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ARTICLE



## Disparity in the progress of ethnic Indian enterprises: a study on transgenerational succession in Malaysia

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### ABSTRACT

This article examines the effect of academic qualifications and networking ties towards the evolvement of micro, small-medium, and large ethnic Indian enterprises in Malaysia. The study is based in multicultural Malaysia, where certain policies were implemented in favor of one specific ethnicity. Research indicates that better academic qualifications through transgenerational succession affect how entrepreneurs form connections with their families, co-ethnic networks, and inter-ethnic networks to develop their businesses. This article explains that while micro and smaller firms are choosing to remain in their ethnic identity, medium and larger corporations are willing to shed their ethnic identity for the rapid growth of their businesses. A framework is built from the understanding of literature and past evidence on ethnic Indian entrepreneurship in Malaysia. This article demonstrates the disparities of Malaysian Indian businesses that have progressed differently over the generations, due to the impact of human and social capital.

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## Introduction

Looking into the rich history of Malaysia, the colonial era which lasted for almost 500 years resulted in the diversities in race, culture, economic and social status in this country.<sup>1</sup> Globally known as a multiracial and multicultural country, Malaysia is represented by three major ethnic groups which are *Bumiputera*, Chinese, Indian, and others. Referring to the Malays and other indigenous people, *Bumiputera* constitutes 67.3% of the population.<sup>2</sup> Interestingly, this category has indigenous status that guarantees attendant privileges which allows the Malays, the majority of the *Bumiputera*, to monopolize the political system and dominate the public and government sector. In addition, the state's discourse includes educational and economic policies for the ethnic majority of Malays through an affirmative action policy for *Bumiputeras*. These policies were originally implemented after independence to eliminate poverty and the identification of economic function with particular ethnic groups.<sup>3</sup>

It has been observed that the Malaysian Indians show poor advancement in terms of education, social and economic status compared to the Malays and Chinese.<sup>4</sup> This is owing to the economic positions of Malaysian Indians as the result of the implementation of economic policies adopted by the Malaysian government since 1957. During that era, Indians were mainly involved in the plantations, telecommunication, construction, and public sectors.<sup>5</sup> Over the years, Malaysian Indians showed progression in their economic positions by serving in technical and professional sectors such as in the medical, veterinary, geology, and the police force. As of 1970, the Indians constituted 26.2% of total staff of the civil service.<sup>6</sup> This positive improvement on the opportunity of employment is contributed by better access to education, especially among the lower middle-class Indians. Between 1971 and 1975, over 1200 plantation workers lost their jobs due to the dramatic increase in rubber prices and cost of living, on top of the estates fragmentation. As a result, the number of Indians living below the poverty line increased by 1%.<sup>7</sup> Most Indian labourers who have a median household income with minimal educational background are now classified by the government as the 'bottom 40%' (the B40 group).

With regards to share capital, by 1970, Indians owned about 1.1%, while the Malays owned 2.4% and the Chinese owned 27.2%. By the end of 1990, Indians owned less than 1% of the country's corporate wealth, compared to their 1% in 1970. The declination in the Malaysian Indians' socioeconomic status was owing to the dramatic changes in the nation's economic position.<sup>8</sup> In fact, Indian ownership of share capital in Malaysia dishearteningly increased from 1.1% in 1970 to 1.2% in 2004<sup>9</sup> and later to 1.6% in 2008.

These statistics show that the Malaysian Indian community is at a disadvantage in terms of economic growth. In addition, a previous study has reported that the Indians in this country are under the impression that they are experiencing discouraging economic situations,<sup>10</sup> where they face difficulties in getting a financial loan, renting a business premise, and low business prospects. Moreover, many Indians who run small-medium enterprises (SMEs) claimed that they are unable to renew or obtain their business licenses due to the implementation of the NEP.<sup>11</sup> Despite the implementation of government policies that aim to eradicate poverty and redistribute wealth, minimal impact has been observed regarding these issues<sup>12</sup>, especially for the Malaysian Indian community.

## **Role of human and social capital towards development**

It has been proposed by previous researchers that human capital or class resources can be linked to many attributes and material goods such as wealth, assets, behaviors, and education.<sup>13</sup> There are numerous positive impacts of having good education including boosting one's self-esteem, problem-solving skills, and credibility.<sup>14</sup> In addition, people with worthy educational backgrounds also have better professional prospects, allowing them to pursue their career path in the field of economics.<sup>15</sup> For instance, well-educated migrants in the United States have the inclination to start their own businesses and are more likely to experience an encouraging market growth due to their knowledge and skills in entrepreneurship.<sup>16</sup> Similar trends are seen recently in this country among Malaysian Chinese and Malaysian Indians.

Other than human capital, the social background of an entrepreneur also influences their funding availability. This networking can be formed by associating oneself with various social connections, be it through friends, mutual acquaintances, family, and co-ethnic networks.<sup>17</sup> In numerous studies, it has been established that networking plays an important role in the formation of entrepreneurial enterprises.<sup>18</sup> Networking can be defined as the ability of entrepreneurs to secure benefits by forming social connections.<sup>19</sup> Networking provides myriads of advantages to entrepreneurs, including access to information<sup>20</sup> as well as influence, control, and power.<sup>21</sup> Furthermore, this connection also serves as elite solidarity,<sup>22</sup> where a group of social circle forms a centre of network-mediated benefits and controls<sup>23</sup> such as financial support and cheaper labour.<sup>24</sup>

In this study, the influence of entrepreneur's social capital towards business growth is elaborated by focusing on three main networks, namely family ties, co-ethnic ties, and inter-ethnic ties. Family ties refer to the bonding between entrepreneurs and their family members. This relationship is an important element that helps an entrepreneur to grow his business, especially in terms of financial support, labour and moral guidance. Earlier studies have indicated that most entrepreneurs rely on their close family members and relatives in raising funds for their business before approaching potential business partners outside the family circle.<sup>25</sup> This family-centric approach in business management is seen as advantageous for the business founder because it is observed to be cost-effective and productive.<sup>26</sup> Ethnic enterprises that are formed based on family ties are mainly characterized by their strong culture, traditions, identity, and in-group solidarity. This close interaction between family members in business management often shows positive impacts on family closeness. However, since there is no involvement of business partners from outside the family ties,<sup>27</sup> this kind of social network may result in over-embeddedness, where there is an absence of new ideas and innovations. This scenario will affect the enterprise negatively, such as limiting the market prospects, product expansion, growth of enterprise, and novel ways in approaching business decisions and management. Although family-centric business does not always end with huge success and recognition, family networks serve as a pivotal factor that influences people to be involved actively in entrepreneurship.<sup>28</sup>

The second social capital is the co-ethnic networks in which the entrepreneurs maintain relationships with business partners, suppliers, and clients, from the same ethnic background and speak the same ethnic language. This social interaction is commonly seen among ethnic minority entrepreneurs who prefer to perform business activities with co-ethnic business colleagues who are willing to be hired for a modest wage.<sup>29</sup> In comparison to family networks, the co-ethnic networks provide a wider spectrum of innovative ideas and information such as business knowledge and marketing skills, as well as gaining better access to labour, products, advice, and other resources. Via this networking, the company has an opportunity to evolve by learning how to take on new challenges and risky collaborations. In addition, they are able to enhance the quality of their products and services based on newly-gained information. Last but not least, after learning about competitors' business practices from their co-ethnic networks, the entrepreneurs are able to make the necessary improvements that allow the business to thrive and continue to demonstrate encouraging growth in a competitive environment.

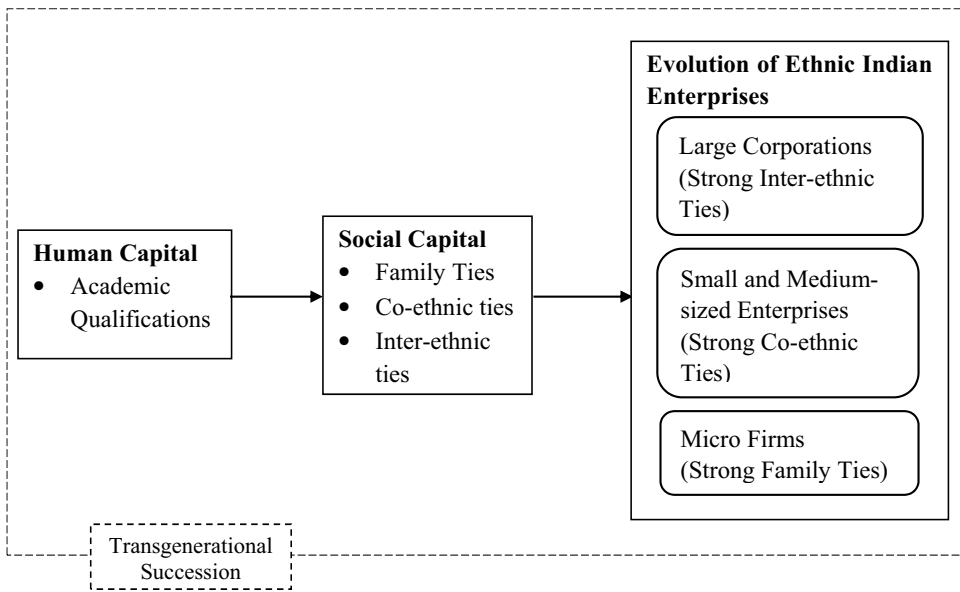
Regardless of the vast advantages of co-ethnic networks towards business development, this form of social capital is detrimental for ethnic-based networks<sup>30</sup> at a local level as this will hinder further expansion of the ethnic enterprise. This issue arises due to the fact that ethnic enterprises often appeal to a small group of consumers with low purchasing power. Furthermore, the lack of variety in marketing techniques among ethnic entrepreneurs also resulted in a price wars and market saturation. The lack of innovation among entrepreneurs also results in huge competition which poses serious risks for the sustainability of the enterprise.<sup>31</sup> It is also believed that in order to thrive in the industry, an enterprise must be proactive in ensuring that they are able to reach the population of consumers with greater purchasing power.<sup>32</sup>

To solve these issues, it would benefit the entrepreneurs greatly to have connections with people outside of their family and co-ethnic circles. By forming extensive inter-ethnic networks, this will allow entrepreneurs to gain knowledge regarding the consumers' needs and attitude towards their products and services. In addition, it would benefit entrepreneurs greatly by maintaining good social interactions with business partners or customers from a different ethnicity. Through this networking, entrepreneurs could widen their target audience as well as improve their products specificity to be more customer-friendly. Many researchers also agree that by having the initiative to understand the mass populations' preferences, this will help entrepreneurs gain access to the main market.<sup>33</sup> All in all, having an extensive co-ethnic as well as inter-ethnic connection, with a large circle of business partners from different backgrounds will grant access to valuable information and resources for the ethnic entrepreneurs; which will be greatly beneficial for the enterprises' growth and performance. This approach is widely adopted among Malaysian entrepreneurs in order to ensure the positive development of their businesses.

### **Transgenerational succession and the progress of ethnic Indian enterprises: a conceptual framework**

One of the main issues in succession is the ability of successors to acquire the knowledge of their predecessors.<sup>34</sup> Resources, and especially human capital, play an important role in the start-up, development and sustainability of SMEs. Hence, as generations pass, the information, knowledge and skills of the predecessors become a valuable asset of these enterprises. Better academic qualification through transgenerational succession, not only provides better business and management understanding, it also allows for better networking.<sup>35</sup> This article reiterates that the advancement in education alters the networking ties of an enterprise. As these enterprises grow through transgenerational succession, improvement in the academic qualifications is seen in SMEs and larger corporations.

Micro firms, with entrepreneurs of basic education and minimal experience, continue to build strong family ties to enhance their business management. While, SMEs are showing strong co-ethnic ties to build or develop their ethnic enterprises. This is changing as generations change and as businesses grow. On the other hand, entrepreneurs of large corporations have realized that strong inter-ethnic ties are imperative for the rapid growth of businesses, especially in Malaysia. These changes through transgenerational succession are shown in the conceptual framework below.



It is vital to note that the divergent educational level of the entrepreneurs has affected differently towards the social ties that are built for business development and progression. And the diversity in social capital has then changed the progression as well as the focus of the businesses. While micro firms are choosing to remain an 'ethnic enterprise', large corporations are choosing to build alliances with inter-ethnicities in order to embark on transnational businesses. As these firms develop, it is in fact crucial for these firms to build stronger co-ethnic and inter-ethnic ties.

Over time, the Malaysian demography is seen to change, where the population has been recorded to decline, especially seen in the percentage of Malaysian Indians, which is only at 7.68% of the total Malaysian population. In the past, most of the products were made only according to the preferences of the Indian community. However, due to the drastic demographic change in Malaysia, entrepreneurs began to diversify their goods and services to cater to the needs of a bigger customer range. Moreover, the development of the inter-ethnic networks has resulted in bigger interest and appreciation towards products produced by the Indian-owned companies since the early 1980s.<sup>36</sup> The major change in Malaysian demographic also motivates the entrepreneurs to acquire better knowledge and language skills in order to improve their skill set as well as the management of their enterprises. This is proven to be beneficial for business growth, as such initiatives help widen their target audiences whilst increasing their company's profits. Therefore, we can conclude that better academic qualification through transgenerational succession provides better networking and improves business understanding, which helps in catalysing the growth of enterprises.

### Business and class segregation and its impact towards the progress of enterprises

As illustrated in the conceptual framework, the Malaysian Indian businesses can be classified into three sub-categories; large corporations, SMEs, and micro firms. In large

corporations lead by Indian businessmen, it is a common occurrence for Malays with a political background or having experience in the civil service to be assigned as company directors.<sup>37</sup> This position is one of the ways to gain access to the state or bypass bureaucratic red-tape in government. This strategy was also adopted by Tony Fernandes in managing his company. As the Chief Executive Officer of AirAsia Berhad, he appointed his *Bumiputera* partner, Kamarudin Meranun as the Chairman of this corporation. Another example of Malaysian Indian who has successfully run a large corporation is Ananda Krishnan, a respected billionaire and philanthropist who made his fortune by building on rents captured with the government's privatization of the gaming operations.<sup>38</sup> Having received high-quality education abroad enabled both Ananda Krishnan and Tony Fernandes to diversify their businesses.

The second category is the SMEs, where the board members of the company play unequal roles and responsibilities. In this relationship, the non-*Bumiputera* partner would lead the project while the *Bumiputera* partner would secure a contract or license from the government.<sup>39</sup> Currently, there are many Indian SMEs that involve business partnership with the *Bumiputeras*, such as Jumbo Restaurant & Catering, Ajuntha Textiles, and Sri Kumaran Pattu Mahligai. According to the major shareholder of Jumbo Restaurant & Catering, the recruitment of *Bumiputera* shareholders is important in ensuring the company's growth in the future. It has been observed that since doing so, the restaurant has gained more customers and is able to win the hearts of the members of the Muslim community.

In terms of educational background, most entrepreneurs who run SMEs have obtained at least a secondary level education. It has been observed that having a higher level of education and necessary skills from the non-Indian networks, such as the Malays and Chinese, have allowed entrepreneurs to diversify their enterprises whilst encouraging the business growth. In comparison, different generations of entrepreneurs have different agendas and priorities in managing their enterprises. While the first generation entrepreneurs focusing on establishing the firm and achieving steady income to support their family, the following generation's objective is usually towards the expansion of the firm. To achieve this, the second-generation entrepreneurs have to be more adaptable to the dynamic and ever-changing market conditions and mass populations' preferences. This is seen mostly in three specific sectors of the economy; food industry, textiles industry and jewelry industry. If an enterprise refuses to follow the current trends that are favoured by the consumers, it serves as a challenge for the enterprise to expand its business coverage. Therefore, to assist the latter generation of ethnic entrepreneurs in developing the right strategies in business expansion, a good academic background coupled with better networking skills are deemed necessary.

Ethnicity involves many aspects that help shaping the society including ethnic identity, cultural awareness, and socioeconomic status. Ethnicity is one of the main factors that affects consumer behaviours, it is proposed that ethnicity also influences the attitudes and criteria of an entrepreneur.<sup>40</sup> In developing an enterprise run by the Indians entrepreneurs, there are three important ethnic resources that must be taken into account to ensure the enterprise's survival and availability. Firstly, Indian entrepreneurs must focus on the Indian community as the target customers. In theory, when the customers have similar culture, needs, and product preferences as the founder, it is easier for the founders to tailor their products to suit the targeted population. Secondly, it is

more convenient for Indian entrepreneurs to employ workers who speak the same Indian dialects, as this will help in ensuring a smoother staff management and interaction. Lastly, in terms of class resources, Indian entrepreneurs are able to gain knowledge and skills in business by working in a circle of network from a similar industrial background. This also helps in creating a strong Indian business identity.

The concept of 'ethnpreneurship' has been introduced by anthropologists John and Jean Comaroff.<sup>41</sup> In this concept, they believe that there are connections between business and culture. Despite the vast benefits of linking cultural identity with business, the Comaroffs realized that by 'commodifying' ethnicity for product marketing, this will raise certain issues. One of the inevitable impacts of ethnpreneurship is the misrepresentation of culture and identity for personal financial gains by neoliberal practices in society. This cultural manipulation for the sole purpose of achieving high marketing profits results in the commercialization of communities and cultures that are 'custom-made'. Among Malaysian Indian entrepreneurs, ethnpreneurship is seen as a challenge in achieving business growth. It has been observed that significant business advancement in SMEs can be gained by reducing the Indian cultural identity in their operations. The rationale behind this implementation is to reach a wider target audience and fulfilling the market demands from non-Indian Malaysians. This is not very well seen with the Indian micro firms in Malaysia.

The final sub-category of Malaysian Indian businesses are the micro firms. Micro firms are start-ups by the economically weakest in the Indian community, the poorer Indian laborers, who are within the B40 income group, who lack class resources. This has proven to be a deprivation of opportunities to participate in the expansion of economic activities. In addition, the implementation of NEP as a pro-*Bumiputera* based affirmative action significantly worsened the economic conditions of this group. The urban Indian laborers who were employed in the public and quasi-public sectors as industrial and manual workers were also badly affected by the NEP due to increased participation of the Malays.<sup>42</sup> Reasons for the declining fortunes of the B40 Indian community in the business sector are namely primarily due to the lack of finance, education, networking and experience.

Economically, the poorer Indians have no intention to save for investment in business. And even if they do, they do not have sufficient savings to start or to expand the business.<sup>43</sup> This is primarily due to the fact that banks and financial institutions usually impose strict conditions and terms to the applicants such as high academic qualifications, requiring companies to have at least a 51% of Bumiputra ownership, providing collateral, and have fixed deposits.

Adding on to this was the weak representation of the poorer Indians by Malaysian Indian Congress (MIC). MIC as the sole Indian community representative was not a forceful party that has the power to persuade government to help Indians to obtain the necessary opportunity especially in the business sectors.<sup>44</sup> In fact, MIC often subjugates the overall community interests to specific special interest, which had resulted in the B40 group not having access to contracts, funding for business start-ups, vendor development programs, special allocations by the government as well as representation in government-linked companies.<sup>45</sup> The B40 group was also not aware of the services provided by the government, and even if they did, they were not sure how to source



for these new opportunities. In addition, the lack of skills, smart partnership and social networks were among the reason for the failure of Indians in business.

Another contributing factor was the dependency on family networks. The traditional Indian business often focused around family ties and does not encourage hiring of external professionals to improve its operation. The businesses are usually individualistic, have a very limited concept of a suitable corporate structure and lack the usage of technology and modern management.<sup>46</sup> Thus with very limited scope for growth most of the Indian businesses are unable to grow as they are not able to face the tough competition from competitors even within the ethnic-based network.

From a historical perspective, a higher majority of Indians came to Malaya from South India to work in the plantation sector under colonial rule. These South Indians were mainly Tamil speaking and only exposed to Tamil education. This caused the Indians for several generations to stay within the estates, causing a separation from other ethnic groups.<sup>47</sup>

This educational background only allowed the first and second generation of Indians from the estates to communicate in Tamil. This curbed their ability to learn other languages such as Malay or English. This language barrier became a factor that restricted the Indians to expand their business in reaching the other communities in Malaysia. After independence and through various public policies, the Malaysian Indians managed to obtain better education. Through transgenerational changes, the third generation of Malaysian Indians can now communicate well in three languages; Tamil, Malay and English, thus enabling ethnic entrepreneurs to expand their business, as generations evolve.

## Conclusion

In this paper, the influence of human capital and social capital through transgenerational succession towards the development of businesses have been discussed in-depth. It is proven that education and networks are two pivotal elements that can influence business growth. It can be concluded that, in Malaysia, the inter-ethnic networks play the biggest role in ensuring the positive development of SMEs through transgenerational succession compared to co-ethnic and family networks. Higher education coupled with good social networking can help ethnic entrepreneurs gain better access to new innovative ideas, to further enhance the quality of their products and services to better suit the needs and preferences of their larger target audiences. With great access to knowledge, skills, resources, labour and financial support, entrepreneurs are able to diversify and expand their enterprises.

While micro and smaller firms are choosing to remain in their ethnic identity, medium and larger corporations are willing to discard their ethnic identity for the rapid growth of their businesses. The decision to shed their ethnic identities is due to the advancement in social mobility owing to the attainment of tertiary education. It has been established that by having better academic background will pose a positive influence on entrepreneurs' personality traits, attitudes, and behaviours. There are significant relationships between opportunities and entitlements which influence the process of development.<sup>48</sup> In this context, it is apparent that higher education provides better management understanding and networking. For instance, quality education gained through transgenerational succession, grants the second-generation entrepreneurs the confidence needed to form inter-ethnic networks and engage in huge business

collaborations. By doing so, this opens new windows of opportunities for entrepreneurs to reach the mass population with greater purchasing power whilst expanding their firms to an international level. Moreover, higher education also confers the skills and knowledge required to manage the business more effectively and efficiently. In addition, by having the access to information and resources to improve products and services, enterprises are able to fulfil the demands and preferences of a larger market of consumers.

In the Malaysian context, the beneficiaries of state patronage have managed to expand and diversify their businesses. In order to obtain and maintain access to state resources or bypass bureaucratic red-tape in government, inter-ethnic business networking is often adopted.<sup>49</sup> In large corporations, better access to class resources allows the founders to engage in innovative approaches in business management, dealing with socioeconomic changes, and embarking on new ventures. Furthermore, these resources also grant entrepreneurs the opportunities to form inter-ethnic connections at domestic and international levels. On the contrary, SMEs are able to adapt to dramatic economic changes by improving their marketing techniques and specificity of their goods and services. Through transgenerational succession, most SMEs in Malaysia are slowly indicating a growing dependence on inter-ethnic resources for their business expansion and diversification.

Policy makers have clearly acknowledged and understood that inclusiveness is a necessity in this country, especially to cater the needs of the Malaysian Indian community that craves for equal opportunities and privileges.<sup>50</sup> The absence of human and social capital may hinder small firms from acquiring the management skills needed to increase their market base. For the poorer Indians (B40 group) in Malaysia, the lack of social and human capital has become a hindrance for business ownership as well as expansion, as these entrepreneurs are unable to gather capital, build inter-ethnic alliance due or even face healthy business competition. As a result, their business is limited towards the co-ethnic lower middle-class population as their target customers. Despite the obvious disadvantages in terms of profits and market expansion, this group of ethnic entrepreneurs seems unperturbed by this situation. It seems that they are comfortable with these practices and do not aim to shed their ethnic identity for the rapid growth of their businesses.

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