compounded by a lack of skilled labor, bureaucratic hurdles, and limited market access, which collectively limit the growth potential and competitiveness of rural SMEs. The inability to integrate into supply chains reduces their productivity, market reach, and overall sustainability. Moreover, the digital divide between rural and urban businesses exacerbates the challenges, particularly with the rise of e-commerce and digital tools. Despite these obstacles, overcoming these barriers is essential for fostering inclusive economic development. The article highlights the urgent need for targeted interventions, including improved financing options, better infrastructure, and enhanced digital support for rural entrepreneurs. Additionally, addressing the skills gap through training and educational initiatives is crucial for empowering rural SMEs to innovate and compete. Collaboration between government agencies, private sector partners, and rural businesses is vital to creating a supportive ecosystem for rural entrepreneurship. Ultimately, addressing these challenges will contribute to a more equitable distribution of economic benefits, bridge regional disparities, and foster sustainable growth, helping rural SMEs integrate more effectively into the value chain and enhancing their role in Malaysia's digital economy.

*Keywords:* Rural Entrepreneurship, Value Chain, Barrier

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## 1.0 INTRODUCTION

The barriers hindering the application of the value chain in rural entrepreneurship in Malaysia represent a critical area of concern for both economic development and social equity. The value chain framework, introduced by Porter, emphasizes the importance of optimizing various activities within a business to enhance competitiveness and efficiency. In the context of rural entrepreneurship, the effective application of this framework can lead to improved productivity, better resource allocation, and increased market access for small and medium enterprises (SMEs) (Anthony, 2019). However, numerous barriers impede this process, including limited access to technology, inadequate infrastructure, and insufficient financial resources, which disproportionately affect rural SMEs compared to their urban counterparts (Saarani, 2023; Manzoor et al., 2021). The lack of comprehensive studies addressing these barriers further highlights a significant gap in the literature, as existing research often overlooks the unique challenges faced by rural entrepreneurs in Malaysia (Talib, 2023).

In today's digital economy, the importance of e-commerce ventures for Malaysian SMEs is undeniable. However, the barriers hindering the application of the value chain have a direct impact on these enterprises' ability to effectively leverage e-commerce. Rural SMEs, in particular, face significant challenges in adopting technology due to limited digital literacy and inadequate infrastructure, which restricts their ability to engage in the growing online marketplace (Chong et al., 2014; Faisal & Idris, 2020). Furthermore, there is a prevalent perception that e-commerce primarily benefits urban businesses, which results in insufficient investment and support for rural initiatives (Zhang et al., 2023). This creates a significant digital divide between rural and urban SMEs, limiting the growth opportunities for rural entrepreneurs. As such, there is an urgent need for targeted research to explore and address these gaps. Specifically, understanding how rural SMEs can overcome these barriers to enhance their digital capabilities is crucial for improving their competitiveness in the global e-commerce market (Kalesamy, 2021). By addressing these challenges, rural SMEs can better tap into the opportunities presented by the digital economy, fostering growth and sustainability in the rural business sector.

The influence of barriers to the application of the value chain in rural entrepreneurship is clearly reflected in Malaysia's current economic landscape. Many rural SMEs continue to struggle due to their inability to effectively integrate into broader supply chains, which severely limits their growth potential and market access (Jayashree et al., 2021; Hudin et al., 2017). This lack of integration leads to the fragmentation of rural supply chains, resulting in high transaction costs and low value addition, which further exacerbates the challenges faced by these businesses (Hota et al., 2019). Additionally, the absence of effective collaboration among key stakeholders, including government bodies and private sector partners, hinders the development of a supportive ecosystem that could foster rural entrepreneurship (Rizos et al., 2016). Addressing these barriers is essential to create an environment that promotes innovation and ensures sustainable growth in rural areas. By improving supply chain integration, reducing transaction costs, and encouraging collaboration between stakeholders, Malaysia can unlock the potential of its rural SMEs, driving economic development and resilience. These steps will be crucial for bridging the gap between urban and rural economies, creating a more inclusive and prosperous future for all regions of Malaysia.

The role of barriers hindering the application of the value chain is multifaceted, affecting not only individual businesses but also the broader economic landscape. These barriers create a cycle of underperformance among rural SMEs, which in turn negatively impacts employment opportunities and economic stability within rural communities (Manzoor et al., 2021; Ayesh et al., 2021). The lack of adequate support for rural entrepreneurs also leads to increased urban migration, as individuals move to cities in search of better opportunities, further exacerbating regional disparities (Ho, 2019). As a result, addressing these barriers is crucial for fostering inclusive economic development in Malaysia. By overcoming these challenges, rural SMEs can thrive, creating job opportunities and contributing to the overall economic stability of rural regions. Furthermore, providing targeted support to rural entrepreneurs can help mitigate the trend of urban migration and reduce the disparities between urban and rural areas, leading to more balanced national development. Understanding and tackling these barriers is therefore essential to ensuring long-term economic resilience and equitable growth throughout Malaysia.

Several factors significantly influence the barriers to the application of the value chain in rural entrepreneurship, particularly in the context of Malaysian SMEs. These factors include financial constraints, technological limitations, and inadequate managerial skills, all of which directly impact the ability of rural SMEs to integrate effectively into value chains and adapt to evolving market dynamics (Yaakub & Mustafa, 2015; Faisal & Idris, 2020). The influence of these

barriers is particularly pronounced in e-commerce ventures, where limited access to financing prevents SMEs from investing in essential technologies and digital infrastructure (Chong et al., 2014; Zhang et al., 2023). Additionally, the lack of managerial expertise hinders the strategic planning and execution required to drive innovation and sustainable growth in these businesses (Manzoor et al., 2021; Cabaran et al., 2023). As such, addressing these challenges is crucial to improving the competitiveness of rural SMEs in the e-commerce space, allowing them to overcome these barriers and better position themselves within the broader value chain. Solutions must therefore focus on enhancing financial accessibility, providing technological support, and building managerial capacities to foster more resilient and innovative rural businesses.

A review of previous studies reveals a consistent theme regarding the barriers hindering the application of the value chain in rural entrepreneurship. Many researchers have emphasized the critical need for targeted interventions to support rural SMEs. These interventions include enhancing access to technology, offering financial assistance, and implementing training programs to equip entrepreneurs with the skills needed to navigate the challenges of rural markets (Karim et al., 2022; Zhang & Huo, 2013). Despite these findings, a significant gap remains in developing comprehensive frameworks that address the unique challenges faced by rural businesses. Existing literature often overlooks the specific barriers that rural SMEs encounter, such as limited infrastructure, access to digital tools, and insufficient managerial expertise. This lack of targeted research highlights the need for further studies to develop tailored solutions for rural entrepreneurship in Malaysia. By synthesizing the current body of work and identifying gaps, future research can contribute to a deeper understanding of the barriers rural entrepreneurs face and the strategies necessary to overcome them. This would enable policymakers, industry stakeholders, and academic researchers to collaborate in creating more effective support mechanisms that can help rural SMEs thrive and integrate successfully into the value chain, thereby boosting their sustainability and economic resilience (Chin et al., 2011).

The objective of this study is to examine the barriers that hinder the application of the value chain within the context of rural entrepreneurship in Malaysia, while also identifying strategies to overcome these challenges. The research explores how these barriers interact with the broader economic environment, aiming to uncover insights that can guide policy decisions and support initiatives designed to enhance the competitiveness of rural SMEs. By addressing these barriers, the study seeks to contribute to sustainable economic growth and improve the livelihoods of individuals in rural communities. The findings will be crucial for developing targeted interventions that can help rural entrepreneurs integrate more effectively into the value chain, leading to increased business sustainability and economic resilience. Ultimately, overcoming these obstacles is vital for fostering inclusive growth and reducing regional disparities in Malaysia.

## **2.0 LITERATURE REVIEW**

### **2.1 The Barriers Hindering the Application of The Value Chain**

The historical development of research concerning barriers hindering the application of the value chain in the context of rural entrepreneurship in Malaysia has evolved significantly over the years. Early studies primarily focused on identifying the fundamental challenges faced by rural entrepreneurs, including limited access to resources, inadequate infrastructure, and insufficient government support. For instance, Ataei et al. (2020) highlighted various barriers that impede the effective implementation of value chains in rural settings, emphasizing the need for targeted interventions to address these issues (Ataei et al., 2020). Recent theoretical frameworks have integrated concepts of social capital and institutional support, as seen in the work of (Lang & Fink, 2019), which underscores the importance of social networks in enhancing rural entrepreneurship (Lang & Fink, 2019). Methodologically, contemporary research has employed mixed-method approaches, combining qualitative interviews with quantitative surveys to provide a comprehensive understanding of the barriers faced by rural entrepreneurs (Ataei et al., 2020; Azis, 2023). This evolution reflects a growing recognition of the complexities inherent in rural entrepreneurship and the necessity for multifaceted research designs that can capture the nuances of these challenges.

Various definitions of the barriers hindering the application of the value chain in rural entrepreneurship have been proposed by scholars, reflecting the multifaceted nature of the issue. For example, Ghouse et al. (2017) define barriers as socio-economic and structural forces that inhibit entrepreneurial activities, while Yuan et al. (2022) emphasize the role of inadequate financing mechanisms and policy frameworks (Ghouse et al., 2017; Yuan et al., 2022). Similarly, Azis (2023) identifies barriers such as limited market access and insufficient infrastructure as critical impediments to rural women's entrepreneurship in Malaysia (Azis, 2023). A synthesis of these definitions reveals common themes, including the

significance of financial resources, infrastructural development, and supportive policy environments. These elements are consistently highlighted as essential for fostering an effective value chain in rural entrepreneurship, indicating that addressing these barriers is crucial for enhancing entrepreneurial outcomes in rural contexts.

Recent trends in research on barriers hindering the application of the value chain in rural entrepreneurship have focused on the interplay between digital infrastructure and entrepreneurial success. Studies such as those by Gwaka et al. (2020) have explored how the transformation of digital infrastructure can facilitate the integration of information and communication technologies (ICTs) into rural value chains, thereby enhancing sustainability and efficiency (Gwaka et al., 2020). Additionally, the work of Pato & Teixeira (2014) has contributed to the understanding of rural entrepreneurship by examining the role of organizational characteristics and policy measures in overcoming barriers (Pato & Teixeira, 2014). Theoretical advancements have included the development of frameworks that link social capital and institutional support to entrepreneurial success, suggesting that a holistic approach is necessary to address the barriers effectively.

Several factors contribute to the barriers hindering the application of the value chain in rural entrepreneurship in Malaysia. Key contributors include inadequate access to financial resources, poor infrastructure, and limited market opportunities. For instance, Azis (2023) notes that rural women entrepreneurs face significant challenges related to financing and market access, which severely limit their ability to engage in value chain activities (Azis, 2023). Furthermore, Ataei et al. (2020) emphasize that the lack of targeted government policies and support mechanisms exacerbates these barriers, creating a cycle of disadvantage for rural entrepreneurs (Ataei et al., 2020). The cumulative impact of these factors highlights the urgent need for comprehensive strategies that address both the economic and social dimensions of rural entrepreneurship.

Recent trends in research methods used to study barriers hindering the application of the value chain in rural entrepreneurship have shifted towards more participatory and inclusive approaches. Qualitative methods, such as focus groups and case studies, are increasingly employed to capture the lived experiences of rural entrepreneurs, as seen in the works of Ghouse et al. (2017) and (Muhammad et al., 2017; Ghouse et al. (2017) (Muhammad et al., 2017; These methods allow for a deeper understanding of the contextual factors influencing entrepreneurial activities. The implications of these trends suggest a move towards more context-sensitive research that acknowledges the unique challenges faced by rural entrepreneurs, paving the way for future studies that can inform policy and practice.

In summary, previous studies on the barriers hindering the application of the value chain in rural entrepreneurship have identified critical factors such as inadequate infrastructure, limited access to financial resources, and insufficient government support. Methodologically, these studies have employed a range of approaches, from qualitative interviews to quantitative surveys, although many have faced limitations in sample size and generalizability (Ataei et al., 2020; Azis, 2023). Unique contributions include the identification of specific barriers faced by rural women entrepreneurs, as highlighted by (Azis, 2023). However, gaps remain in understanding the intersectionality of these barriers and their cumulative effects on different demographic groups within rural entrepreneurship. Future research should aim to address these gaps by exploring the nuanced experiences of diverse rural entrepreneurs and the effectiveness of targeted interventions.

## **2.2 Entrepreneurship in Malaysia**

Entrepreneurship can be defined in various ways, reflecting its multifaceted nature. First, Ahmad and Xavier describe entrepreneurship as a vital economic strategy that contributes significantly to Malaysia's economic growth by fostering innovation, reducing poverty, and creating wealth through business ventures (Ahmad & Xavier, 2012). This definition emphasizes the role of entrepreneurship in enhancing economic performance and social welfare.

Second, Noor et al. highlight that entrepreneurship, particularly among women, is characterized by the ability to identify and exploit business opportunities, which is crucial for economic empowerment and societal change (Noor et al., 2021). This perspective underscores the transformative potential of entrepreneurship, especially in marginalized communities.

Lastly, Adrutdin et al. define entrepreneurship as a mechanism for preserving national competitiveness in the face of globalization, suggesting that it is not only about individual success but also about contributing to the broader economic landscape (Adrutdin et al., 2020). This definition situates entrepreneurship within the context of global economic dynamics, indicating its importance for national development.

The definitions of entrepreneurship are closely related to the dependent variables (DVs) in various studies, particularly regarding economic growth and social empowerment. For instance, the findings from Ahmad and Xavier indicate that a conducive entrepreneurial environment is essential for growth, highlighting that factors such as financial support and institutional frameworks significantly influence entrepreneurial success (Ahmad & Xavier, 2012). This suggests that the DV of economic growth is directly impacted by the entrepreneurial ecosystem.

Moreover, Noor et al. found that women entrepreneurs face unique challenges that affect their business performance, such as access to funding and social norms (Noor et al., 2021). These challenges not only hinder individual entrepreneurial success but also limit the overall contribution of women to economic growth, thus linking the DV of social empowerment to the entrepreneurial landscape.

Additionally, Adrutdin et al. emphasize that Bumiputera entrepreneurs must be proactive in seizing opportunities to enhance their economic standing, indicating that the DV of national competitiveness is influenced by the entrepreneurial activities of specific demographic groups (Adrutdin et al., 2020). This relationship illustrates how entrepreneurship serves as a bridge between individual agency and broader economic outcomes.

Despite the valuable insights provided by previous research, several limitations and gaps remain. For instance, while studies like those by Noor et al. focus on women entrepreneurs, they often overlook the intersectionality of gender with other factors such as ethnicity and socio-economic status (Noor et al., 2021). This gap suggests a need for more nuanced research that considers the diverse experiences of entrepreneurs across different demographics.

Furthermore, the research by Ahmad and Xavier primarily utilizes quantitative data from the Global Entrepreneurship Monitor, which may not capture the qualitative aspects of the entrepreneurial experience, such as personal motivations and cultural influences (Ahmad & Xavier, 2012). This limitation indicates a need for qualitative studies that explore the lived experiences of entrepreneurs in Malaysia.

Lastly, while the studies highlight the challenges faced by entrepreneurs, there is a lack of comprehensive frameworks that address how these challenges can be systematically mitigated. For instance, while Adrutdin et al. discuss the importance of seizing opportunities, they do not provide actionable strategies for overcoming barriers (Adrutdin et al., 2020). This gap presents an opportunity for future research to develop practical solutions that support entrepreneurs in navigating the complexities of the business environment.

The current study aims to fill the identified research gaps by providing a comprehensive analysis of the entrepreneurial landscape in Malaysia, particularly focusing on women entrepreneurs. By integrating qualitative and quantitative methodologies, this research will offer a holistic view of the challenges and opportunities faced by entrepreneurs, thereby enriching the existing literature.

Additionally, this study will contribute to policy discussions by proposing targeted interventions that address the specific needs of different entrepreneurial groups, particularly women and Bumiputera entrepreneurs. By doing so, it aims to enhance the effectiveness of government initiatives and support programs, ultimately fostering a more inclusive entrepreneurial ecosystem.

Furthermore, the research will explore the socio-economic impacts of entrepreneurship on communities, thereby highlighting its role in driving sustainable development in Malaysia. This contribution is crucial for policymakers and stakeholders aiming to leverage entrepreneurship as a tool for economic growth and social change.

### **3.0 METHODOLOGY**

This study adopts a qualitative research approach to explore the experiences of small and medium-sized enterprise (SME) owners in relation to digital transformation. A qualitative design is appropriate as it allows for an in-depth understanding of participants' perspectives, experiences, and interpretations within their real-life context (Creswell, 2014). The study employs a cross-sectional design, where data are collected at a single point in time.

A purposive sampling technique was used to select participants who possess relevant knowledge and experience in managing SMEs and implementing digital transformation initiatives. Purposive sampling is commonly used in qualitative research to ensure that participants can provide rich and meaningful insights (Saunders et al., 2019). The study involved

five SME owners or co-owners in Malaysia who are directly involved in organizational decision-making and the integration of digital technologies. Participants were selected based on inclusion criteria such as active managerial roles and first-hand experience with digital transformation processes.

Data were collected through in-depth, semi-structured interviews. This method provides flexibility for participants to express their views while ensuring consistency across interviews (Kvale & Brinkmann, 2009). An interview guide consisting of open-ended questions was developed to explore key areas, including the adoption of digital tools, customer engagement, operational efficiency, and challenges faced during the transformation process. All interviews were conducted online and recorded with participants' consent.

The collected data were transcribed verbatim and analysed using thematic analysis. This method enables the identification of patterns and themes within qualitative data (Braun & Clarke, 2006). The analysis followed several steps, including data familiarisation, initial coding, theme development, and refinement. Codes were assigned to relevant segments of the data and grouped into broader themes to capture recurring patterns and insights. Atlas.ti software was used to assist in organising, coding, and managing the qualitative data, enhancing the systematic nature of the analysis process (Friese, 2019).

To ensure the trustworthiness of the findings, several strategies were applied. These include maintaining an audit trail of the data analysis process, ensuring consistency in coding, and carefully interpreting the data to reflect participants' perspectives. These practices are important in qualitative research to enhance credibility, dependability, and confirmability (Lincoln & Guba, 1985).

Ethical considerations were addressed throughout the study. Informed consent was obtained from all participants prior to data collection. Participants' identities were anonymised to ensure confidentiality, and all data, including recordings and transcripts, were securely stored. The study adhered to established ethical research guidelines to protect participants' rights and privacy (Creswell, 2014).

## 4.0 FINDINGS AND DISCUSSION

### 4.1 Data analysis

The analysis focuses on five rural businesses in Malaysia, each with unique workforce compositions and operational scales. These businesses span various industries, including food services (takoyaki stalls, traditional snacks, seafood restaurants), and steakhouses. The respondents represent diverse operational structures, with workforce sizes ranging from 3 to 15 employees.

### 4.2 Descriptive Statistics Analysis

Respondent	Business Name	Industry	Number of Employees	Gender Distribution
A	Dapo Nazs	Food Services	10	Male: 60% Female : 40%
B	Takoyaki Chef Tako	Food Services	3	Male: 90% Female: 10%
C	Jeffri Goreng Pisang Mak	Food Services	3	Male: 75% Female: 25%
D	Ayunie Seafood	Food Services	6	Male: 40% Female: 60%
E	Uncle Z Steak Corner	Food Services	15	Male: 75% Femal:25%

### **4.3 Research Findings One: The primary Barriers**

#### **4.3.1 Low Technological Adoption**

In interviews, street vendors in rural Malaysia highlighted lack of access to technology as a key barrier to improving their businesses. Limited internet access and the high cost of digital tools prevent them from reaching broader markets and streamlining operations.

Vendors expressed interest in using technology but lack training and support, leaving them at a disadvantage in building efficient, competitive value chains. “To be fair, one of the biggest issues for rural entrepreneurs like us is not having access to good technologies, tools, or machinery. Without those, productivity goes down and it is hard to really get into the value chain.” Respondent Company C

#### **4.3.2 Environmental Challenges**

Seasonality of Production: Many rural businesses, particularly those involved in agriculture, face the challenge of seasonality, which affects continuous participation in the value chain and leads to inconsistent income streams.

“One of the primary environmental challenges we face is the seasonality of our ingredients. Certain core ingredients, like octopus, can vary in availability and price depending on the season. This affects not only the cost of producing each Takoyaki batch but also the quality we can provide to our customers. During certain seasons, octopus or other fresh ingredients may become more expensive or difficult to source locally, which can strain both our budget and supply consistency.

To manage this, we have to be flexible in sourcing, sometimes looking for alternative suppliers or substituting ingredients while ensuring that quality is maintained.” Respondent Company B

### **4.4 Research Finding Two: Impact of the economic**

#### **4.4.1 Access to Finance**

In the interviews, street vendors identified insufficient financial literacy as a major challenge. Many vendors struggle with budgeting, tracking expenses, and understanding credit options, which limits their ability to make informed financial decisions.

Without basic financial skills, they face difficulties managing costs, investing in growth, and accessing formal financing. This gap in financial knowledge hinders their ability to integrate value chain improvements effectively, keeping them from maximizing profitability and business sustainability.

“Honestly, a lot of us just do not have the know-how or skills to tap into financial resources that are out there. It ends up holding us back from growing and makes it tough to really get into value chains.” Respondent Company C

#### **4.4.2 Supply Chain Inefficiencies**

Weak Supplier Networks: Limited access to raw materials, inputs, or specialized services can cause delays and increase costs for rural entrepreneurs, making it difficult to meet the standards or timelines required in larger value chains.

“For my Takoyaki business, it depends on specific ingredients like high-quality octopus, flour, and traditional seasonings, a weak supplier network can introduce significant challenges. If suppliers or raw materials are

inconsistent or unreliable, it can lead to delays and shortages, directly impacting the stall's ability to meet customer demand.

For example, if an ingredient like bonito flakes or Takoyaki sauce arrives late or doesn't meet quality standards, the entire operation can stall, resulting in lost sales and decreased customer satisfaction. Furthermore, smaller food stalls may lack the bargaining power to demand better service from the suppliers, which can exacerbate these issues.” Respondent Company B

## 5.0 CONCLUSION

In conclusion, this article has provided a comprehensive exploration of the significant barriers that hinder the effective application of the value chain framework in rural small and medium enterprises (SMEs) in Malaysia. These rural businesses face a range of unique challenges, including limited access to financial resources, inadequate infrastructure, and technological gaps that prevent them from fully participating in the value chain. Other critical barriers, such as a shortage of skilled labour, bureaucratic hurdles, and restricted market access, compound the difficulties faced by rural SMEs, directly limiting their competitiveness and growth potential. These challenges create a cycle of underdevelopment, further exacerbating the disparity between urban and rural economies.

Despite these obstacles, it is evident that overcoming these barriers is crucial for fostering sustainable economic development and improving the livelihoods of rural entrepreneurs. The findings of this study highlight the urgent need for targeted interventions, such as improving access to financing, better infrastructure, and enhanced technological support. Furthermore, addressing the skills gap through comprehensive training and educational programs is essential for empowering rural entrepreneurs, enabling them to integrate more effectively into the value chain and strengthen their competitive advantage.

Collaboration between government agencies, private sector partners, and rural SMEs is pivotal to creating a supportive ecosystem that encourages innovation and growth. Through such partnerships, Malaysia can unlock the full potential of its rural SMEs, driving economic resilience and fostering greater inclusion in the digital economy. Moreover, addressing these barriers will contribute to a more equitable distribution of economic benefits across urban and rural areas, ultimately helping to bridge the gap and reduce regional disparities. By facilitating the integration of rural SMEs into broader value chains, Malaysia can ensure a more inclusive and sustainable economic future for all its citizens. In doing so, the nation can create a more balanced, thriving economy that empowers entrepreneurs and promotes long-term social and economic growth.

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