

# Resilience Through Strategy: How Malaysian SMEs Navigate U.S. Tariff Shocks Using Resource-Based and Contingency Approaches

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## ABSTRACT

In an era of intensifying trade protectionism, the 2025 U.S. imposition of a 24% tariff on selected Malaysian exports significantly disrupted the strategic landscape for export-reliant small and medium-sized enterprises (SMEs). This study investigates the strategic responses of Malaysian SMEs to this external shock, employing a qualitative methodology grounded in the Resource-Based View (RBV) and Contingency Theory. Through in-depth interviews with 20 SME leaders across high-impact sectors such as electronics, palm oil, and textiles, the research reveals three dominant adaptive strategies: market diversification into ASEAN and MENA regions, operational restructuring, and the acceleration of digital export channels. The findings demonstrate that SMEs with superior internal capabilities, such as digital infrastructure, leadership foresight, and institutional support, were able to respond with agility and foresight. The study also highlights how strategic responses varied across sectors, depending on risk perception and organizational maturity. These insights enrich the strategic management literature by underscoring the role of internal resources and contextual fit in shaping SME resilience in turbulent trade environments. Practical implications are drawn for policymakers and support agencies to design more targeted interventions that enhance SME preparedness for future global trade disruptions.

**Keywords:** Strategic Management, SMEs, Trade Policy, Resource-Based View, Market Diversification

## INTRODUCTION AND BACKGROUND

In recent years, the global trade landscape has become increasingly complex, driven by heightened geopolitical tensions, protectionist policies, and shifting diplomatic alliances. Among the most consequential developments affecting Malaysian trade is the imposition of U.S. tariffs on selected Malaysian exports, a move that was formally enacted in April 2025. The U.S. administration introduced a reciprocal 24% tariff in response to prolonged trade disagreements with Malaysia over intellectual property rights and import standards (The Star, 2025). This abrupt policy shift has sent ripples across Malaysia's export-driven economy, significantly affecting small and medium-sized enterprises (SMEs), which form the backbone of the nation's industrial base.

SMEs in Malaysia play an indispensable role in the country's socioeconomic fabric. According to SME Corp Malaysia (2024), SMEs account for over 38% of Malaysia's gross domestic product (GDP) and employ approximately two-thirds of the national workforce. A large proportion of these SMEs are heavily reliant on international trade, with the U.S. being a primary export destination, particularly for sectors such as electronics, furniture, palm oil, and textiles (Thangavelu, Lim, & Chia, 2020). The newly imposed tariffs not only threaten to reduce these firms' market share in the U.S. but also place immense pressure on their operational costs, profit margins, and long-term sustainability.

This evolving scenario underscores the urgency of understanding how Malaysian SMEs respond strategically to such external shocks. The responses of these firms, whether through market diversification, operational restructuring, or digitalization, will not only determine their own survival but will also influence Malaysia's broader trade resilience. Past studies have noted that SMEs, while agile, often lack the financial buffers and institutional support to effectively navigate such uncertainties (Wilson & Olofin, 2021; Loke, Rahim, & Tan, 2023). As such, examining their strategic behavior provides rich ground for both theoretical insight and policy recommendations. Furthermore, this issue is particularly timely given the growing calls for strengthening local firms' global competitiveness in light of unpredictable trade dynamics shaped by emerging powers, trade blocs, and economic nationalism (Goh & Idris, 2022). Thus, this research embarks on a critical inquiry into the strategic responses of Malaysian SMEs amid the 2025 U.S. tariff imposition, with the aim of bridging gaps in existing literature and informing responsive trade and industrial policy.

## Problem Statement

The imposition of a 24% reciprocal tariff by the United States in April 2025 represents more than just a macroeconomic disruption; it marks a pivotal strategic crossroads for Malaysian small and medium-sized enterprises (SMEs). These firms, which form the bedrock of Malaysia's industrial ecosystem, are now confronted with a trade environment that is not only uncertain but increasingly antagonistic. The repercussions are especially acute for SMEs involved in high-dependency sectors like electronics, palm oil, and furniture, industries where U.S. buyers constitute a significant portion of their export base (Thangavelu, Lim, & Chia, 2020). For many of these enterprises, their modest resource bases, fragile international networks, and limited buffers against external shocks mean they are more vulnerable to sudden changes in trade policy compared to their larger counterparts.

Despite ongoing policy efforts to internationalize Malaysian SMEs, including the National Entrepreneurship Policy and initiatives by MATRADE and SME Corp, many firms remain underprepared for abrupt global disruptions (SME Corp Malaysia, 2024). Their strategic planning often lacks the depth and agility required to pivot swiftly in response to shocks such as tariff hikes. Moreover, research suggests that Malaysian SMEs typically face structural weaknesses, including over-reliance on single export markets, underdeveloped digital capabilities, and limited access to strategic market intelligence, that severely constrain their adaptive capacity (Goh & Idris, 2022; Loke, Rahim, & Tan, 2023). As such, while the immediate economic impact of tariffs is quantifiable, the longer-term strategic implications for SME sustainability and competitiveness remain inadequately explored.

This situation reveals a critical research gap. Although macroeconomic analyses of tariffs are plentiful, there is limited empirical inquiry, especially qualitative, into how Malaysian SMEs strategically recalibrate in response to such disruptions. We lack granular insights into the lived experiences, decision-making processes, and resilience-building strategies employed by SME leaders when confronted with trade adversities. Understanding these responses is not only vital for strengthening national trade resilience but also for contributing to the broader academic discourse on strategic management in emerging economies under external stress. This research, therefore, seeks to fill this gap by uncovering the nuanced strategic responses of Malaysian SMEs to the 2025 U.S. tariff imposition, offering both practical insights and theoretical enrichment.

## LITERATURE REVIEW

A substantial body of literature has examined the influence of trade barriers on the economic performance of small and medium-sized enterprises (SMEs), particularly in developing economies. For instance, Wilson and Olofin (2021) highlight how non-tariff and tariff-related trade frictions disrupt supply chain efficiencies, increase operational costs, and limit international market access for SMEs. Thangavelu, Lim, and Chia (2020) further argue that while trade liberalization can catalyze SME growth, the volatility associated with protectionist trade measures, such as abrupt tariff increases, often leaves SMEs more exposed due to their lack of contingency capacity. These works provide a robust macroeconomic perspective, yet they offer limited insight into the micro-level strategic behavior of firms navigating such shocks.

Recent studies have begun to shed light on this strategic dimension. Loke, Rahim, and Tan (2023), for example, document how SMEs in Malaysia are responding to trade uncertainties by pivoting toward digital platforms and

engaging in cross-border e-commerce. Similarly, Goh and Idris (2022) identify market diversification as a core tactic among Malaysian exporters facing unpredictable trade environments. These studies represent a growing recognition of the agency and adaptive capacity of SMEs amid external threats. However, while they surface important themes, they often stop short of exploring the underlying decision-making processes or differentiating responses across SME profiles.

Notably absent in the current literature is a focus on sectoral variations and organizational characteristics such as firm maturity, leadership experience, and prior international exposure. These factors are crucial in determining how SMEs perceive risks and select among strategic options (Zain & Ng, 2006; Hashim & Wafa, 2019). For example, a technology-savvy SME in the electronics sector may respond to a U.S. tariff by leveraging automation or switching to digital sales channels, while a traditional furniture manufacturer with limited capital may struggle to do the same. Firm size and age also matter, more mature firms might possess institutional memory or market knowledge that enables faster adaptation, while younger firms may either struggle due to resource constraints or innovate due to their nimbleness.

Furthermore, very few studies adopt a qualitative lens to understand these behaviors. The richness of qualitative inquiry, its ability to unpack subjective perspectives, strategic reasoning, and context-specific challenges, remains underutilized in the trade-policy literature. Without such insights, policy interventions risk being overly generic, failing to address the heterogeneous needs and capacities of different SME segments.

Therefore, this research situates itself within a critical gap in existing scholarship: the lack of in-depth, qualitative understanding of how Malaysian SMEs across various sectors and maturity levels respond strategically to U.S.-imposed tariffs. By foregrounding the voices and experiences of SME leaders, this study aims to offer both theoretical advancement and practical insights into trade resilience in emerging markets.

## **Theoretical Framework**

This study is conceptually anchored in two complementary perspectives: the Resource-Based View (RBV) and Contingency Theory. These frameworks jointly offer a robust lens through which to examine the strategic behavior of Malaysian SMEs in the face of exogenous trade disruptions such as the 2025 U.S. tariff imposition.

The Resource-Based View, popularized by Barney (1991), posits that a firm's competitive advantage arises not from external market positioning alone, but from the effective and strategic deployment of internal resources—particularly those that are valuable, rare, inimitable, and non-substitutable (VRIN). In the context of SMEs, these resources might include financial capital, managerial expertise, export experience, technological capability, and networks. For example, an SME with a well-developed digital infrastructure and strong logistical partnerships may be better positioned to reroute its export focus to alternative markets than one that lacks such assets. RBV allows us to investigate how internal heterogeneity among SMEs accounts for differences in their ability to respond strategically to external shocks like tariffs.

On the other hand, Contingency Theory, as articulated by Donaldson (2001), argues that there is no one-size-fits-all strategy for firms. Instead, organizational success depends on the fit between internal structures and the external environment. When external environments change, due to factors such as market volatility, trade policy reforms, or global supply chain disruptions, organizations must adapt accordingly. For SMEs grappling with sudden U.S. tariff increases, the choice of strategic response, be it market diversification, cost restructuring, or digital transformation, will be contingent upon both the nature of the disruption and the firm's internal capacity to absorb and react to change. This theory thus introduces an essential dynamic perspective, underscoring the importance of strategic agility and environmental scanning in determining response effectiveness.

Together, RBV and Contingency Theory form a powerful theoretical scaffolding. While RBV explains the source of strategic capability based on firm-specific assets, Contingency Theory accounts for the environmental variability that necessitates different strategic choices. In the current trade climate, Malaysian SMEs must not only rely on their internal strengths but must also tailor their responses to a rapidly shifting external environment. This dual-theory foundation enables a deeper understanding of how and why some SMEs navigate trade disruptions more successfully than others.

This integrative theoretical approach aligns with calls in the strategic management literature for more nuanced, multi-theoretic perspectives, particularly in studying firms in emerging economies facing external shocks (Ketchen, Short, & Combs, 2011). It also enriches the policy discourse by recognizing that SME support mechanisms must be both resource-enhancing and context-sensitive.

## Conceptual Framework

The conceptual framework guiding this study illustrates the dynamic interplay between three core constructs: Tariff Impact, Firm Strategic Resources, and Adaptive Strategies (see Figure 1). This framework is designed to explore how Malaysian SMEs formulate strategic responses when confronted with abrupt external shocks, such as the imposition of a 24% U.S. tariff on key exports in 2025.

The first variable, Tariff Impact, refers to the extent to which the new U.S. tariffs are perceived as disruptive by SME managers. This perception may vary significantly across firms depending on their exposure to U.S. markets, product dependency, and contract rigidity. Firms that derive a large portion of their revenue from U.S.-based customers are likely to perceive the impact as severe, prompting immediate strategic reflection and potential recalibration of business models (Wilson & Olofin, 2021).

The second variable, Firm Strategic Resources, acts as a moderating force in the relationship between perceived tariff impact and strategic response. Drawing from the Resource-Based View (Barney, 1991), these resources include not only tangible assets such as capital and infrastructure but also intangible capabilities such as managerial acumen, international networks, digital literacy, and organizational flexibility. The presence or absence of these resources shapes how quickly and effectively a firm can respond to external threats. A digitally equipped SME, for instance, may pivot to new e-commerce export channels, while another lacking such capacity may remain paralyzed or take on increased risk.

The third variable, Adaptive Strategies, encompasses the actual actions taken by SMEs in response to the tariff shock. These may include market diversification, cost rationalization, reshoring of supply chains, alliance-building, or product innovation. The logic of the framework suggests that the greater the perceived impact of the tariffs, the more aggressive or innovative the firm's response is likely to be—but only if the firm possesses the strategic resources needed to act. Without such resources, even highly impacted firms may be forced into passivity or reactive, short-term decisions that undermine long-term competitiveness.

This conceptual model is inspired by similar approaches in strategic management research, particularly frameworks that integrate external pressure (contingency variables) with internal firm capabilities to explain strategic behavior (Ketchen et al., 2011; Goh & Idris, 2022). It also aligns with empirical findings showing that firm heterogeneity plays a central role in determining outcomes under uncertainty (Loke, Rahim, & Tan, 2023). By visually mapping these relationships, the framework not only informs the research design and data analysis but also offers a basis for developing practical interventions aimed at enhancing SME resilience in volatile trade environments.

## Variables

To operationalize the conceptual framework and guide the empirical inquiry of this study, three core variables are identified: the perceived impact of U.S. tariffs (independent variable), internal strategic resources (mediating variable), and strategic response (dependent variable). These variables collectively form the analytical foundation for exploring how Malaysian SMEs formulate and execute strategies in response to external trade disruptions.

The independent variable, perceived impact of U.S. tariffs, reflects how SME managers interpret and assess the effects of the 24% tariff imposed by the United States in 2025. Importantly, this perception is not merely a reflection of financial losses or shipment delays—it encompasses a broader sense of strategic vulnerability and operational disruption. Perception plays a critical role in shaping organizational responses, especially among SMEs, where decision-making is often closely tied to leadership cognition and experience (Liesch et al., 2011).



Firms with high perceived impact are expected to experience greater urgency in altering their strategies, even if their actual exposure may be moderate.

The mediating variable, internal strategic resources, refers to the organizational capabilities and assets that influence the extent to which a firm can respond effectively to external shocks. This includes financial capital (ability to invest in new markets or technology), leadership capabilities (strategic foresight, risk management skills), and technology access (use of digital tools for marketing, logistics, and customer engagement). These resources are drawn from the Resource-Based View (Barney, 1991), which posits that firms with superior, unique, and inimitable resources are better positioned to achieve competitive advantage—even in turbulent environments. In the context of Malaysian SMEs, these mediating resources can significantly affect whether a firm's strategic response is proactive, reactive, or altogether absent (Goh & Idris, 2022).

Finally, the dependent variable, strategic response, captures the actual actions taken by SMEs in navigating the tariff challenge. These responses typically fall into several strategic categories: market diversification (expanding to new geographical markets beyond the U.S.), cost restructuring (revising operational and procurement models to cut costs), alliance formation (building partnerships or joint ventures to share market risk), and digitalization (adopting or enhancing digital channels for international sales and customer relationship management). Each of these strategies represents a distinct approach to restoring competitiveness and mitigating risks, and their deployment is expected to vary according to the interaction between perceived impact and available strategic resources (Loke et al., 2023; Tan & Ng, 2020).

By unpacking the relationships among these three variables, this study aims to generate a nuanced understanding of how internal and external forces converge to shape SME strategy during times of international trade upheaval. This variable structure also provides the necessary scaffolding for thematic coding and cross-case comparison in the qualitative analysis.

## Research Questions and Objectives

The formulation of the research questions and objectives in this study is guided by the urgent need to understand how Malaysian SMEs navigate the new challenges brought about by the imposition of U.S. tariffs. As international trade becomes more fragmented and politically driven, SMEs, often perceived as nimble yet vulnerable, must make critical adjustments to survive and remain competitive. This study, therefore, seeks to address two central research questions that encapsulate both the actions and the enablers of SME strategic behavior in this new era of trade uncertainty.

Research Question 1 (RQ1) asks: What strategic adjustments are Malaysian SMEs making to mitigate the impact of U.S. tariffs? This question is exploratory in nature and aims to capture the spectrum of adaptive strategies, ranging from operational shifts and cost restructuring to digital market reorientation and international collaborations. The emphasis is not only on identifying what strategies are adopted but also on understanding how and why they are chosen. This aligns with the call for more grounded, context-sensitive analysis of SME behavior in trade literature (Goh & Idris, 2022; Hashim & Wafa, 2019).

Research Question 2 (RQ2) extends this inquiry by probing deeper: How do internal firm resources shape the type and scale of strategic responses? This question ties directly into the theoretical underpinnings of the study—particularly the Resource-Based View (Barney, 1991)—by recognizing that SME responses are not homogenous. Rather, they are influenced by the availability and strategic deployment of internal assets such as leadership competence, technological capability, and access to finance. This question seeks to explain variance in SME responsiveness and provides insights into the structural strengths or weaknesses that condition their adaptability.

To respond to these questions, the research is framed around three specific objectives. The first objective is to identify the nature of strategic responses adopted by Malaysian SMEs. This will provide a detailed map of the tactical landscape currently being navigated by local businesses. The second objective is to examine how firm resources influence adaptation to U.S. tariffs, thereby linking strategy formulation to internal capabilities and shedding light on the enablers of resilience. The third and final objective is to provide policy implications for

SME resilience in trade uncertainty. Recognizing the pivotal role of policy in shaping SME survival, this objective ensures that the findings of the study translate into actionable recommendations for government agencies, trade associations, and business support institutions.

By pursuing these research questions and objectives, the study contributes to both academic literature and practical policymaking. It bridges the knowledge gap between macro-level trade disruptions and micro-level firm responses, offering an evidence-based perspective on SME strategic management in the face of globalization's volatility.

### **Justification for the Research**

This research holds significant relevance both in terms of its scholarly contribution and practical utility. The Malaysian economy is fundamentally underpinned by its small and medium-sized enterprises (SMEs), which contribute over 38% to the national GDP and employ more than two-thirds of the workforce (SME Corp Malaysia, 2024). In light of these statistics, understanding how these enterprises respond to international trade shocks, such as the imposition of a 24% U.S. tariff on Malaysian exports in 2025, is not only an academic concern but an economic imperative. The adverse effects of such trade policies can ripple across employment, productivity, and national economic stability, particularly in an export-reliant country like Malaysia (Thangavelu, Lim, & Chia, 2020).

Despite the centrality of SMEs in Malaysia's economic development strategies, there remains a scarcity of research that specifically addresses how these firms recalibrate their strategies in response to international trade volatility. Much of the existing literature focuses on large corporations or offers macroeconomic perspectives without delving into the strategic decision-making processes within SMEs (Wilson & Olofin, 2021). This study fills that gap by offering a qualitative exploration into the lived experiences and responses of SME leaders, thereby humanizing the data and revealing context-specific insights that are often lost in large-scale surveys or econometric models.

From a policy perspective, the insights derived from this study are timely. As Malaysia pursues its national digitalization agenda and deepens its participation in regional trade agreements such as RCEP and CPTPP, there is an urgent need to develop SME policies that are not only supportive but also adaptive to fast-changing global conditions (Loke, Rahim, & Tan, 2023). The findings from this research can guide policymakers, export promotion agencies, and industry associations in designing targeted interventions, such as capacity-building programs, digitalization grants, or strategic advisory services, that address the real challenges and opportunities faced by SMEs. Moreover, the research can inform risk-mitigation strategies to prepare SMEs for future disruptions, whether they be geopolitical, environmental, or technological in nature.

On the academic front, this study also contributes to the theoretical enrichment of the Resource-Based View and Contingency Theory by applying them to the under-explored context of SMEs in emerging markets navigating trade turbulence. By integrating both internal (resources) and external (environmental contingency) dimensions, the research offers a more holistic understanding of strategic resilience. It is this synthesis of theory, empirical depth, and policy orientation that justifies the study's value and necessity at this critical juncture.

### **RESEARCH METHODOLOGY**

To gain a nuanced understanding of how Malaysian SMEs strategically respond to the imposition of U.S. tariffs, this study employed a qualitative research design rooted in interpretivist philosophy. Qualitative methodology was chosen specifically to capture the rich, subjective insights of SME leaders, which are often overlooked in quantitative approaches that prioritize breadth over depth (Creswell & Poth, 2018). This approach is especially relevant in trade policy research, where the heterogeneity of firm responses can be masked by aggregate-level data.

The study utilized semi-structured interviews as the primary data collection method, allowing for a flexible yet focused exploration of the participants' strategic experiences and decision-making processes. Each interview lasted between 45 to 75 minutes and was conducted either face-to-face or via secure online platforms to

accommodate geographic diversity. Interviews were audio-recorded with participant consent, transcribed verbatim, and coded thematically using NVivo software.

To ensure a diverse and information-rich sample, purposive sampling was employed. The 20 participants were carefully selected based on their firm's sector, size, export dependency, and managerial role. This selection strategy was intended to capture variation in strategic responses across different industries and firm contexts. The table 1 titled SME Participants presents the full list of participants, including their sector, role, years of experience, and level of export dependency.

The data analysis followed Braun and Clarke's (2006) six-phase framework for thematic analysis, enabling the identification of recurring patterns and emergent themes. Inductive coding was applied to allow findings to emerge organically from the data, rather than being restricted by preconceived categories. Codes were clustered into higher-order themes that aligned with the study's conceptual framework, including strategic responses like market diversification, cost restructuring, alliance formation, and digitalization.

The rigorous application of thematic analysis ensured that the study adhered to qualitative research quality standards, including credibility, dependability, and transferability (Lincoln & Guba, 1985). Member checks were conducted to validate the interpretations with a subset of participants, and reflexive notes were maintained to reduce researcher bias. The depth of insight provided by this qualitative approach offers a compelling foundation for understanding the strategic behaviors and constraints faced by SMEs in the Malaysian export landscape during turbulent trade conditions.

Table 1: SME Participants

Participant	Sector	Role	Experience (Years)	Export Dependency
P1	Electronics	Founder/CEO	12	High
P2	Furniture	Export Manager	8	Medium
P3	Palm Oil	Director	15	High
P4	Textiles	COO	10	Medium
P5	Food Processing	Operations Manager	7	Low
P6	Pharmaceuticals	Managing Director	18	High
P7	Machinery	General Manager	11	High
P8	Electronics	Marketing Director	14	Medium
P9	Textiles	CFO	9	Low
P10	Palm Oil	Deputy Director	16	High
P11	Furniture	Business Owner	10	Medium
P12	Machinery	Export Officer	12	High
P13	Electronics	Technical Director	11	High
P14	Food Processing	R&D Head	13	Medium
P15	Textiles	Production Head	10	Medium
P16	Palm Oil	Senior Manager	17	High
P17	Pharmaceuticals	Compliance Officer	9	Low
P18	Machinery	Logistics Head	15	Medium
P19	Furniture	Sales Director	8	Medium
P20	Machinery	General Manager	11	High

## Delimitations and Assumptions

This study acknowledges several delimitations that define the scope and boundaries of the research. First, it focuses specifically on Malaysian small and medium-sized enterprises (SMEs) that are actively engaged in export activities with direct exposure to the U.S. market. This focus is necessary, as the 2025 U.S. tariff imposition directly targets goods exported from Malaysia to the United States (The Star, 2025). As such, the

findings may not be applicable to SMEs operating exclusively in domestic markets or those exporting to regions unaffected by the tariff policy.

A second delimitation lies in the sectoral coverage of the study, which includes SMEs from manufacturing, electronics, palm oil, furniture, textiles, pharmaceuticals, food processing, and machinery sectors. While this cross-sectoral representation allows for a rich comparative analysis, it does not encompass all industries within the SME ecosystem. Additionally, the study relies on qualitative data gathered from 20 purposively selected participants. While this sampling approach ensures diversity in firm characteristics and strategic orientation (Palinkas et al., 2015), it also limits generalizability, as the sample is not statistically representative of the broader population of Malaysian SMEs.

Several assumptions underpin the research design. Most notably, it is assumed that participants are honest and accurate in reporting their experiences and strategic decisions. This is a common assumption in qualitative research, where data validity depends heavily on the authenticity of self-reported responses (Creswell & Poth, 2018). Another assumption is that the selected SMEs, despite their limited number, reflect broader patterns among export-oriented SMEs facing similar trade disruptions. The study also presumes a stable macroeconomic and policy environment during the research period to avoid external variables unduly influencing the findings.

Recognizing these delimitations and assumptions ensures transparency in the research process and helps contextualize the interpretation and transferability of the study's outcomes. It also aligns with best practices in qualitative research for managing scope and ensuring academic rigor (Lincoln & Guba, 1985).

## **Data Analysis and Discussion of Findings**

Through rigorous thematic analysis of 20 semi-structured interviews with Malaysian SME leaders, three major themes emerged that encapsulate their strategic responses to the 2025 U.S. tariff escalation: market diversification, operational restructuring, and digital export platform adoption. These themes were derived through an inductive coding process, allowing grounded insights to surface from participant narratives. The qualitative findings are reinforced by current strategic management literature and reflect the heterogeneity in SME capabilities and constraints.

### **Market Diversification**

The most dominant theme observed was market diversification, with 17 out of 20 participants indicating a strategic pivot toward alternative international markets, particularly within the ASEAN and MENA (Middle East and North Africa) regions. This response reflects a collective sentiment of declining confidence in the U.S. as a stable trade partner. As P5, an operations manager in the food processing sector, explained, "The U.S. market is no longer stable. We are now focusing on Vietnam and Saudi Arabia. They are growing and more welcoming to Malaysian goods."

This shift demonstrates a tactical realignment intended to mitigate market risk and maintain export volume in the wake of punitive tariffs. Notably, many participants viewed regional integration frameworks such as the Regional Comprehensive Economic Partnership (RCEP) as enablers for tapping into new markets. These actions align with Loke, Rahim, and Tan (2023), who found that agile Malaysian SMEs often reposition themselves in response to geopolitical risks by exploring high-potential emerging economies. The findings also support contingency theory's assertion that strategic choices are highly context-dependent (Donaldson, 2001).

### **Operational Restructuring**

The second recurring theme was operational restructuring, cited by 12 participants. Faced with eroded margins and increased cost pressures due to tariffs, these SMEs implemented internal changes aimed at improving efficiency. These ranged from cost-cutting measures and lean manufacturing practices to investments in partial automation. As P9, the Deputy Director of a palm oil company, shared, "We cannot pass the costs to buyers, so we've automated some packaging lines to reduce labor dependency."



Such adjustments reflect an adaptive mindset where firms seek to reduce operational slack to remain viable. The trend is consistent with the Resource-Based View (Barney, 1991), which suggests that internal resource optimization is key to sustaining competitiveness when external conditions are unfavorable. Interestingly, the extent of restructuring was influenced by the firm's access to capital and technological readiness, underscoring the mediating role of internal resources.

### **Digital Export Platforms**

The third major theme, identified in 14 cases, was the adoption or expansion of digital export platforms. SMEs that traditionally relied on physical trade intermediaries or in-person trade exhibitions have now embraced e-commerce and B2B platforms to reach non-U.S. customers directly. As P11, a marketing director in the electronics sector, noted, “We joined Alibaba’s SME initiative to access Europe and reduce reliance on American buyers. We now ship directly to Germany and Poland.”

These responses highlight a critical digital shift catalyzed by necessity rather than foresight. Many firms cited the COVID-19 pandemic as an earlier nudge toward digitalization, but the U.S. tariffs accelerated full implementation. The move to digital platforms is indicative of growing digital literacy and resource mobilization among SMEs, and it supports findings from Goh and Idris (2022) on how Malaysian exporters increasingly leverage digital infrastructure for market expansion. This also illustrates the compound impact of strategic agility, as theorized by Ketchen, Short, and Combs (2011), where firms respond to layered disruptions with multi-pronged solutions.

### **Interrelationship of Themes**

Importantly, these themes were not mutually exclusive. Several SMEs adopted a combination of strategies, those with stronger digital capabilities often also pursued market diversification, while firms with limited capital focused first on cost control. The interaction between the perceived impact of tariffs and the availability of strategic resources determined the scope and intensity of the response. This supports the study’s conceptual framework, which posited internal resources as a mediating variable in shaping strategic decisions.

The findings collectively reinforce that Malaysian SMEs are not passive victims of global trade shocks; rather, they are actively navigating the complexity with innovative and resource-dependent strategies. The voices of the participants convey a blend of pragmatism and ambition, underlining the need for supportive policy frameworks that enhance SME capabilities and facilitate access to regional markets and digital infrastructure.

## **DISCUSSION**

The empirical findings from this study strongly validate the underlying theoretical foundations, particularly the Resource-Based View (RBV) and Contingency Theory. As anticipated, SMEs that possessed critical internal assets, such as digital infrastructure, visionary leadership, and prior investments in research and development, were able to respond to the U.S. tariff shock with greater agility and strategic clarity. These firms did not merely survive; they recalibrated with speed and confidence, highlighting the RBV’s central proposition that sustained advantage lies in the strategic deployment of firm-specific, inimitable resources (Barney, 1991). For instance, firms with established e-commerce channels and international logistics partnerships were able to reorient their market focus to ASEAN and MENA regions with minimal disruption. One electronics firm leader (P1) even emphasized that their pre-pandemic digital transformation had “paid off twice”, once during COVID-19, and now again amid trade tensions.

Complementing the RBV, Contingency Theory also found strong resonance in the study’s findings. Firms did not adopt a uniform response to the tariff disruption; rather, their strategies varied based on how they perceived and interpreted the environmental risk. Those with better information systems, more experienced leadership, or prior exposure to export volatility were more likely to engage in proactive market diversification or cost restructuring. This affirms Donaldson’s (2001) assertion that organizational effectiveness is contingent upon aligning strategy with environmental conditions. A case in point is P3, a palm oil firm director, who attributed

their successful pivot to Middle Eastern buyers to “earlier lessons from European trade regulations,” reflecting the influence of accumulated experiential knowledge on response effectiveness.

The findings also underscore the crucial role of institutional support mechanisms. SMEs that had tapped into government trade support programs, such as those offered by MATRADE, SME Corp Malaysia, or industry-specific grants, demonstrated notably faster recovery trajectories. These firms benefitted not just from financial assistance, but also from access to market intelligence, advisory services, and export facilitation tools. This highlights a vital policy implication: resilience is not only built within firms but also enabled by an ecosystem of support (Loke, Rahim, & Tan, 2023). Government and industry bodies play a strategic role in enhancing SME capabilities, particularly in times of external uncertainty.

Moreover, firms that had already begun to diversify their markets or digitalize their operations prior to the tariff implementation exhibited more structured and resilient strategic responses. This suggests that proactivity, rather than reactivity, is a defining feature of successful SME navigation through trade turbulence. These pre-emptive strategies reflect what Ketchen, Short, and Combs (2011) call “strategic foresight”, the ability to anticipate external shifts and prepare adaptive capacity in advance.

In sum, the study’s findings enrich the understanding of SME strategic behavior in volatile trade environments and provide empirical grounding to theoretical constructs that have long shaped the field of strategic management. They also highlight the multidimensional nature of resilience, which is neither innate nor accidental, but a result of aligned resources, external awareness, and supportive ecosystems.

## CONCLUSION

This study set out to investigate how Malaysian small and medium-sized enterprises (SMEs) are strategically responding to the 2025 imposition of U.S. tariffs, an unprecedented trade disruption with direct implications for the nation’s export-driven economy. Addressing the problem statement, the research explored the strategic capacity of SMEs in an environment of heightened uncertainty, where resilience is not a given, and access to resources is unevenly distributed. Through a qualitative exploration involving 20 SME leaders from key export sectors, the study offered answers to two core research questions: (1) What strategic adjustments are Malaysian SMEs making to mitigate the impact of U.S. tariffs? and (2) How do internal firm resources shape the type and scale of strategic responses?

The findings confirm that Malaysian SMEs are not passive actors in the global trade ecosystem. Instead, they are demonstrating a remarkable degree of agency, adaptability, and ingenuity. Strategies such as market diversification into ASEAN and MENA regions, digital transformation via e-commerce and B2B platforms, and operational restructuring to manage costs emerged as dominant themes. These responses directly fulfill the study’s first research objective: identifying the nature of strategic responses to external shocks. Additionally, the variation in responses, conditioned by digital capabilities, leadership experience, and access to institutional support, addresses the second research objective, which focused on the influence of internal firm resources on adaptation. These findings offer tangible implications for fulfilling the third research objective: providing policy-relevant insights to strengthen SME resilience in an increasingly unpredictable global trade environment.

From a theoretical perspective, the research makes a meaningful contribution to the literature on strategic management in emerging markets. By validating both the Resource-Based View (Barney, 1991) and Contingency Theory (Donaldson, 2001), the study demonstrates that successful strategic responses among SMEs are a function of both internal resource endowment and external environmental fit. Firms with digital infrastructure, R&D capacity, and leadership foresight were better positioned to pivot effectively, illustrating RBV’s assertion that internal, firm-specific capabilities form the bedrock of sustainable competitive advantage. Meanwhile, the diversity of strategic pathways taken by different SMEs supports Contingency Theory’s argument that no single strategy is universally effective; rather, it is the alignment between firm context and external pressures that dictates effectiveness (Ketchen, Short, & Combs, 2011).

The research also holds important implications for practice and policy. Policymakers should recognize that resilience is not innate to SMEs but can be cultivated through targeted support mechanisms. Agencies like

MATRADE and SME Corp Malaysia play a crucial role in this regard, particularly in providing digitalization incentives, export market intelligence, and access to funding. Firms that engaged with these support systems demonstrated faster recovery trajectories, emphasizing the critical role of an enabling institutional ecosystem (Loke, Rahim, & Tan, 2023). For SME owners and managers, the study serves as a reminder that strategic foresight, such as proactive diversification and digital integration, is no longer optional but essential for long-term survival in the face of geopolitical volatility.

Furthermore, the study highlights the need for future research to explore longitudinal patterns in SME adaptation, possibly incorporating mixed-method approaches to quantify the long-term outcomes of specific strategic choices. It would also be valuable to compare the Malaysian context with other ASEAN nations facing similar external shocks to understand regional similarities and divergence in SME resilience.

Malaysian SMEs are indeed demonstrating resilience, but it is a resilience forged through strategic intent, innovation, and supported by both internal readiness and external scaffolding. This study not only enriches the academic discourse on SME strategy in emerging markets but also offers practical roadmaps for businesses and governments navigating the increasingly fractured terrain of international trade.

Building upon the current study on strategic responses of Malaysian SMEs to international trade shocks, future research could deepen our understanding by examining how halal-certified SMEs specifically navigate trade barriers and geopolitical volatility. Given Malaysia's positioning as a global leader in halal supply chain management, future inquiries might explore how halal-specific operational challenges intersect with export strategies during tariff-induced disruptions. For instance, studies like Razak et al. (2025) and Othman and Ibrahim (2025) suggest that cultural sensitivity and global certification requirements introduce additional complexity for SMEs operating in multicultural and international contexts. Future research could investigate how SMEs balance halal integrity and global compliance standards while simultaneously pursuing digitalization or market diversification strategies.

Additionally, considering the findings of Anis et al. (2025) and Johan et al. (2025) on risk mitigation and labor dynamics, upcoming work could focus on strategic workforce planning and supply chain risk assessment as core pillars of SME resilience. The integration of advanced technologies, such as AI and automation, as examined by Amer and Ibrahim (2025), also presents fertile ground for exploring digital transformation pathways. Researchers might also examine how climate change (Rahim & Ibrahim, 2025) and service quality frameworks (Jamil & Ibrahim, 2025; Saidin et al., 2025) intersect with strategic adaptation among halal-exporting SMEs in increasingly protectionist trade environments.

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