

**ETHNIC ENTERPRISE AND GENERATIONAL CHANGE:  
INDIAN-OWNED SMALL AND MEDIUM ENTERPRISES IN  
MALAYSIA**

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UNIVERSITY OF MALAYA  
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**ETHNIC ENTERPRISE AND GENERATIONAL  
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ENTERPRISES IN MALAYSIA**

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## **ABSTRACT**

Theoretical perspectives regularly employed to analyse the growth of enterprises owned by members of ethnic groups appear increasingly inapplicable. These theories can no longer be considered applicable, especially in Malaysia, where ethnic-based enterprises established by the first generation, has now been passed on to the second or third generation. To provide a greater understanding of the evolution of Malaysian Indian businesses, a variety of possible explanations was examined. This includes an investigation on the changes in class and ethnic resources, the shift in market conditions and state policies as well as the transformation in networks. This thesis pays particular attention to how an ethnic enterprise functions, in terms of types of goods and services produced and its targeted market, after a new generation of owners emerges. An overall qualitative research methodology through a phenomenological approach was employed towards this end. Due to the nature of this thesis which tracks the generational change of Indian businesses in Malaysia, the case study method was applied to eleven enterprises. The primary data collection method was an analysis of the annual company reports followed by interviews with the founders as well as the second or third generation owners of these businesses. The theoretical and empirical evidence from this study provides key insights into the applicability of the concept of ethnic enterprise in Malaysia following a generational transition.

## **ABSTRAK**

Teori yang kerap digunakan untuk menganalisa pertumbuhan perusahaan yang dimiliki oleh kumpulan etnik semakin tidak berkenaan. Teori-teori ini tidak lagi boleh dianggap relevan, terutamanya di Malaysia, di mana syarikat berasaskan etnik yang ditubuhkan oleh generasi pertama, kini telah diturunkan kepada generasi kedua atau ketiga. Pelbagai penjelasan telah dianalisis untuk memahami evolusi perniagaan India di Malaysia dengan lebih mendalam. Ini termasuk siasatan ke atas perubahan dalam sumber kelas dan etnik, perubahan dalam keadaan pasaran dan dasar negara serta transformasi dalam perhubungan. Tesis ini telah memberi perhatian khusus kepada fungsi perusahaan etnik, dari segi jenis barangan dan perkhidmatan yang dihasilkan dan pasaran yang disasarkan, selepas generasi baru pemilik muncul. Satu kaedah penyelidikan kualitatif melalui pendekatan fenomenologi telah digunakan. Tesis ini telah menggunakan kaedah kajian kes pada sebelas firma untuk mengesan perubahan generasi perniagaan India di Malaysia. Kaedah pengumpulan data utama adalah analisis laporan syarikat tahunan diikuti dengan temu bual dengan pengasas serta pemilik generasi kedua atau ketiga perniagaan ini. Tesis ini memberikan bukti teori dan empirikal kepada aplikasi konsep perusahaan etnik di Malaysia berikutan peralihan generasi.

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## **LIST OF SYMBOLS AND ABBREVIATIONS**

ASB	:	Amanah Saham Bumiputera
ASN	:	Amanah Saham Nasional
B2B	:	Business to Business
B2C	:	Business to Consumer
CCB	:	Central Cooperative Bank
CEPT	:	Common Effective Preferential Treatment
CIAM	:	Central Indian Association of Malaya
EPF	:	Employees Provident Fund
FIMA	:	Food Industries of Malaysia
GDP	:	Gross Domestic Produce
GLCs	:	Government-linked companies
HICOM	:	Heavy Industries Corporation of Malaysia
IFANCA	:	Islamic Food and Nutrition Council of America
JAKIM	:	Department of Islamic Development Malaysia
KBM	:	Koperasi Belia Majujaya (M) Berhad
KPJ	:	Koperasi Pekerja Jaya
MARDEC	:	Malaysian Rubber Development Corporation
MATRADE	:	Malaysia External Trade Development Corporation
MIC	:	Malaysian Indian Congress
MIED	:	Maju Institute for Educational Development
MPHB	:	Multi-Purpose Holding Berhad
NEP	:	New Economic Policy
NESA	:	Syarikat Kerjasama Nesa Pelbagai Berhad
NLFCS	:	National Land Finance Cooperative Society

NSDC	:	National SME Development Council
PERNAS	:	Perbadanan Nasional Berhad
PETRONAS	:	Petroleum Nasional Berhad
PNB	:	Permodalan Nasional Berhad
R&D	:	Research and Development
SEED	:	Special Secretariat for Empowerment of Indian Enterprises
SMEs	:	Small and Medium scale enterprises
TDC	:	Tourism Development Corporation
UAB	:	United Asian Bank
UDA	:	Urban Development Authority

## CHAPTER 1: INTRODUCTION

### 1.1 Indians in Malaysian Business and Ethnic Entrepreneurship

Ethnic Indians constitute only about 7 per cent of the population in Malaysia,<sup>1</sup> and yet this vibrant and diverse minority group has contributed enormously to the development of the country's economy since the turn of the last century.<sup>2</sup> However, there has been scant research on the subject of Indian-owned businesses in Malaysia, specifically in terms of exploring the evolution of their employment of their ethnic and class resources to develop their enterprises. There has similarly been no research on the forms of intra-ethnic – and inter-ethnic – networks that have been created by Indians when developing their businesses. Crucially too, since the incorporation of these Indian-owned enterprises, ownership and control of many of them have been passed on to the second, third and fourth generation. In spite of this long history of Indians in business, there has been no assessment of the outcomes and implications of these generational transitions as well as the opportunities and barriers faced by members of this ethnic group when operating in the Malaysian economy.

While Indians have had a long history of involvement in the Malaysian economy, entrepreneurs from this ethnic group have not been able to increase in any significant manner their ownership of corporate equity (see Table 1.1). Only a handful of Indians figure as owners of the large-scale publicly-listed enterprises. A majority of Indians in business prefer that their enterprises function – and remain – as small companies. A large number of these small enterprises are owned by families. This ethnic group's seemingly

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<sup>1</sup> This was the population size of Indians in the country in 2015, a figure that has fallen appreciably since its peak in the 1920s till the late 1930s. At that time, Indians comprised 15.1 per cent of the population (Gomez 1999: 171).

<sup>2</sup> For insights into the contributions made by ethnic Indians to the Malaysian economy since the early half of the last century, see Arasaratnam (1970); Ampalavanar (1972); Brown (1994); Kesavapany, Mani and Ramasamy (2008); Belle (2015).

inconsequential presence in Malaysia's corporate sector is noteworthy as Indians have had significant participation in the economy since the period of British colonial rule, from the early 1900s, in key capitalist sectors such as plantations and finance, particularly as money-lenders.<sup>3</sup> Indian-owned banks were a feature of the economy in the colonial and post-colonial periods, though now not one such financial enterprise is owned by a member of this ethnic group.

**Table 1.1: Ownership of share capital (at par value) of limited companies, 1969–2008 (percent)**

	1970	1980	1990	1999	2004	2008
Bumiputera individuals & trust agencies	2.4	12.5	19.2	19.1	18.9	21.9
Chinese	27.2	n.a	45.5	37.9	39.0	34.9
Indians	1.1	n.a	1.0	1.5	1.2	1.6
Others	–	–	–	0.9	0.4	0.1
Nominee companies	6.0	n.a	8.5	7.9	8.0	3.5
Locally-controlled firms	–	–	0.3	–	–	–
Foreigners	63.4	42.9	25.4	32.7	32.5	37.9

n.a.: not available.

Source: Malaysia 2010

The meager corporate presence of Indian-owned enterprises is, in fact, a perplexing issue for two other reasons: first, members of this ethnic group had shown themselves in Malaysian history to be quite enterprising in a number of industries; apart from plantations and money lending, historians have recorded their prominence in the textiles sector, jewelry production and distribution, and food manufacturing, retailing and

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<sup>3</sup> For reviews of Indians in the money-lending business, see Krishnan (1959) and Mahajani (1960). For some reviews of Indian involvement in the plantation sector, see Sandhu (1969), Jomo (1986) and Jain (2011).

catering.<sup>4</sup> Second, the implementation of state-led development policies since Independence in 1957 to promote the agriculture, manufacturing and financial sectors as well as rapid modernization generated greater resources and created more market opportunities for all Malaysians in business. After all, another minority community, the Chinese, had managed to appreciably increase their ownership and control of corporate equity since 1957 (see Table 1.1). The Chinese, however, constitute about 22 per cent of the population. The bifurcated trajectories of Indian and Chinese businesses in history have been attributed to their demographic difference, though the Indians' small population size is not the reason why this ethnic group has remained a largely autonomous actor in the corporate sector. Certain impediments in the business arena did hinder the expansion of Indian enterprises, as this study will indicate. However, why these obstacles have hampered the growth of Indian enterprises so comprehensively, including in sectors where they once had a prominent presence remains a topic that has not been researched in any depth.

As for theoretical perspectives, concepts regularly employed to analyze the growth of enterprises owned by members of ethnic groups are becoming increasingly inapplicable. According to Logan et al. (1994: 693), "an ethnic economy could be defined as any situation where common ethnicity provides an economic advantage". Light and Gold (2000) define an ethnic economy more explicitly as an economy where all personnel are of the same ethnicity.

The two major themes applied in the literature appraising the expansion of enterprises owned by ethnic groups are ethnic enclaves and middlemen minorities. These concepts are applied when analyzing relatively new and unassimilated migrant communities in

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<sup>4</sup> See Ampalavanar (1972) and Brown (1994) for a broad overview of the involvement of Indians in these sectors, particularly when the country was under colonial rule.

developed and developing economies, including in Southeast Asia when waves of Indian and Chinese migration were recorded during the turn of the last century.<sup>5</sup> In North America and Europe, scholars have gone on to argue that ethnic enterprises have a business style characterized by family firms, trade guilds and extensive intra-ethnic business transactions, locally and with the “homelands” of these communities (Bonacich and Modell, 1980; Ward and Jenkins, 1984). Kotkin (1993: 4) popularized these views in the early 1990s by adopting a monolithic view of ethnic groups and asserting that “global tribes” had emerged, driven as they were by a “strong sense of common origin and shared values” and that “success in the new global economy is determined by the connections which immigrant entrepreneurs carry with them around the world”. Race-based transnational perspectives of this sort essentialise ethnic identity and in the Southeast Asian context are particularly irrelevant. While large-scale migrations to Europe continue, immigration had largely ceased in Southeast Asia by the early 1930s. In these Southeast Asian countries, non-indigenous communities identify with their place of birth, not with their ancestral homeland (see Gomez and Benton 2015). Arguments and concepts based on socially oriented economic behavior, with minorities ascribed a pan ethnic identity, only serve to distort the degree of resilience and agency of these business people when developing their business enterprise.

This study therefore attempts to contest popular stereotypes, reinforced by terms such as ethnic entrepreneurship that are unsupported by empirical evidence. Concepts such as ethnic enclaves and ethnic business are particularly disconcerting as empirical evidence, presented from a historical perspective, will indicate that they provide an erroneous representation of core issues such as the role of ethnic identity and culture in business activities. These concepts have also inspired the creation of another major theme in the

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<sup>5</sup> See Skinner (1951).

literature on ethnic enterprise, i.e. intra-ethnic business networks. These networks, based on the idea of how the bond of common ethnic identity shapes business cooperation for mutual benefit, are widely employed in the literature on Chinese business.<sup>6</sup> The concept of intra-ethnic business networks are now liberally used in assessments of business enterprises owned by ethnic Indians – as well as other ethnic groups – in a variety of developed and developing economies.<sup>7</sup>

This study will employ case studies, with a historical perspective, to question the validity of concepts such as ethnic entrepreneurship, ethnic enclaves and ethnic business in the context of Southeast Asia, with a focus on Malaysia. This country has one of the largest population of ethnic Indians in the world outside of India, a community now deeply embedded in the economy and in society. Case studies will be provided of 11 small- and medium-scale enterprises (SMEs) in three different economic sectors as a means to trace to the evolution of Indian-owned firms. In this historical assessment of these Indian-owned SMEs, much attention will be devoted to reviewing core concepts and themes such as ethnic resources, class resources, predisposing factors, networks, market conditions and mode of business growth after a generational shift. This study will also attempt to analyze how state-led development policies have affected the Malaysian business landscape, including policies that undermined the emergence of businesses owned by Indians in key sectors of the economy.

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<sup>6</sup> See, for example, Redding (1990), Hamilton (1991) and Yeung (1999).

<sup>7</sup> See Haley et al. (1998).



## 1.2 Defining Ethnic Entrepreneurship

In contemporary history of advanced capitalism, entrepreneurship has been a notable route of upward mobility for immigrant groups. Ethnic entrepreneurship has also been progressively acknowledged as an imperative medium for economic development and the regeneration of economies (Assudani, 2009).

Ethnic entrepreneurship is seen as “a set of connections and regular interaction patterns established in the name of trade and commerce among people sharing common national background or migration experiences” (Waldinger et al., 1990: 33). Zhou (2004: 1040) notes that “ethnic entrepreneurs are frequently referred to as both owners and managers of their own enterprises, whose group membership is tied to a familiar cultural heritage and is known to out-group members as having such qualities; more importantly, they are intrinsically intertwined in particular social structures in which individual behaviour, social relations and economic transactions are encumbered”.

Interest in the topics of ethnicity and entrepreneurship can be traced back to classic research works such as those of Weber (1930), Sombart (1914) and Simmel (1950). These scholars’ concept of the stranger as trader, combined with society’s social structure and ubiquitous religious canons have inspired a subsequent body of literature about ethnic entrepreneurship. An ethnic business typically starts when an entrepreneur serves other members of the same ethnic community and satisfies their specific ethnic needs (Greene and Owen, 2004). Similarly, larger ethnic groups live in geographically concentrated areas outside of their country of origin and are served by ethnic businesses.

In this vein, Light (1984) developed the concept of “protected market” to describe how ethnic enterprises dealing in ethnically-based products could thrive by serving co-ethnics. In some instances, large business groups owned by individuals within particular ethnic groups would emerge. A business group, according to Khanna and Rivkin (2001: 47), is

“a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action”. Scholars have also discovered that group ties enable the associated members to garner distinctive benefits that are usually not possible by similar non-group firms (Bertrand and Mullainathan, 2002; Kali and Sarkar, 2005; Khanna and Palepu, 2000).

Meanwhile, Bonacich and her colleagues (Bonacich, 1973; Bonacich and Modell, 1980) popularized the middleman minority theory. This theory’s context is that immigrant minorities arrive in the host country with the outlook of a sojourner. This sojourner seeks a quick profit in often marginal business niches selling products and services that are in high demand by fellow ethnic minorities who have settled in the host country. “Ethnic resources” is a concept used by Light and Bonacich (1988) to suggest that ethnic businesses could exploit their ethnicity in certain ways for the benefit of their enterprise. For example, Light and Bonacich (1988) cite the fact that certain skills could be transmitted by co-ethnics, cheap labour could be exploited by hiring co-ethnics, especially from abroad, and ethnic communities could depend on ethnically-based support networks and trade organizations to protect and develop their business base.

Since the involvement of migrants in business meant more competition in the marketplace, this increased majority-group antagonism against them and reinforced minority-group solidarity and economic segregation. The sojourner mentality is not a prerequisite for ethnic minorities to face antagonism, discrimination and a lack of opportunities. However, because of the possibility that migrants can face severe discrimination or antagonism, self-employment becomes a relatively desirable alternative to participation in the mainstream labour market. This is similar to the structuralist approach which suggests that external factors in the host environment, such as

discrimination or entry barriers due to education and language deficits in the labour market, encourage migrants into self-employment.

According to Light and Bonacich (1988), the “supply-side” approach prevalent in the culturalist perspective attributes to migrant businesses ethnic or cultural traits to explain their mode of development, rather than the opportunity structures in the host countries (see also, Berger and Hsiao 1988; Redding 1990). Light and Bonacich (1988) further contend that immigrants in business were motivated by family values, religious beliefs and communal solidarity, factors that enabled them to nurture more competitive family-run enterprises compared to those in the mainstream economy. Family members in these immigrant-owned businesses were willing to accept low wages though they worked long hours while companies owned by the indigenous community relied on local workers whose wages were determined by the market; inevitably, the latter encountered much higher operating costs. Light and Bhachu (1993) also argue that the role of immigrant networks in building businesses has been overlooked.

The culturalist perspective has been discussed in tandem with the interactionism approach which argues that existing opportunity structures inter-relate with ethnic minority group characteristics to foster ethnic entrepreneurship (Waldinger et al., 1990). Subsequent research by Light and Gold (2000: 210) emphasized that entrepreneurship requires means as well as motive; in this case, the disadvantage they face when trying to become part of the labour force is the motive, while the resources available in the economy provide the means for them to develop an enterprise. Aldrich and Waldinger (1990) and Waldinger (1986) emphasized variations in entrepreneurship across ethnic groups. The mode of evolution of enterprises owned by migrants depends on demand factors in the receiving contexts; these demands are also known as the pull factors. While resources available to migrant ethnic groups may vary, their response to a lack of

employment opportunities is to enter into self-employment; this suggests that the supply-side perspective overlooks the structure of opportunity for small enterprises in receiving labour markets.

In analyses of ethnic businesses, Waldinger and his colleagues' interactive model argue that researchers must consider both supply and demand factors. Still, Yoon (1991) has suggested that while ethnic resources are important at the initial stage of business development, at a more advanced stage, class resources become more significant. This argument about the importance of class-based resources has been reinforced by Virdee (2006) and Deakins (2007) following their studies of migrants in business. Light and Rosenstein (1995) further developed the concept of group characteristics by focusing on different ethnic, class and other resources utilized by immigrants when developing their new business set-ups, concepts also noted by Light and Gold (2000) in their assessment of the concept of ethnic entrepreneurship.

More recent studies of ethnic groups in business have emphasized other perspectives. Kloosterman and Rath (2003) introduced the concept of mix embeddedness, building on the work of Granovetter (1985). In this view, the rise of ethnic entrepreneurship is located at the intersection of changes in socio-cultural and modernization processes as well as the institutional framework. It transcends the push-pull dichotomy by highlighting the embeddedness of ethnic entrepreneurs in co-ethnic social networks. The focus in this line of theorizing is that of context, of being embedded in a wider sectoral, spatial and regulatory environment (Ram et al., 2008). It also focuses on the fact that individual experiences of immigrant entrepreneurs are embedded within political, economic and social institutions locally, nationally and internationally, including regimes of governance, regulation and policy that vary from country to country over time. The mixed embeddedness approach's comprehensive perspective aims to locate the businesses of

ethnic minorities in the wider structure in which they are embedded in. This is done by taking into account the characteristics of ethnically-based enterprises, the shape of the opportunity structure and the institutions mediating between aspiring entrepreneurs as well as concrete openings to start a business. A review of these factors is crucial in order to analyze the concept of ethnic entrepreneurship in different national contexts (Ram and Smallbone, 2001).

Although the mixed embeddedness model has stressed the importance of issues such as ethnic resources and opportunity structure, it has not included in its theorizing of the concept of ethnic entrepreneurship the fundamental topic of generational change. This is crucial for the case of Malaysia as most enterprises owned by ethnic minorities such as the Indians are now under the control of the third or fourth generation. For this study, a combination of models will be used. However, it will predominantly focus on the interactive model developed by Waldinger et al. (1990) and the key themes employed in the mixed embeddedness model.

### **1.3 Generational Change and the Concept of Ethnic Entrepreneurship**

While the focus of this study is on Malaysia, in many countries, including in the United States and in the United Kingdom, ethnic enterprises are now in the hands of the second or third generation descendants of migrants.<sup>8</sup> The first generation in business, the migrant generation, aims to attain for themselves and their families economic comfort and security that were difficult to attain in their home country. While taking advantage of the opportunities present in the host country, they also strove to maintain the culture, heritage and traditions of their home country. However, this may not be the case for their

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<sup>8</sup> For research on second and third generation minorities in the United States, including those in business, see Portes and Rambaut (1990) and Zhou (2004). In the case of the Britain, see Benton and Gomez (2008).

descendants. In order to start or develop an ethnic enterprise, the descendants of the migrant generations seemed to need a “pull” factor.

There were businesses that were initiated in order to keep family members together and in employment. To a certain degree, business involvement served as a mechanism to cope with the initial lack of recognition of the broader community of the host country (Dhaliwal & Kangis, 2006; Gidoomal, 1997). Cultural characteristics contributing to the success of the migrant generation include prudence, hard work and dependence on family labour (Waldinger et al., 1990; Werbner, 1990) due to the shortage of resources.

While ethnic economies were able to offer the second generation jobs and training opportunities (Bailey & Waldinger, 1991), on the other hand, for this cohort their parents’ business served as a launching pad for social mobility. However, from an assimilation perspective, while ethnic businesses may have been supportive of first-generation migrants, it was potentially a trap for their offspring, confining the latter to unpromising niches in the economy. From the perspective of an intermediary approach, entrepreneurship would only be a second-best safety net, allowing children to deal with labour market challenges and the lack of alternative opportunities (Ram et al., 2001). These different assessments of how the second generation relate to business activities demonstrate the tension between group cohesiveness and the different trajectories available to and taken by the descendants of migrants.

Migrant parents, especially those from Asian countries, regardless of their class background, place much importance on education to develop well-educated professionals, to improve the employment opportunities and choices available to their children (Dhaliwal, 2001). Entrepreneurship is conceived by these migrants as a path out of poverty that also allows for the acquisition of high level human capital for their children. Therefore, it is not surprising that many South Asian businesses in the creative industries, such as the digital

media industries in Britain are owned and run by second or third generation migrants, many with graduate level education.

There has been much debate of the use of intra-ethnic connections or networks by the South Asian business community in Britain and North America to develop an enterprise (Ram & Jones, 1998; Basu & Goswami, 1999); similar arguments prevail in studies about ethnic Chinese in Southeast Asia (Tsui-Auch and Lee, 2003). However, according to Benton and Gomez (2003), national and ethnic identity in Southeast Asia has evolved over time, conditioned by political and economic transformation. Hence, the sense of cohesion of the migrant generation dies away, from one generation to the next. This transformation, in terms of identity, has a bearing on how the subsequent generations view the employment of ethnic-based networks (and resources), a key factor that changes the nature of ethnic enterprises built by the migrant generation. This is clearly evident in Malaysia. Still, changes in networks, culture and education as well as the market condition of ethnic-Indian owned businesses in Malaysia has not yet been researched.

This scant research on the evolution of ethnic Indian-owned enterprises through the generations is not limited to just Malaysia; this is also the case in both developed and developing economies, as a close review of the literature will indicate.<sup>9</sup> Most studies on ethnic entrepreneurship rely primarily on concepts and theories which are components of or somewhat related to the interactive model. Thus far, there has been no framework that merges the interactive model, generational changes and the growth stages of firms. The merging of these concepts is important to show the outcomes of the evolution of

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<sup>9</sup> See Chapter 3 for a review of the literature on the concept of ethnic enterprise, including studies that have focused on the Indians in North America, Europe, Australia and New Zealand.

ethnically-based enterprises following a generational change, especially in a uniquely diverse country like Malaysia.

Another area that is hardly investigated is succession planning in ethnic Indian-owned enterprises. Since most studies only investigate the models using data collected from the migrant generations, the evolution of these enterprises as well as succession planning have been accorded scant attention. Succession planning is definitely a vital component for the growth and diversification of enterprises. This issue will be given greater emphasis in this study.

#### **1.4 Role of the State**

Another core issue that hardly figures in the literature on ethnic entrepreneurship involves the role of the state in the economy and in promoting the rise of new enterprises. This is a major oversight as the development of domestic enterprises, including those owned by ethnic minorities, has been an area of concern in public policy planning.<sup>10</sup> State intervention in an economy, including the fostering new enterprises, is however an important issue that figures prominently in the literature in Southeast Asia, including in Malaysia. This issue of the state's intervention in the economy to drive growth indicates that the expansion of domestic enterprises is contingent on the socioeconomic context. However, academics reviewing the rise of ethnically-owned enterprises in more industrialized economies, including those in the West, have noted that the state can play a role in the economy in less interventionist forms that influence form of enterprise development.

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<sup>10</sup> For a review of the literature on the role of the state in nurturing infant industries in Southeast Asia, see Robison and Hewison (1987) on Indonesia; Suehiro (1992) on Thailand; McCoy (1994) on Philippines; and Jesudason (1989) on Malaysia.



Engelen (2001) argues that entrepreneurs do not operate in an institutional vacuum but are constrained or empowered by the ever-changing institutional setting in which they operate. Kloosterman (2000) examined opportunity structures impacted on by national institutional frameworks. He argues that regimes in continental Europe mainly push unemployed migrants towards self-employment but seem to offer little scope to establish businesses with strong growth potential. Other researchers noticed that policy makers and administrators of self-employment policies seemed to experience the “invisibility of migrant entrepreneurs” (Kontos, 2003: 124; Ng and Ng, 2003; Ram and Smallbone, 2003; Rath and Kloosterman, 2003).

It is important to note that government policies can affect small businesses, including through direct support measures such as financial aid as well as those concerned with providing so-called soft support, such as information, advice and training. In the case of ethnic enterprises, the outcomes of government policies are even more varied. Policies targeted at a variety of sectors have the ability to influence the trajectory taken by ethnic minority entrepreneurship. For example, immigration policies can regulate the supply of ethnic minority entrepreneurs and labour (Waldinger et al., 1990) while policies targeted at particular economic sectors may be done as a mechanism to get ethnically-owned enterprises to concentrate on certain types of economic activity, an issue seen in the case of Britain (Reynolds et al., 1994).

In Britain, the government had also begun to recognize the importance of the small firm in terms of creating employment, as the economy began to move into a deep recession in 1979. This period was also one of civil unrest affecting ethnic minorities. Both factors led to an attempt by the government to promote self-employment by supporting SMEs, employing a range of schemes to help SMEs sustain themselves in business (Atkinson & Storey, 1994). During the 1980s, there was a significant increase

in the rate of new firm formation, especially of small companies, primarily in response to the escalating unemployment problem; a large number of these firms were run by minorities.

Policy context evidently shapes the rate of formation, growth and expansion of ethnic enterprises (Collins, 2003). At both the macro and micro levels, migration and settlement policy as well as taxation policy indirectly impact the formation and survival of immigrant minority entrepreneurship. Collins (2003) argued that government policies and strategies should be formulated to encourage unemployed immigrants to become entrepreneurs besides improving communication with ethnic entrepreneurs. The policies should utilize multiple approaches rather than a one size-fits-all approach. In addition, language differences and different social and ethnic community networks suggests that strategies need to be tailor-made specifically for ethnic entrepreneurs. This approach may be more effective than general policies regarding immigrant entrepreneurs.

In the case of Malaysia, the key policy that had a bearing on how enterprises owned by ethnic minorities developed was the New Economic Policy (NEP)<sup>11</sup>, introduced in 1971 as one response to the May 1969 racial riots, a defining moment as it led to a major revision in public policies. The NEP aimed to reduce and eradicate poverty regardless of ethnicity, by restructuring society to promote national unity. The NEP allowed for increased state intervention through public enterprises and trust agencies to accumulate capital on behalf of the Malays, a process described as “trusteeship” (Mehmet 1986). Between 1971 and 1981, state presence in the corporate sector grew appreciably as trust agencies and public enterprises aggressively began acquiring 20 to 50 per cent of equity in companies for investment purposes. A number of these organizations, including the Ministry of Finance

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<sup>11</sup> A comprehensive review of the New Economic Policy is provided in Chapter 2.

Inc., Khazanah Nasional, Permodalan Nasional (PNB), and the Employees Provident Fund (EPF), have become major equity shareholders of what is now referred to as government-linked companies (GLCs). Mehmet (1986) would refer to these institutions as “distributional coalitions,” that is cartel-like networks acting in collusion to concentrate wealth. The GLCs-based business groups were created to also take on large business groups controlled by ethnic minorities, specifically the Chinese (see Gomez 1999).

When introducing the NEP, the government declared that no particular group would experience loss or feel any sense of deprivation during the policy’s redistribution endeavor. “Restructuring”, the government avowed, would be achieved through economic growth. Asset redistribution would be undertaken through taxation, funding public enterprises and the banking system, which would provide Malays with preferential credit access and funds for the acquisition of corporate equities. However, when public enterprises ventured into the banking, property and construction, sectors where minorities had a major presence. Minorities in business, including the Indians, would voice dissatisfaction with state intervention the economy through the NEP (Gomez and Benton, 2003).

The NEP, inevitably, played an important role in shaping the mode of development of enterprises owned by ethnic minorities. Despite the NEP’s official focus on correcting inequalities, the Indians were left behind. Discrimination in business was one of the key components in NEP, with the government deciding that the Bumiputeras should own 30 per cent of corporate equity by 1990 (Gomez, 2013). This directive helped to substantially increase the presence of Bumiputeras in business. However, in spite of these unfavourable policies, Indian-owned companies have survived through the generations, though particularly in sectors where they have had a prominent presence such as textiles, food production and catering, and jewelry production and retailing; some of these enterprises

have also diversified their business ventures. This indicates the need to assess this ethnic group's differential opportunity structures to start and develop businesses, including through the generations.

### **1.5 Malaysian Indians in Business**

In an assessment of Indians in business in Malaysia, two crucial points have to be noted that bring into question the ability of Indians to coalesce in business to promote their mutual interest. First, this ethnic group can be disaggregated into ethnic sub-groups. This variation among Indians is important as these sub-groups have, in the past, played different roles within the economy and have experienced different rates of growth, indicating also major class difference. Almost 80 percent of Malaysian Indians are Tamils, who arrived as indentured labour, while the other sub-ethnic groups include the Chettiars, Malayalees, Gujaratis, Sindhis, Punjabis and Telegus. Unlike poor Tamils who entered the country as indentured labour to serve the plantation sector, the members of other sub-ethnic groups have served as professionals or in the civil service, particularly the Punjabis and Malayalees. The Sindhis and the Gujaratis were prominent in business since pre-Independence in 1957, especially in the textile industry. The Chettiars are known for their active participation in the money lending industry (Suppiah, 2016). The Tamil Muslims have commanded a particularly telling position in the food and beverage industry, due to a perceived affinity with the majority Malay Muslims, stemming from their common religious identity (Tate, 2008).

A close analysis of this inter-sectionality of sub-ethnicity and class will help provide a greater understanding of the operations of Malaysian Indian businesses including crucial divergence in business strategies. Put differently, a variety of possible explanations need to be examined including class (financial background, education and

skills), purpose of migration (by misfortune as cheap labour or groups fleeing social destitution), role of the state (policies), market conditions (competition) and networks. These issues may be able to usefully explain some of the varying degrees of business performance among the ethnic sub-groups and the evolution of these businesses when under the control of different generations.

Second, as noted, Indian participation in business enterprises is restricted largely to small businesses. Even here, the Indian share is not commensurate with its population size. Their involvement in the modern, large-scale commercial, financial and industrial sectors is negligible, as is amply evident from share ownership statistics (see Table 1.1). Most Indian SMEs, centered on the family (Sivalingam, 1994), have largely survived by being in competition with each other, as most of them have operated in similar sectors, especially in the food, textile and jewellery industries. Moreover, many Indian companies have remained essentially one-store operations, with little expansion or diversification. However, as the case studies will indicate, there are Indian-owned SMEs, including those in the food, textile and jewellery as well as the wholesale and retail industries that have managed to expand their operations and diversify their range of business involvement. In a climate unfavourable to their business interests, how have they managed to expand and diversify their businesses?

The poor level of growth of traditional Indian businesses can be attributed to the inherent difficulties seen in the way Indians conduct their businesses. Management is still largely based on the inherent strength of the owner. Moreover, most traditional Indian businesses are run with little appreciation of the need for suitable corporate structures and know-how and are particularly weak in technology and modern management and financial techniques (Sivalingam, 1994). These factors may offer at least a partial explanation for the lack of growth of traditional Indian enterprises in Malaysia.

## **1.6 Problem Statement**

In an ethnic enclave economy, its defining features are based on the community's ethnic identity. During the colonial and immediate post-colonial period, businesses in Malaysia that belonged to such ethnic enclave economies customarily manufactured, distributed and sold goods along lines which had a strong co-identity bias. Among the founders, ethnic-related business ties were crucial for migrants and those who only spoke an Indian language. The shareholders, directors and customers of such businesses were individuals who belonged to the same ethnic group or sub-ethnic Indian group.

However, by the turn of the century, generational changes along with rapid modernization that contributed to major structural transformations (in resources and opportunity structures) have contributed to transitions in the way these Indian-owned businesses operate. With these significant transitions in society, the economy and among Indian-owned businesses, how valid is the concept of ethnic entrepreneurship? Can the concept of ethnic enterprise be applied to businesses owned and managed by the second and subsequent generation of Indians?

### **1.6.1 Research Questions**

A number of business historians and political economists have recorded the changes, opportunities and challenges faced by the enterprises owned by Malays and Chinese in Malaysia (see Jesudason, 1989; 1997; Brown, 1994; Gomez, 1999). However, there is no in-depth study that has recorded the evolution of the Indian-owned businesses, specifically the SMEs. This research is an attempt to study the evolution of Indian SMEs and the changes, opportunities and challenges they have encountered in the economy by tracking their growth and development in Malaysia.

These key questions that will be assessed are as follows:

1. Were there changes in class (financial capabilities, education and skills) and ethnic (culture and identity) resources through the generations? Did these transitions have a major bearing on the growth and evolution of Indian SMEs in Malaysia?
2. How did the shift in market conditions and policies affect the growth and evolution of Indian SMEs in Malaysia?
3. Were there changes in the networks (family ties, intra-ethnic alliances, inter-ethnic relationships) of such businesses through the generations? Did it affect the growth and evolution of Indian SMEs in Malaysia?
4. How valid is the concept of ethnic enterprise in the present context where firms incorporated by migrants have gone through generational changes?

#### **1.6.2 Research Objectives**

The objectives of this thesis are as follows:

1. To investigate if there were changes in class and ethnic resources for businesses through the generations and its impact on the growth and evolution of Indian SMEs in Malaysia.
2. To examine the shift in market conditions as well as policies and its effects on the growth and evolution of Indian SMEs in Malaysia.
3. To investigate the changes in the networks of businesses through the generations and its effect on the growth and evolution of Indian SMEs in Malaysia.

4. To evaluate the validity of the concept of ethnic enterprise in the present context where firms incorporated by migrants have gone through generational changes.

## **1.7 Methodology**

A conceptual framework has been developed from theories, concepts and models that have been reviewed in the existing literature. This framework merges the organizational growth strategies of firms and the interactive model from ethnic entrepreneurship theories, a merger done primarily to better capture what happens to an enterprise following a generational change.

This study primarily uses the qualitative approach to better understand the evolution of Indian businesses due to the changes in the Malaysian business landscape. Eleven Indian-owned firms from three different industries participated in this study. Data from these case studies provided interdisciplinary insights into ethnic entrepreneurship through business, anthropological, and historical perspectives and also allowed exploration of the key concepts in the growth of Indian-owned enterprises in the Malaysian.

## **1.8 Significance of the Study**

The reason why this study is significant can be explained from a few aspects. Firstly, this study will provide insights into how small and medium-scale Indian-owned enterprises have evolved as there is hardly any understanding of the dynamics of their operation.



Secondly, this study constitutes an in-depth analysis of the internal and external opportunities as well as challenges encountered by Indian SMEs in Malaysia. It would therefore be helpful to other Indian SME owners as this historical review will help them understand the evolution of their business landscape in Malaysia so that they can make better and informed business decisions.

Finally, this study will create awareness for future generations as it provides a clearer picture of the evolution of the Indian business landscape in Malaysia. Information provided through this study may also be valuable to policy makers in planning, developing and implementing suitable policies for the development of enterprises under Indian ownership.

## **1.9 Structure of the Thesis**

This thesis has nine chapters in total. The first chapter provides introductory information and highlights the aims and significance of the study. The second chapter presents a history of business development by Indians in Malaysia. The third chapter reviews and analyses the literature on ethnic entrepreneurship with specific attention given to generational change and stages of business growth in SMEs. Chapter four discusses the conceptual framework and explains the research methodologies used for this study. It also presents the method employed for sampling, how data was collected and the appropriate ways to analyze the data.

Chapters five, six and seven present in-depth case studies on Indian businesses in the food, textile and jewellery industries, respectively. Each case is presented in a historical manner to capture the essence of the business through ethnic entrepreneurial concepts such as class resources, ethnic resources, predisposing factors, networks, market conditions as well as role of the state.

The first part of the eighth chapter provides a discussion of the study's findings in a thematic manner. The latter part of the same chapter analyses ancillary themes that have surfaced from the case studies. The final chapter summarizes and presents the theoretical and empirical contributions of this study. Besides that, it also lays out the limitations of this thesis.

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## CHAPTER 2: HISTORICAL REVIEW OF INDIANS IN MALAYSIA

### 2.1 Arrival of Indians in the Malay Archipelago

Before the sixteenth century, Indian migration to Southeast Asia was on a relatively small scale and within a limited geographical area. There was significant mercantile travel involving Indians in the region, which predated the arrival of European commercial interests. Indian traders were prominent in Southeast Asia's leading regional entrepôts, and although trade was small by volume, it was a source of transmission of ideas, new products and technology. This movement of trade also resulted in migration from a country with a long manufacturing history, a monetized economy, and sophisticated commerce to fledgling economies in Southeast Asia. It was common then for Indian merchants trading with Southeast Asian countries to exchange Indian-made textiles for Southeast Asian spices.

During the period of the Malacca Sultanate (circa 1400-1511), and later during the occupation of Malacca by the Portuguese and the Dutch respectively, a large number of Indian traders, including Hindus from the Coromandel Coast of India, visited Malacca to trade. As trading activities intensified between the Indians and the locals, inter-marriages between the Indian traders and the Malays, Chinese, Javanese and Bataks became common, resulting in the birth of an Indian community called the 'Malacca Chittys'<sup>12</sup>. The direct descendants of this community, now numbering less than 300 people, still reside in a village called Kampung Tujuh in the heart of Malacca city today<sup>13</sup>.

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<sup>12</sup> They are also known as the Hindu Peranakans or Melaka Straits-born Hindus.

<sup>13</sup> See Moorthy (2009).

Indian immigration appears to have begun in 1833, when slavery was abolished throughout the British Empire and cheap and subservient labour was sought to work the plantations in the colonies (Krishnan, 1936). In 1887, Sir Frederick Weld, Governor of the Straits Settlement suggested the migration of Indians. The Indian sub-continent contained a huge reservoir of cheap, unskilled labour which was ready to be tapped and exploited (Arasaratnam, 1970). The main states in India from which these labourers were recruited were Bihar, Uttar Pradesh, Tamil Nadu and Andhra Pradesh. Labour from Tamil Nadu and Andhra Pradesh went almost exclusively to the Malayan peninsula.

The British preferred that Indians work in the rubber plantations because they were seen to be an obedient and docile work force. When the British introduced commercial agriculture in the form of coffee and sugarcane plantations in the late nineteenth century, Indian workers were brought in to clear virgin jungle to plant these crops.

## **2.2 The Indentured System and Immigration Act 1959**

Through diverse methods of migration, by 1870 the Indian population of Malaya had increased to over 30,000 with a majority of them living in Penang and Province Wellesley. With the expansion of British control over the West Malayan states from the 1870s and the growth of commercial agriculture during that time, the Indian population increased rapidly. By 1891, the population stood at over 75,000 and by 1901 it had grown to 120,000 (Arasaratnam, 1970). It is noteworthy that the Indian population then was mainly concentrated in Penang, Singapore, Perak, Selangor and Negeri Sembilan.

The growth and distribution of the Indian population after 1901 is closely tied to the growth of rubber and later, oil palm plantations as well as industries such as food, textile and jewelry. By 1911, the Indian population had increased to about 270,000 and in 1921 to 470,000 and in 1931 to a further 625,000. However, the numbers dropped in 1947, after

the World War II. A population that had stood at about 625,000 in 1931 dropped to 599,000 in 1947<sup>14</sup> (Arasaratnam, 1970).

In the first three or four decades of the nineteenth century, the system of migration was organized by private agencies. However, this method of organization turned out to be disorganized and chaotic, leading to a high death rate among the newcomers (Arasaratnam, 1970; Jain, 2011). There was no uniform system of control applied to all prospective recruiters of labour. The Indians were recruited primarily through an indentured system<sup>15</sup>. A large proportion of Indian labour was absorbed into the sugar plantations. Sugar cultivation expanded and boomed until the end of the nineteenth century, when the rise of rubber put an end to its boom years.

The efforts by the British to enhance their economic interests in Malaya during the 1909-1910 rubber boom led to further changes in the lives of these indentured labourers. By deliberately employing a majority of the Indians to work in rubber estates, the development of the rubber industry was structured to reinforce the connections between Indian labour and British capital. The British colonial administrations in both India and Malaya strategically organized Indian labour migration to the Malayan Peninsula.

The indentured system was abolished in 1910 due to liberal pressures from India<sup>16</sup>. However, from around 1910, a parallel system of labour recruitment emerged

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<sup>14</sup> The most important factor that explains this decline is the ban on labour emigration imposed by the Government of India in 1938 (Arasaratnam, 1970).

<sup>15</sup> Under this system, the migrants signed a contract which stipulated that they would be under "indenture" to the employer for a period of five years. These migrant workers did not have the right to change their employer or their employment. Wages were fixed and were not subject to any changes (Arasaratnam, 1970).

<sup>16</sup> The final blow to the indentured system, as far as Malaya was concerned, was dealt by the British Government in 1910, when, in response to liberal pressures at home, it instructed the Straits Settlement and Federated Malay States governments to abolish the indentured recruitment of Indian labour (Arasaratnam, 1970).

(Arasaratnam, 1970; Jain, 2011). This consisted of recruitment through a *kangany*<sup>17</sup> system. The advantage of this method was that the kangany could be expected to exercise greater care in the choice of labourers. Hence, there was now scope for the migration of families rather than individuals, a factor of great significance in the settlement process and business aspects of the Indians.

Prior to 1927, entry was free and unrestricted to thousands of migrant workers, who mainly came from China, India and Java. In August 1930, however, the British enacted the Immigration Restriction Ordinance<sup>18</sup>, where permanent entry was restricted (Netto, 1961). This ordinance was pivotal in controlling migrant access into Malaya, especially the unskilled labourers.<sup>19</sup> Subsequently, only highly qualified professionals and technical human resources were allowed to enter the country (Periasamy and Lee, 2007).

In the 1930s, Indian-based organizations such as the Central Indian Association of Malaya (CIAM), which was represented by 12 Indian organizations, demanded better wages and working conditions in the estates. CIAM criticized government policies and also pressed for citizenship status to be granted to the Indian labourers (Anbalakan, 2001). The British began taking actions against the association by repatriating the Indians as they felt that the Indian labourers were vocal and radical, and as such, required control.

The economic condition of the Indian labourers was bad during the Japanese occupation. According to Arasaratnam (1970), Indian labourers suffered during the Japanese occupation as many were taken to the Thai border to build the Death Railway<sup>20</sup>.

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<sup>17</sup> A kangany was a person who himself was a migrant working on the plantation as a foreman.

<sup>18</sup> The Immigration Restriction Ordinance was enacted to stop growing unemployment among Indians in Malaya due to the 1929 economic recession, which affected the prices of commodities such as tin and rubber.

<sup>19</sup> More than 370,000 Indians left Malaya during this period (Sandhu, 1970).

<sup>20</sup> About 60,000 Indians lost their lives in this project (Lim Chong Yah, 1967).

During the emergency period, which lasted from 1948 to 1957, the demands of the Indian labourers increased, as a large number of Indians joined the workers' union organised by the Malayan Communist Party.

Later, in 1957, the new national government passed a legislation that effectively closed access to the Malayan labour market for Indians and other nationalities. The Indians' work permits were non-renewable and consequently 60,000 Indians returned to India in the 1950s (Tate, 2008). The Immigration Act 1959 was primarily intended to control the movement of non-citizens into the country. Next, after the creation of Malaysia (in 1963), the government passed the Employment Restriction Act 1968, which was intended primarily to control the quantity and quality of incoming migrants to ensure that only skilled non-citizens were permitted entry into the country. The government also made it compulsory for non-citizens to apply for work permits in about 2,000 employment categories. These spanned across the plantation industry, railways and municipal services, all of which were dominated by Indians.

Prior to the influx of Indians into Malaya during the nineteenth and twentieth centuries, traders had already been arriving from the Indian Coromandel Coast from the second century AD onwards. Through cultural assimilation and intermarriage, the continued presence and influence of these Indian merchants had resulted in the Indianization of several city-states in Southeast Asia and a flourishing civilization (K. S. Sandhu, 1969). Initially, these South Asian traders saw themselves as temporary migrants<sup>21</sup>, or sojourners. However, over time, Indians who settled in Malaya began small businesses to meet the demands of their co-ethnic members. Some even started small informal

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<sup>21</sup> Historical records show that most of these Indian migrants were single men (Jackson, 1959).

businesses<sup>22</sup> to increase their incomes. This allowed them to shift away from poorly remunerated wage-earning occupations such as rubber tapping to profit-making enterprises in ethnically Indian-based industries. These traders settled mainly in more industrialized states on the west coast of the peninsula, i.e., Penang, Singapore, Perak, Selangor and Negeri Sembilan.

### **2.3 Sub-Ethnic Indians in Malaya and their Contribution to the Economy**

After the Malays and Chinese, the Indians are the third largest ethnic group comprising approximately seven percent of Malaysia's total population. The Indian community is ubiquitous and heterogeneous and can be divided on the basis of religion, language and place of origin. Indians in Malaysia are, by and large, highly compartmentalized and there was little, if any, social interaction between the various sub-ethnic categories. One major cleavage that divided ethnic Indians was religion, particularly Hindus from Muslims. This divide was inherited from the tension between these religious factions in India, circa 1930s and 1940s. Another divide was social in nature, a prominent feature of which was the existence of four major class groups, which in itself included another broad distinction between Indians who were English-speaking and those who were not.

According to Ampalavanar (1972), these four groups comprised elites who were high government officials as well as professionals and senior executives in leading private firms, the English-educated upper and upper-middle class government servants, the vernacular-educated lower middle class who were merchants, school teachers, journalists and those outside the government service and lastly, the labourers who worked at the

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<sup>22</sup> In certain areas of the informal sector such as hawking and vending, Indians continue to play dominant roles as in the case of food vendors who hawk food that are native to the community, for example, *teh tarik*, *cendol*, *rojak*, etc. In these vending activities, they tend to deal with goods which entail little or no risk in relation to their price, durability or demand. This study, however, does not analyse this informal sector.



docks, railway, and estates. Perhaps the most important segregation in the context of businesses was the differentiation based on sub-ethnic identity.

### **2.3.1 Tamils**

Most Tamil migrants to Malaya were from Tamil Nadu, a direct consequence of the ban imposed by the British authorities in the sub-continent on the emigration of contract or indentured labour to Malaya from other parts of India. Following the rise of British power in the Malay Peninsula with the takeover of Penang by Francis Light, Tamil Nadu had been the main recruiting centre for cheap Indian labour. Moreover, throughout the long period of Indian contacts with Southeast Asia prior to the British connection, Tamil Nadu had been the chief provenance of the Indian merchants and missionaries who had so deeply influenced the civilization and culture of the region. The numbers involved in this earlier historical phase were much smaller, but the proportion of the Tamil element vis-à-vis other Indians was probably about the same, if not greater than that in the modern age.

Most Tamils arrived at the behest of European sugar, coffee, and ultimately rubber planters and these identities eventually became synonymous with the Tamils (Singh, 1966). In the 1930s, about one-third of the Tamil population in the peninsula lived on such estates, where they constituted about 73 percent of the total labour force. Over two-thirds of all the Tamils in the peninsula were concentrated in Perak and Selangor, the states with the most rubber estates, finding employment not only in the estates but also in ancillary services, such as the railway system, spawned by the rubber plantation industry.

Tamil labour was not confined to the rubber plantation industry alone, nor was it limited to agricultural enterprise, even though the plantations provided the Tamils with their main source of employment. Tamil labourers formed the bulk of the workforce

engaged on railways for purposes of construction and maintenance of the railways (Arasaratnam, 1970; Jain, 2011).

### **2.3.2 Tamil Muslims**

Alongside this great mass of Tamil labour, there was a very small but highly significant stratum of upper-class Tamils, separated from their proletarian compatriots not only by caste but by manner of arrival – they had arrived in Malaya on their own, using their personal resources. These members were of the upper class consisting of men in trade, commerce and finance who were influential both within the Indian community and beyond it. Their presence provided a thread of continuity between the traditional pre-industrial world and the modern industrial era. Two communities, Tamil Muslim merchants and Tamil Chettiars, stood out amongst them. Both had long connections with Southeast Asia and were among the first groups to appear on the scene at the start of the British period.

The presence of Tamil Muslim merchants in the region goes back to at least the twelfth century, at least 100 years before the rise of the Malay sultanate of Malacca. The influence of the Tamil-Muslim traders in the region as a whole had diminished considerably since their heyday in the fifteenth and sixteenth centuries (Tate, 2008). However, at the time the British established their base at Penang, they were still of some prominence at a number of local centres of Malay power such as Kedah and Aceh, and a number of them were to be found among the first cosmopolitan crowd of traders that flocked to Penang in 1786 to establish a stake in this new centre of ‘free trade’. They were also quick, a generation later, to take advantage of the establishment of the new British free port of Singapore (Bhattacharya, 2011).

The typical Tamil-Muslim business firm was a self-contained family affair. Some members of this community succeeded in amassing large fortunes and thereby acquired some local influence in the land. They ranged from a handful of already established merchants to petty traders, shopkeepers, salesmen, hawkers and street vendors. They also owned shops selling textiles, stationery and sundry goods. The forefathers of present Indian Muslim businessmen were prominent in business during the early part of the last century.

### **2.3.3    Telugus**

The Telugu community is the second largest sub-ethnic Indian group, residing in Malaysia for more than 150 years (Malini, 2016). In the late nineteenth and early twentieth century, the Telugus from Andhra Pradesh and its neighbouring states willingly signed up as indentured labourers with estate supervisors from Malaya, leaving their farms behind with hopes of attaining wealth and returning to India. They were brought into the Malayan plantations during the first half of the nineteenth century (Sandhu, 1969). In the ensuing years, many Telugus opted to adopt Malaya as their home, only returning to India to marry. Some Telugus would eventually set up small businesses, a core factor that brought them out of estate work. Their businesses included selling Indian textiles, household items and food (Tate, 2008).

Due to urbanisation and their emphasis on education, a majority of Telugus today have progressed up the social ladder from their modest beginnings in plantation work. Today, most are literate and educated with many Telugus having professional and middle-level occupations in commerce, the government service and other professions.

#### **2.3.4 Chettiars**

The Chettiars migrated to Malaya in the mid-1800s to early 1900s (Arasaratnam, 1970). A subgroup of Chettiars, imperative in the context of migration to Malaya, is the Nattukotai Chettiar. These emigrant traders from Chettinad in South India played a major role in constructing the economic and credit structure of the country. As private bankers, money lenders, financiers and traders, they significantly contributed to the early stages of the country's economic upsurge.

The Chettiars were reputedly frugal, shrewd businessmen of integrity. In Malaya, they seemed to have flourished because of the expanding economy and the need for credit by businesspeople, usually migrants, who were setting up small industries, and Malay peasants. However, they appeared to have also provided credit to the sultans. According to Arasaratnam (1970), by the 1930s, they were well settled in all major cities and towns and had become owners of most Indian landholdings, including rubber estates, and still retained their position as the chief Indian financiers of the country.

During the British era, the Chettiars contributed financially to the socio-economic activities of the Malays, Chinese and Indian communities in Malaya. Therefore, the Chettiars emerged as a major capitalist group amongst Indians in Malaya. Although their numbers were small, their role was important to the development of the Indian community in Malaya, including those who ventured into business (Suppiah, 2016). The total capital investment of the Chettiars was estimated at USD400 million in Malaya (Krishnan, 1936) and in the rubber sector it was an estimated USD100 million (Netto, 1961).

The Chettiars owned many rubber plantations in Malaya. Therefore, the economic position of the Chettiars as capitalists became more prominent due to the socio-economic gap between the Indian labourers and non-labourer groups. Hence, the relationship between the Chettiars and the Indian labourers was maintained as one that was of an

employer-employee nature. The Chettiars then considered themselves to be of a higher caste because of their experience in traditional banking activities (Suppiah, 2016). Given their capitalist attitude, the Chettiars did not assist in raising the standard of living of the Indians in Malaya. They also showed no inclination to invest in capital with Indian contractors for the development of any construction projects as they had done with the Chinese entrepreneurs (Brown, 2000). Such actions showed that the Chettiars acted more as capitalists who functioned as providers of loans and credit.

The Chettiars remained an important alternative source of credit until the British introduced modern banking towards the end of the nineteenth century (Tate, 2008). After the country gained independence and progressed, the Chettiars lacked the skills to venture into industrial development and lacked the skills to deal with stocks and shares, tools employed by businesspeople to raise funds for their enterprises. Besides, the introduction of new legislation, the rise of the banking industry and the emergence of unscrupulous moneylenders drove honest Chettiars from their accustomed field. They then started moving away from the money lending business in favour of other professions, and since the 1970s, many have become professionals and entrepreneurs (Suppiah, 2016).

#### **2.3.5 Ceylonese**

When British officials were transferred from Ceylon to work in the peninsula, the colonialist brought over with them many Ceylon Tamils to work as clerks in the colonial administration and as supervisors in the railway, post, telegraph and dock operations as well as in other facilities. Between the last quarter of the nineteenth century and the first quarter of the twentieth, the Ceylon Tamils arrived by the thousands, a majority of them were male immigrants recruited for middle-level government services. Hence, most Ceylon Tamils were concentrated in urban areas and cities where government

administration centres were situated (Arasaratnam, 1970).

The Ceylonese arrived as members of an incipient professional Tamil middle class whose main distinction from their commercial and money-lending countrymen was that they were English-educated and English-speaking. This enabled them to respond to the growing demand for English-speaking subordinates in various branches of the Malayan colonial administration and as clerical or technical assistants in commercial and other forms of private enterprises<sup>23</sup>. Tatparanandam Ananda Krishnan, the owner of Maxis Communications as well as Astro, one of Malaysia's richest men, is a Ceylonese Tamil. Bastianpillai Paul Nicholas, the founder of Oriental Bank of Malaya<sup>24</sup>, was also a Ceylonese Tamil.

#### **2.3.6 Malayalees**

The Malayalees travelled to Malaya in the early twentieth century from Kerala. Due to their excellent command of English, they started out as conductors, clerks and hospital assistants in the plantations. They were subsequently granted high positions as plantation managers, assistant plantation managers and other professionals.

Malayalees today are well-represented in the fields of law, medicine, scientific research, engineering and politics. In pursuit of higher education and economic success,

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<sup>23</sup> This late nineteenth century demand from Malaya was most timely because it coincided with a glut on the employment market of English educated graduates in Madras as well as the Tamil areas of Sri Lanka, who found it difficult to find jobs that was commensurate with their qualifications (Tate, 2008).

<sup>24</sup> Oriental Bank of Malaya was established in 1936. The main function of this bank was limited to handling remittances from members of the Ceylonese community working in Malaya.

the younger generations are gradually losing grasp of their mother tongue and customs. They are generally more comfortable speaking English than Malayalam<sup>25</sup>.

### **2.3.7 Gujaratis**

Missionaries from Gujarat helped spread Islam to Malaya prior to the establishment of the Malacca Sultanate in 1402. Those who frequently visited the port of Malacca did not settle there. It was only in the late nineteenth century that the Gujaratis who were mostly businessmen in the textile trade, travelled to Malacca to settle in Malaya. More Gujaratis arrived after World War II.

The Gujaratis are revered as “kings of textiles” and have also made their name in trade, in the import and export of spices and goods from India. The founder of Kamdar<sup>26</sup> (one of the leading textile stores in Malaysia), the late Mr. Harsuklal Maganlal Kamdar, was a Gujarati. However, they can also be found in other professions as well, such as in business, commerce, law and medicine. The Gujaratis are community-oriented and are almost always interrelated through marriage and families.

### **2.3.8 Sindhis**

The Sindhis began establishing themselves as merchants in the Malay Peninsula circa 1880s, settling mainly in major cities in the peninsula, Penang, Kuala Lumpur, Ipoh, Malacca, Johor Baru and Alor Setar. The partition of Pakistan from India in 1947 had a major impact on members of this sub-ethnic group. The partition contributed to a surge of Sindhi families moving from Pakistan to Malaya. They catered to the textile and

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<sup>25</sup> The language spoken by the Malayalees.

<sup>26</sup> The directors of Kamdar chose not to take part in this study.

tailoring needs of people in the colonial market, forming a small but financially successful North Indian community.

Unlike other Indian sub-ethnic groups in Malaya whose ancestors relied solely on the British to gain access into Malaya, the Sindhi community proved to be ahead of the pack by establishing a recruitment agency in Sindh which employed Sindhis to work with Sindhi firms all over the world, including in Malaya. They arrived with the determination to establish new businesses as soon as possible. Hardworking and prudent, they eventually started their own enterprises, usually in competition with each other.

The Sindhis in Malaysia today have ventured into real estate, electronics, departmental stores, entertainment, food, jewellery, and of course textiles<sup>27</sup> and tailoring businesses. Some well-known businessmen in Malaysia are Sindhis, including textile tycoon Rupchand Binwani, founder of Binwani's, Utumal Valiram, the founder of the Valiram Group, Kishu Thirathai, the founder of Globe Silk Store, to name a few. On the other hand, the younger generation prefer professions such as medicine, engineering, law, and accounting. Due to their cultural, linguistic, and religious upbringing, the Sindhis, like the Gujeratis, prefer arranged intra-subethnic marriages, involving also families in business in other countries, due to their cultural, linguistic and religious upbringing. Arranged marriages with co-Sindhis from other countries are popular because this helps create transnational business ties (David, 1998).

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<sup>27</sup> See Chapter Six for a detailed write up on the textile industry in Malaysia. One case study in Chapter Six is that of Binwani's, a Sindhi-owned business.



### 2.3.9 Punjabis

Punjabi is a term which is used to describe the language as well as the people who inhabit the region of Punjab in India and Pakistan. The first Punjabis to arrive in the peninsula were soldiers, recruited in the early 1870s by the British Police Superintendent of Penang. The British in the nineteenth century brought a second wave of Punjabis to Malaya to serve as policemen for the British Straits Settlement communities and as night watchmen to industries (Arasaratnam, 1970; Tate, 2008). Although their numbers were relatively small, an increasing number of Punjabis arrived to engage in commerce and business in the 1930s. Money-lending, in particular, became a profitable venture for them. In Malaysia, the owner of one fast growing textile stores, famously known as Euro Moda Gulati's, is owned by Pavitar Singh, a Punjabi.

Punjabis in Malaysia today play significant roles in the field of medicine, law, teaching and business, although some are still police officers and security guards. One prominent figure includes lawyer and politician, Karpal Singh<sup>28</sup>. However, in a recent study by Rajudin and Jesbains (2010), it was argued that although there are numerous well-known Punjabi entrepreneurs and professionals, only a small proportion of them have created thriving enterprises.

As the level of education among Malaysian Punjabis improved, less emphasis was placed on the ability to read and write Punjabi. However, their culture remains distinct from Indian ethnicities because of their religious beliefs; Sikhism, and a very strong sense of community. They have successfully preserved a distinctive Sikh identity within the

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<sup>28</sup> Karpal Singh was a Malaysian lawyer and politician. His reputation earned him the nickname 'Tiger of Jelutong'. Karpal Singh passed away on 17 April 2014, in a motor vehicle accident.

Malaysian society, different from the Tamils and other Indian communities who are predominantly Hindus.

#### **2.4 Public Policies and Indian Businesses in Malaysia**

The vulnerable economic position of Malaysian Indians as an ethnic community in the plural society of Malaysia can be evaluated through an appraisal of the economic policies adopted by the Malaysian government since 1957. As mentioned, Indians played an important role in the plantations and public sectors in Malaya. The urban Indians played a pivotal role in the growth of the railways, roads, ports and telecommunication sectors (Sandhu, 1969). By 1970, Indians in the higher rungs of the civil service constituted 26.2 percent of total staff (Chakraborti, 2004). According to Chakraborti (2004), Indians in Malaysia were well placed in certain technical and professional services such as in the medical services, veterinary services, telecommunication services, the police and even geology services. With regards to share capital, by 1970, Indians owned about 1.1 percent, while the Malays owned 2.4 percent and the Chinese owned 27.2 percent. However, the decline in their socioeconomic position began due to the advent of drastic economic and structural changes in the ensuing decades.

In 1970, Prime Minister, Tun Abdul Razak announced the two avowed objectives of the New Economic Policy (NEP) – first, to achieve national unity between the ethnic groups by eradicating poverty and secondly, by restructuring society to achieve inter-ethnic economic parity between the predominantly Malay Bumiputeras and the predominantly Chinese non-Bumiputeras. The second objective necessitated, in the government's view, affirmation action for the Malays to reduce inter-ethnic economic differences, especially with the Chinese (Gomez and Jomo, 1999: 24).

How this affirmative action has been carried out is conspicuously far removed from its initial conception i.e. by strengthening and facilitating the growth of Malay small and medium-scale enterprises (SMEs). Instead, the government emphasized wealth-restructuring by engaging itself in the activities of the public enterprises from three major categories i.e. departmental enterprises such as the water supplies, civil aviation and refuge collection agencies, statutory bodies such as Tourist Development Corporation (TDC), Urban Development Authority (UDA), Petrolia Nasional Berhad (Petronas), Malaysian Rubber Development Corporation (MARDEC) and government linked companies such as Heavy Industries Corporation of Malaysia (HICOM) and Food Industries of Malaysia (FIMA).<sup>29</sup>

Moreover, Bumiputera trust agencies which ostensibly accumulate wealth on behalf of this ethnic group were also incorporated to advance the Bumiputera share of the corporate pie. Some of the major Bumiputera trust agencies incorporated include Perbadanan Nasional Berhad (Pernas), Permodalan Nasional Berhad (PNB) and PNB's wholly owned subsidiaries i.e. Amanah Saham Nasional (ASN) and Amanah Saham Bumiputera (ASB) (Gomez and Jomo, 1999: 29-31; Toh, 1989: 245).

The government initially fixed the tenure for the implementation of the NEP at 20 years, i.e. from 1970 to 1990. After the NEP was implemented, the government declared the aim that Bumiputeras should own 30 percent of corporate equity by 1990. In 1990, according to government figures, Bumiputeras owned only about 19 percent of the total corporate equity in the country, still a marked increase compared to the community's mere 1.5 percent stake in 1969 (Gomez 2013: 87-91).

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<sup>29</sup> See Gomez and Saravanamuttu (2013).

The implementation of the NEP ushered in a winter of discontent amongst the non-Bumiputera communities. This was mainly due to a weak official commitment to address the problems of poor Chinese in new villages and predominantly Indian workers in the plantation sector on the part of the government (Gomez and Jomo, 1999: 39).

As an immediate response, Chinese businessmen and politicians tried, albeit unsuccessfully, to steer the attention of public enterprises to business areas controlled by foreigners (Jesudason 1989: 28-32). Ethnic Chinese companies, among them two major Chinese-controlled banks, i.e. Malayan Banking Berhad and United Malayan Banking, came under state, if not private Malay control, after runs on the banks. In these circumstances, Chinese businessmen feared increasing uncertainty and consequently, preferred short-term investments offering quick returns (Jesudason 1989: 163; Yoshihara, 1988: 90; Tan, 1993). Many Chinese businessmen, such as Loy Hean Heong, Alex Lee and Khoo Kay Peng, began to actively court influential Malay politicians and senior bureaucrats to gain state access through them (Gomez and Jomo, 1999: 40-44). It was during this time that Indian-owned banks such as Oriental Bank of Malaya<sup>30</sup> were taken over by the government.

This winter of discontent brought about by the NEP also gravely affected the Indian community. By the late 1980s, the Malaysian Indian Congress (MIC) had gone so far as to propose a new positive discrimination policy to be established specifically for Indians since the Indian condition had deteriorated rapidly under the NEP (Gomez 1994: 277).

The MIC's support base during the presidencies of John Thivy (1946-1947) was mainly from the urban, middle class, non-Tamil communities. Following the ascension

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<sup>30</sup> See Footnote 24 for information about this bank.

of V.T. Sambathan<sup>31</sup> to the presidency of the MIC in 1955, he set up a co-operative, the National Land Finance Cooperative Society (NLFCS), to take advantage of the fears of foreign plantation owners in Malaya that their companies would be nationalised following Independence. The NLFCS used this opportunity to acquire large tracts of estate land, ostensibly on behalf of working class Tamils. The initial success of the NLFCS bolstered Sambathan and the MIC's popularity amongst the Indian working class (Gomez 1994: 243). NLFCS owned a stake in several prominent Indian-based financial institutions such as the Central Cooperative Bank (CCB)<sup>32</sup>, United Asian Bank (UAB) and Bank Buruh – and an interest in a number of companies involved in downstream activities in the plantation sector (Gomez, 1994). UAB was Malaysia's sixth largest bank in 1985, with assets of RM1 billion and 32 branches. It was established in 1972, following the amalgamation of three Malaysian-based Indian national banks; the Indian Overseas Bank, the Indian national banks and the United Commercial Bank.<sup>33</sup> However, by the end of 1984, apart from the Indian government's stake, 30 percent of UAB's equity was held by various Bumiputeras (Gomez, 1994).

While NLFCS was set up before the NEP, the relative success of Sambathan in this regard led to a mushrooming of other MIC-based cooperatives after this affirmative action policy was introduced in 1970. These cooperatives were Syarikat Kerjasama Nesa Pelbagai Berhad (Nesa), established in 1974, Koperasi Belia Majujaya (M) Berhad (KBM) in 1977 and Koperasi Pekerja Jaya (KPJ) in 1979. A common factor among these cooperatives was that they sought the membership of and financial contributors from

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<sup>31</sup> Sambathan was the first South Indian Tamil to hold this position.

<sup>32</sup> CCB was Malaysia's largest deposit-taking cooperative. Formed in 1958, CCB was owned by 265 other cooperatives. In 1988, Bank Negara applied to place CCB under receivership; investigations later revealed mismanagement and corruption in the cooperative bank's operations (Gomez, 1994).

<sup>33</sup> Since the Indian government had nationalized these three banks, they were no longer able to operate under Malaysian law (Gomez, 1994).

working class and lower middle class Indians. Given their limited appeal to urban middle class Indians, the growth of these cooperatives was not impressive (Gomez 1994: 247). Moreover, the MIC also established the MIC Unit Trusts Berhad, which operates institutions such as the Maju Institute for Educational Development (MIED) to improve the educational prospects of Indians, as well as an investment holding company, Maika Holdings Berhad, modelled on MCA's Multi-Purpose Holding Berhad<sup>34</sup> (MPHB), to increase Indian equity ownership of corporate wealth and involvement in business.

Maika was incorporated in 1982 and despite the Malaysian economic recession then, managed to raise an incredible RM106 million by 1984, its shares being heavily over-subscribed. Although Maika benefitted from rent opportunities provided by the government, especially through the privatization policy, Maika failed to use these opportunities to its advantage as it was an important tool of patronage for MIC leaders.

One of Maika's aims after its inception was to obtain a banking license. Despite its political connections, Maika was unable to procure a license since the central bank felt that there were already too many banks in Malaysia (Gomez, 1994). In 1985, when the Indian government announced its interest to divest its UAB stake, the president of MIC, Samy Vellu, led a delegation of Maika officials to India to negotiate a takeover. However, Samy Vellu was later asked to drop plans on Maika's takeover to avoid further escalation of controversy (Gomez, 1994).

MIC presidents have recognized the need to uplift the condition of the majority of Indians and to increase the community's participation in the ownership of the Malaysian economy. Their reactions have been almost identical – the setting up of MIC-controlled

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<sup>34</sup> MPHB was incorporated in 1975 and was controlled by the MCA-backed cooperative, Koperasi Serbaguna (M) Berhad (KSM). Most of the businesses in this cooperative was controlled by MCA leaders (Gomez 1994).

business ventures which will act on behalf of the Indians. However, these entities are usually dependent on the MIC leader's influence to obtain business opportunities and they have generally failed to develop independently (Gomez, 1994).

By the end of 1990, Indians owned less than one percent of the country's corporate wealth, compared to their one percent in 1970 (Gomez, 1994). In fact, Indian ownership of share capital in Malaysia merely increased from 1.1 percent in 1970 to 1.2 percent in 2004 (Gopal and Karupiah, 2013) and later to 1.6 percent in 2008. According to Mansor (2001, 2005, 2006, 2015), the Indians in Malaysia consistently feel that they are facing an ethnic-bypass risk in economic situations. The economic risk revolves around the economic sphere such as opportunities to go into business, getting a loan from the bank and renting shop houses.

Government policies, such as the NEP, with its twin objectives of poverty eradication and wealth redistribution, have had a minimal impact on redressing the pressing economic problems faced by the Indian community (Gomez, 1994). According to Marimuthu (2016), many Indian owned small businesses were affected by the implementation of the NEP, as they could not obtain or renew their licenses to carry out business activities. However, with political patronage, a small number of Indian businessmen ventured into property development, construction, hotels and other service related activities (Marimuthu, 2016).

## **2.5 Malaysian Indian Businesses in the New Millennium**

Entrepreneurship in Malaysia has developed against a backdrop of historical practice of segregating economic activities along racial lines, a practice introduced by the British when the country was under their colonial rule (Sivakumar, 2016). Due to market

conditions and public policies, Indians were forced to be self-reliant in order to overcome structural factors which inhibited Malaysian Indian economic enhancement.

Over time, Malaysian Indians, particularly those among the lower middle class, have gained wider access to class resources, namely education, financial resources and working experience. Class resources via education has endowed Indians with the opportunity to secure better jobs, including as professionals and in the civil service, as well as in business. However, a large segment of Indians, particularly those whose heritage can be traced back to the plantation sector, remained mired in poverty.

In June 2012, the government set up the Special Secretariat for Empowerment of Indian Enterprises (SEED), a government agency set up to assist Indian-owned companies' wade through the red-tape involved in obtaining funding. The main purpose of SEED is to provide access for every Malaysian Indian to be able to play a role in transforming the economic landscape of the Malaysian Indian community (Kumararajah, 2016).

SEED is a government initiative for Indians which allows the government to bring together a multitude of agencies and financial institutions for the common cause of economic empowerment of Malaysian Indians, made possible creating a special RM180 million fund. SEED provides microfinancing for the eight traditional Indian business sectors; florist shops, textile, Indian beauty and wedding decorators, franchise, tailoring, barber shops, provision shops and transport (Kumararajah, 2016). SEED is helpful for microfinancing start-up Indian SMEs because it provides training and funding for these



new enterprises.<sup>35</sup> However, SEED is still in its infancy and it is left to be seen if the initiative will indeed take off.

## **2.6 Conclusion**

The Indians, especially the Tamils have struggled since leaving the rural plantation estates<sup>36</sup> to improve their wellbeing in urban centers. Despite the avowed objectives of various initiatives announced by the Malaysian government (in conjunction and with the express support of Indian community leaders, notably from the MIC), Indians in Malaysia have lagged far behind other ethnic groups such as the Chinese and Malays when it comes to an equitable share in the Malaysian economic pie. Having said that, subsets of the Indian community such as the Sindhis<sup>37</sup> have managed to hold their own in the business.

According to Sivakumar (2016), new and accurate data must be collected to determine the actual state of Malaysian Indian businesses in the country. As mentioned earlier in this chapter, tremendous changes have contributed to the evolution of Indian businesses in Malaysia, and this study will trace the said business and economic changes of Malaysian Indians, whilst providing new data.

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<sup>35</sup> SEED has not been analysed in an in-depth manner in this thesis as the cases studied are firms that have been operating for at least two generations or more.

<sup>36</sup> The Indians were forced out when companies owning these plantations converted them to property development projects.

<sup>37</sup> See case study on Binwani's

## **CHAPTER 3: LITERATURE REVIEW**

### **3.1 Review of Indian Businesses Worldwide**

One core common feature among Indians who have migrated to various parts of the world is how they would subsequently incorporate their own businesses in these host countries. However, the literature indicates that a large portion of the research on Indians in business focuses on the United Kingdom and the United States (Mogelonsky, 1995; Borjas, 1986; Chand and Ghorbani, 2011; Bhatt, 2003; Khairullah and Khairullah, 1999), as well as Africa (Merani and Van der Laan, 1979; Hart and Padayachee, 2000; Oonk 2013) and New Zealand (Tiwari, 1980; Beaglehole, 2005; Swarbrick, 2005; de Vries, 2010). Scant research has been done on the Indians in Malaysia, Singapore and Australia.

#### **3.1.1 Indian Businesses in the United States**

According to Mogelonsky (1995), Indians are the fastest growing group of immigrants in the United States. The Indian population is approximately 815,500, an increase by 111 percent since 1980. The number of these immigrants grew after 1965, when the Immigration and Nationality Act made amendments to allow Indians with professional degrees to migrate to the United States. Borjas (1986) found that native-born Indians in the United States were less likely to embrace self-employment compared to the immigrant cohort. This was confirmed by a report by the Kauffman Foundation in 2009 which also revealed that migrants have a higher propensity to venture into entrepreneurial activities compared to native-born Americans.

Unlike the case of the United States, migration of the Indians to Malaysia who can become citizens is no longer permitted; if migrants do apply for citizenship, the process is tedious and unlikely to be approved over a long period. The United States, however, is

still very much open to the inflow of Indians who can become citizens, even after a fairly short period. Hence, a study of ethnic enterprises in Malaysia will definitely take a different path, emphasizing change in traditional Indian businesses following the rise of a new generation.

Chand and Ghorbani (2011), who explored several bodies of literature, noted that Indians in the United States are a very tight-knit community and are constantly helping one another. They also found that Indian hotel owners have used their businesses as a way to bring in family members and provide them with jobs as they increase the number of properties they own, thereby linking business to immigration and to kinship networks. Some even loan money to family members interest-free to get them started, on the basis that their kinsmen are trustworthy and will work as hard as they did. These studies further argue that one could look at the entire phenomenon of migrants in business as a corporation built on community and kinship links. In the context of Malaysia, due to generational shifts, this may not be the case. As culture and identity changes occur among Malaysian Indians, these kinship links may not be of much help in the growth and development of the enterprises.

In terms of acquiring high educational qualifications, the Indians and Chinese represent two of the most successful and rapidly growing ethnic communities in the United States (US Census, 2007; USINPAC, 2008). Asian Indians in the United States represent what is now seen as the “American dream<sup>38</sup>”. Many of these Indians received their education from English-medium schools and are from the affluent upper echelons of Indian society. They migrated for improved economic prosperity and, at the same time, to attain world-class education (Bhatt, 2003). Through a quantitative study involving 629

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<sup>38</sup> The American dream is an ideal situation where equal opportunity is given to all Americans.

respondents, who are first generation Indian business owners in urban areas in the United States, Khairullah and Khairullah (1999) found that younger migrants acculturate better due to their proficiency in the English language, which assists in the development of their businesses.

In Malaysia, the descendants of the migrants are fluent in the Malay language, commonly known as Bahasa Malaysia<sup>39</sup>. Since this language is a compulsory subject in the curriculum of the national schools in Malaysia, it is natural that the second and third generations of Indians – and Chinese – are fluent in this language. This raises the point whether their proficiency in Bahasa Malaysia can be seen as a turning point where Indians, particularly those who have not gone through a vernacular school system, see a decline in their cultural identity and subsequently an increase in national identity. This raises the question whether this identity and cultural changes can affect the way Indian businesses function in Malaysia.<sup>40</sup>

### **3.1.2 Indian Businesses in the United Kingdom**

Ethnic minority businesses are reputedly an important component of the British economy. The businesses of ethnic minorities are also said to contribute significantly to competitiveness in the local marketplace (Dhaliwal, 2008). Ethnic minority businesses have also been of academic interest since the late 1970s. In this literature, many of the initial debates evolved around the disadvantages of belonging to a minority community (Bates, 1994; Waldinger, 1995; Basu and Altinay, 2003). There are, however, also references in this literature to entrepreneurial “success stories”, particularly among members of the Indian community (see, for example, Jolly, 2004). In Malaysia, similar

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<sup>39</sup> Bahasa Malaysia is the official language of Malaysia.

<sup>40</sup> For a discussion on this issue, see Gomez and Benton (2015). Their focus, however, is only on the Chinese.

debates are just beginning to emerge.

Among ethnic enterprises, the common story of the start-ups in particular was the dependence of the owners on people willing to work long hours as well as poorly paid or unpaid family labour; these firms were also overly reliant on co-ethnics as customers (Barrett et al., 1996). Dhaliwal (2008), who interviewed fifty business owners in Britain, concluded that South Asian businesses tend to rely heavily on the support of co-ethnics to develop their enterprise. The focus of these studies was on the migrant cohort. In the case in Malaysia, as this study will indicate, a similar trend prevailed among Indian migrants. However, a significant change occurred, particularly when the new generation took control of these companies, and inter-ethnic business ties emerged as a norm while there was a growing move to develop their customer base by creating or reshaping their products to suit a non-Indian clientele. This issue will be analyzed in the latter part of this thesis.

Ram and Smallbone (2001) found that South Asians were strongly represented in the food catering and retailing sector. Barrett et al. (2001) highlighted that people of South Asian origin were represented in a broad range of self-employment enterprises. These businesses included, apart from Indian restaurants, outlets selling saris and other traditional items of women's dress. South Asians with a long history of business involvement before they migrated to Britain have a very strong presence in the manufacturing and distribution of Indian textiles and clothing. Entrepreneurial activity among migrants (including South Indians) was found to be nearly double that of UK-born individuals, with 17.2 per cent having launched their own businesses, compared to 10.4 per cent of those born in the country. On average, they were eight years younger than indigenous entrepreneurs, at 44.3 years-old compared to 52.1 (*Hindustan Times* 5 March 2014). Besides that, Barrett et al. (2001) found ethnic minority businesses to be typically

small, suffering from heavy co-ethnic competition in saturated spatial markets and concentrated in economically vulnerable sectors. Such issues are yet to be studied in Malaysia.

A great mass of Indian entrepreneurs in Britain were held back by their lack of access to the kind of resources that would help them develop their small enterprises. According to Trevor et al. (2012), of these resources, access to financial capital was of unrivalled importance and until this was unlocked, the potential of the Indian entrepreneurial talent would remain largely unrealized. Much controversy surrounds the issue of the difficulty many small firms, especially ethnic minority businesses, encounter when trying to raise external finance due to a combination of demand and supply<sup>41</sup> side reasons (Storey, 1994).

Mascarenhas-Keyes (2008: 33) found that UK-born Indian graduates have a much lower self-employment rate than their white counterparts, suggesting somewhat surprisingly that the apparent retreat from business is led by the most educationally qualified, in principle the very people best equipped for business success. Once renowned for their conspicuous business presence, Indians are now no more entrepreneurial than the rest of the British population. Perhaps even more striking is that while Indians certainly are leaving behind their traditional business niches, far more important are the pull effects, specifically the lure of new opportunities in employment. This sharp rupture with the past expresses itself most graphically during inter-generational shifts.

### **3.1.3 Indian Businesses in Africa**

Ethnic Indians in South Africa can trace back their ancestral lineage to the introduction

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<sup>41</sup> According to Waldinger (1990), demand for ethnic enterprises is provided by the opportunity structure that includes the conditions of the market and state policies. The supply for ethnic enterprises is offered by the group characteristics such as networks, ethnic and class resources.

of the indentured system in Mauritius and the West Indies, circa 1834, in order to meet the need for labour in the sugar-growing colonies of the British and the French empires (Srebrnik, 1999). This is closely similar to the Malaysian situation.

Later, in search of better economic prospects, the Indians (mostly from Gujarat and Maharastra) braved the seas to migrate to South Africa, paying their own fares and arriving at Natal for trading opportunities (Bhana and Brain, 1990). Historically, the Indian settlement within South Africa remained largely confined to Natal and, particularly, to the cities of Durban and Pietermaritzburg.

Established trade was an area that was hard to penetrate, particularly by ex-indentured labourers, more so since this group of Indians had no formal education and access to resources such as money (Tomaselli, 1983). Therefore, this poorer group of Indians often resorted to employment in the informal sector, in activities such as hawking (Tomaselli, 1983). As noted in Chapter 2, in Malaysia, ex-indentured labourers similarly chose low-risk, low capital entrepreneurial activities when they ventured into business.

Hard work and long hours became the building blocks for the rapid growth and development of this business community (Bhana and Brain, 1990), even selling their goods at a far lower price than their white counterparts. Many of the more prominent Indian merchants imported goods from India, catering for niche local markets and continued to expand their network with business associates in both India and East Africa (Bhana and Brain, 1990).

Despite the odds, mired as many of them were in poverty and because of limited economic rights, Indian businessmen not only survived but prospered, thanks to "consistent creativity" and "sheer determination", as Patel (1989) put it. Indeed, Hart and Padayachee (2000) contend that the Indian business community in South Africa built up

a commerce that admirably thrived within the limits of an inward-looking apartheid economy.

According to Oonk (2006), South Asians were in a far more favourable socioeconomic position than their African counterparts. Unlike the Indians who arrived in Malaya, the Indians who went to East Africa were driven by the pull of a money economy. Since many of them were able to read and write, they were able to relate to and freely communicate with the local and deal with the regulations in place when doing business; this placed the South Asians in superior socioeconomic position. Through trial and error, the South Asians developed local trading and business acquaintance and business networks. Having established their own network of education institutions in East Africa, partly with monetary assistance from South Asian business families, the Asian level of education in East Africa was exponentially higher than their African counterparts. This gave the South Indians an edge in business.

The outstanding business development seen among South Asians in East Africa, in terms of creating large-scale enterprises, is often contrasted with the poor economic performance of Africans. A popular theory to explain this is that “outsiders” are in a better position to create their own business context (Oonk, 2006). Once again, this is dissimilar to the Malaysian scenario.

The Indians in East Africa used ethnic resources such as kinship, transnational business networks and educational training to raise capital and enhance management capacity in a far more profitable way than their African counterparts (Oonk, 2006). Gaining knowledge by working for the family and community members as well as gaining credit through the same network were the most important resources that Asian migrants had to nurture in order to develop their enterprise in Africa. Access to credit and informal



institutions was not unconditional but based on a person's reputation rather than physical securities.

According to Jain (2011), Indians in South Africa are now of fourth or fifth generation descent and perhaps their talent in business is their defining characteristic. Most of the Indians in Africa make their living as entrepreneurs and traders. In fact, Indians are over-represented in South Africa's business community as compared to other ethnic groups. If this is the situation in South Africa, it is only reasonable to question why a similar scenario did not occur in Malaysia, where the Indians in Malaysia are already of the third generation.

#### **3.1.4 Indian Businesses in New Zealand**

New Zealand's approximate four-million population comprises the indigenous Maori people (14.6 per cent), the New Zealand Europeans (67.6 per cent), Asians (9.2 per cent) and Pacific people (6.9 per cent) (Statistics New Zealand, 2006). Indians, in the Asian category, form the second largest ethnic group after the Chinese, and consist of 104,583 people (Statistics New Zealand, 2006).

Indians were granted free entry into New Zealand by the British till the end of the nineteenth century (Beaglehole, 2005). They became flax workers, bottle collectors, road builders, brick-makers, drain diggers and scrub-cutters in rural areas, whereas in urban locations they tended to work as fruit and vegetable hawkers (Swarbrick, 2005; Tiwari, 1980). These migrants intended to be sojourners rather than settlers, with the hope of building a better life and eventually returning to India.

According to de Vries (2010), who analysed case studies of Indian businesses in New Zealand, common Indian ethnic minority traits included adaptability, strong work ethics

and predisposition to employment; and the barriers they faced were discrimination and job dissatisfaction. Indian businesses involved with the ethnic food industry stated that they catered to a general market and expressed a desire to grow their businesses in New Zealand (de Vries, 2010).

However, Indian entrepreneurs in New Zealand have faced several hurdles when it came to establishing their businesses. The link between communication and entrepreneurship was seen as a major setback for them as many of these migrants were not fluent in English. Besides that, one major issue related to the scale of the market, which was extremely small in New Zealand. Indian businesspeople also expressed concern about the lack of professional bodies that provided support for new businesses. They were accustomed to the support of such bodies when doing business in India; in fact, businesspeople were aware that such essential supporting systems which were offered in other cities like London (Basu, 1998). Their comments further confirmed the uncertainties that arose when trying to run a business.

### **3.1.5 Indian Businesses in Phillipines**

The Indian community in the Philippines is rather small-only about five thousand-in comparison to the "Overseas" Indians in other Southeast Asian countries. Unlike the sepoys who came from Madras in 1762-1764, the later waves of migrants originated from Sindh and Punjab (Rye, 1993). Except for a few wealthy Sindhis, most of the Indian immigrants are of middle and lower middle class origin. The Punjabis, for instance, mostly come from the landed families in rural areas while many Sindhis are of urban origin. However, most of those who immigrated before World War II started from humble beginnings, working at secure jobs such as watchmen at American and Spanish

establishments, and gradually shifting to retail trading, often moving from one market to the other in different localities (Rye, 1993).

Manila being the primate city and business center of the country, nearly 85% of the Indians live in the Metropolitan area and the surrounding towns and cities (Rye, 1993). Most of the Punjabis and the Sindhis employed in Indian business firms usually live in middle and lower middle class neighborhoods; and generally closer to the areas where they do their business. The economically better-off Sindhis generally live in upper and uppermiddle class subdivisions and exclusive villages in Makati.

The Punjabis specialize in retail trade of dry goods, textiles, garments, household appliances, and jewelry (Rye, 1993). In recent years some of them have also branched out into money-lending. A Punjabi businessman is an individualist in his enterprise. Typically, he forms a husband and wife team with the children pitching in. He thrives on small-scale operations which he can personally manage and control. His educational and cultural background has a lot to do with his individualistic self-reliance in business ventures (Rye, 1993).

The Sindhis, slightly larger in number than the Punjabis, are much more advanced in business. Most of the Sindhis also started with small stores and as individual retailers in Sunday markets (Rye, 1993). But, unlike the Punjabis, they persistently expanded their business operations and followed steadfastly where the opportunity and profit led them. Manila Sindhis have demonstrated a remarkable capacity to adjust to changing conditions and respond dynamically to new circumstances and situations in the business world (Rye, 1993).

### **3.1.6 Indian Businesses in Singapore**

The story of the Indian diaspora is integral to Singapore's early history. Stamford Raffles's entourage in 1819 included sepoys, washermen, milkmen, tea suppliers and domestic servants. Following them, several Indians arrived first as prisoners, who were later hired to work on buildings and roads for the colonial empire (Krishnan, 1936).

From 1830 onwards, large immigrant groups, mainly Tamils were brought in by the British as indentured labourers to work on plantations, civic projects and government facilities (Sandhu, 1994). Also, around this time began the immigration of Indian traders, from Sindhis to Tamils Muslims to the Chettiers, who were attracted by Singapore's rapidly increasing status as a trading centre. By the middle of the 19<sup>th</sup> century, Indians became Singapore's second largest community, with the bulk of them being labourers from Tamil Nadu.

Today, the Singapore Indians are not discrete entities isolated from each other or from the larger society. On the other hand, they are living groups of people who negotiate their lives every day by selecting and adapting social as well as business practices (Bhattacharya, 2011).

### **3.1.7 Indian Businesses in Brunei**

Most of the Indians in Brunei migrated in the 20<sup>th</sup> century, particularly after the discovery of oil in 1929, and more prominently after 1950s when Brunei's economy started expanding (Mani, 1993). An estimated 3000 Indians in Brunei are expatriates including doctors, engineers, teachers and businessmen. About 4000 are in the construction or in other manual jobs in Brunei. There are a good number of Indians who runs mini-marts and small restaurants (Mani, 1993). Brunei is manpower scarce economy

with late introduction of modern education. Indians working in Brunei fills up the human resource vacuum and have thus far made significant economic contribution to Brunei.

### **3.1.8 Indian Businesses in Indonesia**

Indians in Indonesia presently in the country are descendants of those who arrived largely in response to the Western mercantilism, circa 1930s. According to the 1930 census, 67% of the Indian population was domiciled in Sumatera, while Java and Madura had about 18% of the population (Arora, 1982).

Members of the Indian community who came in the 1960s and 1970s invested mainly in the textile industry. These Indians played a prominent role in the export of Indonesian textile products. They expanded their economic activities during the economic boom in Indonesia. The overall position of Indians in Jakarta identifies the Sindhis in the textile business and the Sikhs with sports goods business. A recent development shows that there is presence of Indians in the professions such as medicine, accounting and law (Sandhu & Mani, 1993).

## **3.2 Reviewing Key Concepts of Ethnic Entrepreneurship**

Literature on ethnic entrepreneurship has been dominated by two main perspectives; one that looks at the supply and the other that focuses on demand of the enterprises. Recent contributions by Waldinger et al. (1990) and Kloosterman and Rath (2001) propose an integrated model that takes into account non-market factors such as the interactive model.

The supply perspective of ethnic entrepreneurship focuses on interpretations that examine the characteristics and resources that the migrants themselves possess in order to build their respective enterprises (Weber, 1998; Bonacich, 1973). The focal point of

Weber's (1998) argument was the impact of Protestantism on the development of capital for enterprises. Bonacich (1973), on the other hand, emphasizes cultural factors that help start and build ethnic enterprises. Portes (1995) focuses on social networking such as family and intra-ethnic ties to build their business. These approaches have been criticized for one-sided prominence in business development especially on the role of social capital (Engelen, 2001). Soon, researchers began considering the demand factors of ethnic entrepreneurship; such as the economic environment and state policies that affects the development of ethnic enterprises (Waldinger et. al., 1990; Jones et. al., 1992; Ram et. al., 2003). Demand oriented studies usually overlook the roles of ethnic resources and networks.

Seeing this, Waldinger et. al. (1990) proposed an interactive model which combines the demand and supply side of ethnic entrepreneurship. The two key dimensions that build the interactive model of ethnic entrepreneurship are opportunity structures and group characteristics of ethnic entrepreneurs.

Another important model in the ethnic entrepreneurship literature is the mixed embeddedness model, a model that stresses on the opportunity for businesses. The model suggests that opportunities provided by the economic conditions of the host country can either expand or shrink businesses. According to Kloosterman (1999), there are two types of opportunities that can be created. The first is the emergence of ethnic-based products and the second is the opportunities created as native shop owners leave neighbourhoods where the numbers of migrants are on the rise. The theory concludes that, eventually, migrants are embedded into the social, economic and political environment of the host country.

Hence, similarities can be seen between the mixed embeddedness concept and opportunity structures from the interactive model. The demand side which is expounded in the mixed embeddedness concept emphasizes the opportunities for potential businesses

which are accessible to aspiring ethnic entrepreneurs. The interactive model includes market conditions, which encompasses the demand for ethnic consumer products and access to ownership that explains business gaps. It also includes competition as well as government policy as part of the larger opportunity structures. It would appear that both these models concentrate on the market element for both opportunity structures and the demand side.

The group characteristics element from the interactive model is explained with predisposing factors and the resource mobilization of ethnic entrepreneurs, which is the supply perspective in the interactive model. In the mixed embeddedness model, Kloosterman and Rath (2001) explain that ethnic entrepreneurs differ in the bundle of resources at their disposal such as financial, social, cultural and educational resources.

To provide a holistic understanding of ethnic entrepreneurship in Malaysia, the entrepreneurship strategies in this study will be divided into two parts. The first part is the resources element which is adapted from Waldinger et al. (1990) and Kloosterman and Rath (2001), while the second part is the opportunity structure which is adapted from Waldinger et al. (1990). The viability of these concepts in an assessment of Indian-owned enterprises in Malaysia will be reviewed in this study, and further explained in the next chapter.<sup>42</sup>

### **3.3 Resources**

According to Mulholland (1997), businesses need class and ethnic resources such as property, education and skills. In order to “break out” of their ethnic niche, attain better access to a wider range of resources or serve a larger portion of the market, firms may

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<sup>42</sup> See conceptual framework in Chapter 4.

choose to exploit their weak ties with non-ethnic resource owners and markets. Resources in this study can be seen as the supply perspective of ethnic entrepreneurship.

These entrepreneurs who first came in as migrants to seek a better future also came with their own set of resources. They came with their own set of ethnicity, identity, education level, knowledge and financial capabilities. Besides that, their relationship with their family and friends are also a form a resource known as social resources. All these resources, if applied and used productively, can be a vital factor to the success of their enterprises.

### **3.3.1 Class Resources**

Class resources are linked to the ethnic group and include material goods such as property or wealth as well as “bourgeois values, attitudes and knowledge” (Light and Bonacich 1988:18-19). For example, well-educated migrants in the United States often run their own businesses (Bates, 1994; Camarota, 2000); this is possible as higher education is seen as a form of human capital that can pave the way for entrepreneurs to tap into opportunities emerging in the market (Borjas, 1986). It appears that entrepreneurs who possess higher levels of education and business training were quicker at achieving enterprise growth. This strongly indicates that education allows migrants to overcome internal barriers and thereby become more successful in negotiating external market barriers. The market strategies they pursue depend in part on background factors such as their educational attainment and skill levels as well as previous experience of and exposure to business (Basu, 2011).

Academic qualifications serve as an effective passport into the business world of the host country. Education confers on the person credibility, self-confidence and problem-solving skills. However, since education opens up the possibility for professional opportunities, higher-qualifications may significantly reduce the inclination for self-



employment among those with credentials (Clark and Drinkwater, 2010). Drew (1995) and Jones et al. (2012) also report that many from the British-born generations, especially Indians and Chinese, were pursuing new horizons in the economy. In particular, their burgeoning acquisition of high-level educational qualifications enabled them to open up alternative routes to social mobility such as becoming employed professionals. This phenomenon dampens entrepreneurial ambitions among the locally-born descendants of migrants. Similar trends are seen in Malaysia's socioeconomic structure and among ethnic minorities such as the Indians and Chinese.

Besides education and knowledge, the other important factor in class resources is financial resources for business. Bourdieu (1983: 243) argues that "capital can present itself in three fundamental guises. Firstly, as economic capital; immediately and directly convertible into money and may be institutionalized in the forms of property rights. Secondly, as cultural capital; convertible, under certain conditions, into economic capital and may be institutionalized in the forms of educational qualifications. Thirdly, as social capital which is made up of social obligations or 'connections' which are convertible, may be institutionalized in the forms of a title of nobility and in certain conditions, into economic capital". The social networks of an entrepreneur can often have a bearing on the availability of investment capital or start-up funding, be it through ties with friends, relatives and co-ethnic networks, issues fundamentally influenced by the social background of the migrants (Portes and Zhou, 1992; Basu, 1998; Dunstan et al., 2004).

For middle class immigrants, it has been found that initial class status is important in determining access to financial capital from both relatives and ethnic lending sources, key factors contributing towards business development (Portes and Zhou, 1992; Sanders and Nee, 1996). While ethnic resources have been identified as an aid to business start-ups, it has been suggested that continuing reliance on ethnic social support networks may hinder

long term development of a business, with lower profitability and higher failure rates (Bates, 1994; Yoon, 1991). The reliance on ethnic support hinders their capability to expand their market and diversify their products to fit a larger group of people.

Ethnic minority entrepreneurs face greater monetary barriers, in comparison to small firms in general, to start up a business in Britain (Bank of England, 1999). South Asians tend to be risk averse relying firstly on personal savings and family money, then followed by intra-ethnic support and finally, bank finance. They are also more easily discouraged when dealing with bureaucracy, hence opting for informal relationships and minimum paperwork. In addition, the lack of enthusiasm of the banks to have a discussion with potential business customers until they have a feasible business plan discourages many serious business propositions (Shanmuganthan et al., 2003).

### **3.3.2 Ethnic Resources**

Zhou (2004: 1040) sees ethnic entrepreneurs as those who “are often referred to as simultaneously owners and managers of their own businesses, whose group membership is tied to a common cultural heritage or origin and is known to out-group members as having such traits; more importantly, they are intrinsically intertwined in particular social structures in which individual behaviour, social relations, and economic transactions are constrained.” Therefore, specific group socio-cultural features shape ethnic economies and are likely to differ in their functioning, both from each other and from the non-ethnic economy.

Hofstede (1980, 2001) performed one of the first and most preeminent studies on cultural differences when he measured a multinational corporation’s cultural dimensions across 64 different countries. He found that culture and its values are relatively stable across time and environments. However, in the area of entrepreneurship, we generally see

that the first generation of migrants, whom even with time spent outside of their country of origin and in the new environment, are unlikely to have adapted completely to the culture of their new country of residence (Ghorbani, 2012; Hofstede, 2001). This may be detrimental to the start-up, development and growth of ethnic enterprises.

Migrants from a similar country and with a similar ethnic background would normally possess a common culture, values and social norms which usually help forge greater understanding and trust, making it easier to establish and foster relationships with their co-ethnic stakeholders. Support among the migrant generation is vital and easily gained due to trust, ease of communication, credit privileges and cultural compatibility (Tienda, 2001). The resulting ethnic networks, in due time, support the economic cluster formations that reinforce cultural value systems (Portes and Zhou, 1992).

However, these culture, values and social norms may not be shared in the same way among the descendants of the migrant generations. Koning and Verver (2012), after investigating the importance of cultural values among ethnic entrepreneurs in Southeast Asia, emphasizes that these values and norms seems to be plummeting in importance among the second and third generation of the migrant cohort.

Identity definition is a process experienced both individually and collectively. Consequently, entrepreneurship's identity-giving effect can only develop by interaction with other groups of a similar status. Individuals recognize themselves as collective players based on assumed commonalities. They can also be collectively understood as a cultural network. Through this identification, individuals form their own identity as well as a pattern of orientation which moulds thinking and behaviour, as well as the images of others and of themselves. New approaches to the study of identity are based on the idea of identity being seen as processes, not as static concepts. Identities adapt to social changes and learning takes place during rapid processes of change. History, traditions, and future reflections form

the person's new identity.

Location and time are two important markers in cultural and national identity. There are also some who see economic success as an additional factor for developing a new identity (Herberer, 2008). As for the term ethnic entrepreneurship, identity may change from one generation to the next, specifically from the migrant generation to their descendants. Migrants often easily manifest a new national identity upon migrating, albeit doing so as a means to identify with a culture that has different values and traditions from those of their culture of origin. Still, as mentioned earlier, the migrant generation seem to be more inclined in somewhat holding on to their cultural identity from their home country, while slowly and reluctantly assimilating to their new environment and cultures of their host country.

It is imperative that when migrants enter a new country, they acquire language skills to obtain housing and employment. However, over the longer term, migrants have to learn to embed themselves in a different cultural environment, which necessitates both socio-cultural and psychological adaptation (Searle and Ward 1990; Ward et al. 2001; Ward and Kennedy 1994). Socio-cultural adaptation includes new migrants acquiring culturally specific knowledge and social skills, as well as normative practices that govern daily life in their chosen country (Furnham and Bochner 1986; Ryder et al. 2000). Acculturation from this perspective refers to the extent to which immigrants are adept at negotiating their new social milieu.

As time goes by, the descendants of the migrant generation slowly begin to shift their identity from one that is predominantly cultural to one that is mainly national. A strong national identity tends to reduce the tendency of migrants and their descendants in terms of the view their cultural norms, beliefs, and practices. This scenario changes the manner of conducting business among the descendants of migrants.

In Malaysia, scant research has been done on the relationship between identity, business and generational change involving Indian owned firms. Through the generations, especially from the migrant generation to the second and third generations, changes in cultural identity may occur which could have a bearing on how they employ their ethnic resources. The relationship between the use of these ethnic resources and the evolution of ethnic entrepreneurship has not been studied. This is an area which should be given focus as changes in ethnic resources directly impacts market conditions in which ethnic groups conduct their business.

### **3.3.3 Predisposing Factors**

There are two models that explain why migrants usually opt for self-employment in the host country. One is a cultural model that emphasizes the importance of values and beliefs in starting or maintaining an enterprise. Related to this model is a body of literature that draws attention to ethnic resources, including rotating credit associations, kinship and co-ethnic-based labour force and an enclave economy, all seen as key factors that facilitate self-employment (Borjas, 1986; Marger and Hoffman, 1992; Min and Bozorgmehr 2000; Yoon 1991). The second model is structural, emphasizing the constraints and opportunities available to immigrants. This model suggests that immigrants are pushed to self-employment as a result of discrimination that blocks other alternatives; or, as a result of limited language skills, it is more difficult for them to enter the mainstream labour market. Here, we see a push-pull pattern in opting to start ethnic enterprises, where the cultural model is seen as a pull factor and the structural model is seen as the push factor.

Push factors comprise injustices found in employment that push individuals into entrepreneurship. There is also the disappointment of being overlooked when up for a promotion. Pull factors consist of a solid family strategy, a higher degree of freedom and

keeping all rewards of one's own endeavours (Ram and Jones, 1998). Interestingly, South Asians indicated both "push" and "pull" factors, as acknowledged earlier, such as evading discrimination and appreciating independence as reasons for engaging in ethnic businesses (Dhaliwal, 2000; Dhaliwal and Amin, 1995; Ram, 1992; Ram and Jones, 1998).

Economic necessity and employment were major concerns of the first generation of migrants. However, the second and the third generations are now placing a higher emphasis on the opportunities that are present for doing business in the country and also with the country of origin (Aldrich and Waldinger, 1990). While entrepreneurial motivations are often conveniently subsumed under an essentially one-dimensional "push versus pull" rubric (Clark and Drinkwater, 2000), the reality is more often a more complex interplay between positive and negative motivations at various levels, and between idealistic dreams and realistic opportunity. In Malaysia, no study has been done where consideration has been given to these issues, including in studies dealing with the Indians.

### **3.3.4 Networks**

Social capital, also sometimes known as social network, is crucial in the formation of entrepreneurial enterprises (Bonacich and Modell, 1980; Light and Bonacich, 1988; Sanders and Nee, 1996; Sequeira, Mueller, and McGee, 2007; Sequeira and Rasheed, 2006). According to Portes (1995), social networking is the ability of ethnic entrepreneurs to secure benefits by virtue of membership in social networks or other social structures. Social networking sources lie in the social structure within which the ethnic entrepreneur is situated. This social structure is inherent in the culture of migrants and also helps with employment or self-employment. Besides that, networks provides access to information (Adler and Kwon, 2002), influence, control and power (Coleman, 1988). This is a basis for community solidarity (Coleman, 1988), a source of social control and a source of network

mediated benefits (Portes, 1995) such as financial support and cheaper labour (Iyer and Shapiro, 1999) within ethnic communities.

From the beginning of their move to the host country, social ties or social capital can evolve in an outward concentric circle approach, starting with the closest ties, which are family and co-ethnic friends. Because of its importance as a social resource for ethnic entrepreneurs, family ties play a crucial role in starting entrepreneurial ventures. Family ties refer to the extent to which entrepreneurs have bonds with their close family members and relatives, including utilizing family advice, finances and labour.

Strong family ties are a version of social capital. Strong ties are a result of higher trust that brings, at times, more sacrifices and at other times more benefits for all family members. The family is relied on as the immigrant's first choice for employment and when it comes to raising start-up capital for a business (Bonacich and Modell, 1980; Waldinger, 1986). Ethnic entrepreneurs typically first seek start-up capital within the nuclear family, then from members of the extended family before approaching potential business partners outside the community. Family members working in the business tend to be more productive when wages are low because of their greater stake in its success (Sanders and Nee, 1996). But, the over-reliance on family networks is likely to lead to over-embeddedness, which decreases the inflow of new information and innovative ideas (Burt, 2004). Therefore, ethnic enterprises that are largely dependent on family networks, which usually involve more than one generation, may fall into the familiarity trap, which prevents the firm from exploring and exposing itself to new market opportunities, products or new ways of doing things.

Family ties in ethnic enterprises are powerfully predisposed by ethnic culture and traditions, and in-group solidarity, which more often than not results in stronger family ties. Besides that, the informational aspect of family support has been noted by Werbner (1990)

though this factor is regarded as being more significant in determining entrepreneurial entry into particular lines of business rather than in influencing business success.

According to de Vries (2010), Indian entrepreneurs were typically male. However, the smooth-running of the ethnic minority business often required greater teamwork between spouses and other family members, which reduced the authoritarian predisposition. Family member-involvement in the ethnic minority business was a recurring theme. Family was viewed a useful informal labour source, nevertheless, Indian entrepreneurs saw their children's involvement in the business as secondary to gaining a professional qualification. From this, we are able to see that there may be a problem in succession planning in ethnic enterprises.

Co-ethnic or intra-ethnic networks refer to the extent to which the entrepreneur has access to co-ethnic resources, namely business advice, labour and products, and maintains relationships with co-ethnic suppliers and customers. Ethnic minority entrepreneurs are likely to exchange business knowledge with co-ethnic business colleagues where they share their culture and language. They recruit co-ethnic workers from among their friends who speak the ethnic language and are willing to work for a modest wage (Light, 1972, 1980; Bonacich and Modell, 1980; Aldrich et al., 1984; Mars and Ward, 1984).

Compared with family networks, co-ethnic networks are more likely to provide heterogeneous information and resources. Those ethnic enterprises that are able to access co-ethnic information and resources are more likely to be exposed to a wider range of ideas and opportunities, gaining an edge over the competition. Therefore, the more an ethnic enterprise is embedded in its co-ethnic networks, the more likely it is to be exposed to new products, services, and the co-ethnic competitors' business practices. Besides enabling the entrepreneur to gather first-hand information to make decisions for the firm regarding taking on risky ventures, access to co-ethnic networks also empowers the ethnic enterprise



to engage in internal changes and innovation to cope with competition, hence increasing the likelihood of firm innovativeness.

Even though the role of ethnic-based relationships has been given much importance in the success of ethnic enterprises (Light et al., 1993), at the same time, a reliance on ethnic-based networks at a local level may constrain or disable business start-up and development by restricting access to resources and markets. The importance has been emphasized for growth-oriented ethnic minority enterprises 'breaking out' into mainstream markets in order to expand or diversify, as well as the barriers to achieving this.

Inter-ethnic ties are important especially when ethnic entrepreneurs have decided to expand and diversify their businesses. The importance of inter-ethnic networks is not only underpinned by the social embeddedness approach, but also acknowledges the call for understanding how ethnic enterprises break out from the limited dependency on the ethnic market, thus accessing the majority or entire market (Ram and Jones, 1998; Drori and Lerner, 2002; Rusinovic, 2008). The formation of an ethnic market takes place via a large number of ethnic enterprises that produce and sell goods and services to a relatively tiny group of consumers that may not necessarily possess sufficient purchasing power (Waldinger et al., 1990). Hence, fierce competition which results in a price war as well as lack of innovation becomes inevitable, exposing the ethnic market to saturation effects (Jones et al., 2000). These businesses realise that focusing on an ethnic market alone could hinder growth (Waldinger, 1996), and learn that to ensure long-term survival and viability of their ethnic enterprises, they must widen their target market to reach the mass population with larger purchasing power in order to achieve long-term sustainability and viability. This implies that it is an advantage for ethnic minority entrepreneurs to have contacts outside their family circle and co-ethnic networks, and do gain an understanding

about the mass population's needs and consumer behavior alongside available resources within the mainstream networks. Such trends have been noted in Malaysia.

The fundamental keys to increasing the possibilities of new venture creation does not rely on social networking alone, but also the combination of social capital, individuals of a particular type with the right kind of social relationships. Social networking research indicates that better social resources heighten the chance to succeed in entrepreneurship (Kasarda, 1989). Yet, the "mixed embeddedness" opinion suggests that "strong ties" built by ethnic business owners will not suffice in maintaining a competitive edge (Granovetter, 1973), but it also depends on their capacity to draw on wider market and institutional contexts (Jones et al., 2000; Kloosterman and Rath, 2001; Rath and Kloosterman, 1999) which vary spatially.

The fact that ethnic entrepreneurs are constantly in connection with their family and friends gives them the upper hand of knowing the demands or the needs and wants of the market. Although networks are traditionally seen in the literature as a resource (Rath and Kloosterman, 2001) or as a group characteristic (Waldinger et al., 1990), it can also be seen as an opportunity structure, especially in the Malaysian context. Due to inter-ethnic networks, an opportunity is provided to these ethnic Indian businesses to prosper, develop and take a new turn in their business. However, this opportunity is yet to be studied.

As seen, networks in ethnic entrepreneurship have been widely studied. The two main networks that have been studied are the relationship between these entrepreneurs and their families and intra-ethnic stake-holding in an enterprise. Inter-ethnic business relationships, another main network, are hardly studied, yet its importance is crucial in the growth and diversification in ethnic Indian-owned enterprises. In Malaysia, due to the national policies in place, this network has to be given priority when researching in this area.

### **3.4 Opportunity Structure**

For this study, the opportunity structure elements are adapted from the interactive model (Waldinger et al., 1990). The two major components in opportunity structure are market conditions and the role of the state. For a business to grow, there must be some initial demand for certain products or services. The initial market for ethnic enterprises stems from products and services required by co-ethnic members. These products and services are normally those that originate from their home country. These products are usually basic necessities such as food and clothes. However, as time goes by or as new generations emerge, the demand for these items may change. On the other hand, the state also plays a crucial role in the success or failure of ethnic-based entrepreneurship. Besides moral support, it is apparent that the government is able to assist migrants financially as well as through policies.

#### **3.4.1 Market Condition**

Market forces largely determine opportunities for ethnic entrepreneurs, where the environment drives entrepreneurial success. Venkataraman (1997) and Eckhardt and Shane (2003) note that the nexus of opportunity and individuals who seize them influence their understanding towards entrepreneurship, and that entrepreneurial opportunities arise from inefficiencies within existing markets (Drucker, 1985). Demands vary within markets in terms of human, social, financial and cultural capital resources available to newcomers. In more specific terms, the success or failure of ethnic based enterprises depends on the match or mismatch between market requirements and the products or services they offer. Other factors of importance include the collective and individual resources available to migrants who function as ethnic entrepreneurs.

While these challenges are common to small and newly-started businesses regardless of

ethnicity, ethnic entrepreneurs are less familiar with the host country's supply and demand conditions, nature of competition, business culture and practices and government regulations. Language restrictions among certain ethnic minorities caused by lack of fluency in the host country's language may evoke trouble in negotiating market barriers. This is part of the ethnic disadvantage concept, where ethnic entrepreneurs face relative disadvantage in the market which impairs opportunities since they often lack language and career-related skills opportunities (Mason, 2003).

Establishing businesses at the lower end of the opportunity structure is a norm, due to lack of appropriate educational qualifications and capital. Previous research suggests that ethnic minority entrepreneurs tend to reside in low effective demand areas with poor infrastructure, a reason why they face greater market barriers (Aldrich et al., 1984; Barrett et al., 2001).

On the other hand, ethnic communities are heterogeneous and adaptable in nature, opening doors for them to access a range of resources and market opportunities, depending on the particular group's structural properties and each individual's knowledge, motivations and capacity to achieve business objectives. Most scholars concur that the ethnic economy is unintentionally created by host communities, as opportunities emerge due to abandoned or under-served markets. Ethnic residential areas are potential habitats for the "protected market" or niche market and "captive prices" for ethnic goods and services (Aldrich and Waldinger, 1990). Within these niche markets, ethnic diversity can boost competitiveness through a variety of independent mechanisms, including business start-ups, workforce, supplier of materials and linguistic diversity. It also takes place through creativity and innovation arising from combining different ethnic influences; and the utilization of ethnic-based networks.

Although the demands of the ethnic population have created ethnic market niches that

enable ethnic minority entrepreneurs to establish businesses, the nature and sustainability of market opportunities offered by ethnic enclave economies and ethnic niches are still in dispute. Ram and Jones (1998) categorized market “break out” strategies using two dimensions: local versus non-local and ethnic versus non-ethnic customers. Their equation concludes that entrepreneurs adopting a non-local, non-ethnic customer market strategy have the highest chance of achieving successful break out. Later, Basu (2011) explored the strategies that enable ethnic minority immigrant entrepreneurs to “break out” of local ethnic markets and “break through” into more promising markets. Based on a primary survey of South Asian entrepreneurs in Britain, Basu (2011) analysed how their contextual and personal characteristics were applied as strategies to develop an enterprise. Rather than focusing on the breaking out of co-ethnic customer markets, the analysis suggests that the critical determining factor of success is the innate ability to break through into larger customer markets, through geographical reach or profit margins.

Many successful ethnic entrepreneurs use the market knowledge of their home countries to their advantage. Yet, the more successful ones break the barriers of ethnic labour markets by hiring non-ethnic employees. The capacity to “break through” into larger global markets is bolstered by the entrepreneur’s education, experience, access and ability to leverage international business networks, and agility to move into more promising markets, which is strengthened by the quality of entrepreneurs’ human capital. Human capital, in the form of higher education, host country language skills and business experience, enables ethnic entrepreneurs to alleviate “internal” barriers by improving their ability to communicate with customers, bankers and others in the host community, and thereby overcome market barriers.

Basu (2011) also added that the non-ethnic and non-local market strategy is the best way to “break out” of local ethnic market niches. This implicitly implies that other than serving

co-ethnic and local customers, serving larger community markets is necessary for the sustainability of ethnic minority businesses. It neglects the entrepreneur's reliance on co-ethnic labour, co-ethnic sources of capital, and co-ethnic suppliers. Moreover, it assumes that ethnic entrepreneurs start out by serving the local ethnic market, so that "breaking out" of those markets is always necessary.

In Malaysia, as identity evolved, particularly as the new generation emerged, the niche markets once created and occupied by ethnic Indians also seem to be slowly phasing out. It will be interesting to study the reasons why Indian entrepreneurs in these areas of business did not build on their interests in these sectors. Was it because they preferred to enter a different or a larger market to ensure better profits? It will be also necessary to learn if these enterprises still cater to the needs of a specific clientele. The success of ethnic enterprises often emphasizes market conditions as an important aspect. However, market conditions or structures rely heavily on the local economic environment as well as the role of the state and government policies.

### **3.4.2 Role of the State**

Modern societies are moving away from a stable social and established structure toward a state of fluidity in which mobility of people tends to become a visual landmark. The action radius of spatial mobility is steadily increasing from the local or regional scale to national and global levels (Sassen 1991). It seems plausible that uniformity in society is increasingly being replaced by diversity, so that future societies will be characterised by a 'multi-colour' composition with a great cultural, social, ethnic and religious variety (Storper 1997).

Ethnic entrepreneurship is mainly based on self-employment in rather low segments of the labour market (Waldinger et al., 1990). In this way, ethnic entrepreneurship leads to an increase in the aggregate supply of jobs, and the hiring of immigrant workers without crowding out the indigenous work force (Light and Bonacich, 1988). This job creating function for immigrants of ethnic groups through hiring from the co-ethnic group can be further enlarged, when highly entrepreneurial groups begin to hire among workers of non co-ethnic fellow immigrants (Light et al. 1999).

It is clear that policy-makers see a great perspective in ethnic entrepreneurship, as this seems to be a viable and promising strategy for an indigenous contribution to the solution of severe employment problems of cultural minorities. And in recent years, the tides of policy are rapidly changing: multi-ethnic environments are increasingly regarded as fruitful incubation places in which culture and ethnicity provide breeding grounds for new SME activities.

Policies aimed at reducing the levels of unemployment of ethnic groups have usually the character of welfare assistance. They tend to focus on the weak position of ethnic minorities. According to this perspective, reducing their deficiencies and alleviating their shortcomings can decrease unemployment among minorities. Usually, this means focusing on improving educational and language skills and knowledge in general.

In Malaysia, government policies such as the NEP with its twin objectives of poverty eradication and wealth redistribution, have had a minimal impact on redressing the pressing economic problems faced by the Indian community (Gomez, 1994). According to Marimuthu (2016), many Indian owned small businesses were affected by the implementation of the NEP, as they could not obtain or renew their licenses to carry out business activities.

Malaysian policy makers should acknowledge and understand that there are different ethnicities within the generalized Malaysian Indian category and formulate policies that can create inclusiveness (Doris, 2016). Beside that, policy makers also should recognize that the Indian community in Malaysia have thus far gained good education through generational change, where this new generation of Indians are demanding for same rights and opportunities as other communities in Malaysia.

### **3.5 Indian Family Businesses**

Family as a social institution is one of the oldest surviving (Goode, 1982), but only in recent years family business, an important arm of it started receiving academic attention. After a detailed review of the existing literature, Zahra and Sharma (2004) concluded that family business research has a long way to go from the present fragmented and descriptive state.

For historical, evolutionary reasons, most countries have family businesses constituting the largest category in terms of ownership; estimates do vary, but is above 75 percent in all cases (Watts and Tucker 2004). About a third of the companies listed in Fortune 500 are family businesses (Lee 2004). Since they normally do not have short term orientation but are interested in growing the family wealth with necessary precautions and have a different set of strategic goals compared to non-family owned private companies (Ward, 1987), their long term contribution to economy is significant. This is true amongst the Indians too.

There are also challenges of multiple stakeholders for the leadership position (Lansberg, 1999). Very often, there is lack of communication between the incumbent and incoming generations. The incumbents do not know how to handle the succession challenge, while the incoming generation does not know how to raise it. This is an



important issue as generations change. In Malaysia, this has yet to be studied, especially amongst Indian businesses.

Although ownership and management succession are the key concerns of a large number of business families, they do not devote enough attention to the process involved. Studies (Watts and Tucker, 2004) have reported that families hesitate to address this issue. Succession dilemma is also closely related to the family policy on entry of new generation, retirement of incumbents and mechanisms for resolving conflicts. Once again, this issue can also be seen in the Malaysian context, especially amongst Indians in business.

### **3.6 Small and Medium Enterprises: The Malaysian Dimension**

According to Sivalingam (1994), most Indian-owned firms in Malaysia operate as SMEs. Hence, it is pertinent for this study to better understand SMEs and its evolution in Malaysia. Small and medium sized enterprises (SMEs) are a key component of growth and development of many developing countries in Southeast Asia. Although many see SMEs as a stepping stone to bigger business, these businesses are now recognized as a vital component of contributors to the income of many nations. As with the rest of East Asia, SMEs constitute a vital component of the Malaysian economy and have the prospect of being a major engine of growth as these enterprises constitute 99.2 per cent of all businesses in the country. SMEs contribute 56.4 per cent of total employment in Malaysia. In spite of considerable challenges, the Department of Statistics in Malaysia reports that during the Ninth Malaysia Plan (2006-2010) period, value-added of SMEs rose at an annual rate of 7.8 per cent, faster than the overall economic growth. Consequently, SME contribution to GDP increased from 29.4 per cent in 2005 to 31.4 per cent in 2008.

Categorizing enterprises into micro, small or medium-size can be based on a firm's assets, sales or number of employees. The definition may differ between countries. The definition may also differ based on a country's level of economic development or volume of assistance available for distribution to companies. In 2005, the National SME Development Council presented useful guiding principles to standardize the concept of SME, utilizing two key criteria, i.e. annual sales turnover and the number of full-time employees. Tables 3.1 and 3.2 provide a detailed definition of SMEs by annual sales turnover and size.

**Table 3.1: SME definitions based on annual sales turnover**

Size/Sector	Primary	Secondary	Tertiary
Micro	Less than RM200,000	Less than RM 250,00	Less than RM200,000
Small	Between RM200,000 and less than RM 1 million	Between RM250,000 and less than RM 10 million	Between RM200,000 and less than RM 1 million
Medium	Between RM 1 million and RM 5 million	Between RM 10 million and RM 25 million	Between RM 1 million and RM 5 million

Source: National SME Development Council (NSDC, 2005)

**Table 3.2: SME definitions based on number of full-time employees**

Size/Sector	Primary	Secondary	Tertiary
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 and 19 employees	Between 5 and 50 employees	Between 5 and 19 employees
Medium	Between 20 and 50 employees	Between 51 and 150 employees	Between 20 and 50 employees

Source: National SME Development Council (NSDC, 2005)

As a business, SMEs are in continuous need of capital, especially at the start-up stage. Researchers have also noted that competent SMEs have healthier access to original and innovative technology. Besides that, these efficient SMEs are given better opportunities to go into joint ventures with international collaborators and create export connections with foreign buyers as well as sellers. These opportunities open up prospects for SMEs to emerge as large-scale enterprises (Batra and Tan, 1995). This can lead to the establishment of industry clusters to engage groups of SMEs to compete in the global market.

Commercial loans have continued to grow in line with the recovery of the Malaysian economy since 2000, following the Asian Financial Crisis of 1997. The commercial Banking Division of SME Bank, spearheaded lending to the small business sector by participating in SME trade fairs such as Expo Cintai Malaysia and SMIDEX<sup>43</sup> to provide financing opportunities for Malaysian manufacturers in order to fuel further growth in the economy. More assistance was also provided to SMEs and SMIs<sup>44</sup> under programmes sponsored by Bank Negara, the Central Bank, such as the Fund for Food, Fund for SMI Two, Enterprise Programme and the SMI Rehabilitation Funds.

SMEs, including those enterprises owned by ethnic minorities, have certain things in common when pursuing growth. These enterprises, as would any business, need resources such as capital, knowledge, skills as well as the assistance and support of their stakeholders. Besides that, these enterprises need to avail themselves to opportunities accruing from changes in market demands as well as the concessions created and offered by the governments. As far as these issues are concerned, while there have been studies

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<sup>43</sup> SMIDEX is the SME annual showcase in Malaysia which presents capabilities and capacities of Malaysian SMEs in producing products, services and technologies.

<sup>44</sup> SMIs are small and medium industries.

of how SMEs have dealt with them, no research has been undertaken where the focus was on Indian-owned enterprises.

### **3.7 Small and Medium Enterprises Growth Model**

Kazanjian (1988), using a database of 105 firms, investigated the growth patterns of new firms. He studied the stages of growth in these firms and created a theorized model. In this model, the stages are presented as a composition of organizational design variables representing a firm's reaction to the sets of leading problems it faced at sequential times. This study concluded that there are four stages in the growth model. Stage one is the stage of conception and development. Stage two is the stage of commercialization and stage three is the stage of growth. The final stage is the stage of stability.

A few years later, using a sample of 126 firms, Hanks et al. (1994) deduced the taxonomy of growth stage configurations. The configurations proposed a sequence of five stage growth model which is similar to Kazanjian (1988) with the addition of a fifth stage; the decline stage. It is also imperative to note that as firms develop patterns of organization structure in response to common growth and market challenges (Chandler, 1962), failure to sufficiently acclimatize organization systems and processes results in growth crises (Adizes, 1989; Greiner, 1972), or growing pains (Flamholtz, 1986), which can freeze the growth process. For the purpose of this study, we will be using the five stage growth model which was popularized by Hanks et al (1993), as this study will be concentrating on SMEs.

The first stage in this model is the start-up point, where the firm has just been given birth too and then is at its infancy stage. Almost all firms go through a phase when the primary focus is on the invention and development of their product or service (Kazanjian, 1988). At this stage, rejection by certain stakeholders may be seen until the product or

service has been deemed valuable or there is a good demand for it. Structure and formality are almost non-existent in this stage (Kazanjian, 1988; Hanks et al., 1994). This means that at this stage, most activities are implicitly and informally organized.

Next, the expansion stage where the firm largely resembles new teams to learn how to better the product or service compared to the ones they had at the first stage of conception. At this stage, the primary focus is to prepare and launch the product. With this, more staff will be hired to fulfil the needs of the organization. Towards the end of this stage, the product or service will be publicly announced or made available for sale (Kazanjian, 1988).

The third stage is the maturity stage, the stage where the company is now generating high sales revenue, if the product has been accepted in the market. The major problems faced at this stage are to produce, sell and distribute its product or service in large volumes. At this stage, change is constant. Hence, the managers may decide to hire professionals to move forward in growth and maturity of the business (Kazanjian, 1988).

Next is the diversification stage. At this stage, the firms have already generated the second or even the third generation product and seek to penetrate into new markets (Hanks et al. 1993). In the case of ethnic entrepreneurship, the first generation products are usually created to serve the needs and demand of co-ethnic market. In this stage, diversification can mean that new markets, such as the non-co-ethnic markets also can be penetrated to generate better sales revenue. Another manner of diversification can include product diversification, where the products are augmented or modified to reach a wider customer base.

The final stage is the decline stage, where a slowdown is visible in one or more areas in the business. According to Hanks et al. (1993), this could be due to excessive

bureaucracy. Hence, at this stage, a revitalization of the product or service may be needed. Alternatively, firms could redefine the mission, vision and strategy. For this study, the decline stage will not be significant as all the firms chosen are still operating and are not visibly slowing down.

While there have been studies of the development of firms owned by ethnic minorities in Malaysia, none have employed this SME growth model as their primary perspective. For this dissertation, this model, along with the concepts reviewed above, will be employed to assess the evolution of SMEs owned by Indians in Malaysia. This conceptual model, and methodology, that will be employed are issues we now turn to in the next chapter.

## CHAPTER 4: CONCEPTUAL FRAMEWORK AND METHODOLOGY

### 4.1 Conceptual Framework

A conceptual framework can be developed from the theories, concepts and models that have been reviewed in the preceding chapter. This framework merges the growth stages of firms and the interactive model, a merger done primarily to better capture what happens to a company following a generational change. The five stage growth model<sup>45</sup> which was popularized by Hanks et al. (1993) is used in this framework to provide a detailed understanding of the evolution of small enterprises owned by Indians. The fifth stage will not be significant in this study as all the firms chosen are still operating and are not visibly slowing down. Hence, only four stages will be employed in this study, as seen in the conceptual framework.

The interactive model<sup>46</sup> focuses attention on the supply perspective of ethnic entrepreneurship, to take account of the – the communication of the ethnic group with the larger economy (Waldinger et al., 1990). On the other hand, the mixed embeddedness model<sup>47</sup> which was popularized by Koosterman and Rath (2001) emphasizes the demand perspective. In this framework, the supply perspective is represented by the resources and the demand perspective is represented by the opportunity structure.

Although networks are usually placed under the supply perspective of ethnic entrepreneurship, I argue that in the context of Malaysia it can also be placed under the demand perspective of this model. This is simply because the inter-ethnic relationships

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<sup>45</sup> Refer to Chapter 3 for a detailed explanation on the growth model.

<sup>46</sup> See Chapter 3 for a detailed explanation on the interactive model.

<sup>47</sup> Chapter 3 provides a detailed explanation on the mixed embeddedness model.

that are built over time between different ethnic groups are an opportunity, allowing for the expansion and diversification of Indian-owned enterprises and leading to their growth due to generational change. Due to the nature of this study, which emphasizes generational change, the changes from one generation to the next in terms of access to resources will be studied. The opportunity structure and how it changes over time will be assessed. In the process, insights into the stages of growth of the SMEs will be provided.

Most components of the model are directly linked to one another. For example, ethnic resources and class resources are directly linked, and so is the relationship between market conditions and class resources. However, there are some that are indirectly linked through another component. For example, predisposing factors are indirectly related to market conditions through class and ethnic resources. These links have been explained in chapter three and will be discussed again in chapter eight. Figure 4.1 shows the conceptual framework for this study.

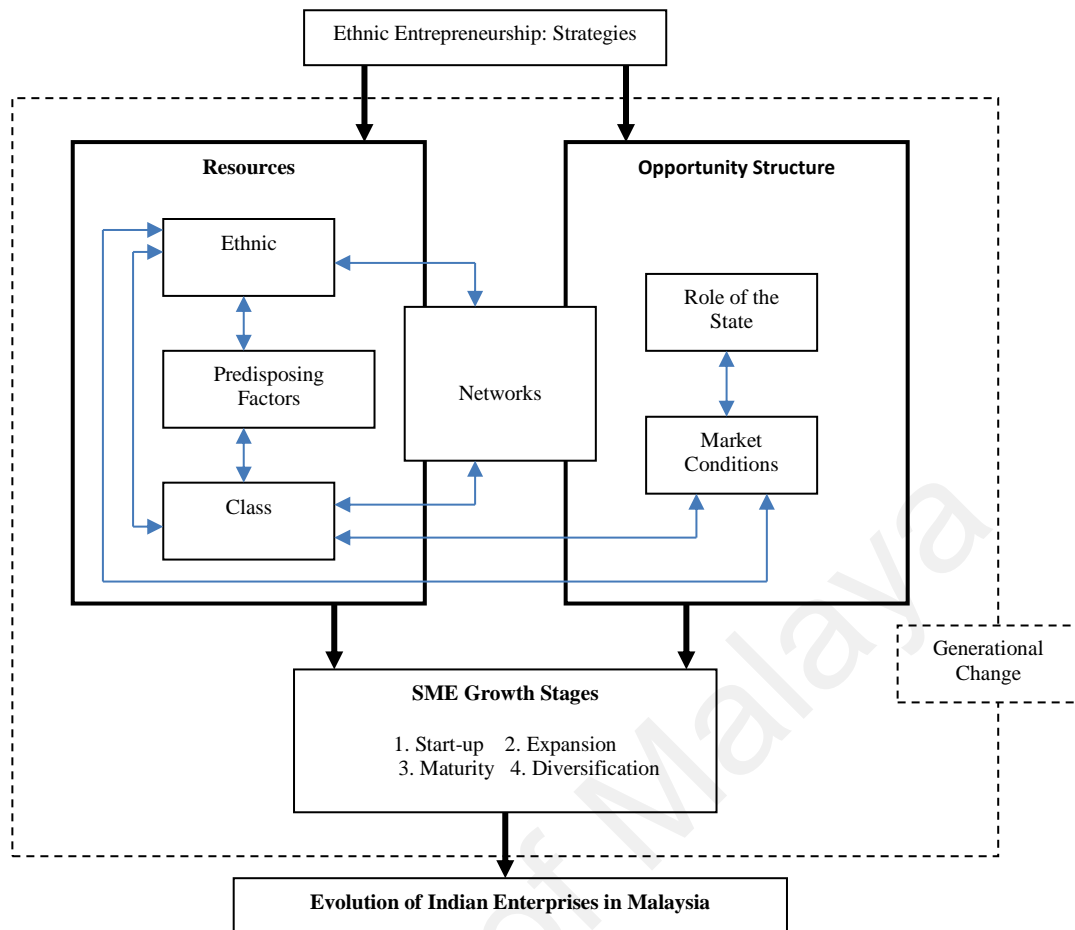
The conceptual framework is built to explain the findings of this study. Ethnic entrepreneurship strategies are a combination of resources and opportunity structure.<sup>48</sup> The variables of ethnic entrepreneurship has been evolving due to generational changes.<sup>49</sup> The changes in the variables then affects the growth and development of Indian businesses in Malaysia. This can be seen through the evolution of SME growth stages. These evolution will be explained in detail in the chapters to come.

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<sup>48</sup> See chapter 3 for further explanation on ethnic entrepreneurship strategies.

<sup>49</sup> See explanation in chapter 8.





**Figure 4.1: Conceptual Framework**

#### 4.1.1 Delineation of Conceptual Framework

Extensive research by scholars dealing with the concept of ethnic entrepreneurship indicates that resources and opportunity structures are the main drivers of ethnically-owned enterprises (Aldrich and Waldinger, 1990; Kloosterman et al., 1999; Koosterman and Rath, 2001; Tienda, 2001; Virdee, 2006). Scholars have also emphasized predisposing factors (Borjas, 1986; Marger and Hoffman, 1992; Zhou and Bozorgmehr 2000; Yoon 1991; Dhaliwal, 2000; Dhaliwal and Amin, 1995; Ram, 1992; Ram and Jones, 1998), class resources (Portes and Zhou, 1992; Basu, 1998; Dunstan et al., 2004; Bates, 1994; Camarota, 2000), ethnic resources (Basu and Altinay, 2003; Busenitz and Lau, 1996; McGrath, McMillan, and Scheinberg, 1992; Thomas and Mueller, 2000; Portes and Bach, 1985; Portes and Rumbaut, 1990; Reynolds, Storey, and Westhead, 1994; Koning

and Verver, 2012), networks (Bonacich and Modell, 1980; Light and Bonacich, 1988; Sanders and Nee, 1996; Sequeira, Mueller, and McGee, 2007; Sequeira and Rasheed, 2006; Bonacich and Modell, 1980; Waldinger, 1986; Burt, 2004), market condition (Aldrich et al., 1984; Barrett et al., 2001; Ram and Jones, 1998; Basu, 2011), role of the state (Kontos, 2003: 124; Ng and Ng, 2003; Ram and Smallbone, 2003; Rath and Kloosterman, 2003; Collins, 2003) and generational change (Dhaliwal and Kangis, 2006; Gidoomal, 1997; Waldinger et al., 1990; Werbner, 1990). Although research indicates that networks provide access to information, influence, control and power, community solidarity and social control, it does not explain how all these vital themes have changed through the generations. This is especially true in the Malaysian context as there have been no empirical studies thus far on the evolution of ethnic Indian businesses.

In the Malaysian case, among Indians in business, the need to work with co-ethnics is imperative due to the nature of public policies such as the New Economic Policy (see Chapter 2); this has had a bearing on how their enterprises have evolved (Jesudason, 1989; Gomez 1999). Past research has traced the transformation of firms from the perspective of resources and opportunity structure and the implications of this on enterprises established by the migrant generation (Jesudason, 1989; Gomez 1999). However, such studies have not traced the pattern, or stages, of growth. Since this research will study generational change, it will be able to show a pattern of growth along with its opportunity and challenges through the generations among Malaysian Indian businesses. It is also vital to note that there have been no theoretical and empirical studies of this sort thus far in the Malaysian case, especially among SMEs. Table 4.1 summarizes this research, its relevant concepts and dimensions to demonstrate how the research questions emerged.

**Table 4.1: Concepts, Dimensions, Supporting Research and Research Questions**

Concepts and Dimensions	Supporting Research	Relevant Research Question(s)
Class Resources (Education and Experience)	Bonacich (1973), Bonacich and Modell (1980), Bates (1994), Borjas (1986), (Basu, 2011), Clark and Drinkwater (2010), Light and Bonacich (1988)	Research Question 1, Research Question 4
Class Resources (Capital)	Bourdieu (1983), Portes and Zhou (1992), Basu (1998), Dunstan et.al. (2004), Sanders and Nee (1996), Bates (1994), Yoon (1991)	Research Question 1, Research Question 4
Ethnic Resources (Culture)	Chand and Ghorbani (2011), Hofstede (2001), Tienda (2001), Portes and Zhou (1992), Koning and Verver (2012), Basu and Altinay (2002), Portes and Bach (1985), Portes and Rumbaut (1990)	Research Question 1, Research Question 4
Ethnic Resources (Identity)	Herberer (2008), Gomez (2005), Furnham and Bochner (1986), Ryder et al. (2000)	Research Question 1, Research Question 4
Predisposing Factors	Borjas (1986), Marger and Hoffman (1992), Zhou and Bozorgmehr (2000), Yoon (1991), Ram and Jones (1998), Dhaliwal (2000), Ram (1992), Aldrich and Waldinger (1990)	Research Question 1, Research Question 4
Networks	Portes (1995), Adler and Kwon (2002), Coleman (1988), Iyer and Shapiro (1999), Bonacich and Modell (1980), Light and Bonacich (1988), Sanders and Nee (1996), Light et al. (1993), Granovetter (1973), Jones et al. (2000), Kloosterman and Rath (2001), Rath and Kloosterman (1999), Waldinger (1986), Burt (2004), Drori and Lerner (2002)	Research Question 3, Research Question 4
Market Condition	Venkataraman (1997), Eckhardt and Shane (2003), Drucker (1985), Mason (2003), Ram and Jones (1998), Basu (2011), Barrett et al. (2001)	Research Question 2, Research Question 4
Role of the State	Collins (2003), Engelen (2001), Kontos (2003), Ng and Ng (2003), Ram and Smallbone (2003), Rath and Kloosterman (2003), Gomez (2004), Gomez and Saravanamuttu (2013)	Research Question 2, Research Question 4
Generational Change	Dhaliwal and Kangis (2006), Werbner (1990), Bailey and Waldinger (1991), Ram et al. (2001), Dhaliwal (2001), Benton and Gomez (2008), Gomez and Benton (2015)	Research Question 1, Research Question 2, Research Question 3, Research Question 4

## **4.2 Methodology**

According to Morse and Richards (2002), good research depends on the selection of sound research techniques that are most suitable in order to answer the research issues at hand. This study employs an overall qualitative research method through a phenomenological approach. Due to the nature of this study which proposes to track the implications of generational changes on Indian businesses in Malaysia, the case study method will primarily be utilized.

### **4.2.1 Phenomenological Research**

According to Finlay (2009), research is phenomenological when it involves both a wholesome description of the real world or lived experience, and where the researcher has assumed a special, open outlook which sets aside opinions and judgments about the reality of the observable facts. In other words, phenomenological research studies the “essence” of human experiences concerning phenomena, as described by the actors in the study. This study will use the phenomenological research method as researchers who have adopted this method of study generally concur that the fundamental concern is to focus on the embodied, experiential significance of the owners of the companies under review.

Phenomenological researchers seek new, complex and colourful descriptions of a phenomenon as it is concretely lived. As Wertz (2005: 175) puts it: “Phenomenology is a low-hovering, in-dwelling, meditative philosophy that glories in the concreteness of person world relations and accords lived experience, with all its indeterminacy and ambiguity, primacy over the known”. As this study aspires to delve into the real life setting, experience, realities and changes between the generations of Indian businesses in Malaysia, a phenomenological research would be the most suitable method.

Giorgi (2008), who initiated the Duquesne Phenomenological Research Method,<sup>50</sup> asserts that the purpose of the method he had developed was to clearly explain the nature of the phenomenon being studied in a more conventional, normative and scientific sense. He recommended studying at least three participants, reasoning that the differences between them will make it easier to distinguish the individual occurrence from the common occurrence of the phenomenon.

Phenomenological research typically begins with solid descriptions of lived situations, often first-person accounts, taken and written in everyday language while obviating abstract intellectual conclusions (Finlay, 2009). The researcher carries on by thoughtfully examining these descriptions, possibly ideographically first, and subsequently by offering a synthesized account and by identifying common themes about the primal nature of the phenomenon. Importantly, the phenomenological researcher intends to go beyond surface expressions or unambiguous meanings to read between the lines. This is carried out by the researcher to access implicit dimensions and intuitions (Finlay, 2009).

This study will use both descriptive and interpretive phenomenological research. With descriptive phenomenology, inspired by Husserl (1983), researchers seek to disclose necessary and at the same time wide-ranging structures of a phenomenon. They choose to stay close to what is given to them in all its richness and complexity, and limit themselves to “making assertions which are supported by appropriate intuitive validations” (Giorgi, 1986: 9). Phenomenological description as a method centers on the process of interpretation (Heidegger, 1962: 37). Interpretive phenomenology, as a school, evolved from the work of hermeneutic philosophers, who debated embeddedness in the

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<sup>50</sup> A particular type of case study research method which proposes a method that is theoretically grounded in phenomenological philosophy yet treats empirically derived data.

world of language and social relationships, and the unavoidable historicity of all understanding.

The main phenomenon studied here is generational change involving enterprises owned by ethnic Indians in Malaysia and what occurred in these firms as these transitions occurred. And to further understand this phenomenon while staying close to the truth, it would be most accurate to use the descriptive phenomenological research. As recommended by Giorgi (2008), eleven participating firms were studied (see Table 4.2).

#### **4.2.2 Qualitative Research**

Qualitative approaches are used when the aim of the enquiry is identification, description, explanation-generation and exploring the interpretation and understanding of the mechanisms which link particular variables, which occur through the exploration of accounts or explanations of the individuals involved (Barbour, 2008; Yin, 2003). A qualitative approach is most suitable when examining highly complex, context-specific phenomena and processes while attempting to provide a rich insight into human behaviour (Simons, 2009; Yin, 2009) because it allows researchers to focus on the context and contribute an explanation of actions and events (Barbour, 2008).

Many recent studies on ethnic entrepreneurship have been carried out employing the qualitative method. In order to explore the motivation and business strategies of ethnic entrepreneurs, Iyer and Shapiro (1999) interviewed founders as well as business owners in the United States. These interviews lasted 45 to 120 minutes each. Ojala (2009) investigated the role of networks in Finnish SMEs through open-ended interviews with executives from eight firms. The interviews were 60 to 90 minutes long. In another study, to gather data on the role of family networks among ethnic entrepreneurs, Mustafa and Chen (2010) interviewed the first generation and second generation of five such firms.

Ellis (2011), who focused on networks in ethnically-owned firms, explored how ethnic entrepreneurs identified opportunities using semi-structured interviews with 41 senior managers. The interviews were 30 to 40 minutes long. Due to the busy schedules of the selected entrepreneurs, this study employed the method used by Ellis (2011) where every participant was interviewed for approximately 40 minutes.

#### **4.2.3 Case Study Method**

Case studies are used to increase knowledge and understanding of special interest, information-rich situations (Patton, 1990). According to Simons (2009), case studies “can document multiple perspectives, investigate contested point of views, and exhibit the influence of key actors and interactions between them”. A case study is defined as “an in-depth, empirical investigation of a single instance or setting to explain the processes of a phenomenon in context” (Tharenou et al., 2007: 74). An important aspect of the case study method is the context. A case study is more than a description or story; “it is a theoretically based attempt to understand and explain complex phenomena, embedded in context” (Tharenou et al., 200: 78). When carrying out research on ethnic enterprises, researchers are recommended to adopt case-intensive methodologies in order to stay away from collecting data that are trivial. This is important in understanding the key features of these enterprises. This is particularly vital when studying themes like generational change (Litz, 1997).

Yin (2003) suggests two main case study methods: single case and multiple cases. The single case study method is often employed when conducting a longitudinal study or to represent a unique case. Thus, the external validity of single case study research is generally weak. A multiple case study is deemed more robust as cases are carefully selected to enable exploration of commonalities or dissonance between cases. By

employing multiple cases, similar to multiple experiments, the external validity is higher than for a single case method (Eisenhardt, 1989; Yin, 2003). As the aim of this study is to explore and understand the evolution of Indian businesses in Malaysia, a qualitative multiple case study approach with in-depth interviews and evaluation of business reports would be the most appropriate method (see Table 4.2).

#### **4.2.4 Unit of Analysis**

The unit of analysis can be an individual, a firm, an event, an economy or an industry to name a few, and is related to the research questions (Crabtree and Miller, 1992; Yin, 2009). As the research questions in this study focuses on the evolution of Indian enterprises in Malaysia, the unit of analysis is the individual entrepreneur, while the context is that of ethnic enterprises.

This is in keeping with the call by Kontinen and Ojala (2011), Buckley and Lessard (2005) and Yeung (2002) for focus to be placed on individuals as ethnic entrepreneurship research has, thus far, largely ignored the network ties (Chand and Ghorbani, 2011; Nordman and Melen, 2008) at the individual level (Ellis, 2000). Furthermore, opportunity recognition at the individual level should be studied because it is the entrepreneur who recognizes the opportunities, not the firm (Chetty and Holm, 2000). This can also apply to the recognition of resources available.

According to Eisenhardt (1989), in order to manage the influence of superfluous variables and at the same time, assist in classifying the boundaries for generalizing the research findings, case selections can be used. Four to twelve cases are recommended by Eisenhardt (1989), and at least six cases should be selected to enable sufficient data for cross-case analysis. In practice, the number of cases chosen is often regulated by practical consideration such as financial and time constraints (Carson et al., 2001; Eisenhardt,



1989). For this study, eleven cases (see Table 4.2) were selected based on such criteria, that is, in keeping with the recommendation by Eisenhardt (1989).

### **4.3 Sampling Method**

Qualitative data usually focuses on small, in-depth samples. The power of a small sample is in the ability to select information-rich cases which can provide a great deal of information about the research issue or purpose (Patton, 1990). Thus, qualitative methods employ purposeful sampling to “select information-rich cases whose study will clarify the questions under study” (Patton, 1990, p.169). Patton (1990) also outlines diverse strategies for purposefully selecting information-rich cases, that includes criterion sampling and snowball sampling.

#### **4.3.1 Criterion Sampling**

Criterion sampling is the selection of cases that meet a predetermined criterion of importance (Patton, 1990). The predetermined criteria in this study will be derived from the constructs that are being explored by the research questions. Hence, the criteria for the case studies in this research will be:

- Firms that were incorporated by Indians, including migrants, and are still owned by Malaysian Indian entrepreneurs.
- Firms that currently have their headquarters in Malaysia.
- Firms that started out dealing with products that are ethnically and culturally Indian. Industries that were chosen are those in the food, textile and jewellery industries, all sectors where the Indians have had a large presence.
- Firms that are now owned by the second generation, or more.

Through the generations, there have been changes in the nature of the ethnically- or culturally-based products produced and sold by these firms. A number of them have

diversified, dealing with issues that are not necessarily “Indian” in nature. These changes bring into question the applicability of terms such as “ethnic entrepreneurship” and “ethnic economy”.

#### **4.3.2 Snowball Sampling**

Snowball sampling is used to identify information-rich informants and cases by asking the “right people” who are most suitable to talk to. According to Patton (1990), by asking more people who else to talk to, the snowball of information-rich cases may turn out to be bigger. Furthermore, the names and events that are repetitively proposed are of special importance (Patton, 1990).

In the food industry, the snowball sampling was used as the first participant was Dr. T.V.K. Balakrishnan, who is the owner of Santha Store Flour Mill Sdn. Bhd. and also the President of the Malaysian Indian Curry Powder Manufacturers Association. He provided information about two other firms, Gemini Flour Mills and M.P. Lingam and Sons.

#### **4.4 Selected Cases**

A total of eleven firms were incorporated in this study. Five were from the food industry, three were from the textile industry and the final three were from the jewellery industry. All eleven of them were established and are still owned by Malaysian Indian entrepreneurs. Ten of them were established in Malaysia, and also have their headquarters in the country, while one of them was initially established in Indonesia, but has its headquarters in Malaysia. All eleven also deal with ethnically- and culturally-based Indian products and have been in operation for over two generations, or more. Table 4.2 lists the selected firms with its sampling criteria. Further details of these firms are discussed in Chapter 5.

**Table 4.2: Chosen Firms and Sampling Method**

Firms	Industry	Established and Owned by Malaysian Indian Entrepreneur	Established or has its Headquarter in Malaysia	Ethnically- or Culturally-based Indian Products	Established for at least Two Generation or more	Snowball Sampling
Santha Store Flour Mills	Food	√	√	√	√	
Gemini Flour Mills	Food	√	√	√	√	√ (Contact Details were provided)
M.P. Lingam and Sons	Food	√	√	√	√	√ (Contact Details were provided)
The Big Rajah	Food	√	√	√	√	
Jumbo Restaurant and Catering	Food	√	√	√	√	
Binwani's	Textile	√	√	√	√	
Ajuntha Textiles	Textile	√	√	√	√	
Sri Kumaran Silks	Textile	√	√	√	√	
Abdul Razak Jewellers	Jewellery	√	√	√	√	
Sri Ganesh Jewellers	Jewellery	√	√	√	√	
V. Gopal Pather and Sons	Jewellery	√	√	√	√	

## **4.5 Data Sources and Triangulation**

Previous studies have indicated that good qualitative research involves the collection of data from several sources such as observational data, interviews, researcher's ongoing written theoretical notes and archival data (Morse and Richards, 2002). The case study approach can include documentation, archival records, interviews, observations and physical artefacts (Yin, 2003). Data from the cases in this study will be supplemented with the experiences of first generation, second generation or third generation owners of Indian enterprises through in-depth interviews. Besides that, business documents, archived data from newspapers, journals, as well as media articles will also be assessed.

According to Decrop (1999), data triangulation involves the use of many different types of data sources in a study. This study has incorporated multiple types of material which is explained in the following paragraphs.

### **4.5.1 Primary Data**

The primary data collection method for this study was in-depth interviews with founders, second or third generation owners of Indian businesses in Malaysia. Interviews provide the most suitable means of exploring and highlighting processes, including decision-making processes, explaining discrepancies and providing explanations (Barbour, 2009; Ghauri, 2004).

Another primary source of data for this study were the annual reports of these Indian-owned enterprises, which include the chairman's account of the firm's activities over that year. In Malaysia, all companies are required to file an annual report and an annual return. These company files have data going back to the time of their incorporation. The information obtained from these annual reports includes:

- i) list of shareholders and how shareholding patterns have changed with each generational shift;
- ii) list of directors and how they changed over time, especially after a generational shift or in response to public policies;
- iii) the companies they acquired, established, sold or closed down;
- iv) when they began to diversify, if they did; and
- v) joint ventures they established, including with foreign firms.

These reports provide further and more concrete understanding of the evolution of these Indian enterprises. Given that this study explores the growth of Indian businesses in Malaysia, interviews and business reports were deemed to be apt data that had to be collected and reviewed.

#### **4.5.2 Secondary Data**

Industry articles and reports from SME Corporation<sup>51</sup>, archived data from the local newspapers, local and international business magazines and journals were collected as part of the secondary data source. Besides that, videos from Astro<sup>52</sup> and Media Prima Berhad<sup>53</sup> were also added into the secondary data source. These data was used to triangulate primary data information. Data triangulation method was applied to strengthen the design of this study (Patton, 1990). Using a combination of data sources allowed for the validation and cross-checking of the findings and furthermore. It also increased the

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<sup>51</sup> SME Corporation is a Central Coordinating Agency under the Ministry of International Trade and Industry Malaysia that formulates overall policies and strategies for small and medium Enterprises (SMEs) and coordinates the implementation of SME development programmes across all related Ministries and Agencies.

<sup>52</sup> Astro is the brand name of the Malaysian direct broadcast satellite pay television service.

<sup>53</sup> Media Prima Berhad is Malaysia's leading fully-integrated media group.

validity as the weakness of one approach was compensated for by the strengths of another approach (Patton, 1990).

#### **4.6 Design of Interview Guide**

Annual reports and annual returns of each chosen firm were viewed from the time of incorporation. After compiling in-depth historical information from company records filed with the Companies Commission of Malaysia, the interviews were designed and carried out. The interview data collection was in-depth or “conversations with a purpose” (Marshall and Rossman, 1995: 80). These interviews were guided by the collection of themes presented in Table 4.3.

The researcher contacted the firms which met the sampling requirements by telephone to negotiate their participation in this study. The researcher then explained the reasons for the research and source of recommendation, if any. Confidentiality of information provided by the participants was also assured. In many cases there was an initial disinclination to participate due to the demands of managing their respective businesses. The researcher then explained and stressed the potential importance of an increased understanding of the evolution of Indian enterprises in Malaysia that may result from the study. Still, a number of those contacted turned down the offer to take part in this study.

Confirmation of appointments with those willing to participate was done over the telephone. Some participants required a copy of the interview questions prior to the interview. The interview questions were then sent to these participants via email. The interviews lasted approximately 40 minutes. All interviews were done face to face.

The interviews were semi-structured around the concepts of this study, yet flexible enough to allow new topics to emerge. All eleven interviews were done with the

shareholders or directors of these firms. This is because these shareholders or directors have a deeper understanding and knowledge of the history of their firms and were able to provide insights on the issue of generational change, changes in ethnic resources, the importance of networks and other key themes of this study.

The design of the interview questions of this study included the participant's role in the firm, his or her historical understanding of the firm, resource and opportunity structure of the firm as well as the growth and development of the firm through the generations. Overall, twelve questions were designed to cover the concepts topics in this study. The information gleaned from the annual company reports were used to formulate questions, based on who was being interviewed. This was due to the need to capture key aspects of the company, including defining moments in its history when a significant change occurred. Table 4.3 presents the concepts with the relevant questions respectively.

**Table 4.3: Concepts and Related Questions**

Topic	Question Number	Description of the Questions	Research Question(s)
Business History	1	Incorporation of the Firm	1,2,3,4
	2	Vision for the Firm	1,2,3,4
Class Resources and Generational Change	3	Capital Accumulation of the Firm	1
Ethnic Resources and Generational Change	4	Support from Community	1
	5	Changes in Ethnic Resources	1
	6	Competitors	1
Networks and Generational Change	7	<ul style="list-style-type: none"> <li>Importance of Networks</li> <li>Influence of Networks</li> </ul>	3
Market Conditions	8	<ul style="list-style-type: none"> <li>Dampened/Expanded</li> <li>Diversification</li> </ul>	2
Role of the State	9	Government Assistance for the Firm	2
Growth Stages and Generational Change	10	Growth and Development of the Firm	1,2,3,4
Generational Change	11	Transition of Ownership of the Firm	1,2,3,4
Class Resources and Generational Change	12	Education and Experience	1

Before the final interviews were conducted, a pilot study was performed to test if the questions were easily understood and if it was applicable for this study. Three participants, two who are potential participants and one researcher, took part in this pilot study. Based on the feedback of this pilot study, all the questions were easily understood and were relevant to this study.

The pilot study proved to be a valuable experience for the researcher before the actual interviews. After completion of the pilot study, some of the questions were reworded to make sure that the participants understood the questions that were being posed to them. Besides that, not all the questions were asked or answered in accordance with the question numbering listed in Table 4.3. There were also instances where additional questions were asked. It is also important to note that the annual and financial reports were obtained from the Companies Commission of Malaysia and analyzed before the interviews were carried out.

#### **4.7 Data Analysis**

Applying an explanatory approach to data analysis allows for a greater understanding of the field data through the process of creating order, structure and meaning out of the collected data (Freeman et. al., 2006). Data is analyzed through content analysis, explanation building and cross-case analysis.

##### **4.7.1 Content Analysis**

Content analysis is an analytical technique “that extracts thematic information from qualitative materials” (Tharenou et. al., 2007: 253) and allows the systematic description and analysis of written or spoken material. It involves the identification and categorization of primary patterns in the data, which in this study comprises the interviews as well as



secondary data sources. Tharenou et al. (2007) recommended an interpretative style<sup>54</sup> of analysis for studies that aim to understand, explore or generate new insights to subjects of little knowledge.

As scant research has been done in the area of Indian businesses in Malaysia and since the research questions of this study are focused on generating new understanding and meaning, the interpretative style was used.

#### **4.7.2 Explanation Building**

Yin (2009) recommended a second analytic technique suitable for explanatory case studies, which is explanation building. This technique builds explanation of the case by analyzing the data through a series of iterations (Yin, 2009).

Throughout the data collection, transcripts were analyzed, and the literature was revisited. This helped refine and alter the modus operandi of the forthcoming interviews. During the data analysis, the case documents were continually visited and revisited to identify convergent or divergent themes within or across cases. This approach resulted in the gradual building of an explanation of the evolution of Indian businesses in Malaysia.

#### **4.7.3 Cross-case Analysis**

Cross-case analysis increases the cross-case generalization where dissimilar and similar issues across cases and interconnecting themes are identified (Simons, 2009; Yin, 2009). The themes will also be re-examined in different context to discover what aspects

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<sup>54</sup> Interpretative analysis explores in detail how participants make sense of their personal and social world. In this study, interpretative analysis is critical as the researcher tries to understand from the view of the participants.

of the analysis are evident in each case and what aspects are different. For the purpose of this study which explores the evolution of Indian businesses in Malaysia, cross-case generalization between the firms in the different industries can be made, though generalization to the wider populations cannot be made (Simons, 2009).

#### **4.8 Limitations**

Whilst qualitative methods can examine pertinent social and economic processes, in particular contexts in considerable depth, the collection and especially the analysis of these materials can be time consuming and expensive (Griffin, 1985). Although interviews have been widely used as a method of data collection, there are a few limitations that needs to be addressed. The findings from qualitative data may not be extended to wider populations, since the findings of the research is usually not tested to discover whether they are statistically significant or due to chance (Atieno, 2009).

Firstly, interviewees may only provide what they are prepared to reveal about their perceptions of events. These perceptions might be subjective and may change over time, according to their circumstances (Alshenqeeti, 2014). Walford (2007: 147) argues that “interviews alone are an insufficient form of data to study social life”<sup>55</sup>.

Still, qualitative methods and interviews are the most appropriate method to obtain and analyse the research questions and objectives of this study.

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<sup>55</sup> This study uses interviews as well as collection of annual reports and secondary data for complete analysis. This study is also accompanied by a theoretical framework.

#### **4.9 Conclusion**

The interactive model which merges the demand and supply perspective of the strategies of ethnic enterprises, together with the growth model plays an imperative role in understanding and tracking the opportunities and challenges through generational change which was experienced by the 11 firms in this study.

The next three chapters will bring to view five case studies from the food industry, three case studies from the textile industry and another three case studies from the jewellery industry. All these case studies will show the evolution of these enterprises through the demand and supply perspective seen in the interactive model and also explains the stages of growth through generational change.

## CHAPTER 5: INDIAN BUSINESSES IN THE FOOD INDUSTRY

### 5.1 Industry Background

The food manufacturing industry in Malaysia plays a significant role in the economy. It serves not only as a source of employment but also a market outlet and added value for primary agricultural products. Malaysia's food industry is rich in terms of tropical and agricultural resources reflecting diverse cultures in the Malaysian society, such as those of the Malays, Chinese and Indians. The Malaysian food industry is becoming increasingly sophisticated. It relies on both local and imported products for its supply of foodstuff.

The strong growth registered by the Malaysian economy in the late 1980s and early 1990s contributed to major changes in consumer consumption patterns. Lifestyle changes have led to an increase in the demand for convenience food and health food. In Malaysia, the food industry is dominated by small- and medium-scale enterprises (SMEs). Another core dimension, and a trend that emerged in the 1990s, is the focus on production of Halal-based products. Given that about 65 per cent of Malaysia's 30 million population is Muslim, demand for Halal<sup>56</sup> food by consumers is now much higher than before. The expectation of Halal certification<sup>57</sup> for food products has extended from meat products to non-meat based goods, such as spices and curry powder. The concept of Halal is associated with food products which are of high quality in terms of cleanliness, sanitation

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<sup>56</sup> Any object or an action which is permitted, according to Islamic laws.

<sup>57</sup> In Malaysia, the Department of Islamic Development (JAKIM) is the authority responsible for halal certification. JAKIM evaluates all applications and gives the approval and recognition of the halal status. In view of many raw material used in local food production are mostly imported products, these products then requires the appointment of reputable and reliable foreign halal certification bodies to monitor the Halal status of these raw materials. The recognition is also extended to halal status of finished products.

and compliance with religious requirements. For this reason, food products and ingredients that have Halal certificates have added value in Malaysia.

In line with the government's emphasis on the agriculture sector, the processed food and beverages industry had become an important component of the agro-based industry. In 2010, the food processing industry contributed about 10% of the Malaysian manufacturing output attracted a total of RM1.972 billion in 69 projects. Employment in the processed food and beverages industry decreased in 2009 by 5.1% to 43,080 compared with 45,418 in 2008 ([www.mida.gov.my](http://www.mida.gov.my)). Small and medium sized enterprises represent more than 80% of the total number of establishments in the processed food segment. Malaysia is also one of the world major producers of spices. In 2010, Malaysia ranked as the sixth largest producer of pepper and pepper-related products ([www.mida.gov.my](http://www.mida.gov.my)).

Malaysia has a large and growing food retail market that is supplied by local and imported products. The current total retail sales of food and beverages are estimated at US\$11 billion. The forecast for this sector is likely to grow by around 10% per annum over the next three to five years. Malaysian households spend an average 24% of their household income on retail purchase of foods ([www.mida.gov.my](http://www.mida.gov.my)). Due to rising affluence and higher education level, Malaysian consumers have become more sophisticated and demand higher quality for the goods that they purchased.

Historic high growth categories included meal replacement products, frozen processed food, soup, canned or preserved foods, baby food, pasta and dairy products. The forecast for growth in this market has also been reported. By the year 2014, the retail sales in the packaged food market in Malaysia is expected to reach US\$4.6 billion, a growth rate of nearly 4.5%, or US\$201 million ([www.mida.gov.my](http://www.mida.gov.my)). Products in the forecast for high growth include most of the same as the historic rates and are complimented by include snack bars, ice cream and bakery products.

Clear innovation driver in the sector are health and convenience trends. A more and more hectic and stressful lifestyle in urbanized Malaysia contributed to the growing demand for convenient and easy to prepare meals at home. Therefore, the food sector looks set to maintain its positive development within the following years ([www.mida.gov.my](http://www.mida.gov.my)). As a result of the improving economy consumers are more optimistic and will gain new confidence in the market. The key trends are expected to continue and enlarge their influence, leading to a range of innovative products to satisfy this demand ([www.mida.gov.my](http://www.mida.gov.my)).

This study will look at two areas within the Malaysian Indian food industry, the spices and restaurant and catering sub-sectors. These sub-sectors were chosen as participation of Indians in these areas can be traced back at least two generations. The major players within the spice sub-sector who have been around for two generations or more are firms such as Baba Products, Santha Store Flour Mills, Alaggappa's Flour Mill, Gemini Flour Mills and M. P. Lingam & Sons. Of these five firms, three agreed to participate in this study: Santha Store Flour Mills, Gemini Flour Mills and M. P. Lingam & Sons. Most of the firms within this spice sub-sector started out as small home-based businesses.

The key players within the restaurant and catering sub-sector who have been around for two generations or more are companies such as the Lotus Group, The Big Rajah Food Caterers, Syarikat Little Caterers and Jumbo Restaurant and Catering. Of these four companies, two agreed to participate in this study: The Big Rajah Food Caterers and Jumbo Restaurant and Catering.

## 5.2 Case Study One: Santha Store Flour Mill Sdn. Bhd.

Santha Store Flour Mill Sdn. Bhd.<sup>58</sup> was started in 1963 by Vallison Raman in Seremban, Negeri Sembilan. Vallison, who is from the Malayalee community, possesses a secondary level education and was a Tamil school teacher. However, to earn some extra income, he started out by helping a friend sell curry powder on a part time basis.

Vallison had the opportunity to gain both knowledge and experience in this industry from his friend for whom he was working part time. While he was assisting his friend, he realised that there was a strong demand for curry powder in his area, in the southern states of Peninsula Malaysia like Negeri Sembilan, Melaka and Johor. At this time also, there were only a small number of curry powder manufacturers in the region.

Vallison established the firm as a low-risk start up with a capital of fifty dollars and only a handful of product choices. Vallison networked mainly with Indians as he was comfortable conversing only in Tamil and Malayalam. Hence, most of their initial business stakeholders (distributors, customers and competitors<sup>59</sup>) were of the same ethnic Indian group, though of different sub-ethnic groups. Vallison could not expand business beyond the boundaries of the Indian community due to poor access to financial support and limited market reach due to his language barrier.

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<sup>58</sup> This firm does not have any subsidiaries or associate companies.

<sup>59</sup> Some of the intra-ethnic competitors are companies like Baba Products, Alagappa Flour Mills, Gemini Flour Mills, M. P. Lingam & Sons

### 5.2.1 Product Innovation Based on Market Trends

Santha Store Flour Mill started out by manufacturing and selling a handful of products which included curry powder, turmeric powder, chilli powder, coriander powder and kurma powder. When the business first began, Malaysian Indians then normally cooked using coarse curry and spice powders.

Vallison continued running the business on a small scale until his son-in-law, Dr. Balakrishnan Koran<sup>60</sup> took over this business. The current Malaysian market prefers the use of fine curry and spice powder. Hence, the products offered by Santha Store Flour Mill have been refined to suit a bigger market. Balakrishnan decided that it would be important to horizontally diversify the company's product line by offering new products such as kaskas powder, cumin powder, fennel powder, white pepper powder, murukku powder, atta flour, rice flour, ragi flour, green peas powder, semolina, payasam mixture and oma podi mixture.

The changes in taste and preference as well as the improvement in the income levels of Malaysians<sup>61</sup> have led to growing demand for the products manufactured and sold by Santha Store Flour Mill. Today, the company manufactures curry powder, flour, spices, household provision groceries, perfumery prayer items under the CROW Brand name.

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<sup>60</sup> The interview with Balakrishnan took place at Lot 1564, Batu 6, Jalan Jelebu, 70720 Seremban, Negeri Sembilan on the 12 September 2013.

<sup>61</sup> See Table 8.2 in the Discussion chapter.



### 5.2.2 Expanding Beyond the Indian Market

During the start-up stage in 1963, Vallison only offered for sale a few products. The first generation of this firm targeted a small market<sup>62</sup>, which was the Indians who lived in the southern states of Peninsula Malaysia. When Balakrishnan joined the firm in the early 1980s, he decided to expand the enterprise by offering a variety of products to suit the Malaysian market. Hence, Santha Store Flour Mill began producing fine curry powders and spices. At this stage, the market was growing as more Chinese in Malaysia began consuming spices and curry powder.

The firm reached its maturity stage in the early 1990s. By this time, the company's products were well accepted in the Malaysian market<sup>63</sup> which remained a medium sized one. Finally, towards the late 1990s, the owners of the firm decided to diversify by penetrating into a new market. The company obtained Halal certification to attract the Muslim consumers.

In order to expand and diversify the business, Balakrishnan procured a loan from a local bank. With the capital obtained, Balakrishnan decided to invest in better machineries that utilized the latest technology. This served as a means to increase production levels while improving the quality of the products offered by Santha Store Flour Mill. However, by employing the use of the latest machineries, there was a clear reduction in the tacit knowledge of the second generation of this firm.

Vallison networked mainly with Indians as he was comfortable conversing only in Tamil and Malayalam. Hence, most of the company's initial business stakeholders

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<sup>62</sup> Vallison preferred a small market because this business served only as an additional source of income; as mentioned, his primary job was as a teacher.

<sup>63</sup> See Table 5.2 for further changes in Revenue and Share Capital.

(distributors, customers and competitors<sup>64</sup>) were of the same ethnic Indian group, though of different sub-ethnic groups. This scenario changed under the latter generation as Balakrishnan began networking with a wider range stakeholders. Under him, the company's distributors, customers and even competitors<sup>65</sup> were non-ethnic Indians, a clear indication of his desire to expand the business base of the company.

The increase in the number of its competitors motivated Santha Store Flour Mill to improve the quality of its products and its methods of production. The company also began to explore markets where its customer base would not just include individuals (B2C) but also companies (B2B). Santha Store Flour Mill now supplies its products to other businesses, locally and internationally. The company had now penetrated the business-to-business market.

This now trans-ethnic and transnational firm supplies curry powder and spices to local instant noodle manufacturers as well as a frozen food company specialising in manufacturing samosa. Interestingly, the rise in the number of inter-ethnic competitors created further awareness about the range of curry powders required by firms in Malaysia.

### **5.2.3 Gaining International Recognition**

Vallison was only comfortable speaking in Tamil as well as Malayalam while networking with only intra-ethnic members. However, Balakrishnan is comfortable speaking in Tamil, Malayalam, English and Malay, an asset he used to expand the

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<sup>64</sup> Some of the intra-ethnic competitors are companies like Baba Products, Alagappa Flour Mills, Gemini Flour Mills, and M P Lingam & Sons.

<sup>65</sup> Some of the inter-ethnic competitors are companies like A1, Faiza Marketing, Adami Food and Spices Industries and Adabi.

company's market base. Balakrishnan is the President of the Malaysian Indian Curry Powder Manufacturers Association. As the President of this association, he is in constant contact with executives from the government's Malaysia External Trade Development Corporation (MATRADE) in his endeavour to seek out business development opportunities. He also actively attends local and international conferences and events related to the curry powder and spices industry. Through markets created through such methods, the business has moved from retailing to wholesaling.

Balakrishnan also attends conferences to keep himself abreast with the current trends and issues concerning the demand and changes in the curry powder industry. This allowed him to network with an ethnically diverse pool of business stakeholders to ease expansion and diversification of the business. It was at this point when he learnt that there is a significant increase in the demand for curry powder and Indian spices amongst the Chinese and Malays in Malaysia.

With the change in taste and preference of Malaysians, Balakrishnan realised that in order to expand and diversify, it was crucial to widen the target market to the Malays and Chinese in Malaysia. Hence, under his leadership, the firm sought and obtained Halal certification for its products. With this, the demand for its products increased by leaps and bounds as the Muslim community began purchasing more of its curry and spice powders.

Balakrishnan studied in the United Kingdom and has a social science-based doctoral degree. Prior to marrying Vallison's daughter, he had some experience in managing his father's estates. The improvement in the level of education among the shareholders of Santha Store Flour Mill following a generational shift has had a positive impact on the firm. Soon after Balakrishnan took over the management of the firm in the early 1980s, it expanded its range of products significantly.

It is important to note that both Vallison and Balakrishnan did not rely on the assistance or support of the Malaysian government for the growth and development of Santha Store Flour Mill. This habit is being inculcated in Vallison's grandsons, who are now being trained to manage the firm. Unlike Vallison who started the business due to push factors such as better financial gains, Balakrishnan and his nephews choose to continue the business due to pull factors such as the steady and continuously growing business in this industry.

#### **5.2.4 Changes in Share Capital, Revenue and Ownership Pattern**

Santha Store Flour Mill was incorporated on the 10 October 1990<sup>66</sup>. On 21 August 2003, the shareholders decided to increase the share capital from RM250,000 to RM1 million. This move was taken by the shareholders to ease expansion of the business. Santha Store Flour Mill now has 35 products for sale. At present, it is a manufacturing, reprocessing, importing and exporting company with both local and international clientele. In 1999, Santha Store Flour Mill was awarded the World Quality Commitment Award (International Platinum Star) by the International Selection Committee World Quality Management Board in Madrid, Spain.

Table 5.1 shows the ownership patterns through the generations for this business. The second generation shareholders who are assisting Balakrishnan in the management of the firm are Chandra Mohan Vallison and Ramakrishnan Vallison, who are Vallison Raman's sons. Karunakaran TK Raman, who Vallison's brother, is also assisting in the management of the business.

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<sup>66</sup> Prior to 1990, the company was operating under a different name. Data from the Companies Commission of Malaysia does not provide information on the company's previous name.

As seen from Table 5.1, Vallison holds the largest number of shares in the firm. This suggests that Vallison prefers to control the important activities of the firm and at the same time make vital decisions for the growth and development of the firm.

The revenue of Santha Store Flour Mill has increased by 194.44% since 1996<sup>67</sup> (see Table 5.2). The ease in capital accumulation, improvement in the level of education and market conditions as well as the widening of stakeholder networking has provided Santha Store Flour Mill with opportunities to increase its revenue base and profits-before-tax. In 2003, Santha Store Flour Mill increased its share capital through product modification and diversification as well as market expansion.

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<sup>67</sup> Data is available from 1996 onwards.

**Table 5.1: Ownership Patterns of Santha Store Flour Mill**

Year	Directors	Shareholders	Shares Held
1990	Vallison Raman	n/a	n/a
	Balakrishnan TV Koran	n/a	n/a
	Chandra Mohan Vallison	n/a	n/a
	Ramakrishnan Vallison	n/a	n/a
	Karunakaran TK Raman	n/a	n/a
1995-2000	Vallison Raman	Vallison Raman	1
	Balakrishnan TV Koran	Balakrishnan TV Koran	1
	Chandra Mohan Vallison	Chandra Mohan Vallison	1
	Ramakrishnan Vallison	Ramakrishnan Vallison	1
	Karunakaran TK Raman	Karunakaran TK Raman	1
2001-2002	Vallison Raman	Vallison Raman	127,000
	Balakrishnan TV Koran	Balakrishnan TV Koran	60,000
	Chandra Mohan Vallison	Chandra Mohan Vallison	60,000
	Ramakrishnan Vallison	Ramakrishnan Vallison	1,000
	Karunakaran TK Raman	Karunakaran TK Raman	1,000
2003-2012	Vallison Raman	Vallison Raman	877,000
	Balakrishnan TV Koran	Balakrishnan TV Koran	60,000
	Chandra Mohan Vallison	Chandra Mohan Vallison	60,000
	Karunakaran TK Raman	Karunakaran TK Raman	1,000

Source: Companies Commission of Malaysia

**Table 5.2: Share Capital, Revenue, and Profit Margins, 1994–2012**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue Turnover (RM)	Profit-before- tax (RM)
1994	5	250,000	2542405	(29768)
1995	5	250,000	2532711	(38232)
1996	5	250,000	2654447	(413044)
1997	5	250,000	3823520	125107
1998	5	250,000	4136469	140259
1999	5	250,000	5523521	173480
2000	5	250,000	6264952	214413
2001	250,000	250,000	6609478	278476
2002	250,000	250,000	6244704	(63570)
2003	1,000,000	1,000,000	6282003	28909
2004	1,000,000	1,000,000	6100189	95468
2005	1,000,000	1,000,000	6542315	188572
2006	1,000,000	1,000,000	6612433	351570
2007	1,000,000	1,000,000	6292813	104613
2008	1,000,000	1,000,000	7713930	246482
2009	1,000,000	1,000,000	7737609	86633
2010	1,000,000	1,000,000	6499247	221355
2011	1,000,000	1,000,000	7575284	191038
2012	1,000,000	1,000,000	7485829	142115

Source: Companies Commission of Malaysia

### 5.2.5 Summary

Through marriage, it was easier for Vallison to entrust Balakrishnan, a third party besides his sons Chandra Mohan and Ramakrishnan, to run the business. Balakrishnan has been the key person responsible for the growth of this business.

While Vallison lacked class resources in terms of education, Balakrishnan was highly educated. This allowed Balakrishnan to introduce and use technology to develop the range of products sold by the business. And, because he was privy to high education, Balakrishnan could network with a diverse group of people, in government and in business, a factor that helped him develop this enterprise. Education directly influences better networking which helps creates opportunities, brand awareness and the ability to

identify new trends. Networking has led to him becoming the President of the Malaysian Indian Curry Powder Manufacturers Association

Although Vallison was careful in keeping the management to members within the immediate family, he accepted Balakrishnan as the main successor of his business. Balakrishnan also mentioned that his young nephews will be taking over the business in the future. This supports the inference that male dominance is prominent in the succession of Malaysian Indian businesses.

Balakrishnan's previous work experience as an estate manager gave him the ability to take on new opportunities. Vallison only started and sustained company. But the entry of Balakrishnan into Santha Store's management increased the company's opportunity for growth, including to obtain Halal certification, move from business to customers towards business to business, innovate to increase its range of products, including in frozen food, as well as explore new marketing methods including selling products online. Balakrishnan's calibre has led this firm to receive awards, which led to wider brand awareness and increased trust in Santha Store Flour Mill's products. Consequently, expansion became easier.

### **5.3 Case Study Two: Gemini Flour Mills Sdn. Bhd.**

Illango Suppiah<sup>68</sup> was born to Suppiah and Sivagami in Thirupathur, India on 22 October 1944. He came to Kuala Lumpur when he was just a young boy of 11 with his father who was in search of a brighter future for his young Tamil family. After completing his secondary education, Illango obtained a Diploma in Accounting, on his father's

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<sup>68</sup> The interview with Illango Suppiah took place at DD5 & DD6, Jalan Terolak, Taman Bamboo, 4 ¼ Mile, Jalan Ipoh, Kuala Lumpur on 14 October 2013.



encouragement. Illango's first job was at an accounting firm; he later moved to work in a textile shop in Kuala Lumpur.

At 21, he shifted to Penang, where he spent four years with the Penang-based spice company, Alagappa's Flour Mills Sdn. Bhd. This company had started its operations in 1943 and had come to monopolize the Northern Peninsular market. Illango started out as a clerk and eventually became a manager at Alagappa's Flour Mills. This was where Illango learned the ropes of the spice trade, gaining important knowledge about this industry.

While working at Alagappa's Flour Mills, Illango realized that there was a huge demand for curry and spice powders throughout Malaysia. With his experience in the curry powder industry and the booming demand for curry powder and spices in Malaysia, Illango decided to start a curry powder business.

With his father's support and assistance, at the age of 26, he moved back to Kuala Lumpur and opened Gemini Flour Mills Sdn. Bhd. with his father in 1969. His primary hope then was to capture the Klang Valley market. To start the business, his father took a loan from a chettiar in Kuala Lumpur. Young and ambitious, Illango was incredibly motivated and started out by buying himself a car to run the business.

Illango married Gunavathi Rangasami on 10 June 1970. Without warning, Illango faced a sudden misfortune and experienced huge losses when a flash flood<sup>69</sup> struck Kuala Lumpur in 1971. The incident did not deter the strong-willed Illango and he started his enterprise again ([www.geminiflourmill.com](http://www.geminiflourmill.com)), but concentrated on selling his products at

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<sup>69</sup> A major flash flood occurred in Kuala Lumpur in January 1971. The flooding was a result of heavy monsoon rains, which swelled the Klang and Gombak rivers. Businesses that were located near these rivers were faced huge losses. Gemini Flour Mills lost a large number of its raw materials and stocks due to this flash flood.

the Murugan Temple in Batu Caves, a major point of convergence of Hindus in the Klang Valley. The income he earned on the first day was a mere RM67. Today, Gemini Flour Mills is a multi-million dollar company that is still run by Illango with the assistance of his wife, Gunavathi and his son, Sivamuhan Illango.

### **5.3.1 Scaling Back from Wholesaling to Retailing**

During the start-up stage in 1969, the firm only offered a few products to the market such as chilli powder, turmeric powder, fish and meat curry powder and various spice powders. When Illango first started the company, business was good as it was prior to the implementation of the New Economic Policy (NEP). The firm was expanding rapidly as they managed to venture into the business-to-business (B2B) dimension. During this time, Illango managed to obtain contracts to supply spices to food distributors servicing Malaysian army camps as well as local government hospitals<sup>70</sup>. These food distributors were mainly Chinese businessmen in Kuala Lumpur, indicating that Gemini Flour Mills had now secured a clientele beyond Indian individuals and firms owned by members of this ethnic group.

However, this servicing of government-owned institutions did not last long due to the implementation of the New Economic Policy. Non-Bumiputera food distributors could not renew their contracts with the Malaysian army camps and local government hospitals. According to Illango, the government institutions now awarded such contracts mainly to Bumiputeras. Soon after the implementation of this policy, Illango lost his opportunity to provide spices to these food distributors. He soon realised that he needed to diversify his products to ensure that his business remained stable.

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<sup>70</sup> During an interview with members of this company, it was not mentioned which hospitals were served.

Illango and his wife decided to modify the products the company produced as well as diversify by creating new products. It was Illango's wife who first came up with the idea to begin manufacturing and producing "instant" mixes ([www.geminiflourmill.com](http://www.geminiflourmill.com)). These instant mixes quickly became popular among local and international consumers. In order to expand and diversify the business further to meet growing market demand (Sathanai Thamizhan, 2010), a loan was taken from a local bank. By 2014, Gemini Flour Mills was producing and selling 51 items including Instant Pongal, Agar Agar, Quick Bake Cake Mix, Pudding Mix, icing and castor sugar, rose and omum water, papadam, fruit and vegetable pickles, and non-food products, particularly prayer items such as incense sticks and camphor ([www.geminiflourmill.com](http://www.geminiflourmill.com)).

### **5.3.2 Greater Confidence in Foreign Markets**

The first generation entrepreneurs of this firm targeted a small market, which was the Indian community who lived in Klang Valley. The firm reached its maturity stage in the early 2000s. At this time, the products were well accepted in the Malaysian market. The market remained a medium sized one as they were not ready to penetrate into the non-Indian market in Malaysia. This was also due to the problems Gemini Flour Mills encountered when trying to get Halal certification<sup>71</sup> for its products. By 2014, in order to deal with this problem, Gemini Flour Mills was exporting its products to India, China, Europe and Australia, indicating again that it had captured a market base beyond the Indian community in Malaysia (Sathanai Thamizhan, 2010).

However, the stakeholders of this business such as its customers, distributors and employees are still predominantly of Indian origin. Hence, Gemini Flour Mills' products

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<sup>71</sup> At the time of the interview, Illango and Sivamuhan were in the process of obtaining Halal certification.

attract customers comprising mainly of Indian ethnicity, although Illango admitted that the Chinese in Malaysia are consuming more spices and curry powder compared to fifty years ago ([www.geminiflourmill.com](http://www.geminiflourmill.com)).

In the past, most of the business's competitors<sup>72</sup> were of the mainly of Indian origin. These days, however, there are competitors<sup>73</sup> from different ethnic groups who have begun to show interest in this industry. This change has made it imperative for Gemini Flour Mills to revisit at its brand strategy and diversify its products in order to ensure the continued growth of the enterprise.

### **5.3.3 Going Halal Does Not Guarantee Higher Revenue**

In 2008, Illango and his son, Sivamuhan, decided to diversify the business by penetrating into the Halal food market by obtaining the necessary certification to attract Muslim consumers. Although Gemini Flour Mills eventually managed to obtain its Halal certification<sup>74</sup>, an increase in product consumption by the Muslims has yet to be fully observed.

Illango is constantly inspired to create new products due to the demands of retailers who ask for new products which they think will keep their customers coming back. He also receives similar requests from family and friends when he attends events such as weddings. More recently, a loan was taken by the shareholders from a local bank, to

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<sup>72</sup> Some of the intra-ethnic competitors are companies such as Baba Products, Alagappa Flour Mills, Santha Store Flour Mill, and M P Lingam & Sons.

<sup>73</sup> Some of the inter-ethnic competitors are companies such as A1, Faiza Marketing, Adami Food and Spices Industries and Adabi.

<sup>74</sup> Gemini Flour Mills only managed to obtain Halal certification from Islamic Food Research Centre (IFRC) and Islamic Food and Nutrition Council of America (IFANCA). The company did not obtain Halal certification from the Department of Islamic Development Malaysia (JAKIM). In Malaysia, only the JAKIM certification is recognized.

further expand and diversify this business continued to grow. As mentioned, Gemini Flour Mills now supplies its products to other businesses, locally and internationally.

Illango and Sivamuhan are comfortable conversing in Tamil. Hence, most of their business stakeholders are of the same ethnic group. Besides that, Illango also believes in maintaining strong intra-ethnic ties with his employees, distributors and suppliers. He also seems to have very little trust in inter-ethnic business relationships even though he has expanded his clientele to companies and individuals in a number of countries. This is why the stakeholders of the business are still predominantly of Indian origin (Sathanai Thamizhan, 2010). Interestingly too, Illango is a strong supporter of the advancement of the Indian community, especially those who are poor. He hires primarily Indian staff because he sees this as his way of giving back to the society.

Illango stressed that in the past it was less difficult to sell his products, especially spices and curry powder, to a larger market, especially the Muslim market. According to Illango, even though Gemini Flour Mills has obtained its Halal certification, there are customers and distributors who prefer to purchase spices and curry powder from Bumiputera manufacturers.<sup>75</sup> He mentioned that the overseas<sup>76</sup> market is more interested in his products.<sup>77</sup>

It is important to note that both the first and second generation directors did not rely on the assistance or support of the Malaysian government for growth and development of this firm. Although the business has been growing fairly well thus far, Illango is quite pessimistic about the future of his company, especially if it is still based in Malaysia.

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<sup>75</sup> This could be due to the type of certification obtained.

<sup>76</sup> The foreign country where he has his largest clientele is India, an interesting point given that the level of competition he would face there for his products would be quite high.

<sup>77</sup> The IFRC and IFANCA Halal certifications are widely accepted overseas.

According to him, government policies are biased towards Bumiputera firms, and this made it difficult for non-Bumiputera enterprises like Gemini Flour Mills to expand.

#### 5.3.4 Changes in Share Capital, Revenue and Ownership Pattern

While Gemini Flour Mills was started by Illango in 1969 with the assistance of his father, the firm is now run by him with the assistance of his wife, Gunavathi, and his son, Sivamuhan. Table 5.3 which presents the ownership patterns of this firm shows that Illango owns the largest share. This reveals that Illango chooses to control the main activities of the firm and at the same time make important decisions for the development of Gemini Flour Mills.<sup>78</sup> Sivamuhan is, however, being groomed by his father to manage this business.

**Table 5.3: Ownership Pattern of Gemini Flour Mills**

Year	Directors	Shareholders	Shares Held
1997-1999	Ilango Suppiah	Ilango Suppiah	3
	Gunavathi Rangasami	Gunavathi Rangasami	2
2002	Ilango Suppiah	Ilango Suppiah	125,848
	Gunavathi Rangasami	Gunavathi Rangasami	2
2003-2005	Ilango Suppiah	Ilango Suppiah	275,848
	Gunavathi Rangasami	Gunavathi Rangasami	2
2006-2011	Ilango Suppiah	Ilango Suppiah	664,998
	Gunavathi Rangasami	Gunavathi Rangasami	2
2012	Ilango Suppiah	Ilango Suppiah	664,998
	Sivamuhan Ilango	Sivamuhan Ilango	2

Source: Companies Commission of Malaysia

<sup>78</sup> This firm does not have any subsidiaries or associate companies.

Gemini Flour Mills was incorporated on 20 February 1997<sup>79</sup>. Since its incorporation, this firm has increased its share capital twice. The first increase was on 24 May 2000, from RM100,000 to RM500,000. The second increase was on 3 May 2006, from RM500,000 to RM1million. The decision to increase the company's share capital was taken by the shareholders to ease expansion of the business. When Gemini Flour Mills commenced business, it only sold curry powder. This company now manufactures and sells various dhal<sup>80</sup>, flour, instant mixes and prayer items. They now produce 51 different items.

In terms of revenue generated, in 2011, Gemini Flour Mills registered an impressive figure of about RM7.2 million, compared to about RM1.2 million in 1999. Its profit-before-tax that year was RM74,739.00 (see Table 5.4). Revenue of Gemini Flour Mills had increased by 269.58 per cent and profit-before-tax had increased by 16490 per cent since 1999<sup>81</sup>.

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<sup>79</sup> Prior to 1997, the company was operating under a different name. Data from Companies Commission of Malaysia about the previous company name is not available.

<sup>80</sup> Split pulses which are commonly used in Indian cooking.

<sup>81</sup> The earliest data collected from annual reports and annual returns provided by Companies Commission of Malaysia.

**Table 5.4: Share Capital, Revenue, and Profit Margins, 1997–2011**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit- before-Tax (RM)
1997	5	100,000	-	-
1998	5	100,000	-	-
1999	5	100,000	1,954,969	(456)
2001	125,840	500,000	2,576,101	(35,639)
2002	125,840	500,000	2,908,535	(25,189)
2003	275,850	500,000	3,625,284	6,014
2004	275,850	500,000	4,910,218	13,707
2005	275,850	500,000	5,159,631	(63,492)
2006	665,000	1,000,000	5,549,622	(123,015)
2007	665,000	1,000,000	5,549,599	(193,308)
2008	665,000	1,000,000	6,554,014	18,074
2009	665,000	1,000,000	6,242,880	28,523
2010	665,000	1,000,000	6,101,159	52,691
2011	665,000	1,000,000	7,225,101	74,739

Source: Companies Commission of Malaysia

### 5.3.5 Summary

Similar to other family-run Malaysian Indian businesses, Illango includes only immediate family members as part of management. This is seen as the safer approach in terms of trust and confidence in people when it comes to the running of the business.

Although Illango holds a Diploma in Accounting, education did not and still does not play an important role in the progress of this firm. According to Illango, it was hard work, determination and “thinking out of the box” that have helped the company grow into what it is today. Class resource in the form of past experiences assisted Illango in acquiring both knowledge and confidence to open his own business, as he worked four years for the Penang-based spice company; Alagappa’s Flour Mills.

For Illango, marriage to his wife Gunavathi has been a boon. Illango's wife made a huge difference in this business because she was behind the idea of product innovation.



Her idea to create instant mixes was a defining moment in the company's history as it helped the enterprise create a new product. From here, business eventually picked up and Gunavathi's idea was eventually imitated by other Indian spice companies. Through networking and observation, Illango also considers suggestions that he feels are important, particularly when trying to innovate new products.

Illango has yet to take advantage of the Halal market in Malaysia due to his perception that it is very tedious market to tap.<sup>82</sup> Illango's tenacity is evident in his ability to rise above the odds and overcome obstacles, including policies that have discriminated against his company such as the NEP, a point he persistently stressed in his interview. His perception of a brighter future for the company was altered by such policies that have been implemented by the government, specifically policies which assisted the Bumiputeras. Hence, he lacks trust in inter-ethnic-based relationships. Illango has put into place his company's succession planning, where his son Sivamuhan will be the second-generation successor.

Interestingly, due to his bad experiences in dealing with the government, particularly the sense of discrimination that he feels, Illango says that he may go back to India to expand the business there. He sees better opportunities for business growth in India, particularly with its rapidly expanding middle class market which would be interested in his instant mix products, and he may seize the opportunities he thinks that are available there in the future.

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<sup>82</sup> This is because Gemini Flour Mills has not obtained Halal certification from JAKIM.

#### 5.4 Case Study Three: M. P. Lingam & Sons Sdn. Bhd.

M. P. Lingam & Sons Sdn. Bhd. was started by Kaliaperumal's father, Dharmalingam, who came from South India to Singapore in 1933 to earn a living in Malaya. Dharmalingam, who belonged to the Tamil sub-ethnic community, started the business in Singapore with his own capital. Soon after starting the business, the company moved to Johore to obtain a wider customer reach and reduce transportation cost in product distribution to the centre of the Peninsular, especially Kuala Lumpur and Petaling Jaya.

Dharmalingam's son, Kaliaperumal<sup>83</sup>, took over the business in 1960 when the business began expanding. Kaliaperumal completed a diploma programme in Malaysia. Kaliaperumal's dream was to pursue tertiary education at a university<sup>84</sup> but this went unfulfilled as he was persuaded by his father to take over the booming business. Unlike his father, Kaliaperumal took a bank loan from a local bank to expand the business. In 1962, they moved to Petaling Jaya, where this business is currently located. Once again, the firm had moved in order to reach a larger target market.

##### 5.4.1 Product that Defined the Business

When business commenced, *Nallaennai*, also known as gingelly oil, was the key product that Dharmalingam sold. Other products followed, including chilli powder and Indian spices. M. P. Lingam & Sons was unique as it was one of the few companies at that point of time that focused on producing and selling gingelly oil, which was extremely popular among the migrant cohort.

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<sup>83</sup> The interview with Kaliaperumal from M. P. Lingam & Sons took place on 14 October 2013 at 4, Jalan 227, Section 20A, 46300 Petaling Jaya, Selangor.

<sup>84</sup> Kaliaperumal did not mention during the interview which area of study he wanted to pursue in university.

When Kaliaperumal took over, he realised that it was crucial to market their products to non-Indian consumers so as to expand the business further. The company's main focus on the ethnically Indian gingelly oil needed to be shifted if it hoped to tap into the non-Indian market. This was imperative due to declining demand for gingelly oil.<sup>85</sup> The new generation of Indians hardly uses this oil and there was almost no demand for this products among members of other ethnic groups. Malaysian Indians found this product to be more and more irrelevant as they were evolving due to Westernization through education and exposure to non-Indian products.

In the late 1990s, M. P. Lingam & Sons diversified the products it produced. The company began manufacturing and selling chilli powder, turmeric powder, coriander powder, spicy murukku flour, athirasam flour, rice flour, meat curry powder, fish curry powder ghee *urundai* (ghee balls) and kesari mix. These products were in high demand, even among the Chinese in Malaysia. It was at this time that Kaliaperumal decided to work with Chinese distributors in the country. Kaliaperumal also noticed in the late 1990s that there were a growing number of non-Indian competitors in the industry.

#### **5.4.2 Targeting a Wider Market**

During the start-up stage in 1933, Dharmalingam chose to offer only a few products to the market, mainly gingelly oil, which was an essential item for Indians. He also targeted a small market<sup>86</sup>, which was the Indian community in Malaysia.

This firm matured in the late 1980s. At this time, the products were well accepted in the market, mainly by the Indians and Chinese in Malaysia. However, the company's

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<sup>85</sup> The reason for the declining demand was not provided during the interview.

<sup>86</sup> Dharmalingam was not planning to expand the business further. No reason given as to why this decision was taken.

market remained a medium sized one. The owners were then in preparation to further increase its market share, as they were ready to penetrate into the Muslim market.

In early 2000, Kaliaperumal and his sons, Rajeshwar and Haresh Kumar, began diversifying by obtaining Halal certification to secure Muslim consumers. Since this is a large market in Malaysia, Kaliaperumal and his sons were optimistic that this would increase their revenue considerably.

Haresh Kumar realised that, in time, a rapidly increasing number of non-Indians in Malaysia would be consuming Indian food. In the past, non-Indians in Malaysia did not consume much Indian food. However, in recent times, they were becoming extremely well-versed with the different types of Indian food. This new development led to a rapid growth in demand for Indian spices.

Haresh Kumar and his brother who recently took over part of the business management are confident that business will flourish as soon as Halal certification is obtained. Hence, Haresh Kumar and his brother have decided to obtain Halal certification to further expand the business and widen their target market to the Muslim and other ethnic groups. However, M. P. Lingam & Sons markets its products through television and radio advertisements in Tamil.

According to Kaliaperumal, the decline in M. P. Lingam & Sons' flagship product, the gingelly oil, led to product diversification that took the company into a more competitive market though one that increased its customer base. He also added that the state policies do not effectively assist Indian businesses as owners and managers are still in the dark on how government generated concessions and funds, particularly for small firms, are allocated or how they can be obtained. Both Kaliaperumal and Haresh Kumar are hoping for better policies for Indian businessmen in near future.

When the business first started, most of the firm's stakeholders, i.e. its employees, clients, and distributors as well as its competitors were mainly of Indian origin. Dharmalingam, a Tamil, also focused on marketing the firm's products only to Indians. On the other hand, Kaliaperumal strongly believes in maintaining good inter-ethnic ties with his employees, suppliers and distributors, which he sees as important in order to expand and diversify this business. Hence, he does have some suppliers and distributors of Chinese origin. These suppliers and distributors play an important role in creating awareness of ethnically Indian products to non-Indians in Malaysia. However, Kaliaperumal also appears to have very little trust in inter-ethnic relationships, especially with suppliers and distributors. This is due to some negative experiences in the past.

#### **5.4.3 Third Generation Entrepreneurs**

Kaliaperumal's sons, Rajeshwar and Haresh Kumar, began managing the business in 1999 and 2012, respectively. Both Rajeshwar and Haresh Kumar have completed their degrees. Haresh Kumar worked for PriceWaterhouseCoopers for four years where he acquired important management skills. Haresh Kumar then joined his father in managing the family business. Just as Kaliaperumal was groomed by his father, Rajeshwar and Haresh Kumar are being guided by their father as they learn about the spice industry. The ease in capital accumulation, improvement in the level of education and experience of the third and market conditions as well as the widening of stakeholder networking have created opportunities for M. P. Lingam & Sons to increase its revenue and profit-before-tax.

#### 5.4.4 Changes in Share Capital, Revenue and Ownership Pattern

M. P. Lingam & Sons was incorporated on the 1 December 1965<sup>87</sup>. On the 21 December 2004, the shareholders decided to increase the share capital from RM200,000 to RM5 million. This move to increase its share capital was taken by the shareholders to support the firm's growth in product extension, product modification, market expansion and diversification. Since the incorporation of M. P. Lingam & Sons, the revenue of this firm has increased by 64.13 per cent and its profit-before-tax has increased by 51.40 per cent since 1994<sup>88</sup> (see Table 5.5). With 43 employees in 2011, the revenue garnered by firm was RM12.15 million and its profit-before-tax was RM290,815.

**Table 5.5: Share Capital, Revenue and Profit Margins, 1994–2011**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit- before-Tax	Number of Employees
1994	80,000	200,000	7,401,772	192,079	-
1995	80,000	200,000	7,598,589	38,057	-
1996	80,000	200,000	7,928,136	36,891	-
1997	80,000	200,000	8,639,777	221,795	-
1998	80,000	200,000	8,508,669	136,529	-
1999	80,000	200,000	8,325,308	122,268	-
2000	80,000	200,000	8,317,594	31,888	-
2001	80,000	200,000	7,865,391	277,137	-
2002	80,000	200,000	8,034,445	133,194	-
2003	80,000	200,000	7,771,359	107,616	27
2004	2,000,000	5,000,000	8,622,765	73,393	28
2005	2,000,000	5,000,000	8,586,840	8,931	30
2006	2,000,000	5,000,000	8,683,557	1,855,217	33
2007	2,000,000	5,000,000	9,524,037	707,634	42
2008	2,000,000	5,000,000	11,620,760	(274,927)	40
2009	2,000,000	5,000,000	12,345,566	(250,178)	40
2010	2,000,000	5,000,000	12,634,174	2,507,492	40
2011	2,000,000	5,000,000	12,148,448	290,815	43

Source: Companies Commission of Malaysia

<sup>87</sup> Prior to 1965, the company was operating under a different name. Data from Companies Commission of Malaysia about the previous name of the company is not available.

<sup>88</sup> The earliest data collected from annual reports and annual returns provided by Companies Commission of Malaysia.

Table 5.6 shows the ownership patterns through the generations for this business. This firm is now managed by Kaliaperumal together with his wife, Nagaletchumi and his sons, Rajeshwar and Haresh Kumar. Although the sons are directors of this firm, they do not have any shares in M. P. Lingam & Sons. The main shareholder of this firm is Kaliaperumal who evidently prefers to remain in control of the important activities of the firm and at the same time make vital decisions about its form of development. Kaliaperumal's sons, Rajeshwar and Haresh Kumar, are being trained to manage this business.

**Table 5.6: Ownership Patterns of M. P. Lingam & Sons**

Year	Directors	Shares Held
1995-1998	Dharmalingam Kaliaperumal	64,000
	Nagaletchumi Kaliaperumal	16,000
1999-2003	Dharmalingam Kaliaperumal	64,000
	Nagaletchumi Kaliaperumal	16,000
	Rajeshwar Kaliaperumal	-
2004-2011	Dharmalingam Kaliaperumal	1,600,000
	Nagaletchumi Kaliaperumal	400,000
	Rajeshwar Kaliaperumal	-
2012	Dharmalingam Kaliaperumal	1,600,000
	Nagaletchumi Kaliaperumal	400,000
	Rajeshwar Kaliaperumal	-
	Haresh Kumar Kaliaperumal	-

Source: Companies Commission of Malaysia

#### 5.4.5 Summary

Although M.P. Lingam & Sons was established in Singapore, it can be concluded that Kuala Lumpur and Petaling Jaya have always been its main target market. This statement is supported by the fact that M.P. Lingam & Sons moved to Johor to serve customers in

Petaling Jaya and Kuala Lumpur. The company eventually established its office in Petaling Jaya.

Kaliaperumal, like his father, has restricted the circle of directors to only immediate family members. In terms of the influence of class resources, education influenced the realisation of the advantage of obtaining Halal certification in order to enable the company to penetrate the continuously expanding Muslim market. Knowing this, nurturing the Halal market is an issue that has been taken seriously by the third generation of this family.

Whether Dharmalingam and Kaliaperumal have daughters was not disclosed during the interview. What is clear is that the business is male dominated, as observed in the second and third generation of the owners and managerial team. During the first generation, gingelly oil was identified as an opportunity to be tapped in the market; a commercial vacuum or gap in supply of this product was obvious and Dharmalingam effectively created a niche for himself. M. P. Lingam seized the opportunity of having the first mover advantage to develop quickly as a major enterprise.

During the second generation, the company diversified into producing spice powders, in order to capture a larger target market. The production of new products was also a response to rapidly declining demand for gingelly oil. Technology has played a role in product innovation. During the third generation, product innovation was shaped by the company's ability to obtain Halal certification. This helped the company reach a wider target market, contributing to business expansion and subsequently higher revenue. Trust in the inter-ethnic community has increased through the generations, evident through the diversification of stakeholders. Succession planning has been done, where both Rajeshwar and Haresh Kumar will be taking over the business in the future.



## **5.5 Case Study Four: The Big Rajah Caterers Sdn. Bhd.**

The late John Joseph Xavier was born on 15 May 1929 in Kuala Lumpur, the youngest among 12 siblings in the Savrimuthu family. He obtained his Standard Eight certificate from St John's Institution and the Loyola Institution before beginning his career as a clerk with Filem Negara Malaysia. He rose to the post of assistant film director before opting for retirement at the age of 50 in 1979. He had had a long career in Filem Negara Malaysia, spending almost 30 years with this institution prior to his business venture engagement.

As a source of additional income as well as a beneficial way to spend his retirement days, he ventured into a part time job helping a friend at Arumugam Catering. This was the defining moment for John Joseph Xavier and the success of his future business venture. While working with this company, he discovered a new passion in food.

John Joseph Xavier acknowledged the challenge of obtaining monetary help from government agencies, despite serving in government for almost 30 years. Once he garnered enough hands-on experience, he decided to team up with three friends to start a new enterprise. With RM40,000 in capital, pooled by these friends, a catering company called Little Caterers was incorporated in 1979. This partnership, however, lasted only 15 years.

John Joseph Xavier was a task master and a disciplinarian who did not believe in taking short cuts to achieve success. He then passed on this belief system to his only son and successor, John William Xavier<sup>89</sup>, who has continued to apply this idea. Said to be Malaysia's first Indian catering powerhouse, John Joseph Xavier was named the

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<sup>89</sup> The interview with John William Xavier from The Big Rajah Food Caterers took place at Lot 13509, Jalan Jenjarom (Jalan SS23/10), Taman SEA, Petaling Jaya, Selangor on 11 November 2013.

Pioneering Father of Food Caterers by the Indian Food Catering Association in December 2003 (*Malay Mail Online* 23 July 2009). John Joseph Xavier died on 29 July 2009, aged 80. He is survived by his wife Rossari Xavier, his only son and successor John William Xavier and daughters.

### **5.5.1 Diversifying the Business**

Prior to the mushrooming of Indian catering businesses, the Indians in Malaysia used to cook for events themselves, including weddings, engagements, anniversaries and birthdays, as well as Indian cultural and religious celebrations such as Deepavali. However, the emergence of catering businesses such as Little Caterers rendered this practice a thing of the past. Such companies provided high quality Indian delicacies supported by excellent services. It is also imperative to note that most of the food prepared and served to his customers were ethnically Indian.

The growth of Little Caterers, which was located in Petaling Jaya, was supplemented by readily available clientele of Indians based in the Klang Valley, as well as resources of skills and expertise of family members.

In 1994, John Joseph Xavier broke away from Little Caterers and incorporated his own company, Big Caterers Sdn, Bhd. The incorporation of this company allowed John Joseph Xavier to expand his target market by introducing Indian food to the non-Indians in Malaysia. This also distinguished him from his competitors. With his wife Rossari Xavier as his head chef cum head of food quality control (*The Star* 23 April 2008), the company served Southern Indian fares, relying heavily on word of mouth marketing to convert customers from cooking on their own for events to outsourcing food for their events.

As business matured, John Joseph Xavier sold Big Caterers Sdn, Bhd. to open The Big Rajah Food Caterers Sdn. Bhd.<sup>90</sup> However, due to his advancing age, he then officially passed down the business to his only son, John William Xavier. It is interesting to note that John Joseph Xavier started training John William Xavier at the age of thirteen. This gave John William Xavier the experience he needed to be the successor of this business.

The Big Rajah Food Caterers today serves Malaysian food such as *Satay*, *Char Kway Teow*, *Murtabak*, *Ice-Kacang*, *Kuih Seri Muka*, *Kuih Lapis* and more. This firm no longer operates as an ethnically Indian based company; instead it operates as a Malaysian company as the products offered is diverse, a mechanism to expand its clientele. Besides that, the firm has also expanded and diversified this business by providing additional services such as rental management, personalized feedback to suit the event, creative decoration, exotic food presentations, dome services, as well as canopies, tents, furniture and fixtures for the host and guests.

### **5.5.2 Dominating Malaysian Indian Catering Market**

When Little Caterers was in operation, it essentially served a robust market of upper middle income families of Malaysian Indian origin, primarily during weddings, Deepavali and other important festivals and celebrations. Customers were mainly head of households or family decision-makers between the age of late thirties and early sixties. They were mostly influenced by their personal experience or their family and friends who had first-hand experience tasting Little Caterers' products who later recommended it to them.

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<sup>90</sup> The change in name is a symbol of change in directorship as John William Xavier was lovingly known as 'Rajah', which also means 'King' in the Tamil language.

Armed with a solid reputation for good food and service, Big Caterers started serving the Chinese and Malay markets in order to capture a bigger market share within the catering business. As flavours and services were further refined, they also began serving the elites which included royalties, ministers and VIPs. This further established the company as the lead player in the industry.

Towards the late 1990s and early 2000, under the management of John William Xavier, the firm began offering Malaysian delicacies together with the Indian cuisine. The market was medium-sized at this time as it began serving a larger non-Indian market. Soon, John William Xavier decided to penetrate new markets. The Big Rajah Food Caterers was in preparation to further increase its market share, as they were ready to penetrate the exclusive Muslim market in Malaysia. Through this, it is evident that sociocultural forces played a vital role in the direction and progression of Malaysian Indian entrepreneurship.

### **5.5.3 A Resourceful and Insightful Nature**

John Joseph Xavier did not have an official business strategy per se, but he believed that good food and service guaranteed return customers, who would eventually recommend the company to others through word of mouth. To ensure this happened, the kitchen was headed by his wife, Rossari, who taught the Southern Indian cooks her style of cooking; as mentioned, she also headed quality control to ensure the highest standards in food quality.

John Joseph Xavier expanded the target market when he started Big Caterers to capture the untapped Chinese and Malay markets with Chinese and Malay offerings. He was insightful enough to notice a trend among the Chinese and Malays who started to seriously explore and appreciate the incredibly diverse and vibrant flavours of Indian

cuisine. The success of this led to Big Caterers' confidence and ability to serve VIPs including royalties and ministers.

After gaining enough experience and reputation, Big Rajah Caterers was started as a symbolic succession of the company's leadership from John Joseph Xavier to his only son, John William Xavier. Following this generational shift, the company underwent further innovation with the focus on capturing the Muslim market and offering event planning related services. In early 2000, John William Xavier began diversifying by obtaining Halal certification to attract Muslim consumers. This worked well to their advantage as this firm now serves a large market. The Big Rajah Food Caterers now manages the indoor and outdoor functions while serving a variety of Malaysian and Indian cuisine.

John Joseph Xavier ensured the continuity of his hard-earned successful legacy by passing down the business to the capable hands of his only son, John William Xavier. He started to train his only son from the age of thirteen to eventually become his successor. Although John Joseph Xavier has daughters, the business was passed down to his son. This supports the fact that the male gender plays a significant role in the succession plan among Indian entrepreneurs. However, there are also possibilities that the founder selected his son over his daughters due to John William Xavier's strong interest to pursue his tertiary education in the field of hospitality.

As for challenges, the involvement of extended family members led to complications in business management. John Joseph Xavier initially implemented the "sharing is caring" mentality in running his business in the hope that even extended family members could have a slice of the pie; after all, it was a family business. Unfortunately, "too many cooks spoilt the soup", where differences in opinion eventually led to the founder to sell his shares in Big Caterers to start Big Rajah Caterers (*Malaysia SME* 23 March 2012).

#### **5.5.4 The Big Rajah Himself**

John William Xavier, aged 54 in 2013, lives and runs Big Rajah Caterers in Kuala Lumpur. His involvement in the food business began at the age of 13, when he used to get paid RM5 working as a waiter at functions. After he completed his A-levels in Malaysia, he wanted very much to pursue his tertiary education in Hospitality Management. However, circumstances prevented him from doing so (*The Star* 20 August 1998).

John William Xavier soon realised that this firm could grow due to the excellent demand in Indian food, especially for weddings and festive seasons. This demand prevailed not just among Indians but also non-Indians. Hence, he slowly gave up his dreams of completing his tertiary education. He tried his hand at real estate before eventually joining Little Caterers at the age of 28 to help his father run the business. Both Big Caterers and Big Rajah Caterers have the word “Big” as a reflection of John William Xavier.

The Big Rajah Caterers also offer event management services under the sister company Big Canopy Rentals that include but not are limited to creative venue décor, food presentation, hotel-style grand entry, ambience lighting, unique table set-ups, creative buffet set-ups, cocktails and bar services, classic round dome services and special food garnishing. As part of upholding the company’s belief in providing value-added services to customers, free consultation services are offered as part of the package.

#### **5.5.5 Catering for Refined Multiracial Palates**

The Big Rajah Food Caterers' customers now comprise a diverse mix of Malays, Chinese and Indians. In fact, this business now commonly caters food for *Iftar*, house parties, garden parties, and company dinners. Although his customers and distributors are

now from a diverse pool, most of his employees, especially his chefs, are Indians. Most of his chefs are from India because these chefs are well trained and have vast experience in cooking for a large number of people.

The landscape of the clientele demographics have evolved over time, where customers used to “accept without much questioning” its service during the glory days of Little Caterers. In the present period, however, John William Xavier has gotten accustomed to a more demanding and sophisticated market in the Klang Valley. He caters to a more discerning crowd of customers who know exactly what they want.

Where head of households and decision-makers once were Little Caterers primary clients, the more independent and vocal, well-travelled and tech-savvy young adults dominate Big Rajah Caterer’s list of extensive clientele today. Menus are often customised to suit their refined palates, requests are very specific down to the minute details, they know exactly what they want and they do not mind paying a higher price for exactly what they request for as well as quality.

#### **5.5.6 Going Beyond Catering**

John William Xavier is extremely optimistic with market conditions with respect to the Indian food industry as Malaysia is seen as a food paradise. He has never looked at his service as merely selling food, but rather a partnership with individuals and couples who are on a journey to celebrate their special days. When he started working at Big Rajah Caterers in 1999, John William Xavier did not take leave for the first three to four years. Sometimes he went to sleep at 1 a.m. and was up at 4 a.m. and back to work to get everybody organised for the next function.

John William Xavier was willing to experiment with different types of food as he was an adventurous person. True to his nature, Big Rajah Caterers offers over 200 varieties of local and Western dishes, including 25 “on-the-spot” stalls. The kitchen operates 24 hours a day, sometimes 48 to 72 hours nonstop in order to serve freshly made food. The kitchen is still headed by his 77-year old mother, Rosarri Xavier who also oversees food quality control to retain the highest food standards (*The Star* 23 April 2008).

All cooks and kitchen assistants go through comprehensive in-house training to meet the standards requirements of a good catering company. No cold storage is utilised, the highest quality of food ingredients are brought in and go straight into the cooking pot. Word-of-mouth is still the name of the game according to John William Xavier, evident by the fact that repeat clientele makes up more than half of the company’s business. He ensures that the company does its best to cater at least three weddings in a day to provide the highest standards of food and services to customers.

On a personal level, John William Xavier is diligent in collecting and analysing post-mortem reports of every function. He scrutinizes the feedback of customers to gauge their view of food standards and his services in order to improve quality. He travels often to secure ideas and inspiration of how to improve his business. He also surveys what hotels and restaurants have to offer so that as caterers he can improve his style of presentation and service.

Big Canopy Rentals was set up in 1992 so that the company became more self-sufficient. Moreover, it did not want to rely on suppliers to set up tents and canopies. The company offers tables, chairs, lightings, skirtings, and air-conditioning among other things. John William Xavier also works closely with a consulting team of two leading decorators to provide the best for his customers.



John William Xavier believes in maintaining strong ties with his employees, suppliers and distributors as it is a crucial element for his company's growth. In the past, intra-ethnic relationships were much stronger than it is now. However, to expand the market share, it was important for the company to cultivate strong intra-ethnic as well as inter-ethnic ties with all stakeholders. John William Xavier's advantage is that he is very articulate. He is able to attract elite and upper middle class clienteles. He has also been invited to speak in many public forums in Malaysia, to share the firm's success story.

#### **5.5.7 History is the Best Teacher**

There have been more opportunities than challenges for the company after John William Xavier took over the business from his father. Little Caterers, during the time of the founder, experienced a trajectory growth due to the burgeoning catering market. Today, John William Xavier caters between 1,200 and 1,500 functions each year, with 15 up to 1,500 people working on each function. The largest function that Big Rajah Caterers has ever handled was for 30,000 guests.

John William Xavier is very careful not to repeat history when it comes to family partnership in running the business. As Little Caterers had a 10-people partnership that included extended family members, conflicts arose, leading to the occasional spats and sometimes more than that. The lesson learnt was that business is business, as he put it; one cannot expect excellence if a family staff member is favoured against a normal employee. To continue his vision, the founder had to sell his shares and start Big Rajah Caterers on his own.

John William Xavier plans to keep Big Rajah Caterers at the forefront by constantly improving client services that can rival those provided by hotel caterers. He also brings in more professional personnel to give even better services and advice to customers. A

true marketer at heart, he sends out his delivery vans to roam the streets and highways with high traffic volume as a form of advertisement during days when there are no functions. He mentioned the possibility of a joint venture in Sabah and Sarawak, which means he is looking to expand beyond the peninsula.

The first-mover advantage played a key role in the success of Little Caterers. John Joseph Xavier identified a need where people were shifting from cooking on their own for home functions to sourcing food from vendors as they began to appreciate the convenience of a fuss-free and more relaxed experience as function hosts and organizers.

John William Xavier is a visionary just like his father; he aims to elevate Big Rajah Caterers to new heights via a holistic approach in enhancing quality of food and services. This firm is now run by John William Xavier and his sister, Jacinta Xavier. John William Xavier is grooming his niece, Vivian Danker, who now is assisting him manage the business. Vivian Danker completed her secondary education in Malaysia. Soon after that, she joined The Big Rajah Food Caterers. Still, John William Xavier is not ready to start succession planning for this firm just yet.

#### **5.5.8 Changes in Share Capital, Revenue and Ownership**

The Big Rajah Food Caterers was incorporated on the 22 June 1999<sup>91</sup>. The revenue of the firm has increased by 653.87 per cent since 2000<sup>92</sup> (see Table 5.8). With 41 employees in 2012, the revenue for this firm was about RM4.1 million. On 21 March 2011, the

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<sup>91</sup> Prior to 1999, the company was operating under a different name. Data from Companies Commission of Malaysia for the previous company is not available.

<sup>92</sup> The earliest data collected from annual reports and annual returns provided by the Companies Commission of Malaysia.

shareholders decided to increase the share capital from RM100,000 to RM500,000. The increase in share capital was to accommodate the transformation of the firm.

Table 5.7 presents the ownership patterns through the generations for this business. As seen from Table 5.7, John William Xavier holds the largest number of shares in the firm. During the interview, John William Xavier admitted that he prefers to solely govern the important activities of the firm and at the same time make vital decisions on the growth of the firm<sup>93</sup>. At present, John William Xavier is not sure who will be his successor<sup>94</sup>.

**Table 5.7: Ownership Patterns of The Big Rajah Food Caterers**

Year	Directors	Shares Held
2000-2001	John William Xavier s/o J.J. Xavier	1
	Vishakumaran s/o Karuppiah	1
2002-2005	John William Xavier s/o J.J. Xavier	1
	Mona Jaya Poomy	n/a
2006-2007	John William Xavier s/o J.J. Xavier	1
	Jacintha J.J. Xavier	n/a
2008-2010	John William Xavier s/o J.J. Xavier	99,999
	Jacintha J.J. Xavier	1
2011	John William Xavier s/o J.J. Xavier	299,999
	Jacintha J.J. Xavier	1

Source: Companies Commission of Malaysia

<sup>93</sup> This can be seen in Table 5.7.

<sup>94</sup> His niece Vivian Danker is assisting him in managing the business. But he is still unsure if she will be able to take over just yet.

**Table 5.8: Share Capital, Revenue and Profit Margins, 2000-2012**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit- before-Tax (RM)	Number of Employees
2000	2	100,000	542,739	(48,406)	12
2001	2	100,000	781,039	(54,126)	17
2002	2	100,000	803,511	(48,686)	15
2003	2	100,000	818,821	(40,875)	15
2004	2	100,000	906,035	(21,972)	17
2005	100,000	100,000	1,001,794	37,388	18
2006	100,000	100,000	1,222,976	134,344	17
2007	100,000	100,000	1,528,960	31,702	18
2008	100,000	100,000	2,066,754	48,887	27
2009	100,000	100,000	2,272,347	62,951	27
2010	100,000	100,000	2,980,199	58,835	28
2011	300,000	500,000	3,833,186	6,710	31
2012	300,000	500,000	4,091,570	(14.62)	41

Source: Companies Commission of Malaysia

The Big Rajah Food Caterers grew horizontally when the directors incorporated Restaurant & Catering The Big Rajah Sdn. Bhd.<sup>95</sup> Currently, Restaurant & Catering The Big Rajah is managed by John William Xavier and his sister, Jacintha J. J. Xavier. This horizontal growth<sup>96</sup> was initiated to ensure the growing needs of customers can be met. Besides that, having an associate company also allows John William Xavier to hire more foreign workers, which is essential for the growth of these two firms.

<sup>95</sup> On 9 November 2004, John William Xavier together with Mona Jaya Poomy, his wife, and Jacintha J. J. Xavier incorporated Restaurant & Catering The Big Rajah Sdn. Bhd.

<sup>96</sup> Horizontal integration also allows the firm to compete in the constantly growing restaurant and catering industry.

### 5.5.9 Summary

Little Caterers began in Petaling Jaya and remains there, an advantage for the company as this area is an economically thriving market centre district within the state of Selangor. John Joseph Xavier as the founder hired extended family members to work with him. However, he later learned that this complicated the business operations, leaving him no choice but to close down Big Caterers and start Big Rajah Caterers.

It is observed that education does not play a crucial role in the progress of the business. Instead, experience is highly appreciated. Like many other Malaysian Indian businesses, the male heir inherited the business in Big Rajah Caterers. The successor and only son of the founder, John William Xavier, was the chosen successor at age 13. Here, male dominance in choice of successor is clear.

John William Xavier's dexterity in running Big Rajah Caterers is evident through product diversification to capture specific markets of consumers including Muslims by securing Halal certification. His natural ability to interact and network with his customers to obtain feedback on how to improve the company's services has also proved beneficial. But what made it easier for him to target inter-racial markets was the fact that Little Caterers targeted such markets when it began. It was a matter of carrying on this marketing method. This led to word of mouth marketing which he cleverly utilises without the need to spend on advertising.

John William Xavier has continued to find methods to add value to his business, which has worked in the company's favour. He started an event company to supplement his catering business, and by doing this he eliminated the need for suppliers including event management companies, while providing his customers with the convenience of a one-stop centre. His innovative skills also saw him creating advertising opportunities without

forking out large amounts of money by getting the delivery vans to drive around during peak hours when the road traffic is dense.

John William Xavier's awards and recognitions have increased the level of trust in his company's catering service as well as the quality of his products. Brand awareness appears to be increasing which has made it easier for Big Rajah Caterers to expand its clientele. Currently, John William Xavier does not have a succession plan.

## **5.6 Case Study Five: Jumbo Restaurant & Catering Sdn. Bhd.**

Jumbo Restaurant & Catering Sdn. Bhd. was started by the late Gurunathan Muthusamy, who was of Tamil origin. Prior to this business, Gurunathan was a young man with secondary level education who worked part time as a service boy for Little Caterers, one of the earliest Indian catering businesses in Malaysia. Little did he know that food would strike a chord within him and ignite a passion he did not know he had.

He started out working in the kitchen and then became a cook. Gurunathan eventually saw food catering as his career path and had long term plans venture into the F&B industry. His love for the business and passion for food fuelled his desire to acquire shares in Little Caterers, which he finally fulfilled. He rose up the ranks and became the Director of Purchasing and Production.

Having witnessed Little Caterer's ground-breaking success first-hand while also obtaining a wealth of experience while he was in partnership in this company, Gurunathan was motivated to open his own catering business. After 25 years of service, he realised that there was strong demand in this industry and he was eager to tap into this booming market.

He sold his shares in Little Caterers in 2005 and opened Jumbo Restaurant & Catering Sdn. Bhd. with his wife, Chitra Devi Perumal<sup>97</sup>, and a close friend, Jegathambigai Balakrishnan. Gurunathan's passion and dedication right from his humble beginnings were recognised. In 2010, Gurunathan received an honorary doctorate in entrepreneurship for his contribution to the catering industry in Malaysia.

#### **5.6.1 Penetrating the Halal and Frozen Food Industries**

Jumbo Restaurant & Catering began by targeting a medium sized market<sup>98</sup>. When catering businesses first started in Malaysia, most of the stakeholders i.e. employees, suppliers and clients were mainly of Indian origin. Although Jumbo Restaurant & Catering caters mainly ethnically Indian food, this company has also begun offering its customers ethnically Malay<sup>99</sup> and Chinese<sup>100</sup> food in recent times. By the late 1980s and early 1990s, there were many non-Indians in Malaysia who had begun enjoying Indian food and started patronizing Indian catering businesses.

In fact, very recently Jumbo Restaurant & Catering began catering for Malay weddings and Chinese tea ceremonies (Jumbo Caterers, 2013). There is also a significant increase in the number of non-Indian suppliers in this business. In addition to that, Chitra Devi and her partners have now diversified the business by manufacturing, packaging and selling new products such as frozen fried ice-cream.

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<sup>97</sup> The interview with Chitra Devi from Jumbo Restaurant & Catering Sdn. Bhd. took place at No. 47, Jalan 23, Taman Bukit Kuchai, Batu 8, Jalan Puchong, Puchong, Selangor on 3 December, 2013.

<sup>98</sup> The firm targeted Indians and Chinese in Malaysia as they were yet to obtain Halal certification.

<sup>99</sup> These delicacies included those such as satay, rendang, roti jala, mee rebus and asam laksa.

<sup>100</sup> Among these delicacies were fried kuey teow, fried yee mee and fried wantan.

Chitra Devi and her partners foresee better market conditions for this industry. Chitra Devi pointed out that in the past, Indians were very prudent when spending on food and catering even for occasions like weddings. However, much had changed. These days, unlike before, decisions on wedding details are made by the couple who are getting married. In the past, these decisions were made by the parents of the bride and the groom. Realizing that their guests take food seriously, these young couples are willing to spend a good amount of money as long as they are able to serve quality food to their guests<sup>101</sup>.

### **5.6.2 Strategic Partnership for Global Expansion**

Gurunathan, Chitra Devi and Jegathambigai started the business with their own capital and also a loan from a local bank. Chitra Devi has eighteen years of administrative experience from a local business solutions company prior to the business start-up. Jegathambigai was a banker before joining Jumbo Restaurant & Catering. She was attached to CIMB Bank for 22 years. She is now the Director of Accounts for Jumbo Restaurant & Catering<sup>102</sup>.

The core of the business strategy is anchored in the strengths and skills of the three business partners. During the start-up stage in 2005, Gurunathan, Chitra Devi and Jegathambigai chose to offer a few products to the market. This firm started expanding from 2007 onwards. It was during this time when they started offering a variety of products to entice the Chinese and Malays in Malaysia.

The directors decided to obtain Halal certification to further enhance the business in terms of capturing the Muslim market. The target market remains a medium sized one.

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<sup>101</sup> This is also due to the rise in income levels in Malaysia.

<sup>102</sup> Jegathambigai's experience and knowledge in the financial sector enabled the firm to secure a loan in starting the business.



Besides that, this firm also began opening three associate firms<sup>103</sup> to vertically integrate the business<sup>104</sup>, namely Jumbo Café & Restaurant (M) Sdn. Bhd., Jumbo Event Master (M) Sdn. Bhd. and Jumbo Food Manufacturers (M) Sdn. Bhd.

Gurunathan passed away in 2012, leaving behind his wife and daughter, Diviyah Gurunathan. Soon after Gurunathan's demise, Diviyah joined as one of the directors of Jumbo Restaurant & Catering. Diviyah completed her degree in International Business prior to joining this firm.

The demise of Gurunathan came both as a shock as well as a challenge to his wife and Jegathambigai because, as business partners, they had become accustomed to working as a dynamic team of three. Each of them had different strengths and skills to help run the business. Chitra Devi and Jegathambigai wanted to make sure that the legacy of the company continued.

Actively looking for ways to expand the business, Jegathambigai recalled her close friends Shaik Alawodeen bin Abdul Rahman and Tengku Azham bin Tengku Ali, who were hired in 2012. Shaik Alawodeen had experience in the frozen foods industry. After completing his secondary school, he began assisting his father who owned a firm specializing in frozen foods.

Tengku Azham graduated from the University of Southern New Hampshire, in the United States. He also holds a Masters in Business Administration. Prior to joining Jumbo Restaurant & Catering, he worked with the Australian Malaysian Livestock Trading and

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<sup>103</sup> See below for further explanation of these associate companies.

<sup>104</sup> Vertical integration enables the shareholders to better manage and also control a diversified business.

the Royal Malaysian Customs. He has experience in the management of agriculture development.

Many changes were observed as soon as Shaik Alawodeen and Tengku Azham came on board. There was an increase in consumer confidence especially among Muslims. There was also a significant boost in demand from the Indian Muslim community. The trust of the Muslim community in Jumbo Restaurant & Catering was due to the presence of these Bumiputera directors in this firm.

Similar to the challenges faced by the other firms in this industry, the growth and expansion of this business is reliant on the availability of foreign workers. As this is a catering business, most workers are needed over the weekend as it is the hectic period for the business. However, obtaining permits for foreign workers was an uphill task. Approval for new and additional foreign workers are only carried out yearly, and only ten workers are approved each time. This is insufficient given the growth and expansion of Jumbo Restaurant & Catering. Chitra Devi and her partners are hoping for better policies for this industry in the near future. It is important to note that both the first and second generation directors did not rely on the assistance or support of the Malaysian government for the development of this firm.

### **5.6.3 Growing from Retailing to Wholesaling**

The frozen foods and livestock backgrounds of the second-generation non-Indian directors benefit Jumbo Restaurant & Catering as were brought in by the Indian first-generation directors, Chitra Devi and Jegathambigai to expand and diversify the

business<sup>105</sup>. Diviyah works full time as one of the Directors of the company, lovingly guided by her mother Chitra Devi.

Jumbo Restaurant & Catering is now working towards penetrating an international market. According to Chitra Devi, the Muslim directors play a vital role in the firm's new market penetration<sup>106</sup>, the reason for the move into the frozen food industry. Today, the company produces frozen ice cream under Jumbo Food Manufacturers.

The future of the business lies in its ability to reach out to the international B2B and B2C market in accordance to the vision and under the wise supervision of Chitra Devi, Jegathambigai, Diviyah, Shaik Alawodeen and Tengku Azham.

#### **5.6.4 Changes in Share Capital, Revenue and Ownership Pattern**

Jumbo Restaurant & Catering was incorporated on 26 April, 2005. The revenue of the firm has increased by 728.32 per cent since 2006 (see Table 5.9). With approximately 80 full-time employees and 120 part-time employees in 2012, the revenue for this firm in the same year was about RM6.4 million. The steep increase in revenue since the firm began its operation is due to product and market expansion<sup>107</sup>.

This firm has shown enormous transformation. Its ownership patterns have significantly changed, from an Indian only board of directors to one that includes Malays (see Table 5.10). The change in directorship has eased the obtaining and renewal of Halal certification for the firm and its associate companies. Besides that, this firm no longer

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<sup>105</sup> By having Muslim shareholders, this significantly eased the process of obtaining Halal certification and also the process to export their products.

<sup>106</sup> It was easier for the Malay directors to deal with the government authorities.

<sup>107</sup> The products produced have been highly diversified, from Indian food to Malaysian food, and later the manufacturing of frozen fried ice-cream. The company's target market has also expanded from one that is Malaysian-based to a transnational market.

only targets Indians; instead it targets all Malaysians and also the international market though only in the frozen ice-cream market. Jumbo Restaurant & Catering also now serves various types of food, while providing services (see Figure 5.1).

**Table 5.9: Share Capital, Revenue and Profit Margins, 2006–2012**

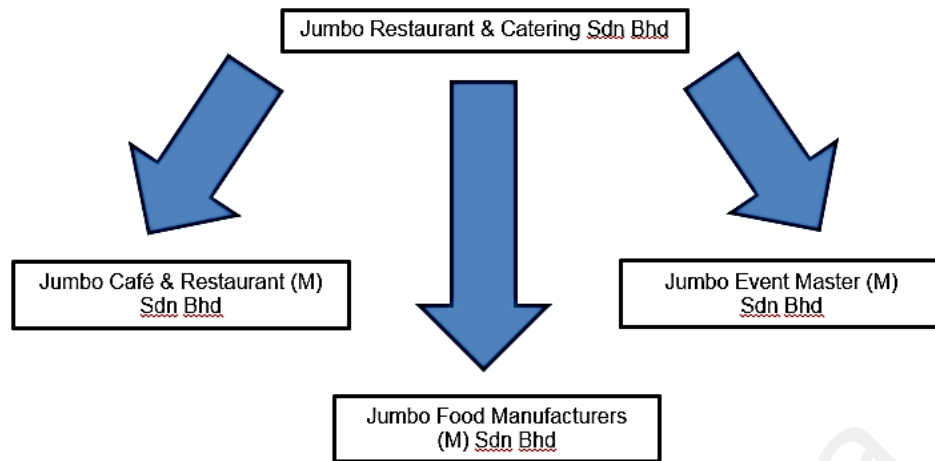
Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit-before-Tax (RM)
2006	100,000	100,000	775,960	(141,076)
2007	100,000	100,000	1,743,590	77,317
2008	100,000	100,000	2,583,616	55,328
2009	100,000	100,000	4,213,889	53,869
2010	100,000	100,000	4,654,250	(178,969)
2011	100,000	100,000	5,822,332	19,489
2012	100,000	100,000	6,427,396	8,772

Source: Companies Commission of Malaysia

**Table 5.10: Ownership Patterns of Jumbo Restaurant & Catering**

Year	Directors	Shares Held
2006-2011	Chitra Devi K M Perumal	1
	B. Jegathambigai N. Balakrishnan	1
	Gurunathan Muthusamy	99,998
2012	Gurunathan Muthusamy	n/a
	(Passed away on 12.12.12)	
	Chitra Devi K M Perumal	n/a
	B. Jegathambigai N. Balakrishnan	n/a
	Shaik Alawodeen bin Abdul Rahman	n/a
	Tengku Azham bin Tengku Ali	n/a
	Diviyah Gurunathan	n/a

Source: Companies Commission of Malaysia



**Figure 5.1: Integration of Jumbo Restaurant & Catering**

In order to vertically integrate the business, Gurunathan incorporated Jumbo Café & Restaurant (M) Sdn. Bhd. on 9 July 2007. This firm is now managed by Chitra Devi, Jegathambigai, Shaik Alawodeen, Tengku Azham and Diviyah Gurunathan. In 2013, the revenue of Jumbo Café & Restaurant was RM846,121 and its profit-before-tax was RM64,623. Commencing this firm also allowed the directors to hire more foreign workers, which is essential for the growth of the business.

Jumbo Event Master (M) Sdn. Bhd. was incorporated on 24 July 2007. This firm handles the furnishing and decoration as well as event planning and management of functions where the food is catered by Jumbo Restaurant & Catering. Customers who cater food from Jumbo Restaurant & Catering may opt to use Jumbo Event Master's services for a complete package. Jumbo Event Master is managed by Chitra Devi, Jegathambigai and Diviyah. In 2013, the revenue of Jumbo Event Master was RM90,948.00 and its profit-before-tax was RM54,526.

On 6 January 2010, Jumbo Food Manufacturers (M) Sdn. Bhd. was incorporated. This firm was initiated so that Gurunathan and his partners could venture into the frozen food industry. The firm is now under the directorship of Chitra Devi, Jegathambigai, Shaik

Alawodeen, Tengku Azham and Diviyah. In 2013, the revenue of this firm was RM160,571 and its profit-before-tax was RM8,895. Currently, this firm is actively manufacturing frozen foods and is planning to export its products to countries such as Australia.

#### **5.6.5 Summary**

Jumbo Restaurant & Catering was established by Gurunathan in the non-ethnic enclave area of Puchong, Selangor. The company was strategically formed, with Gurunathan as the chef, his wife Chitra Devi in charge of administration, and close friend Jegathambigai overseeing accounts. As the founder, Gurunathan benefited from his marriage with Chitra Devi, given her knowledge and skills in business administration, more so as he did not have to hire and trust a third party.

The clear and strategic structure of the company contributed to the ease of business continuation. Besides this, as with many small and medium enterprises, prior experience was a factor that granted Gurunathan the confidence to start Jumbo Restaurant & Catering. Class resource in terms of education applies with his daughter Diviyah, who graduated with a Bachelor's degree in International Business. The knowledge obtained from her education helped her in contributing ideas and applying business and management theories in the company's business operations.

The second generation of management has welcomed third parties who are Bumiputeras to manage the business with the intention of diversification from retail to wholesale. It is observed that both the first and second generation of the business consists of both males and females. It is important to note that the second generation of business owners is female dominant, with males holding directorship roles. This indeed is a rare occurrence, especially among companies owned by Malaysian Indians.

The increasingly expanding Halal market is another motivator for the women to incorporate Muslim partners as they realized that their importance when it came to targeting corporate clients in this market. Chitra Devi, Jegathambigai and Diviyah are open to applying technology in product innovation, evident through the expansion to the wholesale frozen food business. Trust in partners based on an inter-ethnic relationship is high, a factor which enabled the firm to grow exponentially; from its venture into the Halal market, then moving into wholesaling and then targeting the international market, particularly Australia.

## **5.7 Conclusion**

The empirical finding from the enterprises in the food industry clearly indicates that there are various variables that contributed to the start-up, expansion and diversification of each business. In the case of Santha Store Flour Mill, class resources especially in education through the founder's son-in-law, enabled the firm to expand and diversify its products and market. On the other hand, the owner of Gemini Flour Mills who started the enterprise using class resources in the form of past experiences faced many challenges, especially from state policies such as the NEP, which hindered the initial expansion of the firm. Yet, with the support of his family members, the owner of Gemini Flour Mills managed to diversify its products and eventually exported them to countries like India, China, Europe and Australia. These two enterprises which started as retail businesses are now also wholesalers. M.P. Lingam & Sons began business with a niche product; gingelly oil. The founder seized the opportunity of having the first mover advantage, but it was his successors who expanded and diversified the business through market and product expansion.

Unlike Santha Store Flour Mill, the entrepreneurs of The Big Rajah Caterers did not place much importance on education. However, much value was given to class resources especially in experience. The ability of these entrepreneurs to network with intra and inter ethnicities enabled them to grow exponentially. In the case of Jumbo Restaurant & Catering, the key contributing factor of growth was changes in ownership pattern, where we see an inclusion of Bumiputera directors.

Another aspect that provided an opportunity for growth in this sector is the participation of the wives and mothers of these entrepreneurs. In the case of Gemini Flour Mills, it was his wife; Gunavathy who came up with ideas on the instant products that captured a new market. Gunavathy's innovation allowed Gemini Flour Mills to overcome its challenges in turmoil times. We also see the importance of the role of a woman in The Big Rajah Caterers, as John William Xavier relied on his mother's expertise in food quality control. As generations passed, the feedback provided by Rossari Xavier became an integral part of the growth of the firm. And in the case of Jumbo Restaurant & Catering, Gurunathan teamed with his wife, Chitra Devi in starting up the business. Chitra Devi is now passing the knowledge to her daughter, Diviyah.

One main challenge faced by entrepreneurs in this industry is the difficulty in obtaining foreign workers<sup>108</sup>. According to entrepreneurs from the restaurant and catering industry, it is imperative to employ trained chefs from India to ensure and provide customers with the best quality of food. John William Xavier of The Big Rajah Food Caterers explained that he initially began hiring Malaysian waiters and drivers. However, he was very disappointed when they began giving excuses especially when they were asked to work

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<sup>108</sup> See chapter 8 for further discussion on foreign workers.



over the weekends. Malaysian employees are unwilling and reluctant to work over the weekends, a problem entrepreneurs do not face with foreign workers.

As for the demand perspective, the opportunity created by the economic conditions of the country, made the growth, expansion and diversification of these enterprises possible. These demand and supply perspectives will be discussed carefully in the upcoming discussion chapters.

University of Malaya

## **CHAPTER 6: INDIAN BUSINESSES IN THE TEXTILE INDUSTRY**

### **6.1 Industry Background**

In the 1970s, Malaysia embarked on an export-oriented industrialization drive which contributed to the growth of the textiles and apparel industry. Due to intensified global competition that ensued with the opening up of the economy, Malaysian textile manufacturers moved up the value chain by diversifying into the production of higher value-added textiles, implementing automation and computerizing manufacturing. These manufacturers also searched for business collaboration with foreign companies to acquire new technologies and undertook research and development (R&D) activities to develop novel processes, new applications and value-added products. In 2011, the industry was the tenth largest export earner, contributing approximately 2.3 per cent to Malaysia's total exports of manufactured goods. At present, this industry employs more than 68,000 workers (Textile and Apparels Industry, 2012). New growth areas in textiles industry have been targeted for promotion under the Third Industrial Master Plan.

The government has played a major role in promoting export-oriented manufacturing in the clothing, textile and electronic sectors and for connecting the economy to the global market in order to fast-track development (Rasiah, 1993). Due to this, the manufacturing sector prospered. This was particularly the case for the electronics sector and the textile and garment sectors and by the 1990s these accounted for 45 per cent of the Gross Domestic Product (GDP) and 82 per cent of total exports (Athukorala and Menon, 2008). Malaysia had great success with export manufacturing and in attracting Foreign Direct Investment (FDI) and until the Asian Financial Crisis in 1997 Malaysia was one of the fastest growing economies in the region. On the other hand, the AFC highlighted the growing income disparity and weaknesses associated with particular economic policies reliant on FDI and the export market (Ishak, 2000). Although Malaysia recovered more

quickly than other nations in the region, the focus on a large export industry in manufactured goods has not had long term benefits (Jomo, 2001).

Times have changed, but in the 1970s non-Malay ownership was a major problem for the newly industrialising Malaysia. The focus on enticing foreign direct investment into the export industry was to provide the state with time to cultivate Malay entrepreneurs (Gomez, 2009). By the 1980s the government favoured joint ventures with Malays and overseas interests as opposed to import-substitution ventures (Gomez, 2009). While non-Malay small to medium enterprises had the capacity to foster domestically driven industrialisation, the political and social situation in Malaysia was not conducive to non-Malay capitalist development, hence the industry remained almost entirely export focussed. The globalisation of the garment industry in Malaysia then has a diversity of historical factors associated with development.

The industry strategies to deal with high levels of competition and labour shortages varied from re-locating part of their production to Cambodia and other lesser developed countries, to hiring foreign workers (Crinis, 2012). Industrial upgrading and close buyer relationships were some of the strategies employed by the large manufacturers to deal with the changes but, in some cases, to little avail. The industry, however, is not giving in to the high levels of competition without taking new innovative paths to solve their problems (Crinis, 2012).

Malaysia is still well-regarded for supplying and producing high-quality products and has a reputation for complying with environmental and human rights requirements of buyers (Tan, 2010). The textile industry in Malaysia has been continuously dominated by two sub-ethnic Indian communities, the Sikhs and Sindhis, though Gujaratis and Indian Muslims such as the Chulias, also have a prominent presence in this sector (*Harian Metro* 26 July 2012). Some of the key players in the textile industry who have been in business

for two generations or more are companies such as Binwani's, Kamdar, Gulati's Silk House, Sri Kumaran Silks and Ajuntha Textiles. Out of these six companies, only three agreed to participate in this study: Binwani's, Sri Kumaran Silks and Ajuntha Textiles.

## **6.2 Case Study Six: Binwani's Sdn. Bhd.**

Binwani's Sdn. Bhd. was founded in 1925 by the late Rupchand Binwani in Riau<sup>109</sup>, Indonesia. Rupchand, a member of the Sindhi community, had some business experience in the textile industry while he was still in India. The close intra-ethnic ties Rupchand had with his friends and relatives from India assisted him in sustaining the business.

Soon after, Rupchand opened two more branches, also in Indonesia. In 1938, he invited two of his cousins to lend him a hand in overseeing the business. Around that time, he also opened up another branch in Singapore.

It was in Penang in the year 1940 that Rupchand opened his first store in Malaya. At this time, business was thriving. However, Rupchand passed away in 1948. His wife, Devi, was left to take charge of his business along with their eight children, six sons and two daughters. His wife managed the store along with their elder son, Tikandas Binwani.

Chandru Binwani, Rupchand's youngest son, completed his secondary level education in 1955. Chandru had ambitions of reading law at university, but his intention was questioned by his mother as she envisioned him taking over his father's business. In 1955, Chandru joined the family business at the age of 21, assisting his elder brother Tikandas

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<sup>109</sup> Now known as Jakarta.

who was running the family business. During this period, Chandru gained much experience from Tikandas who used to assist his father while Chandru was still studying.

Business was growing smoothly. In 1972, the unassuming Chandru moved to Kuala Lumpur from Penang and opened the first branch in Jalan Raja Chulan, aged 38. In 1984, Tikandas retired and passed over the helm of the business to Chandru, then aged 50.

### **6.2.1 Evolution of an Enterprise into an Empire**

From the early 1930s to the 1940s, customers only purchased fabrics as they used to sew their own clothes at home or sent them to a tailor. Readymade clothes were unheard of in those days. Importantly too, most of the business stakeholders (employees, customers, suppliers) at that time were of Indian origin. Rupchand, however, managed to attract a number of expatriates with his exquisite fabrics.

In the mid-1950s, readymade clothes became more popular, although there were still many who used to sew clothes at home. Up to the late 1970s, Binwani's was only selling fabrics directly to the customers. In the early 1980s, however, they began selling fabrics to manufacturers who produced readymade clothes. From then on, there was a clear reduction of business-to-consumers transactions and a clear increase in business-to-business transactions.

According to Chandru, the market for textiles has changed since the enterprise first began. Before the 1970s, the Malays hardly stepped into an Indian textile shop. These days, many Malays purchase fabrics to be made into *baju kurung*<sup>110</sup>, head scarves and even wedding gowns from Indian textile shops. Hence, in the 1970s, Binwani's began

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<sup>110</sup> Baju kurung is a traditional Malay dress worn by women. It literally translates to "enclosed dress" and is the national costume of Malaysia and Brunei Darussalam.

targeting the Malay market by creating various *baju kurung* designs. There are also packages for Malay brides at Binwani's.

In the late 1980s and early 1990s, Chandru also managed to forge close inter-ethnic ties with the Chinese in Malaysia. During this period, Chandru also began importing fabrics from South Korea, Japan, France, Italy, Spain and Germany. Chandru, however, maintained close intra-ethnic ties for business sustainability.

This business continued to expand and develop as Chandru and his sons, Ravin and Vijay, have managed to diversify the business portfolio, moving from business-to-consumer transactions to business-to-business transactions. The fabrics and services delivered today are high end net value for money. Binwani's fabrics are rarely used in commercial garment manufacturing because its cost would be extremely high (*The Edge* 7 July 2014).

The business now extends beyond fabrics, with its stores providing made-to-measure services as well as a small selection of ready-to-wear clothes for women and men. There are tailors and designers within its network whom clients can choose to work with, based on their requirements and budgets. A range of accessories, such as hand-beaded evening purses for women and cravats, bows and cufflinks for men completes Binwani's as a one-stop shop for the sartorially discerning (*The Edge* 7 July 2014).

Taking advantage of technology, these textile tycoons are carrying on the tradition of setting trends, this time by introducing a new service where clients can customise their own fabric for a bespoke experience. If a customer likes the fabric but not the colour or motif, adjustments can be made to his or her preference, making them feel that they are designers themselves. Anything is possible thanks to digital technology. Binwani's is the only company in Malaysia to offer this service and it is trying to expand to Singapore and

around the region. For Binwani's, digital printing has become the future of the business (*The Edge* 7 July 2014).

### **6.2.2 Keeping an Eye on the International Market**

During the start-up stage in 1925, the company's target market comprised mainly Indians in Riau, starting off with a business-to-consumers transaction. Rupchand was unable to reach a wider target market due to the language barrier and the unavailability of adequate resources with which to market his products. Rupchand unfortunately was not fluent in the local Indonesian dialect and the costs of marketing to a wider market was prohibitive. For these reasons, his market was a very small one.

This firm started expanding in the 1960s, during which time the business was managed by Chandru. Then, ready-made clothing became popular, as Indian consumers were eager to wear what were the latest trends in Hollywood as well as in India. Hence, to keep up with the latest fashion, Binwani's began offering ready-made clothing while also offering fabrics. The firm served a medium sized market at this time.

The firm reached its maturity during the 1980s. This was when the products of this firm were very well accepted. The Malay market began taking an interest in Binwani's materials and ready-made clothing which further expanded the firm's customer base. Chandru also started selling fabrics to businesses which were producing ready-made clothing. During this time, the company created a large customer base and became a household name.

A pattern is identified in terms of how Binwani's had an international dimension from its inception, capturing the niche of catering to foreigners – an area that had not been tapped into by other textile companies. In the beginning, Rupchand went to Riau,

Indonesia from India in hopes of catering to demands there. Later, he ventured into Singapore and finally ended up in Malaya.

Among the third generation, Chandru's sons, Ravin Kumar Binwani and Vijay Binwani, have a vision of expanding the business beyond Malaysia. They have been making waves in the international arena via strategic collaborations. For example, Binwani's collaborated with French lace designer Sophie Hallate who produced the lace for the wedding gown of Britain's royal Kate Middleton. This lace was made available at every Binwani store in Malaysia ([www.malaysiaresume.com](http://www.malaysiaresume.com)). The firm has and continues to be transnational in terms of its products and target market.

### **6.2.3 Continuing the Legacy of Pioneering Innovations**

Rupchand's advantage was the close intra-ethnic ties he nurtured with his friends and relatives from India. This helped him manage the business well. Following in his father's footsteps, Chandru also maintained close intra-ethnic ties especially with Indians who were residing in Malaysia. However, over time, he managed to forge close inter-ethnic ties with the Chinese and Malays in Malaysia as well. It was thus only natural for Chandru's sons, Ravin and Vijay, to continue the tradition of building meaningful bonds with their suppliers and clients, which has earned them an excellent rapport with their stakeholders.

It is also important to note that there are a growing number of non-Indian competitors in the textile industry in Malaysia. This was not the case in the past as most competitors of Indian-owned firms were members of the same ethnic community. Interestingly, competitors used to share notes on business management in the past, whereas now competition is steep.



Rupchand was a trend setter, a core factor that kept him ahead of the competition. Binwani's was the first to bring Korean silk into the country and introduce embellishments to the *selendang*<sup>111</sup> and *tudung*<sup>112</sup>. In the 1960s, for formal occasions, women would wear printed *selendang* or *tudung* or printed *baju kurung* or *kebaya*<sup>113</sup>, and this often resulted in a visual clash. Instead of the alternative of wearing a plain one, which can look cheap and unflattering against an expensive outfit, Binwani's introduced beading works on the *selendang* and *tudung*. It took off very well, and other businesses quickly picked up on this trend (*The Edge* 7 July 2014).

Businesses rise and fall. One once prominent firm, Globe Silk Store<sup>114</sup>, stands as testimony of this fact. The business savvy Chandru did not want the same fate for Binwani's, thus he strategised to move the firm from one that had primarily business-to-consumers transactions to an enterprise focusing also on cultivating business-to-business transactions. After Chandru's sons started managing this firm, Binwani's began penetrating the international market. Besides that, the firm also increased the number of branches around the Klang Valley.

This firm now has a large and growing market, thanks to Ravin and Vijay's active marketing of Binwani's in the international arena. They constantly attend fabric shows and expositions around the world, including Premiere Vision in Paris, in search of the latest trends as well as the next big thing in fashion design (*The Edge* 7 July 2014).

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<sup>111</sup> Shawls used mainly by Malay Muslim women.

<sup>112</sup> Headscarves used by Malay Muslim women.

<sup>113</sup> A kebaya is a traditional blouse-dress combination that originated from Indonesia and is its national costume for women. It is also widely worn by women in Malaysia, Thailand, Singapore and Brunei Darussalam.

<sup>114</sup> The failure of Globe Silk Store was due to mismanagement of resources (Govindan, 1999). The management implemented short, medium and long term change management. This change was supposed to acknowledge the cash flow issues, staff management issues and such. However, this was to no avail (Govindan, 1999).

Vijay had taken the lead in developing menswear when he joined the company in 1994, from wholesale fabrics to tailoring. He was insightful yet astute in observing that a lot of mills started catering to Asian tastes rather than just the American and European markets. This change in trend meant that the growing middle class Asian market was increasingly becoming more discerning (*The Edge* 7 July 2014).

In an attempt to further diversify their products and reach a wider target market, Ravin and Vijay have now diversified this firm by working closely with renowned brands such as Gianni Versace, Valentino, Sophie Hallette, Emporio Armani, Franco Capra, Ethomas, Abrio Capra, Ashton, Ungaro and Villa Zanchi (*The Malay Mail* 27 July 2007). Ravin and Vijay are fully aware that maintaining strong intra-ethnic as well as inter-ethnic ties which were initially built by their father is extremely important in order to sustain the business.

#### **6.2.4 Untouchable in the High Fashion Market**

The close intra-ethnic ties Rupchand had with his family and friends helped the business to grow soon after its incorporation. The company also had very few competitors then. Similar to other Indian-owned businesses, Binwani's has never relied on government assistance for its start-up, expansion or development. However, Binwani's was pleased with the implementation of the Common Effective Preferential Treatment (CEPT) on 1 January 1994. Under this scheme, the member countries had to gradually lower tariffs on each other's imports. Textiles were under the Fast Track Programme of the CEPT. If textile firms had to pay a higher percentage of tariffs before the introduction of the CEPT, since 1994, with significantly lower duties, depending on the fabrics imported, the cost of its products could be offered at an affordable price.

Binwani's is also well-known for selling fabrics that are of extremely good quality at a reasonable price (*Berita Harian* 14 January 2006). These days, most of its fabrics are specially imported from India, Italy, Germany, France, China, Hong Kong, Korea and Japan. At present, Binwani's has five stores, all located in the Klang Valley as it caters primarily to an affluent middle class.

The opportunity to grow up with the business has given Ravin and Vijay the advantage of learning the trade from a young age and to develop a keen eye for fabric details, from yarn count to colours and motifs. Much of the fabric selection are tweaked and adjusted to suit local preferences, to conform with developments occurring in a society exposed to rapid modernization. Moreover, whatever Europe or North America produces may not always be suitable; there will be adjustments that have to be made, including ways of designing, colours and size of prints (*The Edge* 7 July 2014).

The combination of tertiary education obtained by Ravin and Vijay and good business knowledge and acumen which was passed down by Rupchand and Chandru to them have helped Binwani's growth trajectory in the textile industry. Since they obtained their tertiary education abroad, Ravin and Vijay were exposed to a Western environment which gave them the confidence to network with multinational corporations, market their products in foreign countries and target and work with companies producing major brand products. Binwani's has become even more transnational since the time of its incorporation. Chandru believes that Binwani's is presently the only textile company in Malaysia that retails high fashion fabric and that the firm has no competition within the country.

Ravin and Vijay are uncertain of the fourth generation taking over the business as their children are still very young. Presently, Ravin and Vijay help Chandru in the management of Binwani's, learning from their father and sharpening their skills of the trade. Ravin and

Vijay were both educated in Creighton University, the United States. Vijay is a finance graduate, whereas Ravin pursued a degree in marketing.

#### 6.2.5 Changes in Share Capital, Revenue and Ownership Pattern

Table 6.1 indicates Binwani's changing ownership pattern through the generations. As seen in this table, Chandru Binwani currently holds the largest number of shares in the firm. This demonstrates that he prefers to control the important activities of the firm and at the same time make vital decisions for the growth and development of this enterprise. Mansukhani Devi Ramchand and Chandru's sons Vijay Binwani and Ravin Kumar Binwani hold an equal amount of shares.

**Table 6.1: Ownership Patterns of Binwani's Sdn. Bhd.**

Year	Director/Shareholder	Shares Held
1995	Chandru Binwani	150,006
	Madhu Chandru Binwani	4
	Mansukhani Devi Ramchand	150,000
	Vijay Binwani Chandru	150,000
	Ravin Kumar Chandru	150,000
1996	Chandru Binwani	150,006
	Madhu Chandru Binwani	4
	Mansukhani Devi Ramchand	150,000
	Vijay Binwani Chandru	150,000
	Ravin Kumar Chandru	150,000
1998-2012	Chandru Binwani	150,010
	Mansukhani Devi Ramchand	150,000
	Vijay Binwani Chandru	150,000
	Ravin Kumar Chandru	150,000

Source: Companies Commission of Malaysia

Binwani's<sup>115</sup> was incorporated on 28 January 1982. The business was started with Rupchand's own capital. However, to further expand this business, Chandru took a loan from a local bank in Malaysia. The revenue of the firm has increased by 170.64% since 1995 (see Table 6.2). The firm's profit-before-tax, on the other hand, has increased by 602.52% since 1994. Binwani's now runs three stores in the Klang Valley<sup>116</sup>.

**Table 6.2: Share Capital, Revenue and Profit Margins, 1995–2009**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit- before-tax (RM)
1995	10	250,000	-	(31,122)
1996	600,010	5,000,000	258,833	(36,929)
1997	600,010	5,000,000	315,376	12,813
1998	600,010	5,000,000	343,676	(203,627)
1999	600,010	5,000,000	347,669	(660,572)
2000	600,010	5,000,000	467,032	(343,094)
2001	600,010	5,000,000	285,396	(494,725)
2002	600,010	5,000,000	229,434	(843,508)
2003	600,010	5,000,000	1,099,500	735,003
2004	600,010	5,000,000	1,134,000	308,256
2005	600,010	5,000,000	1,146,500	315,593
2006	600,010	5,000,000	828,000	(32,370)
2007	600,010	5,000,000	962,500	122,326
2008	600,010	5,000,000	942,500	(93,320)
2009	600,010	5,000,000	700,500	156,395

Source: Companies Commission of Malaysia

#### 6.2.6 Summary

Binwani's was internationally expanded, from India to Indonesia and Singapore and finally to Malaya. This factor eliminated the need to expand to ethnic enclaves within

<sup>115</sup> The interview with Chandru Binwani from Binwani's Sdn. Bhd. took place at D6, 3-3A, Sentul East 801, Jalan Sentul, Kuala Lumpur on 9 December 2013.

<sup>116</sup> One in Bangsar, another in Ampang Park and one more in Damansara. These are the areas where the upper middle and high income earners usually shop. The location of its stores clearly indicates Binwani's target market.

Malaysia, unlike other Malaysian Indian textiles businesses. The management of Binwani's consist of immediate family members, seen as a way of preserving the legacy of this family trade.

Education has played an important role in preparing the Binwani sons to network with potential clients. Their exposure while studying in the United States enabled them to network with industry players in the international fashion arena, a core factor for the marketing of their products and for product expansion. Such networking helped them to identify trends and offer new products, as well as collaborate with renowned fashion designers. Their awareness of the many opportunities for growth and to ensure limited competition is the reason why their target market is primarily the upper middle class.

The third generation Binwani sons were educated in different yet related fields. This has proven useful in the management of the firm. The hands-on experience obtained in trading fabric internationally during the first generation has been passed down to the third generation. This need to expand its market base is imperative as Chandru is a Sindhi, a small sub-ethnic group among Malaysian Indians, unlike the larger Tamil community.

It is pertinent to note that Binwani's relied heavily on class resources such as education and finances in the expansion of its enterprise. The ethnic resources relied upon was largely minimal, though in the early years, intra-ethnic links were imperative to its sustainability as a business. The importance of these intra-ethnic links today has largely waned due to the changes expansion in target market.

Rupchand Binwani had in the later years obviously moved away from tapping into core Indian identities to market his products. This shift was undertaken to lure customers of other ethnic groups who viewed Indian textiles as exotic and rare. This tactic has become a tradition that motivates the third generation who have gone on to study

international trends which have been incorporated as novel fashion designs in the company's products. This method of product development has contributed to business expansion. Binwani's has evidently noted the growing cosmopolitan identity of its middle and upper middle class customers and has tailored its products to suit the tastes of this segment of the market.

As Binwani's targets the high income group, the products offered matches the target market's taste and preference for fabrics of exquisite quality. Technology and product innovation have set Binwani's a cut above the rest, by starting the trend of embellishing Muslim women's head scarf with sequines as well as the more recent tool of pattern customisation by customers. Male dominance in terms of choosing successors is evident here, as Chandru Binwani also has two daughters but they do not run the business.

### **6.3 Case Study Seven: Sri Kumaran's Textile Sdn. Bhd.**

In 1976, at the age of 16, when most teenagers were at school, Mohan Natarajan<sup>117</sup> was forced to begin working at a local textile store in Klang.<sup>118</sup> Mohan's family was poor and the possibility of raising capital on his own or securing financing from banks to start a business was non-existent as he could not afford to provide security for any sort of loan. As the years went by, Mohan aspired to start his own textile business in Malaysia as a means to improve his family's financial situation. In 1992, Mohan, aged 32, along with his two brothers, Radhakrishnan Natarajan and Ravichandran Natarajan, founded Sri

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<sup>117</sup> The interview with Mohan Natarajan from Sri Kumaran's Textile Sdn. Bhd. took place on 20 November 2013 at No. 89 & 91, Jalan Tengku Kelana, 41000 Klang, Selangor.

<sup>118</sup> Klang is a town in the state of Selangor with a large ethnic Indian population.

Kumaran's Textile Sdn. Bhd. in Little India, Brickfields, situated in the city of Kuala Lumpur.

Sri Kumaran's Textile Sdn Bhd did not capitalize on any specific niche in the textile industry nor did it differentiate itself in terms of product offerings compared to its competitors. However, the business was started on the basis of a very compelling "pull" predisposing factor – mitigated risk in the commencement of the business. Mohan explained that he and his brothers had been working in the textile industry and was tasked with the procurement of textile fabrics for some years. In this line of work, they managed to forge very close and strong intra-ethnic links. It was these intra-ethnic links that led to the opening of the firm, as their intra-ethnic network agreed to supply Sri Kumaran's Textile Sdn Bhd with textile on very favourable credit terms, which is on a consignment basis, for sale. This mitigated the risk of opening the enterprise for Mohan and his brothers and somewhat nullified the disadvantage of not being able to rely on class resources in the form of financing and capital.

Mohan and his brothers embarked on the business when they realised that there was a thriving demand and great potential for growth in this industry. Now, Sri Kumaran's Textile continues to expand and develop as demand increases steadily year on year. The three brothers completed only primary and secondary level education. On the other hand, all their children have completed tertiary level education overseas. Interestingly, Sri Kumaran's Textile made good despite almost a total lack of class resources, both in terms of education and capital. It is evident therefore that intra-ethnic resources, without more, is sufficient for a firm to commence business and make sustainable progress as a viable enterprise.

Sri Kumaran's Textile initially offered sarees, garments, stainless steel utensils, brass utensils and also imitation jewellery sourced only from India. These products sold by the



firm were made of material which were low in cost and largely of mediocre quality. However, due to the demands of Malaysians of both inter and intra ethnicities, the products sold by this firm have evolved significantly, in response to customer demands. The same products are now made of material of high quality and are reasonably priced, according to Mohan.

Sri Kumaran's Textile's initial stakeholders (i.e. employees, suppliers and clients) were almost exclusively ethnically Indian. During this start-up stage, Mohan and his brothers offered only a few products. Therefore, its market base was small and its customers were largely (if not exclusively) drawn from members of the Indian community.

### **6.3.1 Expanding the Firm**

Significant expansion of the firm began in the mid-1990s. During this time, the directors of this firm began procuring materials from a larger number of suppliers from different parts of India. This contributed to a growing variety of products offered by Sri Kumaran's Textile. The firm began serving a medium-sized market due to an upsurge in the awareness of Indian culture in Malaysia (*News Strait Times* 2 March 1988). At this time, although its employees and suppliers were still mainly of Indian origin, its client base has diversified.

Mohan explained that there are now many Malays who purchase Indian materials and accessories. He believes that the Bollywood movie industry has created much awareness and popularised the Indian culture in Malaysia. This has enhanced the demand for Indian goods and even services in Malaysia, especially in the textile industry. However, his incapability to converse in English fluently is a setback for the business, as he is unable

to cohesively interact with his non-Indian customers who do not speak Tamil or Malay, including tourists.

Besides the popularisation of the Bollywood movie industry in Malaysia, the increase in mixed race marriages in recent times, according to him, has also improved the sales of Indian textiles. These days it is common to see Malay or Chinese families in Sri Kumaran's Textile. He observed that when there is a mixed race wedding, family and friends of the non-Indian party will also start purchasing Indian textiles and accessories for the event. This contributed to creating further awareness of the Indian textile industry amongst non-Indians in Malaysia.

In this regard, inter-ethnic relationships, especially with the Malay community, has also become increasingly important to the growth of Sri Kumaran's Textile. Mohan observed that Sri Kumaran's Textile was now supplying material to many Bumiputera tailors who manufacture traditional Malay clothing including the *baju kurung* and *tudung*. The firm has, as is evident from its business operations, moved away from business-to-consumers transactions to business-to-business transactions.

This firm, according to Mohan, has never relied on government assistance for the start-up, expansion, development or even diversification of the firm. Still, Mohan and his brothers are very grateful for the reduction in taxation under the Common Effective Preferential Treatment. The reduction in tax has significantly aided the rise in sales as well as assisted the development of the business.

### 6.3.2 Changes in Share Capital, Revenue and Ownership Pattern

In what appears to have been an astute and intuitive business move, Sri Kumaran's Textile appointed a Bumiputera director, Haji Awang bin Yaacob, in 2001<sup>119</sup>. The appointment of a Bumiputera director (who held no shares in the firm) was clearly aimed at capitalizing on the said director's close and influential Bumiputera links in order to augment and consolidate the firm's business transactions with other Bumiputera businesses. The changes in the directors and shareholders of the firm through the years is set out more particularly in Table 6.3.

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<sup>119</sup> Haji Awang resigned from this position in 2010

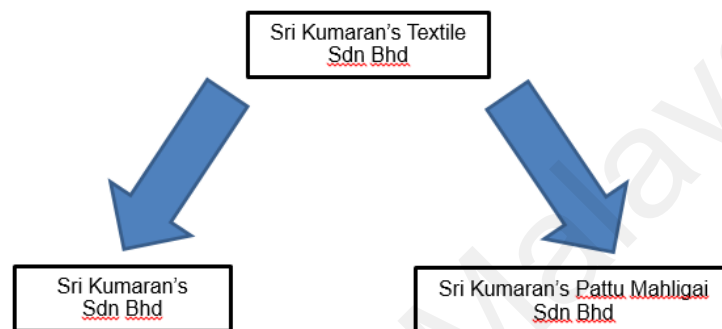
**Table 6.3: Ownership Patterns of Sri Kumaran's Textile Sdn. Bhd.**

Year	Director	Shares Held
1998	Mohan a/l Natarajan	25,000
	Kumaran a/l Muthukarupen	-
	Radhakrishnan a/l Natarajan	25,000
	Revathy Ravichandran	24,996
	Ravichandran a/l Natarajan	4,999
2001	Mohan a/l Natarajan	n/a
	Radhakrishnan a/l Natarajan	
	Revathy Ravichandran	
	Ravichandran a/l Natarajan	
	Suresh Kannan a/l Radhakrishnan	
	Hj Awang bin Yaacob	
2004	Mohan a/l Natarajan	317,999
	Radhakrishnan a/l Natarajan	61,001
	Revathy Ravichandran	-
	Ravichandran a/l Natarajan	61,000
	Hj Awang bin Yaacob	-
2005-2009	Mohan a/l Natarajan	347,999
	Radhakrishnan a/l Natarajan	91,001
	Revathy Ravichandran	-
	Ravichandran a/l Natarajan	61,000
	Suresh Kannan a/l Radhakrishnan	-
	Hj Awang bin Yaacob	-
2010	Mohan a/l Natarajan	347,999
	Radhakrishnan a/l Natarajan	91,001
	Revathy Ravichandran	-
	Ravichandran a/l Natarajan	61,000
	Suresh Kannan a/l Radhakrishnan	-
2011	Mohan a/l Natarajan	431,999
	Radhakrishnan a/l Natarajan	234,671
	Revathy Ravichandran	-
	Ravichandran a/l Natarajan	333,330
	Suresh Kannan a/l Radhakrishnan	-
	Pushpalatha Dhakshinamoorthy	-

Source: Companies Commission of Malaysia

When Sri Kumaran's Textile began its period of aggressive expansion and diversification in the 2000s, the directors decided to do so horizontally through the incorporation of Sri Kumaran's Sdn. Bhd. and Sri Kumaran's Pattu Mahligai Sdn. Bhd. Horizontal expansion refers to the process of expansion by incorporating other companies

of the same status and in the same markets as Sri Kumaran's Textile in the similar retail base. This may be contrasted with vertical expansion where the firm seeks to control its upline and downline functions, i.e. by penetrating into its supplier and customer bases. This firm now enjoys a large market due to its expansion and diversification. This is further illustrated by Figure 6.1.



**Figure 6.1: Expansion of Sri Kumaran's Textile Sdn. Bhd.**

In order to horizontally expand the business, Mohan and his directors incorporated two associate companies. Sri Kumaran's Sdn. Bhd. was incorporated on 10 March 2000 under the name and style of Madura Trading Sdn. Bhd. On 6 April 2011, the firm changed the name of Madura Trading Sdn. Bhd to Sri Kumaran's Sdn. Bhd, its present name. From 2000 to 2013, the directors of this firm were the three Natarajan brothers.

On the 3 October 2001, Sri Kumaran's Pattu Mahligai Sdn. Bhd. was incorporated. The directors of this firm in 2001 were the three Natarajan brothers and Kumaran Muthukarupen. However, in 2013, the directors of Sri Kumaran's Pattu Mahligai were only the three Natarajan brothers, with an equal amount of 83,000 shares each.

Both Sri Kumaran's Sdn. Bhd. and Sri Kumaran's Pattu Mahligai Sdn. Bhd. sell similar products as does Sri Kumaran's Textile Sdn. Bhd. While it is not easy to discern

why the firm would incorporate similar companies to carry out the same function as Sri Kumaran's Textile, according to Mohan, the new companies were incorporated to carry out the branch business of the firm<sup>120</sup>. This admission is quite telling in itself, as the Natarajan brothers are now of advanced age and are no doubt looking to divest the business in the hands of the next generation. To avoid family conflict and to ensure a smooth transition of the business to the next generation, it was considered imperative to ensure that there was a clear demarcation of functions between three distinct entities within the enterprise, so that the business would be severable in time to come, should the need arise to do so.

In 1998, Revathy Ravichandran, the daughter of Ravichandran Natarajan, joined Sri Kumaran's Textile as a director. Shortly thereafter, in 1999, the son of Radhakrishnan, Suresh Kannan Radhakrishnan (and cousin of Revathy Ravichandran) also joined the firm as a director. Although the three Natarajan brothers have begun appointing their children as directors of the firm, shares were not given to these second generation directors. This is because, the three brothers prefer, according to Mohan, to be the executive decision makers of the firm. Besides that, these second generation directors are also still being trained to manage the firm.

Sri Kumaran's Textile Sdn. Bhd. was incorporated on 18 July 1998. In 2011, the revenue for this business was RM14,441,258.00 and the profit before tax was RM952,810.00. Since incorporation, the revenue of the firm has increased by 139.94% since 2003. The firm's profit before tax, on the other hand, has increased by 567.98% since 2003. Table 6.4 illustrates the position.

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<sup>120</sup> Presently, this firm has three stores in the Klang Valley, i.e. in Tengku Diauddin, Klang, Tengku Klana, Klang and one store in Brickfields. These areas are ethnic enclaves, a popular shopping space among Indians in the Klang Valley.

**Table 6.4: Share Capital, Revenue and Profit Margins, 2003–2011**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit before Tax (RM)
2003	440,000	500,000	6,018,694	142,640
2004	440,000	500,000	8,378,226	275,099
2005	500,000	500,000	7,801,108	231,987
2006	500,000	500,000	7,700,053	275,292
2007	500,000	500,000	6,943,264	208,086
2008	500,000	500,000	7,939,042	440,965
2009	500,000	500,000	9,552,085	341,123
2010	500,000	500,000	13,685,640	698,245
2011	1,000,000	1,000,000	14,441,258	952,810

Source: Companies Commission of Malaysia

This firm has increased its share capital three times since its incorporation. The first increase in share capital was on 3 May 2000, where the firm increased its share capital from RM 100,000 to RM 500,000. On the 12 July 2011, the firm's share capital was increased from RM 500,000 to RM 1,000,000. Share capital was increased once again on the 16 April 2012 from RM 1,000,000 to RM 5,000,000.

### 6.3.3 Summary

Sri Kumaran's Textile Sdn. Bhd (and its newly established associate companies) are located in what can be termed as ethnic enclaves, i.e. in Little India, Brickfields and in Klang, as these areas have a large concentration of ethnic Indians, including recent labour migrants from South Asia. Mohan's nephew and niece, Revathy Ravichandran and Suresh Kannan Radhakrishnan, are currently being trained to become second generation successors of the business, with the implementation of high power distance relationship to maintain control over the business until the three Natarajan brothers are ready to relinquish control and hand over the business to these second generation successors.

Although started by three brothers, yet they are open to hiring Bumiputera directors to help capture the Malay Muslim target market. This happened due to the opportunity identification of the Muslim target market's avid interest in the Bollywood industry, and a wider interest to capitalize on Bumiputera links.

In terms of class resources, education did not play a role in the commencement of the business, but it is safe to make the inference that it will play a role once the second generation successors take over the business. On the other hand, prior experience determined the founders' obtainment of skills, knowledge and confidence when they worked in a local textile store in Klang, where they gained essential know-how concerning the textile industry and the confidence in running a textile business on their own.

Revathi Ravichandran, the daughter of one of the founders is being trained to take over the business in the future alongside her cousin brother, Suresh Kannan Radhakrishnan. The products of the firm, from textile to brassware, help preserve the Indian identity and culture among modern Malaysian Indians, the main target market of the company.

Technology does not play a prominent role within this company. Brand trust still very much lies within the intra-ethnic community. The main external opportunity is the influence of the Bollywood movie industry among the Malay Muslim community, especially among Malay Muslim women. Sri Kumaran Textile's succession plan is well in place, with two of the founders' children being honed to become the second generation successors in time to come.



#### 6.4 Case Study Eight: Ajuntha Textiles Sdn. Bhd.

The late Muthuvairu Dakshina Moorthy founded Ajuntha Textiles Sdn. Bhd.<sup>121</sup> in the year 1976<sup>122</sup>. Prior to starting this business, Muthuvairu worked in Kamdar, one of the leading textile stores in Malaysia. Muthuvairu, who hailed from Tamil Nadu, had arrived in Malaysia with dreams of owning his own business. In the early 1970s, after many years of working in Kamdar, he realized that there was a growing demand among the lower class and lower middle class for quality yet reasonably priced Indian textiles (*Malay Mail* 31 October 2007). The burgeoning business owned by Kamdar further drove this point home to him.

Muthuvairu also had adequate class and ethnic resources at his disposal, in the form of capital and strong intra-ethnic links with suppliers. Capital was not obtained from banks or financial institutions, but from his own monies which were saved from his time in the employ of Kamdar and also monies which were borrowed from friends of the same intra-ethnic community. Meanwhile, as he had forged close links with suppliers after years of working with them, the firm also managed to secure textiles on very favourable credit terms.

Interestingly, Muthuvairu also had family ties in India, which he used to his advantage. His family in India managed to connect him with the leading suppliers of textile in India and negotiated favourable credit terms for the firm there (*Malay Mail* 31 October 2007). This resulted in significant cost savings for the firm, enabling the firm to keep its product

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<sup>121</sup> Ajuntha Textiles Sdn. Bhd.<sup>121</sup> was incorporated on 7 June 1984.

<sup>122</sup> Saravanakkumar Muthuvairu, the son of Muthuvairu Dakshina Moorthy, was interviewed on 29 November 2013 in 1003 Selangor Mansion, Jalan Masjid India, 50100 Kuala Lumpur.

pricing low. In terms of education, both Muthuvairu and his son Saravanakkumar only completed their higher secondary level education and did not obtain tertiary education.

According to Saravanakkumar, his cousin Muthuvairu Ramanan (i.e Muthuvairu Dakshina Moorthy's nephew) had commenced an Indian textile business in Malacca in the 1980s. This enterprise was unrelated to the business of Ajuntha Textiles Sdn Bhd, although Muthuvairu Ramanan himself had very close business links with the firm. The enterprise in Malacca was called Ram & Co. Both the firm and Ram & Co. ran independent operations in different geographical locations, the firm focusing on the Klang Valley and Ram & Co focused on the south of the Peninsular, particularly Malacca and to a lesser extent Johor.

During its start-up stage in 1976, Muthuvairu offered only a few products which consisted of textiles. All the textiles offered were supplied by a few manufacturers from India. Expansion began during the early 1990s when Saravanakkumar began managing the business. Saravanakkumar began procuring material from a larger number of suppliers from different parts of India, putting his connections with family in India to good use (*Malay Mail* 31 October 2007). This benefitted the business as a larger number of suppliers translated to a wider variety of products for consumers to choose from and purchase. Ajuntha procures sarees and textiles directly from factories in the outskirts of India, which explains their ability to obtain cheap-but-high quality items ([www.timeout.com](http://www.timeout.com)). Many of the items procured by the firm, according to Saravanakkumar, is out of the reach of its competitors. This is due in no small part to the firm's strategic use of its intra-ethnic connections, namely its close family ties in India.

The target market when business first commenced was mainly Indians in Malaysia. Muthuvairu identified Masjid India as an ethnic Indian enclave as there were many Indians establishing businesses there, which automatically attracted Indian customers.

Muthuvairu's language limitations also drove him to target the Indian community, as he was not fluent in Malay and English. The market for the firm initially was a very small one. Saravanakkumar, on the other hand, speaks fluent Malay (although not English) and this enabled him to interact with the wider Malaysian community, thus leveraging on the all-important class resource of education, in the context of linguistic ability.

Saravanakkumar observed that Ajuntha is different from Kamdar or Globe Silk Store because it targets consumers of the lower middle to low class, although all three firms cater to an Indian majority target market. The firm serves a medium sized market at this time due to the rise in awareness of Western popular culture among the Indian society, particularly youths. The condition of the market for the textile industry has changed significantly, according to Saravanakkumar. Malaysians, be it Indians or non-Indians, are willing to spend more these days due to an increase in purchasing power, compared to in the past. On top of that, customers these days (even among the lower and middle lower class), according to Saravanakkumar, prefer material which are of good quality, and they are willing to pay premium prices for it (Malay Mail 28 October 1999).

One tactic utilized by Ajuntha to attract the lower and lower middle class Indians to its store in the 1980s and 1990s was the employment of ethnic Indians of the same class in its stores. This use of ethnicity and class to market its products has paid dividends, whilst its competitors like Kamdar and Globe Silk Store continued to employ marketers largely of Bumiputera origin, in a clear attempt to corner the Bumiputera market.

Its competitors like Kamdar and Globe Silk Store also focused on the procurement and sale of higher quality and higher priced products, pricing out the lower and middle lower classes from its stores. This was a boon to Ajuntha which capitalized on a gap in the market to cater to the demands of these consumers.

The awareness of Indian textiles amongst the Malay community in Malaysia due to an increasing interest in Bollywood movies afforded many opportunities for this industry. Many Malay women also began using saree material to tailor Baju Kurung, a garment regularly worn by them. The increase of mixed race marriages in Malaysia also played a role in the boost in demand for ethnic Indian textiles. When there are more mixed race marriages, according to Saravanakkumar, more non-Indian families and friends choose to purchase and dress in ethnic Indian outfits (Malay Mail 28 October 1999).

During the leadership of Muthuvairu, the firm's stakeholders (suppliers, employees and clients) were predominantly Indians. Although most of the current stakeholders, especially the suppliers and employees, are still Indians, Saravanakkumar mentioned that there are an increasing number of Malays, Chinese and even tourists who purchase sarees, Punjabi suits and even accessories.

The firm reached its maturity in the late 1990s. This was when the products of this firm were very well accepted by Malaysians at large. The non-Indian market in Malaysia began taking an interest in the Indian textile industry, which further expanded Ajuntha Textiles' customer base. Ajuntha Textiles now offers sarees, Punjabi suits, Indian fashion accessories, Indian menswear, stainless steel utensils, brass utensils and imitation jewellery. It is also important to note that material sold in the past were low in cost and often of mediocre quality. However, presently, the material sold by Ajuntha Textiles are of high quality and are reasonably priced, according to Saravanakkumar. This was designed to meet the more discerning needs and demands of the Malaysian market.

#### **6.4.1 Expansion of the Business**

On 24 July 2006, Muthuvairu passed away leaving the business under the care of his son, Saravanakkumar Muthuvairu. In 2007, Saravanakkumar opened another branch of

the enterprise in Klang, Selangor. In the same year, Saravanakkumar together with his cousin, Muthuvairu Ramanan, jointly took over Ram & Co in Malacca to consolidate all the family textile businesses under the larger Ajuntha umbrella. This merger and consolidation of the family businesses was financed by a bank loan. Currently, Ajuntha Textiles has three branches in Malaysia<sup>123</sup>. Saravanakkumar revealed that he is planning to open a boutique store soon. This boutique store, according to him, would represent Ajuntha's maiden foray into catering to the needs and demands of its middle and upper middle class customers. With growing income levels in Malaysia, many of Ajuntha's loyal customers now find that they have outgrown the firm and its product offerings. The boutique store is aimed at keeping pace with the firm's loyal customers who have more purchasing power compared to their parents or grandparents.

#### **6.4.2 Changes in Share Capital, Revenue and Ownership Pattern**

Saravanakkumar and his family members are Tamils. Both Muthuvairu and Saravanakkumar realised the importance of having inter-ethnic ties especially with the Bumiputeras in order to grow and expand the business. In 1999, Ajuntha Textiles had in place Bumiputera directors. They were Hamidah binti Ismail<sup>124</sup>, who was a director at Ajuntha Textiles from the year 1999 to 2002, and Naima Gany binti Shaik Dawood<sup>125</sup>, who was a director of the business since 2002. Naima Gany binti Shaik Dawood later resigned in the year 2012. The role of Hamidah binti Ismail and Naima Gany binti Shaik Dawood was to bring in more Bumiputera businesses, especially from those businesses

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<sup>123</sup> One at Jalan Masjid India and another at Jalan Tengku Klana, Klang. These two areas are popular shopping destinations for Indians in the Klang Valley.

<sup>124</sup> Hamidah binti Ismail is a Malay Muslim director.

<sup>125</sup> Naima Gany binti Shaik Dawood is an Indian Muslim director.

that uses saree material for the making of baju kurung and baju kebaya. The evolving directorships and shareholding structure of the firm is set out in Table 6.5 as follows.

**Table 6.5: Ownership Patterns of Ajuntha Textiles Sdn. Bhd.**

Year	Director	Shares Held	Notes
1995-1996	Muthuvairu s/o Dakshina Moorthy	395,000	
	Saravanakkumar s/o Muthuvairu	105,000	
1997	Muthuvairu s/o Dakshina Moorthy	490,000	
	Saravanakkumar s/o Muthuvairu	105,000	
	Govindaraju s/o Muthiah Konar	-	
	Vaithlingam Pillai	-	
	Muthuvairu Ramanan	105,000	
1998	Muthuvairu s/o Dakshina Moorthy	540,000	
	Saravanakkumar s/o Muthuvairu	155,000	
	Muthuvairu Ramanan	155,000	
1999-2001	Muthuvairu s/o Dakshina Moorthy	540,000	
	Saravanakkumar s/o Muthuvairu	155,000	
	Muthuvairu Ramanan	155,000	
	Govindaraju s/o Muthiah Konar	-	
	Hamidah bt Ismail	-	Appointed on 20 Nov 2000
2002	Muthuvairu s/o Dakshina Moorthy	540,000	
	Saravanakkumar s/o Muthuvairu	155,000	
	Muthuvairu Ramanan	155,000	
	Govindaraju s/o Muthiah Konar	-	
	Hamidah bt Ismail	-	Resigned on 23 Aug 2002
	Naima Gany bt Shaik Dawood	-	Appointed on 24 Aug 2002

Table 6.5 Continued

2004-2005	Muthuvairu s/o Dakshina Moorthy	490,000	
	Saravanakkumar s/o Muthuvairu	205,000	
	Muthuvairu Ramanan	205,000	
	Govindaraju s/o Muthiah Konar	-	
	Naima Gany bt Shaik Dawood	100,000	
2006-2007	Muthuvairu s/o Dakshina Moorthy	-	Deceased 24.7.2006
	Saravanakkumar s/o Muthuvairu	450,000	
	Muthuvairu Ramanan	450,000	
	Govindaraju s/o Muthiah Konar	-	
	Naima Gany bt Shaik Dawood	100,000	
2008	Saravanakkumar s/o Muthuvairu	450,000	
	Muthuvairu Ramanan	450,000	
	Govindaraju s/o Muthiah Konar	-	Resigned 25.9.2008
	Naima Gany bt Shaik Dawood	100,000	
2009	Saravanakkumar s/o Muthuvairu	950,000	
	Muthuvairu Ramanan	950,000	
	Naima Gany bt Shaik Dawood	100,000	
2010-2012	Saravanakkumar s/o Muthuvairu	950,000	
	Muthuvairu Ramanan	950,000	
	Naima Gany bt Shaik Dawood	-	Resigned 23.11.2009
	Lily a/p Paneer Selvam	100,000	Appointed 23.11.2009

Source: Companies Commission of Malaysia

From Table 6.5, it is clear that the first generation shareholder, Muthuvairu Dakshina Moorthy preferred to hold the largest amount of shares to be able to make the vital decisions for this firm. After his passing in 2006, this responsibility was taken over by his

son, Saravanakkumar Muthuvairu. It is also important to note that the Bumiputera director of this firm, Naima Gany binti Shaik Dawood, was given shares since 2004. According to Saravanakkumar, Naima Gany binti Shaik Dawood had a vital role in providing innovative ideas on firm expansion and diversification.

Like other Indian businesses in this study, Ajuntha Textiles has never relied on government assistance for the start-up, expansion, development or even diversification of the firm. However, the firm highly appreciates the lowering of taxation under the Common Effective Preferential Treatment. Still, during the interview, Saravanakkumar mentioned that the directors of this firm are unsure how the Goods and Services Tax will affect his business in the future<sup>126</sup>. The directors of this firm are hoping for improved policies for businessmen in the textile industry in the future. He also looks forward to more transparent state policies in Malaysia.

Saravanakkumar explained that with the consolidation of the family businesses, the management of the firm decided to incorporate a company to handle its Malacca operations, in a form of horizontal expansion. Meanwhile, there was also a growing awareness that the firm's supplier bases were outside the control of the business and if there were any problems affecting its supplier bases, the firm's business would be affected as well. To counter these operating risks, according to Saravanakkumar, a decision was taken to consolidate the firm's upline functions by incorporating a company to control these functions more effectively for the firm, in a form of vertical expansion. Moreover, with these proliferation of companies under the Ajuntha umbrella, it was decided that these companies ought to be controlled by a holding company, so that risks, capital and profits may be effectively and efficiently allocated.

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<sup>126</sup> The Goods and Services tax at the rate of 6% was implemented in Malaysia from 1 April 2015.



Towards this end, the firm incorporated Ajuntha Holdings Sdn. Bhd., Ajuntha Garment & Fabric Manufacturers Sdn. Bhd. and Ajuntha Textiles (Melaka) Sdn. Bhd, as set out in Figure 6.2 below.



**Figure 6.2: Integration of Ajuntha Holdings Sdn. Bhd.**

Ajuntha Garment & Fabric Manufacturers Sdn. Bhd. was incorporated on 3 January 2002. In 2006, the directors of this firm were Govindaraju a/l Muthiah Konar, Saravanakkumar Muthuvairu, Muthuvairu Ramanan and also Muthuvairu Dakshina Moorthy. This firm sources for and also manufactures materials for Ajuntha Textiles and also Ajuntha Textiles (Melaka).

On 7 June 2007, Ajuntha Textiles (Melaka) Sdn. Bhd. was incorporated. Saravanakkumar Muthuvairu, Muthuvairu Ramanan, Nagarajan Sundaram Pillai and also Selvaraj K. Ramasamy were its directors in 2007. Presently, the directors and shareholders of this company are Saravanakkumar Muthuvairu and Muthuvairu Ramanan. They hold 49,998 shares each. This company sells similar products to Ajuntha Textiles, which is located in Jalan Raja Chulan.

Ajuntha Holdings Sdn. Bhd. was incorporated on 26 December 2007 to reduce risk exposure, increase the ease of raising capital for diversification and also manage the assets of Ajuntha Textiles, Ajuntha Textiles (Melaka) and Ajuntha Garment & Fabric

Manufacturers. This company was commenced by Saravanakkumar Muthuvairu and Muthuvairu Ramanan.

Ajuntha Textile's challenge lies in dealing with steep competition as the traditional Indian textile businesses model is under sustained pressure. Saravanakkumar explained that Ajuntha relies mostly on walk-in customers, and with so many online garment businesses mushrooming (with lower operating costs) that guarantee quality products at a lower price, Ajuntha Textiles faces a threat which can contribute to a lower bottom line. The urbanization of Indians who are moving away from rural to suburban areas also poses a challenge to the firm, as these consumers embrace Western culture and trends and undergo a change in their sense of dressing from traditional garments to modern outfits, in order to assimilate and feel more accepted within the Indian community in general.

In 2012, the revenue for this firm was RM14,589,833 and its profit before tax was RM374,876. Since incorporation, the revenue of the firm has increased by 137.55% since 1995 (see Table 6.6). The firm's profit before tax, on the other hand, has increased by 103.75% since 1995. On 15 January 2009, Ajuntha Textiles Sdn. Bhd. increased its share capital from RM 1,000,000 to RM 5,000,000.

**Table 6.6: Share Capital, Revenue and Profit Margins, 1995 – 2012**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit- before-tax (RM)
1995	500,000	1,000,000	6,141,746	183,981
1996	500,000	1,000,000	6,389,606	146,490
1997	700,000	1,000,000	6,772,842	87,785
1998	850,000	1,000,000	8,374,955	137,206
1999	850,000	1,000,000	6,740,387	121,787
2000	850,000	1,000,000	6,544,116	120,830
2001	1,000,000	1,000,000	7,273,014	29,563
2004	1,000,000	1,000,000	5,441,361	140,959
2005	1,000,000	1,000,000	5,452,086	164,404
2006	1,000,000	1,000,000	6,206,039	155,639
2007	1,000,000	1,000,000	6,775,571	168,598
2008	1,000,000	1,000,000	11,295,076	211,611
2009	2,000,000	5,000,000	12,831,899	266,137
2010	2,000,000	5,000,000	13,581,889	209,218
2011	2,000,000	5,000,000	14,759,939	828,148
2012	2,000,000	5,000,000	14,589,833	374,876

Source: Companies Commission of Malaysia

### 6.4.3 Summary

Findings shows that ethnic Indian businesses in Malaysia tend to be concentrated in a narrow range of sectors within the ethnic Indian enclaves, as proven in this case, where Ajuntha Textiles is located in Masjid India and Klang, ethnic enclaves popularly known for textiles, jewellery and other ethnic Indian related goods.

Confidence for Muthuvairu Dakshina Moorthy as the founder was built through years of experience working in Kamdar, accruing the necessary industry knowledge and building crucial relationship with vendors and suppliers to aid his own business venture and turn his dream of self-employment into a reality. Thirty years of running Ajuntha Textiles gave his son Saravanakkumar enough time to learn the business and take over after Muthuvairu's demise.

The role of education is largely (although not completely) irrelevant as both the founder and second generation only obtained education up until secondary level. Thus, education does not play a large role in the progress of the business, but with little education the firm has shown great promise and capacity to upgrade its business and stay relevant to customers, especially in terms of the kind of products it offers for sale.

The importance of family support in sustaining growth and ensuring progress in entrepreneurship cannot be overstated, especially as illustrated in the case of Ajuntha's. This is proven when Saravanakkumar took over another family business, i.e. Ram & Co. in Malacca with his cousin, Muthuvairu Ramanan.

Saravanakkumar's decision in inviting Bumiputera directors was a smart move to attract more customers from the Muslim community, by leveraging on the contacts and networks of these Bumiputera directors. The founder and subsequently his son possessed the largest amount of shares in order to maintain control of the firm. Male dominance is apparent as the founder's son was chosen to carry on the firm's business. Succession plans for the third generation entrepreneurs of the firm for now remains a grey area as Saravanakkumar's children are still very young.

## **6.5 Conclusion**

The empirical findings show that the expansion and diversification of Binwani's is significantly different from Sri Kumaran's Textile and Ajuntha Textiles. For Binwani's, ethnic resources played a vital role during the start-up stage, as the company relied on its small sub-ethnic group for resources. The role of class resources in education did not seem imperative when business commenced. Yet, education became a significant resource in the expansion and diversification of Binwani's, especially for the latter

generation of entrepreneurs. Through strong networks, the company evolved and is now in partnership with some key industry players in the international market.

Sri Kumaran's Textile and Ajuntha Textiles relied heavily on ethnic resources during the start-up stage. The founders of these two companies also gained experience from members of the intra-ethnic community. These companies still rely on intra-ethnic resources albeit not as heavily as they used to. Unlike Binwani's, Sri Kumaran's Textile and Ajuntha Textiles are located in ethnic enclaves which prove that these two companies are still targeting the Malaysian Indian market.

In this industry, male gender dominance in the start-up of these businesses can be seen in all three firms. Chandru Binwani has daughters, but choose his sons as successors for Binwani's. Sri Kumaran's Textiles was founded by three brothers. The brothers are now training Suresh Kannan (son of Radhakrishnan) and Revathi (daughter of Ravichandran) to take over the business in near future. As for Ajutha's Textile, both first and second generation entrepreneurs were male.

Empirical findings show that from the demand perspective, all three companies benefitted from the Common Effective Preferential Treatment. The increase in awareness of Indian textiles amongst the non-Indian community in Malaysia also played an important role in shaping the business landscape for SMEs in this industry.

## **CHAPTER 7: INDIAN BUSINESSES IN THE JEWELLERY INDUSTRY**

### **7.1 Industry Background**

The gold and jewellery industry in Malaysia is more than a hundred years old. According to industry sources, approximately 75-80 percent or 48-52 tonnes of the gold and jewellery in Malaysia are manufactured or fabricated in Penang, followed by Johor Bahru and Kuala Lumpur (Penang Economic Monthly). With the Malaysian gold and jewellery exports being valued at RM3 billion or approximately 50 tonnes in 2004, the export value of the Penang gold and jewellery industry is about RM 2.25 billion (Penang Economic Monthly). For Malaysia as a nation, the major export markets are the Middle East at almost 90 percent, North & South America at 6 percent and European countries at 4 percent.

The Chinese have been the major players of the gold and jewellery industry in Malaysia for years. Their experience encompasses manufacturing and trading of gold articles and gem setting. Apart from the Chinese, there are smaller groups of Indian Muslim and Indian jewellers who are mainly involved in gem setting and are located around ethnic Indian enclaves all over Malaysia. The Indian Muslim and Indian jewellers mainly focus on retail, wholesale and a small portion of import and export. Most of them provide the design and specifications based on their customer's requirements to the Chinese goldsmiths and manufacturers for production (Penang Economic Monthly).

The gold and jewellery industry is a labour intensive industry. According to the various industry associations, this industry employs approximately 10,000 people in Malaysia. Majority of its labour force are locals as trustworthiness and security are important issues. The art of crafting fine jewellery is very much alive in Penang with the latest batch of traditional jewellery artisans currently in their 40's. It is estimated that these people can

contribute to at least another 30 years of craftsmanship whilst training new apprentices (Penang Economic Monthly).

In Malaysia, the key players in the jewellery industry that have been in business for two generations or more are companies such as Abdul Razak Jewellers, Habib Jewels, Madras Jewellers, Sri Ganesh Jewellers and V. Gopal Pather & Sons. Of these five firms, three agreed to participate in this study: Abdul Razak Jewellers, Sri Ganesh Jewellers and V. Gopal Pather & Sons.

Habib Jewels is one of Malaysia's relatively unknown success stories. Founded by Habib Mohammad in 1953, the Penang-based company gradually learned to produce its own jewellery (*The Star* 21 July 2007) to cater to customers in Pitt Street, dubbed as Penang's "Jewellery Street", an ethnic enclave for Indian migrant businesses, especially Indian Muslims from India where intra-ethnic competition was steep. Since Penang was in the past a free port, people from all over Malaysia came to the island to shop especially for its gold and diamond jewellery. But it was the personal attention given to every customer and his strength in "giving customers what they want" which led to the opening of its first branch at Hotel Malaya in Penang (*The Star* 21 July 2007). Today, the Habib group consists of six subsidiaries involved in wholesaling, retailing, manufacturing, marketing, franchising and trading in gold, gemstones and diamonds.

As an ethnic enterprise, Habib began by producing jewellery that satisfied the demands of locals, with designs such as the "Kerongsang Intan", "Kerongsang Tok", "Buah Kana" inspired rings, and filigree brooches and pendants. In the mid-1980s, Habib Jewels discovered a huge but untapped market among middle-income Malays, a niche it has since created and dominated (*The Star* 21 July 2007).

In 1998, the company passed from father to son, Meer Sadik Habib. He is assisted in the day-to-day running by his wife, Zarida Noordin (*The Star* 21 July 2007). It was Meer Sadik who opened a branch in Kuala Lumpur in 1986 and led Habib to discover a huge but untapped market among the middle-income Malays. By venturing locally and subsequently, internationally, beyond the ethnic enclave in Penang, Habib garnered an edge over its competitors, specifically by succeeding in catering to a much larger clientele.

Habib has grown from strength to strength, from the moment it was first listed as Habib Corporation Berhad in 1998, being the first public listed jeweler in Malaysian history. Its efficient use of class resources, particularly education, is the probable cause of this. Meer Sadik Habib was educated in Wichita State University in America, graduating with a degree in Business Administration, and was then trained as a gemologist at the Gemological Institute of America (*The Star* 21 July 2007).

Case studies nine, ten and eleven will further illustrate the history of other Malaysian Indian firms in the jewellery industry in Malaysia.

## **7.2 Case Study Nine: Abdul Razak Jewellers Sdn. Bhd.**

Abdul Rasull's<sup>127</sup> family has been in the gold trade for a great many years. As it was an artisanal trade that was passed down from generation to generation, it was no surprise that Abdul Rasull too would be schooled in the trade when his turn came and when he was deemed worthy to carry on the family legacy. Abdul Razak Jewellers was started by Abdul Rasull's father, Abdul Razak, who arrived in Penang from Chennai in 1940 with

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<sup>127</sup> The interview with Abdul Rasull bin Abdul Razak from Abdul Razak Jewellers Sdn. Bhd. took place on 21 October 2013 at No 61, *Lebuh Ampang*, 50100 Kuala Lumpur



two friends. Abdul Razak's forefathers and ancestors, according to Abdul Rasull, were all goldsmiths. Hence, the knowledge and expertise of the business has been with the family for many generations. Abdul Razak and his brothers were trained by their father in India. Abdul Razak, Abdul Rasull and their family members are Tamil Muslims.

Abdul Razak obtained his secondary level education in India. Approximately a month after he arrived in Malaya from Chennai, he was offered a portion of a shop lot in Lebu Ampang to sell gold and jewellery. The rental of this place was then only five dollars per month. Abdul Razak accepted the offer and worked hard to gain the trust of the local Indian community. According to Abdul Rasull, Abdul Razak started the business with his own capital and he was resolved and determined to make a better life for himself and his progeny in Malaysia.

When business began, Abdul Razak's customers were mainly Indian migrants who saved their earnings at Abdul Razak in the form of gold and jewellery. Abdul Rasull notes however that over time, Abdul Razak obtained more naturalized Malaysian Indian customers. The number of Indian families in Malaya was also on the rise during this period. This saw a proportional increase in the number of Indian religious and cultural events, as well as weddings amongst Indians in Malaya, which consequently also led to a rise in demand for gold jewellery.

In the 1950s, Abdul Razak expanded the business. He employed ten more craftsmen from India to fulfil the growing demand for gold from the local Indian community. It was also during this period that Abdul Razak acquired his shop lot in Lebu Ampang. When business began expanding in the mid-1950s, the directors of this firm began modifying their products to cater to the needs of modern Malaysian Indians. Abdul Rasull observed that at this stage, the customers of the firm were still largely intra-ethnic.

### 7.2.1 Growth of the Business and the Industry

According to Abdul Rasull, there was a paradigm shift among gold jewelers, including his father, in the 1950s and 1960s. Modern technology became a game changer (Abdul Razak Jewellers, 2012). In the past, jewellery was handmade by the goldsmith or specialist artisans. This meant that every item of gold jewellery (i.e. earrings, rings, bracelets, etc.) would take at least three days each to be made. However from the 1950s-1960s onwards and to this day, according to Abdul Rasull, gold jewellery can be manufactured in large quantities, due to technological advancement. He states that gold jewellery manufactured using modern technology is better in quality compared to handmade gold jewellery. The fact that gold jewellery may be manufactured in bulk now is being taken advantage of by the firm to diversify its products so as to reach a wider target market (Abdul Razak Jewellers, 2012).

It was also pertinent to the growth of the business and industry generally, Abdul Rasull states, that the idiosyncrasies of its main customer base (i.e., Malaysian Indians) underwent a change around the 1970s. In the past, the demand for jewellery during the *Aadi*<sup>128</sup> month was considerably low. However, during the *Thai*<sup>129</sup> month, the demand rises significantly due to the increase in major social events like weddings. Presently, according to Abdul Rasull, the younger generation do not closely adhere to these traditions. Hence, the demand for gold and jewellery during the *Aadi* as compared to the *Thai* month in present times do not change significantly. Yet another idiosyncrasy that the firm has adapted to is a shift in societal norms. Abdul Rasull explains that traditionally, prior to the wedding, jewellery will be purchased by the parents of the bride

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<sup>128</sup> The fourth month in the Tamil calendar, which is considered inauspicious. Major events like weddings do not take place during this period.

<sup>129</sup> The tenth month in the Tamil calendar, which is considered auspicious.

and groom as a wedding gift to the couple. These days, however, wedding jewellery is purchased by brides and grooms themselves. As such, the design of jewellery preferred by customers nowadays are more modern and less traditional. The firm has adapted to these changes in societal norms by tailoring its product offerings accordingly.

In 1975, Abdul Rasull was sent to India by his father to complete a Diploma in Draughtsmanship. Abdul Rasull later returned to Malaysia and began working as a gold appraiser at the United Asian Bank. The United Asian Bank, one would recall, was set up to cater primarily to the business financing needs of Malaysian Indians (Gomez, 1994). However, Abdul Rasull states that he left the bank in 1990 to join his father's business. Abdul Rasull's siblings; Abdul Wahab, Chan Bacha and Abdul Jalal were also groomed to run the business. All four brothers were made directors of Kedai Emas Abdul Razak Sdn. Bhd.

The firm reached its maturity in the early 1990s. This was when the products of this firm were very well accepted by all Malaysians. According to Abdul Rasull, due to the increase in inter-racial marriages in Malaysia in recent time, the non-Indian market in Malaysia began taking an active interest in the Indian jewellery industry, which further expanded Abdul Razak Jewellers customer base. During this period, in the 1990s to 2000s, the firm was managed by Abdul Razak and his sons; Abdul Rasull, Abdul Jalal, Chan Bacha, and Abdul Wahab.

### **7.2.2 Leveraging on Strong Intra-Ethnic Ties**

The firm has cultivated and carefully nurtured strong intra ethnic ties over the years, both during Abdul Razak's time at the helm on the company and now when the mantle has passed on to his sons. Abdul Rasull states that he is satisfied with having Malaysian

Indians as his main customers; hence although he does receive Chinese, Malay and people of other races as his customers, he does not actively market the firm's products to them.

In the past, Abdul Rasull recounts, the Indian Chamber of Commerce of Kuala Lumpur and Selangor gave an award to Abdul Razak for his exceptional performance, dedication and contribution to the jewellery industry. In 2001, Abdul Rasull was elected the Vice President of the Malaysian Indian Goldsmith and Jeweller Association, and was elected its President in 2002. He holds this position to date. These positions in the industry enables Abdul Razak Jewellers to leverage and further develop strong intra ethnic ties for its business development.

Historically, according to Abdul Rasull, due to language barriers and the demographics of Malaya, Abdul Razak networked mainly with Indian migrants. Later, he started building better relationships with Indians who settled in Malaysia. He also took the initiative to be actively involved in intra-ethnic community affairs in Kuala Lumpur. Abdul Razak was at that time appointed as the trustee of the South Indian Muslim Mosque in Masjid India.

Abdul Rasull intimated that he too followed in his father's footsteps in building strong relationships with members of the intra-ethnic community. Abdul Rasull formed the Traders Association of Lebu Ampang, which is an ethnic Indian enclave, and is currently the president of the association. Abdul Rasull, unlike his father, is able to converse very well in many languages including English and Malay. This has enabled Abdul Rasull to widen his business networks amongst both the intra-ethnic and inter-ethnic communities in Malaysia.

A very large percentage of Abdul Razak Jewellers' stakeholders, i.e. employees, suppliers and clients, were and still are of Indian origin. Compared to in the past, there

are a large and growing number of non-Indian competitors in the gold and jewellery industry in Malaysia. However, Abdul Rasull observes that some product offerings are unique to ethnic Indian jewelers as the technique and know how in manufacturing some items of gold jewellery is within the province of Indian gold jewelers only, having been passed from father to son, and are closely guarded trade secrets. This is an example of ethnic Indian jewelers leveraging on the class resource of knowledge and skill, to its advantage in staving off competition from other non-Indian competitors.

Thus far, Abdul Razak Jewellers has not been in a position to seek any form of assistance from the government. However, Abdul Rasull hopes that the government will be more active in promoting the importance of gold investments amongst Malaysians. Even so, Abdul Rasull is unsure about how the new Goods and Services Tax will affect the business in the near future. Another concern of Abdul Rasull is security. In recent times, many shops including Abdul Razak Jewellers was broken into (*News Straits Times* 4 September 2013). This significantly changes the atmosphere of the industry. According to Abdul Rasull, these incidents happen more often than not during a downturn in the economy.

### **7.2.3 Management of the Firm**

This firm is currently managed by Abdul Rasull and his children: Aisha binti Abdul Rasull, Zulaika binti Abdul Rasull and Mohamed Razalie bin Abdul Rasull. Abdull Rasull is grooming his son, Mohamed Razalie, who is currently a director of the firm, to take over the business in the near future. Mohamed Razalie completed his Masters in Business Administration in the United States. Abdul Rasull's daughters, Aisha and Zulaika, are also directors of Abdul Razak Jewellers.

The changes in directors through the generations can be seen in Tables 7.1 and 7.2. Prior to the incorporation of Abdul Razak Jewellers in 2004, this firm was known as Kedai Emas Abdul Razak Sdn. Bhd.<sup>130</sup> Kedai Emas Abdul Razak was incorporated on 14 September, 1981<sup>131</sup> whereas the change of name to Abdul Razak Jewellers was made on 20 April 2004. Table 7.2 shows that at present, Abdul Razak Jewellers is fully managed by Abdul Rasull's children.

**Table 7.1: Ownership Patterns of Kedai Emas Abdul Razak Sdn. Bhd.**

Year	Directors
1988	Abdul Razak @ Abdul Raja bin Syed Usman
	Abdul Rasull bin Abdul Razak
	Abdul Jalal bin Abdul Razak
	Chan Bacha bin Abdul Razak
	Abdul Wahab bin Abdul Razak
1993	Abdul Razak @ Abdul Raja bin Syed Usman
	Abdul Rasull bin Abdul Razak
	Abdul Jalal bin Abdul Razak
	Chan Bacha bin Abdul Razak
	Abdul Wahab bin Abdul Razak
	Madam Bibi Jan
1994	Chan Bacha bin Abdul Razak
	Shanmuganathan a/l G. Suppiah
	Noorul Amin bin Chan Basha
	Noriani bte Abdul Halim
	Sabiya Begum bte Mohamed Kassim
1995-1999	Chan Bacha bin Abdul Razak
	Noorul Amin bin Chan Basha
	Noriani bte Abdul Halim
	Sabiya Begum bte Mohamed Kassim

Source: Companies Commission of Malaysia

<sup>130</sup> This is a private exempt company.

<sup>131</sup> Prior to 1981, this firm was operating under a different name.

**Table 7.2: Ownership Patterns of Abdul Razak Jewellers Sdn. Bhd.**

Year	Director	Shares Held
2004-2007	Abdul Rasull bin Abdul Razak	n/a
	Aisha bt Abdul Rasull	1
	Zulaika bt Abdul Rasull	1
	Mohamed Razalie bin Abdul Rasull	n/a
2008-2011	Aisha bt Abdul Rasull	250,000
	Zulaika bt Abdul Rasull	250,000
	Mohamed Razalie bin Abdul Rasull	n/a

Source: Companies Commission of Malaysia

#### 7.2.4 Changes in Share Capital, Revenue and Ownership Pattern of the Firm

Table 7.3 represents the increase in share capital, revenue and profit margins of Abdul Razak Jewellers. In 2011, the firm garnered RM 5,232,776 in revenue and RM 22,737 in profit before tax. The increase in revenue and profit before tax of Abdul Razak Jewellers is due to product extension, product modification and market expansion.

**Table 7.3: Share Capital, Revenue and Profit Margins, 2004–2011**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit before Tax (RM)
2004	100,000	2	n/a	n/a
2005	100,000	2	n/a	n/a
2006	100,000	2	n/a	(1,930)
2007	100,000	2	4,636,525	82,057
2008	500,000	250,000	4,015,351	65,635
2009	500,000	250,000	4,783,712	12,125
2010	500,000	250,000	3,853,049	16,886
2011	500,000	250,000	5,232,776	22,737

Source: Companies Commission of Malaysia

### 7.2.5 Summary

Located at the Indian ethnic enclave of Lebu Ampang, Abdul Razak Jewellers is run by immediate family members of the late Abdul Razak who came to Penang from Chennai in 1940. Abdul Rasull continues the family trade of gold trading, and just like his father Abdul Razak, he is training his children to manage Abdul Razak Jewellers.

In terms of class resources, both education and working experience have helped Abdul Rasull to grow and sustain the business. Although Abdul Rasull has two other daughters, like his father, he has chosen to groom his son Mohamed Razalie as his protégé. Mohamed Razalie completed his MBA degree in the United States. The design of products is contemporary, yet Abdul Rasull has taken special care in maintaining their traditional Indian flair. This traditional element indirectly helps in the preservation of the core Indian cultural identity of the business' core target market – the Malaysian Indians.

Abdul Rasull has learnt and is appreciative of the skill and immense mastery of technique required to manufacture handmade gold jewellery items, but in order to increase efficiency, productivity and sales as well as to keep abreast with modern times, Abdul Rasull has invested in technology which allows jewellery to be produced in bulk within a shorter period of time, consequently resulting in greater yields for the business.

As the founder and President of the Traders Association of Lebu Ampang, he has received recognition as a successful businessman among the Malaysian Indian community. For him, the safety of his store is always top priority, a bitter lesson learnt after a past robbery incident (*News Straits Times* 4 September 2013). Abdul Rasull's succession has been well-planned, with his son Mohamed Razalie as the future successor of the business, with his daughters Aisha binti Abdul Rasull, Zulaika binti Abdul Rasull as Directors.



### **7.3 Case Study Ten: Sri Ganesh Jewellery & Gem Corner Sdn. Bhd.**

Mohan Subramaniam's<sup>132</sup> father, Subramaniam, set up Saena Jewellers in post-colonial Malaya, but the enterprise failed due to mismanagement. Subramaniam had hired a distant relative from India to help him run Saena Jewellers during its initial start-up phase and the business thrived for a while. However, this distant relative had then betrayed Subramaniam's trust and made off with substantial cash and gold in Saena Jewellers's stock pile. This cost the business dearly and it never quite recovered from the blow.

Mohan learnt from his father's mistakes and was more circumspect in his use of ethnic resources. He intimated that he still hired artisans from India in his business, as the skill and know-how of these artisans are not found among Malaysian employees. However, the management and financial aspects of the business are handled solely by himself and his wife only. These artisans work on customizing jewellery, but Mohan and his wife keep a keen watch of the inventory of the business so as to avoid pilferage and loss. The unfortunate loss of his father was a key learning experience to Mohan, who has since utilized this experience as an imperative class resource.

Sri Ganesh Jewellery and Gem Corner (M) Sdn. Bhd. was incorporated on 9 March 1989<sup>133</sup> by Mohan. This firm later changed its name to Sri Ganesh Jewellery and Gem Corner Sdn. Bhd. on 6 October 1995. Prior to commencing this business, Mohan had been learning about the jewellery business whilst working for his father Subramaniam in Saena Jewellers. Although Saena Jewellers's run as a going concern was brief, Mohan gained

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<sup>132</sup> The interview with Mohan Subramaniam from Sri Ganesh Jewellery & Gem Corner Sdn. Bhd. took place on 23 October 2013 at No. 89, Lebuhr Ampang, 50100 Kuala Lumpur.

<sup>133</sup> Prior to 1998, the company was operating under a different name. Data from Companies Commission of Malaysia for the previous company is not available.

invaluable experience from his work there, not to mention the fact that he made and cultivated important business networks in his tenure at Saena Jewellers.

Soon after the closure of Saena Jewellers, Subramaniam passed away. Mohan did not waste the invaluable skill and networks that he had cultivated in his time at Saena Jewellers. He decided to open Sri Ganesh Jewellery and Gem Corner.

Subramaniam, who left India to make a living in Malaya, completed his secondary level education in India. Mohan, on the other hand, finished his secondary level education in Malaysia. Mohan's son is currently pursuing his doctorate in the United Kingdom. Education, needless to say, is an important class resource. Subramaniam and Mohan, it would appear, did not rely much on their secondary education level in growing the business nor used the class resource of education to widen their respective networks. The role of education in this business, therefore, is rather minimal.

Subramaniam also had many years of experience in the gold and jewellery industry, and he was trained in India. Mohan, on the other hand, was trained by his father as soon as he finished his secondary level education. Subramaniam and Mohan, who are Tamils, started the business with their own capital. The specialized skill set and know-how which Mohan obtained from his father, according to him, was invaluable in the commencement and growth of this business. The use of the class resource of experience appears central to this business. This may not augur well for this enterprise as far as succession planning is concerned, however. Mohan related that his son was never trained in the business and whilst obviously well educated, did not possess the skill set and know-how of running a gold and jewellery business in Malaysia. Mohan admitted that he had not considered succession planning at all, since he is still in his 50s and is relatively healthy.

### 7.3.1 Growth of the Business

During the start-up stage, Subramaniam had a small shop under the auspices of Saena Jewellers and offered only a few products for the small market in Malaya. Sri Ganesh Jewellery and Gem Corner began expanding in the late 1980s when Mohan set the company up. During this time, Mohan began modifying the products to fit the changing trends of a rapidly modernizing Malaysia and began catering to the demands of the new middle class. Besides that, he also started producing a new variety of products, which mainly targetted the Hindu religious community (*The Star* 29 August 2014). The increase in religious and cultural events as well as weddings amongst Indians in Malaya also led to the rise in demand for jewellery.

According to Mohan, at about this time, he identified that there were many Indian jewelers in Malaysia, but none of them sought to produce personalized and intricate Hindu religious gold jewellery and decorative items. There was therefore a need in the industry for a firm to tap into the demand for these products. Sri Ganesh Jewellery and Gem Corner took advantage of this need among the Malaysian Hindu society and serviced that need with great success. Hence, during the late 1980s, this firm began serving a medium sized market.

The firm reached its maturity in the 1990s. This was when the products of this firm were very well accepted. The period of maturity for a firm is typically when its products and market garners almost maximum profits. The only way to grow further, for a firm in this phase, is to either engage in product diversification or to expand its market. It was during this time that Sri Ganesh Jewellery and Gem Corner became very well-known for its custom made jewellery. Nalini Dewi, Mohan's wife, joined the business as a director and shareholder, to manage this growing business more efficiently.

Initially, Subramaniam communicated and worked mainly with Indians who migrated and lived in Malaysia. His son, Mohan, on the other hand, had begun networking with many clients from various parts of the world. Lately, due to his experience and expertise, he has obtained customers and networks from as far off as Canada, United Kingdom, New Zealand, Australia and also Singapore. A high proportion of Sri Ganesh Jewellery and Gem Corner's stakeholders such as its employees, suppliers and clients were and still are of Indian origin. This is because Sri Ganesh Jewellery and Gem Corner serves a niche market in Malaysia.

Like Abdul Razak Jewellers, the changes in the *Aadi* and *Thai* month in the Tamil calendar are a thing of the past for this business. The demand for gold and jewellery does not fluctuate much in recent times as Sri Ganesh Jewellery and Gem Corner is now serving a niche religious clientele. During the *Aadi* month, there is a boost in demand from temples in Malaysia and sometimes from other countries too.

### **7.3.2 Strategic Growth in a Niche Market**

As earlier discussed, Saena Jewellers which was started by Subramaniam did not succeed. However, Sri Ganesh Jewellery and Gem Corner is, in turn, well managed by his son, Mohan, who learnt from his father's mistakes. Mohan is well known among the Malaysian Indian community for his custom-made thali<sup>134</sup> necklaces and Hindu religious statues.

Mohan managed to identify a specific niche market which is Hindu religious statues made from gold which are highly demanded by Hindu temple communities as well as the Hindu community themselves (especially among those who are well off and have prayer

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<sup>134</sup> A necklace given by the Hindu groom to his bride. This is similar to the symbolism of a wedding ring in the western culture.

altars at home). Mohan is, by and large, the only Malaysian Indian goldsmith who has harnessed and cultivated the skills necessary for this niche market. This firm also improved by leaps and bounds over the decades due to the rising demand for gold and jewellery in Malaysia.

In the past, jewellery was handmade by experienced goldsmiths. However, in recent times, most jewellery is no longer made by these goldsmiths. There has been a fall in the demand for artisans and goldsmiths, and increase in demand for machinery that can produce jewellery in bulk. As in most industries in the modern era, machines are rapidly replacing workmen. However, according to Mohan, his firm is unique in that the items of jewellery made are substantially handcrafted and not produced in large quantities. This, according to him, preserves the quality of his products.

The safety and security levels in Malaysia plays a pivotal role in the demand for gold and jewellery. Demand for gold and jewellery, according to Mohan, is directly proportionate to safety and security levels in the country. As the safety and security levels in Malaysia leave much to be desired for, the demand for gold and jewellery also correspondingly falls as customers prefer to wear imitation jewellery instead.

Mohan expressed his hope that the government will improve the safety and security levels in Malaysia as he believes that this would significantly increase the demand for gold and jewellery in Malaysia. Should the safety and security levels improve, Mohan indicated that he may open another branch in the future.

### **7.3.3 Changes in Share Capital, Revenue and Ownership Pattern**

Since Sri Ganesh Jewellery and Gem Corner was incorporated, the firm has increased its share capital twice. The first increase was on 10 July 1993 from RM25,000 to

RM500,000. On 14 June, 2004, the firm increased its share capital again from RM500,000 to RM1,000,000.

In 2012, the revenue garnered by the business was RM12,282,705.00 and its profit before tax was RM170,134.00. The firm's revenue has increased by 1368.67%, while its profit before tax has increased by 142.05% since 1993<sup>135</sup>. These increases in share capital, revenue and profit before tax of Sri Ganesh Jewellery and Gem Corner is due to product extension, product modification and market expansion.

The firm, according to Mohan, had initially begun business as a general goldsmith and jeweler, before discovering a profitable niche market in the Hindu religious arena and custom-made gold items for Hindu temples in Malaysia. This resulted in significant product extension to cater to these need, which was not being met by other jewelers in Malaysia. In this regard too, Mohan explained that the firm's design offerings in the early days were very India-centric and traditional. The firm modified its product offerings and updated its designs to cater to modern times, with great success. Also, the firm supplies jewellery now to customers and distributors in countries such as Canada, Australia, and Singapore etc. Thus there has been significant market expansion too, further boosting its income.

Table 7.4 presents the ownership patterns of Sri Ganesh Jewellery and Gem Corner. Nalini Dewi is Mohan Subramaniam's wife, whereas Ganesh Gimson Rahman is, according to Mohan, a closefamily friend. Table 7.5 presents the increase in share capital, revenue, profit margins and number of employees of Sri Ganesh Jewellery and Gem Corner Sdn. Bhd.

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<sup>135</sup> The earliest data collected from annual reports and annual returns provided by Companies Commission of Malaysia.

**Table 7.4: Ownership Patterns of Sri Ganesh Jewellery and Gem Corner Sdn. Bhd.**

Year	Director	Shares Held
1993-1994	Mohan a/l Subramaniam	300,001
	Nalini Dewi a/p Subramanian	1
	Ganesh Gimson Rahman a/l Packirisamy	-
1995-2002	n/a	n/a
2003	Mohan a/l Subramaniam	499,998
	Nalini Dewi a/p Subramanian	1
2008-2012	Mohan a/l Subramaniam	750,000
	Nalini Dewi a/p Subramanian	250,000

Source: Companies Commission of Malaysia

**Table 7.5: Share Capital, Revenue and Profit Margins, 1993–2012**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue (Turnover in RM)	Profit before Tax (RM)	Number of Employees
1993	300,003	500,000	836,315	(404,637)	-
1994	300,003	500,000	789,473	(174,726)	-
1995	300,003	500,000	1,137,253	(39,410)	-
1996	300,003	500,000	1,199,987	(4,937)	-
1997	300,003	500,000	1,256,491	12,951	-
1998	300,003	500,000	1,345,708	(13,494)	-
1999	500,000	500,000	1,581,342	9,116	-
2000	500,000	500,000	2,292,320	20,491	-
2001	500,000	500,000	2,692,773	33,314	-
2002	500,000	500,000	3,152,870	31,359	-
2003	500,000	500,000	3,805,656	111,269	25
2004	1,000,000	1,000,000	4,373,305	96,375	23
2005	1,000,000	1,000,000	1,262,581	80,802	22
2006	1,000,000	1,000,000	4,873,335	48,765	22
2007	1,000,000	1,000,000	6,584,444	77,872	22
2008	1,000,000	1,000,000	10,274,073	104,607	22
2009	1,000,000	1,000,000	7,699,209	110,992	23
2010	1,000,000	1,000,000	8,774,492	119,685	24
2011	1,000,000	1,000,000	12,513,916	169,833	33
2012	1,000,000	1,000,000	12,282,705	170,134	-

Source: Companies Commission of Malaysia

In the earlier years, i.e. from 1993 to 1996, the firm posted losses year on year, albeit its losses were rapidly decreasing with each passing year. In 1997, the firm eventually managed to turn the corner to profitability, with a modest profit of RM 12,951 obtained in that year. It was back in the red the following year, however, due to the Asian financial crisis of 1997-1998.

After this period, the firm began posting slow but steady profits, save and except for the period from 2002 to 2007, when its profits levels were not very encouraging, due to the relatively high price of spot gold in the world commodities market and due also to necessary capital expenditure undertaken by the firm. After the slow growth in the 2000s, the firm posted significant year on year earnings from 2008 to 2012.

#### **7.3.4 Summary**

Located at the Indian ethnic enclave of Lebu Ampang, Sri Ganesh Jewellery & Gem Corner is managed by its second generation successor and his immediate family member, who is his wife, Nalini Dewi Subramanian. Mohan has been assisted by his wife in the management of the business as well as in designing the jewellery that the company offers for sale.

Experience did play a crucial role in the first and second generation of entrepreneurs. But as Mohan's son did not receive training from Mohan and if he becomes the third generation successor, he will possess very minimal tacit knowledge due to lack of training from his father from an early age. Male dominance does not apply in Sri Ganesh Jewellery & Gem Corner as Mohan's wife is a director in the firm.

Sri Ganesh Jewellery & Gem Corner has identified a supply gap and fulfils this commercial vacuum by producing temples and prayer items including statues of Hindu



deities and custom made jewellery. Over the years, the company succeeded in securing a niche market for itself.

Sri Ganesh Jewellery & Gem Corner's rare traditional craftsmanship of jewellery helps in the maintenance of the Indian identity and cultural preservation among modern Malaysian Indians, the company's main target market.

Technology is used minimally as Mohan has succeeded in capturing the niche market for golden statues of Hindu deities in Malaysia. External challenges include safety and manpower. The plan for succession is still in progress, although Mohan gave no indication as to whom will be the third generation successor.

#### **7.4 Case Study Eleven: V. Gopal Pather Sdn. Bhd.**

Traditionally, goldsmiths were business owners as well as artisans. The knowledge and skills of the goldsmith trade was passed down from one generation to the next in "Pather"<sup>136</sup> families. V. Gopal Pather and his ancestors hail from the Pather caste. According to Krishna Gopal Pather, the late V. Gopal Pather's son<sup>137</sup>, the skills and knowledge of the goldsmith business has been in his family for generations. He stated that his father had learnt the skills, expertise and business practices of the goldsmith trade from his grandfather and great grandfather in India. In 1938, V. Gopal Pather came to Malaya to start a goldsmith shop in the heart of Jalan Tengku Kelana, Klang.

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<sup>136</sup> Vishvabrahmin is the term used generally in India for a caste of priests, engineers, architects, sculptors, temple builders and artists. The term is used to refer to five sub-castes, which are blacksmiths, carpenters, coppersmiths, goldsmiths and sculptors. In Tamil Nadu, the Vishvabrahmins were also identified variously as the Kamaalar or Aachari or Aasari, forming several occupational subdivisions. The goldsmith caste was known as the Swarna Shilpis and a common surname of this caste was Pather, especially prevalent in the Thanjavur and Kumbakonam regions of Tamil Nadu. See Thurston (1990).

<sup>137</sup> The interview with Krishna Gopal from V. Gopal Pather Sdn. Bhd. took place on 20 November 2013 at No. 95, Jalan Tengku Kelana, Klang, Selangor.

V. Gopal Pather & Sons was incorporated on 23 July 1941. V. Gopal Pather and his family members are Tamils. Hence, they are most comfortable communicating in Tamil with family members and friends. There is a very close family relationship which the Pathers of Malaya kept with the Pathers of India, according to Krishna Gopal Pather. Although geographically separated, the technique and skill employed in the goldsmith trade in India and Malaya were indistinguishable, due to its common genesis.

As his children grew older, V. Gopal Pather began grooming his older sons to manage the business. As children, the three eldest brothers, i.e. Ramasamy, Balakrishnan and Subramaniam became acquainted with their father's business. According to Subramaniam, the streets were not as busy then as it is now, and it was also much safer back then (*The Star* 16 May 2002). V. Gopal Pather & Sons expanded its business in 1997 by opening another shop in the same vicinity. On 19 January 1995<sup>138</sup>, the firm changed its name to V. Gopal Pather Sdn. Bhd.

V. Gopal Pather left India and came to Malaya to seek a brighter future for himself and his descendants. He encouraged his children to pursue this business as demand for gold and jewellery in Malaysia was strong and continues to grow steadily. As there was a large population of Indians in pre-Independent Malaysia, the firm had ready customers who demanded services from goldsmiths as they had done when they were back in Tamil Nadu.

V. Gopal Pather then passed down this expertise to all his sons. His sons are now training and guiding their own children to run the business. V. Gopal Pather completed his primary level education, whereas his sons completed their secondary level education.

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<sup>138</sup> Prior to 1995, the company was operating under a different name. Data from Companies Commission of Malaysia for the previous company is not available.

V. Gopal Pather's grandchildren, on the other hand, were fortunate to have completed their tertiary level education. While V. Gopal Pather's level of formal education is not particularly high, he gained tacit knowledge of the goldsmith trade from his father and grandfather in India.

#### **7.4.1 Growth and Expansion of the Business**

During the start-up stage, V. Gopal Pather had a small shop and offered only a few products for a very small market in Malaya. The firm was then managed by V. Gopal Pather and his wife. When the business began expanding, V. Gopal Pather began modifying the products offered to cater to the demands of customers. Soon, V. Gopal Pather Sdn. Bhd. began serving a medium sized market. Around the 1990s, the firm became a household name among Malaysian Indians and was synonymous with custom made Indian jewellery. At this time, the firm was managed by V. Gopal Pather's three eldest sons Ramasamy, Balakrishnan and Subramaniam. The younger brothers, i.e. Amarajothi, Uvaraju, Sekhar, Chandra Sheran, Balraja, Navaneetha and Krishna Gopal, also assisted their elder brothers run the business. During this time, the products offered by this firm were very well accepted in the Malaysian market, especially by the Indian community. However, Krishna Gopal intimated that in the past, customers were easier to please in comparison to present times. These days, he observed, customers expect after sales services such as cleaning and polishing. Hence, firms in this industry have to work harder to ensure that products offered are excellent in quality. Presently, the firm is in the process of diversifying its products to reach a wider target market.

When V. Gopal Pather first came to Malaya, he was financially supported by his friends and relatives from India. He also networked mainly with Indians in Malaya. His sons and grandchildren, however, have now started to build better relationships with non-

Indians in Malaysia, while maintaining strong relationships with its Indian origins to expand the business.

Most of this firm's first customers were Indians who came from India to look for better opportunities in Malaya. Today, a majority of V. Gopal Pather's employees and clients are still of Indian origin. In the past, the suppliers of this firm were friends or relatives. Now, the firm's suppliers are of Chinese origin. Besides that, Krishna Gopal also emphasized that the number of Chinese competitors in the gold and jewellery industry in Malaysia is growing at a very fast rate.

He continued further that these days, the demand for jewellery does not fluctuate much during the *Aadi* and *Thai* months in the Tamil calendar as it did traditionally. The demand for handmade and traditionally designed jewellery has also significantly reduced over time. This has had a direct impact on the gold and jewellery industry in Malaysia, where more modern designs are being produced in bulk. Due to all these factors, most jewellery in Malaysia are now manufactured by machines.

According to Krishna Gopal, the firm prefers to hire close family members or relatives as they are more trustworthy. Trust is an important element in this business as employees are dealing with a very expensive raw material, i.e. gold, and the potential for abuse is great.

V. Gopal Pather started the business with his own capital. In order to expand the business, Balakrishnan, Subramaniam and their brothers reinvested their profits so that no loan was required to fund the expansion of the business. Nevertheless, the firm has faced significant challenges. The immigration policies in Malaysia are, according to Krishna Gopal, extremely stringent. Therefore, it is becoming increasingly difficult to obtain permits and to hire experienced goldsmiths from India to meet the demands of the

locals for gold jewellery. The growth of the business today is very much highly dependent on machinery to manufacture gold jewellery. He asserts that the firm is aware that the positive support and assistance of the government for Indians in Malaysia is essential to grow the business. However, he hopes that these policies will be efficiently and effectively executed to reach its objectives.

This firm is now managed by the second and third generation of directors, who are V. Gopal Pather's children and grandchildren. Ramasamy is now grooming his son, Shreedharan Ramasamy, to manage the business alongside his younger brothers: Balakrishnan, Uvaraju, Sekhar, Chandra Sheran and G. Gopal Krishnan. Krishna Gopal intimated that the firm now faces an acute succession problem as none of the members of the third generation, save and except for Shreedharan Ramasamy, have shown any interest in taking over the business. Most of V. Gopal Pather's grandchildren have tertiary education and are employed as professionals. As such, Krishna Gopal lamented that they are not interested in the goldsmith trade.

#### **7.4.2 Changes in Share Capital, Revenue and Ownership Pattern**

In 2009, the revenue garnered by V. Gopal Pather Sdn. Bhd. was RM 12,152,654 and its profit before tax was RM 47,221. The revenue of this firm has increased by 283.39% since 1995 (see Table 7.7). The increase in share capital and revenue of V. Gopal Pather is due to product extension, product modification and market expansion. Table 7.6 presents the increase in share capital, revenue and profit margins of V. Gopal Pather Sdn. Bhd.

The directors of V. Gopal Pather Sdn. Bhd. incorporated a holding company on 4 April 2000 known as V. Gopal Pather Holdings Sdn. Bhd. There are only three directors in this firm, and they are Ramasamy, Balakrishnan and G. Gopal Krishnan.

Table 7.7 illustrates the ownership patterns of V. Gopal Pather Sdn. Bhd. As seen in the table below, from the year 1995 to 2006, the directors of this firm were Gopal Pather's children. However, in 2013, some of Gopal Pather's grandchildren such as Shreedharen and Navaneethakrishnan, were already serving as directors.

**Table 7.6: Share Capital, Revenue and Profit Margins, 1995 – 2009**

Year	Share Capital (Issued & Fully Paid in RM)	Authorised Ordinary Shares (RM)	Revenue in RM (Turnover)	Profit before Tax (RM)
1995	2	100,000	3,169,804	101,968
1996	200,000	500,000	5,225,639	152,652
1997	200,000	500,000	5,348,290	88,923
1999	200,000	500,000	4,359,578	85,252
2000	500,000	500,000	5,504,358	133,085
2001	500,000	500,000	5,257,266	26,745
2002	500,000	500,000	4,696,938	17,038
2003	500,000	500,000	5,095,029	85,360
2004	500,000	500,000	4,593,481	61,013
2005	500,000	500,000	6,778,519	117,485
2006	500,000	500,000	10,570,645	106,361
2007	500,000	500,000	12,226,530	140,135
2008	500,000	500,000	12,588,605	62,562
2009	500,000	500,000	12,152,654	47,221

Source: Companies Commission of Malaysia

**Table 7.7: Ownership Patterns of V. Gopal Pather Sdn. Bhd.**

Year	Directors	Shares Held
1995	Ramasamy a/l V. Gopal Pather	1
	Balakrishnan a/l Gopal	1
1996	Ramasamy a/l V. Gopal Pather	30,000
	Balakrishnan a/l Gopal	30,000
	G. Amarajothi a/l Gopal	20,000
	Uvaraju a/l Gopal	20,000
	Sekhar a/l Gopal	20,000
	Chandra Sheran a/l Gopal	20,000
	G Balraja a/l Gopal Pather	20,000
	Navaneetha Krishnan a/l Gopal	20,000
	G. Gopal Krishnan a/l Gopal	20,000
2000	Ramasamy a/l V. Gopal Pather	100,000
	Balakrishnan a/l Gopal	100,000
	G. Gopal Krishnan a/l Gopal	100,000
	G. Amarajothi a/l Gopal	
	Uvaraju a/l Gopal	
	Sekhar a/l Gopal	
	Chandra Sheran a/l Gopal	
	G Balraja a/l Gopal Pather	
	Navaneetha Krishnan a/l Gopal	
2001-03	Ramasamy a/l V. Gopal Pather	156,001
	Balakrishnan a/l Gopal	156,001
	G. Gopal Krishnan a/l Gopal	144,001
	G. Amarajothi a/l Gopal	
	Uvaraju a/l Gopal	
	Sekhar a/l Gopal	
	Chandra Sheran a/l Gopal	
	G Balraja a/l Gopal Pather	
	Navaneetha Krishnan a/l Gopal	
	Balakrishnan Vijaya	
2006	Ramasamy a/l V. Gopal Pather	
	Balakrishnan a/l Gopal	
	Uvaraju a/l Gopal	
	Sekhar a/l Gopal	
	Chandra Sheran a/l Gopal	
2013	Shreedharen a/l Ramasamy	
	Balakrishnan a/l Gopal	
	Uvaraju a/l Gopal	
	Sekhar a/l Gopal	
	Chandra Sheran a/l Gopal	
	G. Gopal Krishnan a/l Gopal	
	Navaneethakrishnan	

Source: Companies Commission of Malaysia

### 7.4.3 Summary

Similar to many Indian ethnic businesses, V. Gopal Pather Sdn Bhd. began and is still located in the ethnic enclave of Klang. The high-risk nature of the business which includes the handling of expensive raw gold material has affected the management style of this company, which includes high power distance relationship as the first generation of entrepreneurs train the second generation, which in turn trains the third generation entrepreneurs including Shreedharan Ramasamy and Navaneethakrishnan by the passing down of tacit knowledge, as well as the hiring of immediate family members in continuation of the founder's tendency to trust family members only.

Class resources did play a role in the establishment of the business in terms of experience as the V. Gopal Pather's goldsmith family trade has been passed down from generation to generation. However, education currently does not play a vital role in the growth and expansion of the business, but the inference that it will play a role in the future can be made due to higher level of education obtained by the future third generation of successors.

The presence of female directors is unclear, thus it would be inaccurate to conclude that V. Gopal Pather implements male dominance in determining the successors of the business. Like its counterparts, V. Gopal Pather Sdn. Bhd. targets mainly Malaysian Indians, and indirectly plays a role in preserving the Indian cultural identity by offering traditional Indian jewellery.

Technology has not been embraced as an advantage, but more of a necessity to keep up with the customer demands in terms of quantity, as well as the motivation to gain higher profit. The identified opportunity would be the hiring of Chinese suppliers who directly impact the increase in turnaround time for custom made jewellery. Indirectly, they also act as agents of word of mouth that helps expand the firm's intra-ethnic clientele.



V. Gopal Pather's external challenges lie in its store's safety and manpower supply. Ramasamy, Balakrishnan, Subramaniam and their brothers have a succession plan in place, where their children will be taking over the business as the third generation of entrepreneurs in the future, although the success of the plan would ultimately depend, as Krishna Gopal acknowledged, on the interest shown by the third generation members of the firm in running the business.

## **7.5 Conclusion**

The empirical findings from the firms in this industry demonstrates that there are different variables in the manner in which the firms started, expanded and diversified. Abdul Razak realized the importance of class resources; both education and experience. Hence, Abdul Razak, sent his son, Abdul Rasull to complete his Diploma in Draughtmanship and later work in a local bank for experience. This enabled Abdul Rasull to reduce business costs and turnover production time by increasing the usage of technology. On the other hand, the owner of Sri Ganesh Jewellery & Gem Corner relied only on his experience to diversify his business and create a niche market in crafting and producing special prayer items as well as custom made jewellery. He also relies very heavily on the assistance of his wife to run the business. Similar to the case of Sri Ganesh Jewellery & Gem Corner, V. Gopal Pather also depended on experience and tacit knowledge in the expansion of the business.

All three firms in this industry rely heavily on ethnic resources to sustain or expand the business. Due to this, the owners of Abdul Razak Jewellers are actively involved in the Malaysian Indian Goldsmith and Jeweller Association.

Male gender dominance is seen in the start-up and expansion of Abdul Razak Jewellers as the first (Abdul Razak) and second (Abdul Rasull) entrepreneurs were male. Abdul

Rasull's succession has been well-planned, with his son Mohamed Razalie as the primary successor of the business. As for Sri Ganesh Jewellery & Gem Corner, the start-up and expansion is managed a team of husband and wife. Second generations entrepreneur Mohan, is assisted by his wife in the management of the business as well as in designing the jewellery that the company offers for sale. The first and second generations of entrepreneurs at V. Gopal Pather were predominantly males. As for the third generation entrepreneurs; the presence of female directors is unclear.

Firms in this industry also faces many challenges. One crucial challenge is the increase in insurance costs due to the appalling security level in Malaysia, especially in the Klang Valley. All three owners of businesses in this industry are pessimistic about the growth of this industry due to this situation. Another challenge, predominantly faced by Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather, is succession planning.

## **CHAPTER 8: DISCUSSION**

### **8.1 Introduction**

The findings of the study will be discussed in two parts. The first part of this chapter showcases the empirical analysis and evaluates each theme separately in order to further understand the changes that took place over the generations. The second part of this chapter focuses on the theoretical aspect of this thesis by comparing and analyzing additional themes from each case study that have emerged from this thesis.

### **8.2 Thematic Analysis on the Evolution of Indian Firms in Malaysia**

Seven themes<sup>139</sup> will be discussed in this chapter. They are class resources, ethnic resources, predisposing factors, networks, market conditions, role of the state and growth stages. Each theme will be analysed with generational change to gather a detailed comprehension of the evolution of Indian firms in Malaysia.

#### **8.2.1 Class Resources and Generational Change**

As discussed in the earlier chapters, class resources have three sub-categories: education, experience and capital. The empirical evidence from the case studies indicate that there was a clear improvement in the level of education through the generations. Most shareholders from the first generation only obtained either primary or secondary education. To be specific, the shareholders or owners of eight out of eleven firms (Santha Store Flour Mill, Gemini Flour Mills, M.P. Lingam & Sons, The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Ajuntha Textiles, Sri Kumaran Pattu Mahligai and Sri

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<sup>139</sup> These seven themes are those that are presented in the conceptual framework.

Ganesh Jewellery & Gem Corner) obtained secondary education, while one, V. Gopal Pather & Sons, obtained primary education. The level of education of the shareholders of the first generation for Abdul Razak Jewellers and Binwani's are unknown. A larger number of shareholders of the second and third generations have obtained tertiary education. Out of eleven shareholders or owners, seven (Santha Store Flour Mill, M.P. Lingam & Sons, Jumbo Restaurant & Catering, Binwani's, Sri Kumaran Pattu Mahligai, Abdul Razak Jewellers and V. Gopal Pather & Sons) have tertiary education, while those of the remaining four (Gemini Flour Mills, The Big Rajah Food Caterers, Ajuntha Textiles and Sri Ganesh Jewellery & Gem Corner) have obtained secondary education. Hence, an upward mobility is seen in the level of education through the generations of Indian entrepreneurs in Malaysia. This upward mobility through education is one of the core reasons that contributed to the growth and diversification of these Indian firms.

Due to the growth and financial returns of the firm during its early years, the first generation entrepreneurs were able to financially support their descendants to further their studies locally or abroad (Santha Store Flour Mill, Binwani's, Sri Kumaran Pattu Mahligai and V. Gopal Pather & Sons). In the case of Santha Store Flour Mill, Binwani's, Sri Kumaran Pattu Mahligai and M.P. Lingam & Sons, the second and third generation entrepreneurs were encouraged by the first generation entrepreneurs to build good networks with members of the inter-ethnic community for the growth, expansion and diversification of the firm.

Better education does not only provide better business and management understanding, but it allows for better networking. Quality education provides the entrepreneurs confidence and the capacity to articulate themselves better. This can be seen in the case of Binwani's, Santha Store Flour Mill, Jumbo Restaurant & Catering, M.P. Lingam & Sons, V. Gopal Pather and Sri Kumaran Pattu Mahligai. In the case of

Binwani's, Chandru Binwani's sons are now taking the creation of business ties with international brands seriously; such business networks will allow Binwani's to expand the range of high quality products the enterprise can market. Such international collaborative ties are created also because the owners of Binwani's assume that these networks will allow the firm and its products to be internationally recognized.

Similarly, Dr. Balakrishnan from Santha Store Flour Mills also networks with Malaysian government officials as well as other food business owners from around the world. He also stays in contact with them via emails and phone calls to sustain these close ties that he has cultivated.

It was also agreed by most entrepreneurs (Santha Store Flour Mill, M.P. Lingam & Sons, Jumbo Restaurant & Catering, Binwani's, Sri Kumaran Pattu Mahligai, Abdul Razak Jewellers and V. Gopal Pather & Sons) that better education provides for a better ability to recognize opportunities to achieve faster growth in business. However, there were also other entrepreneurs (Gemini Flour Mills and The Big Rajah Food Caterers) who believe that education does not make a difference when it comes to the development of the firm, as only experience counts.

While experience does provide for the nurturing of better skills for business development and management, it is also evident from the case studies that education with experience will be able to provide for a stronger ability to recognize business opportunities and handle business challenges. In the case of Binwani's, Chandru Binwani planned his sons' education in a manner where they would be trained in different, but relevant, disciplines a factor that would contribute to better management of the firm. Vijay Binwani is a finance graduate, whereas Ravin Kumar Binwani is a marketing graduate. Vijay Binwani is now managing the financial aspects of the business, whereas Ravin Kumar Binwani has control over the marketing dimensions of the business.

Nine out of eleven descendants (M.P. Lingam & Sons, Gemini Flour Mills, The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Binwani's, Sri Kumaran Pattu Mahligai, Ajuntha Textiles, Abdul Razak Jewellers and V. Gopal Pather & Sons) chose to learn, experience and take over the business which were set up by the first generations. This is inconsistent with many prior studies (Drew, 1995; Clark and Drinkwater, 2010) that argue that with higher education and qualifications, the new generation's propensity for joining the family business diminishes.

The first generation migrants obtained much of their experience from family members and members of the same ethnic, even sub-ethnic, community. Five (M.P. Lingam & Sons, Binwani's, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons) out of eleven first generation entrepreneurs learnt the necessary business and management skills from their family members, whereas six (Santha Store Flour Mill, Gemini Flour Mills, The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Ajuntha Textiles and Sri Kumaran Pattu Mahligai) out of eleven first generation entrepreneurs acquired these skills and knowledge from members of the same ethnic community.

In the case of Gemini Flour Mills, Illango who was originally from Kuala Lumpur, moved to Penang to work in Alagappa's Flour Mills. It was at Alagappa's that he obtained his skills, knowledge and experience about the spice industry, including how to manage a spice mill. In the case of The Big Rajah Food Caterers, John Joseph Xavier worked closely with a friend of the same ethnicity at Arumugam Catering, one of the first Indian caterers in Malaysia, on a part time basis. It was at Arumugam Catering he learnt how to operate and run a catering business. In the case of Ajuntha Textiles, Muthuvairu Dakshina Moorthy gained his experience in the textile industry while working at Kamdar, one of the leading textile stores in Malaysia.

All eleven second and third generation entrepreneurs are currently being groomed or were groomed by their parents or grandparents. Although they gained the necessary business skills from their family members, it is agreed that the latter generation of entrepreneurs may have lost some tacit knowledge due to their increased reliance on new technology to improve the quality of their products or refine them to suit local consumption taste. Such new technology would also help them diversify their range of products. This is noticed in the food and jewellery industries, where spices and jewellery is no longer manually processed. In the restaurant and catering businesses, the owners no longer cook the food. Instead, experienced chefs are hired. All these issues indicate much about transformations occurring in the nature of these products, bringing into question the viability of referring to them as “ethnic products” or “Indian products”.

In terms of experience, we see a reduction in terms of intra-ethnic dependence on the Indian or the same sub-ethnic community. Among members of the first generation entrepreneurs, there is clear evidence of intra-ethnic dependence to garner business experience, obtain capital and create relevant networks to sustain or develop the business. However, among the second and third generation entrepreneurs, having obtained higher qualifications and after learning the necessary skills and obtaining industry knowledge from their parents or grandparents, there was a move by them to create inter-ethnic business ties, as well as ownership and directorship ties, and then penetrate the non-Indian consumer base in Malaysia. The latter generations were also aware of the importance of obtaining necessary skills from non-Indians for the growth and diversification of their enterprises. This can be seen in firms such as Santha Store Flour Mill, M.P. Lingam & Sons, The Big Rajah, Jumbo Catering & Restaurant and Binwani's.

Another important aspect to note is the element of trust. The empirical evidence indicates that among the first generation, particularly the migrants, these Indians practiced

the culture of strong trust with co-ethnics, a tendency which has gradually reduced over the generations. Mohan Subramaniam's father, Subramaniam, founded Saena Jewellers prior to founding Sri Ganesh Jewellery & Gem Corner. Saena Jewellers was flourishing when it first commenced business. In order to expand the business, Subramaniam decided to hire members of the same ethnic community. Subramaniam placed a great deal of trust in the new hires, but they mismanaged the company's revenue and assets, causing loss to the company and leading ultimately to the closure of Saena Jewellers. Very soon after, Subramaniam passed away, leaving his son, Mohan Subramiam, to run his new business, Sri Ganesh Jewellery & Gem. Learning from bitter past experience, Mohan Subramaniam now prefers to appoint family members to manage Sri Ganesh Jewellery & Gem Corner.

The owners of V. Gopal Pather & Sons also previously hired and trained members of the same ethnic community. While training his sons, V. Gopal Pather also trained a young man to manage the business. However, this young man soon decided to open his own jewellery store, which is now situated in the same vicinity as V. Gopal Pather & Sons. Therefore, Ramasamy and his brothers prefer to train their own family members to help in the day-to-day operations and general management of the business, to avoid breeding new competitors.

The data indicates that eight (Santha Store Flour Mill, M.P. Lingam & Sons, The Big Rajah Food Caterers, Binwani's, Ajuntha Textiles, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons) out of eleven first generation entrepreneurs started their respective businesses with their own capital. Only two (Gemini Flour Mills and Sri Kumaran Pattu Mahligai) first generation entrepreneurs acquired financial assistance from members of the Indian community to start the business. Sri Kumaran Pattu Mahligai's owner, Mohan Natarajan, related how commencing the business was an uphill task, especially since he and his brothers did not have much capital.



Besides obtaining capital by borrowing from friends of the same ethnic group, the company's suppliers were also Indian-owned who also supplied materials without charge, until Mohan's business began registering considerable profits.

Most of the second and third generation entrepreneurs (Santha Store Flour Mill, Gemini Flour Mills, M.P. Lingam & Sons, The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Binwani's, Ajuntha Textiles, Sri Kumaran Pattu Mahligai and V. Gopal Pather & Sons) relied on local banks for capital for the growth, development and diversification of their businesses.

It is important to note that the first generation, particularly the migrants, were in a difficult position in terms of securing access to capital from banks, given their class background – they were poor with little or no skills or even much education. Hence, obtaining credit to commence a business was not easy. There were other options, such as borrowing from the Chettiars, the Indian money-lending caste. However, many of them chose not to do so as the interest rates charged by the Chettiars were often rather steep. It was evident that distrust towards other companies owned by Indians and little or no trust in informal financial institutions made opportunities for obtaining loans scarce. Hence, the most viable and probably sole option for the first generation business people was to start a business with one's own capital. This situation would change over the generations; the current generation of entrepreneurs are now able to obtain loans from local banks more easily for diversification and expansion.

Most businessmen interviewed explained that they realised that in order to make something of their lives and provide a better future for their children, they had to start a business. This is because many of them were not very highly educated and could not obtain well-paying or professional jobs. Besides that, most of the first generation

entrepreneurs also could only converse comfortably in their own native language. Hence, a large number of these entrepreneurs started businesses that were ethnically based.

### **8.2.2 Ethnic Resources and Generational Change**

Ethnic resources have four sub-categories. The sub-categories are community support, demography, culture and identity. Of the eleven entrepreneurs, eight (Santha Store Flour Mill, M. P. Lingam & Sons, Binwani's, Sri Kumaran Pattu Mahligai, Ajuntha Textiles, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons) stated that when these firms first started, members of the first generation were only fluent in their sub-ethnic languages such as Tamil, Malayalam or Sindhi. However, the second and third generation were fluent in their sub-ethnic languages as well as Malay and English. The proficiency of the latter generation in at least three languages was important in terms of gathering information to understand the needs and wants of customers. As these enterprises matured and diversified, obtaining the relevant information and acting on them accordingly was pertinent for product improvement, development and diversification.

In the case of Santha Store Flour Mill, Dr. Balakrishnan mentioned that his father-in-law, Vallison, was only fluent in Tamil and Malayalam. For this reason, when the business first started, most of Santha Store Flour Mill's stakeholders were Indians. However, when Dr. Balakrishnan began managing the business, the percentage of non-Indian stakeholders increased appreciably as Dr. Balakrishnan was comfortable networking with people in Malay and in English. This was also the case with Binwani's, where Chandru Binwani is now tapping into the Malay customer base while also working closely with other ethnic communities in Malaysia.

Since the second and third generation entrepreneurs were fluent in Malay and English, they were able to interact better with a larger number of customers, suppliers, distributors, employees, and were not held back by the notion that they need only deal with Indians. Given the insights they obtained by dealing with a larger community than just Indians, these entrepreneurs were also able to ensure that the information they had obtained about the market could be used to resolve potential problems for their companies, particularly in terms of issues that had to be dealt with when considering how to expand the range of products they wanted to offer. Communicating effectively with all stakeholders has provided these entrepreneurs the opportunity to grab business opportunities that came their way.

Table 8.1 shows the changes in the population of Malaysian Indians since 1957. It is pertinent to note the demographic change in the country in order to understand the need for the evolution of ethnic resources. The population percentage of Malaysian Indians was much higher in the past, especially when all eleven enterprises were incorporated. And given that the pioneers were more conversant in their sub-ethnic languages, during the start-up stage, most of the products were made to suit Indians. Inevitably too, most of the stakeholders were of Indian origin.

However, time changed these factors. By the year 2000, the percentage of Malaysian Indians in the country had reduced to a mere 7.68%. Recognizing this major demographic change, as the latter generation entrepreneurs took over the management of these businesses, they were compelled to respond to this situation, necessitating an improvisation of their products. The changes required involved not merely those dealing with the way their products were produced; they also entailed changing the way they managed the company while also recognizing the need to bring in directors and employees who were ethnic Indians. Interestingly enough, such changes would help

increase their client base for their products, a factor that contributed to increasing appreciably their revenue income.

**Table 8.1: Population of Malaysian Indians, 1957-2010**

Year	Population of Indians in Malaysia (%)
1957	11.26
1970	10.69
1980	10.25
1991	9.62
2000	7.68
2005	7.5
2010	7.3

Source: Department of Statistics, Malaysia

According to seven out of eleven entrepreneurs (The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Ajuntha Textiles, Sri Kumaran Pattu Mahligai, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons), there has been much change in terms of culture over the years. In the past, decision-making on food for weddings and large family events as well as the purchase of traditional clothing, accessories and jewellery were taken by the elders in the family. Indian families would gather in shops just to purchase material, jewellery or even decide on the food to be served to their guest at major functions. In recent times, this practice has changed significantly. Most decision-making is done by the bride and groom, without the active involvement of their parents as well as other family elders.

In the jewellery industry, the older generation used to shop only during the auspicious months of the Indian calendar. The younger generation of Malaysian Indians no longer adhere to this tradition. Many now shop during the non-auspicious months of the Indian calendar, a factor that suggests that cultural considerations among the new generation of Malaysian Indians has undergone significant shifts. These enterprises needed to respond to the consequence of generational changes in society by altering the way they conducted

their businesses as well as produced their products. The second and third generation businesspeople were far better equipped to deal with these changes in society than the founding generation.

The empirical evidence obtained from this research confirms, following also interviews with the management of all eleven firms, that they responded to changes in society by undergoing what can be described as “product assimilation”, a trend initiated primarily by the second and third generations. In the case of Santha Store Flour Mills, Dr. Balakrishnan explained that in the past, curry powders commonly used was coarse compared to the refined textures of the ones currently produced and sold. From the 1950s till the 1970s, the coarse curry powder was in demand and sold well in Malaysia. Dr. Balakrishnan realised, however, that the trend was changing with a growing preference for Malaysians to now cook with fine curry powder. The product had to be modified to cater to the changing demands of the market. A similar form of “product assimilation” was also undertaken by Gemini Flour Mills and M.P. Lingam & Sons. Kaliaperumal, the owner of M.P. Lingam & Sons explained that his father, Dharmalingam, concentrated on selling *Nallaennai* which is used mainly by Indians. However, when Kaliaperumal took over the business, he decided to manufacture and sell turmeric powder, coriander powder, murukku flour, athirasam flour, rice flour, meat curry powder and also fish curry powder to suit local demand that had changed. Since these three firms manufactures and sells food products, it was important for all of them to obtain Halal certification to be able to sell these food products to the Muslim community.

Owners of the restaurant and catering business who were interviewed all concurred that the nature of the products offered by their businesses had changed significantly. When they first started, most of their customers were of Indian ethnicity. Hence, their menu only offered Indian food. Over time, as they encountered an increase in demand for

Indian food by the Chinese and Malays, they incorporated non-Indian food such as *Satay*, *Char Kway Teow*, *Murtabak*, *Kuih Lapis*, in their menu. These firms have also acquired Halal certification to be able to cater to a much larger market.

The proprietors of Sri Kumaran Pattu Mahligai and Ajuntha Textiles drew attention to one key trend: when their business first started, their customers were not particularly concerned about the quality of their imported products. This situation had now changed, with customers demanding material of premium quality. This change is also because these companies now have a more diversified customer base, including Chinese, Malays and foreigners. Crucially too, the class base of their customers had now changed, with a much larger middle class among their clientele. With changing trends in society, interestingly too, many customers were now buying cloth materials customarily used as a Saree to custom-make the *Baju Kurung* and *Baju Kebaya*, once worn solely by Malays. Hence, these cloth materials have been tailored to fit the needs of Malaysians in general, and these companies no longer cater only to customers of Indian origin.

Product assimilation can also be seen in the jewellery industry. In the past, jewelleries were made by goldsmiths. At that time, jewelleries were also more traditional in design. Presently, however, such products are manufactured by machine and are more contemporary in design. This change in production method and design is in response to the demands of customers, where there is a gradually growing number of non-Indian customer base.

Through the generations, the products that were once considered ethnically Indian have now become less ethnically and culturally distinctive and may have lost much of its “Indianness”. This suggests that these products now possess less of a “cultural identity” than they used to when these businesses were first started. More importantly, given these changes in society, in terms of how Malaysians of different ethnic origin were adopting

new styles in dressing and in the preparation of food, these companies have had to adapt by changing the type of products they offer if they hoped to diversify as well as increase their customer base.

### **8.2.3 Predisposing Factors and Generational Change**

Predisposing factors are determined by its push and pull factors. Seven (Gemini Flour Mills, M.P. Lingam & Sons, The Big Rajah Food Caterers, Binwani's, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons) out of eleven first generation entrepreneurs started these businesses due to push factors. In the case of Gemini Flour Mills, Illango was advised by his father, family members and friends to start a business. In the case of The Big Rajah Food Caterers, John Joseph Xavier commenced the business to provide a better lifestyle for his family. In the case of other first generation entrepreneurs, M.P. Lingam & Sons, Binwani's, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons, they left India, their birth country to seek better economic opportunities for themselves and their descendants.

According to Illango, the owner of Gemini Flour Mills, opportunities for Indians to improve their financial standing in Malaya was scarce since most of the first generation migrants were not highly educated. Hence, those in the migrant cohort who craved to start an enterprise naturally had a healthy risk appetite and a willingness to venture into an industry in which, in most cases, they had little or no experience

The first generation of both Santha Store Flour Mill and Jumbo Restaurant & Catering started their businesses as soon as they realised how rapidly the demand for Indian spices and food had been escalating. Similarly, the first generation of Ajuntha Textiles and Sri Kumaran Pattu Mahligai also commenced their businesses due to the ever-increasing demand for traditional Indian materials and textiles in Malaysia.

The latter generation in all eleven firms continued the business started by their parents or grandparents due to pull factors due to the steady and constant growing demand of ethnically Indian products. Besides that, the optimistic and continuously improving economic conditions in Malaysia also provides these enterprises with better business opportunities.

#### **8.2.4 Networks and Generational Change**

As explained in the earlier chapters, networks are explained in various sub-categories. The sub-categories are family ties, intra-ethnic ties and inter-ethnic ties as well as stakeholders.

In all eleven companies, family members were an important resource in the past, and still remain a crucial source for funds for expansion and diversification. When these businesses commenced, family members were also employees of these firms. Due to the small volume of profits registered by the first generation family members provided their support by assisting in daily tasks to sustain the business.

The descendants of the first generation have taken over the business or are being trained to manage the business. Family ties have proven to be extremely essential for business continuation. Trust is always placed on family members, compared even to trusting other ethnic Indians.

Intra-ethnic community ties were also vital in the past. Similar to family ties, members of the same ethnic community were hired as employees. And in the past, having strong intra-ethnic ties was crucial in order to build the business as the products on sale were targeted at ethnic Indians. All respondents confirmed that when their companies were incorporated a large percentage of their customers were also of Indian origin. Besides



that, in cases like Gemini Flour Mills and Sri Kumaran Pattu Mahligai, the first generation obtained financial assistance from members of the same ethnic community.

Of these eleven firms, members of nine (Santha Store Flour Mill, Gemini Flour Mills, M.P. Lingam & Sons, Binwani's, Ajuntha Textiles, Sri Kumaran Pattu Mahligai, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons) continue to actively participate in the local formally organized mutual aid organizations such as Malaysian Associated Indian Chambers of Commerce & Industry, Kuala Lumpur & Selangor Indian Chambers of Commerce & Industry, Malaysian Indian Textiles & General Stores Association and Malaysian Indian Goldsmith Jewelers Association. This shows that intra-ethnic ties remain as an important part of the growth of ethnic Indian firms in Malaysia.

However, the latter generation do not rely on intra-ethnic members as strongly as the first generation. This is because all of the latter generation does not financially depend on family members or even intra-ethnic members to run their businesses. The empirical evidence indicates that they rely on the local banks for financial assistance to expand or diversify the business. As business expands, these latter generations also prefer to hire foreign staff, hence reducing the percentage of Indian staff they hire.

When these businesses commenced operations, inter-ethnic ties were uncommon. This is because many of the first generation did not see the need to expand the business; instead they focused on sustaining the business and making enough profits to feed their families. The first generation also faced barriers such as language which hindered them from communicating with non-Indians.

However, the latter generation who are focused on business expansion and diversification have realized the importance of networking from an inter-ethnic

perspective to achieve these goals. According to the latter generation, inter-ethnic networking ties have allowed them to explore and venture into new markets as well as give them the opportunity to improvise products and services to suit a larger target market.

The importance of inter-ethnic networking is most evident in the food and textile industries. As discussed earlier, an increasing number of non-Indians in Malaysia now appreciate and patronise businesses that deal with Indian food and textiles. However, enterprises in the jewellery industry face a large number of non-Indian competitors in the market. Hence, most customers of the jewellery industry are divided by ethnicity. According to the owner of Abdul Razak Jewellers, ethnic Indian jewellery businesses are able to tap into the Malay market but not into the Chinese market in Malaysia, due to the intense competition.

The empirical evidence reveals that of the eleven firms, nine (Santha Store Flour Mill, M. P. Lingam & Sons, The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Binwani's, Ajuntha Textiles, Sri Kumaran Pattu Mahligai, Abdul Razak Jewellers and V. Gopal Pather & Sons) have diversified their customer base following a generational change.

According to the entrepreneurs in the food industry, there has been a gradual yet noteworthy increase in the consumption of curry powder, spices as well as Indian food among the Chinese through the years. They also stressed that after receiving Halal certification, the consumption of curry powder among the Malays also increased considerably. In the case of Santha Store Flour Mill, upon obtaining Halal certification, the firm managed to begin supplying curry powder and spices to local companies that manufacture and sell pre-packed foods such as instant noodles and frozen pastries.

The market for textiles has changed since these enterprises first began operating. According to the entrepreneurs interviewed, before the 1970s, the Malays hardly stepped into an Indian textile shop. These days, many Malays purchase from Indian textile shops materials to be made into *Baju Kurung*, head scarves and even wedding gowns. Besides that, the increase in the number of mixed race marriages have played a role in boosting demand for ethnic Indian textiles. When there are more mixed race marriages, more families and friends choose to purchase and dress in ethnic Indian outfits. The Bollywood movie industry also has assisted in creating awareness and popularised Indian culture in Malaysia. This has enhanced the demand for Indian goods, especially Indian textiles.

Even though members of the first generation started their respective businesses to cater to the needs and demands of their Indian customers, the later generation of entrepreneurs chose to expand and diversify their customer base while expanding the business itself. Hence, we observe an apparent trend of augmentation in inter-ethnic networking, especially with respect to customers. These enterprises are increasingly likely to lose their ethnic element, should they expand and diversify further, particularly if they choose to supply their products to all Malaysians.

All eleven entrepreneurs stated that unlike the past, where competitors were mainly from the same community, the food, textiles and – to a lesser extent – jewellery industries are now ethnically diversified as there are now a growing number of non-Indian competitors who have showed much interest and entered these respective industries. Since there is now a fast growing demand for Indian food, textiles and jewellery, many non-Indian entrepreneurs have capitalized on potential business opportunities by engaging in these industries.

In the food industry, some of the prominent non-Indian owned Indian food businesses include Adabi Consumer Industries, A1 Brand and Adami Food & Spices Industries. In

the textile industry, some of the well-known non-Indian owned Indian textile businesses are Jakel Trading and Nagoya Textiles. In the jewellery industry, some of the well-known non-Indian owned jewellery businesses are Poh Kong, Wah Chan Gold & Jewellery and Goldheart.

The growing number of non-Indian competitors has changed the landscape of ethnic Indian enterprises in Malaysia. Indian entrepreneurs now not only compete with fellow Indians, but also with the larger inter-ethnic community. These businesses have evolved and must now learn and understand the needs and demands of all Malaysians, and at the same time, keep abreast with their competitors. Once again, the ethnic and cultural identity or “Indianness” may be lost in coming generations due to the change in the business landscape with the rise of firms selling “Indian” products but owned by non-Indians.

When these eleven firms first started, all shareholders were of Indian origin. The empirical evidence indicates that since then, the new generation of only three firms (Jumbo Restaurant & Catering, Sri Kumaran Pattu Mahligai and Ajuntha Textiles) have included non-Indian shareholders. According to John William Xavier, the owner of The Big Rajah Food Caterers, it is better to have a smaller number of shareholders in the company as, according to him, “too many cooks spoil the broth”. On the other hand, the owner of M.P. Lingam & Sons mentioned that he and his sons are not ready to allow non-family members into the business as shareholders as he does not trust others with the business that was built by his father.

In the case of Jumbo Restaurant & Catering, Chitra Devi stressed that it was pertinent to include Bumiputera shareholders if her company hoped to ensure business growth and diversification. Since doing so, Jumbo Restaurant & Catering has experienced an appreciable increase in consumer confidence level especially among members of the

Muslim community. Soon, there was a boost in demand from the Indian Muslim community as well.

When these businesses first began, all employees of these enterprises mainly comprised family members. However, in order to expand and diversify, the latter generation of entrepreneurs decided to employ foreign workers. Most of the foreign workers employed are from India, indicating a need also to maintain some authenticity in their products even as they alter the way their products are produced. Bringing in foreign workers is also imperative because, as noted earlier, the new generation of Indians in these businesses have lost the tacit knowledge clearly evident among members of the founding generation.

However, problems can emerge with the hiring of foreign workers. In the jewellery industry, V. Gopal Pather & Sons encountered problems where, after non-family members were hired, raw materials such as gold and other precious gems were found missing, presumably stolen by hired foreign workers who had also absconded. Hence, when V. Gopal Pather & Sons employed foreign workers, most of them were distant family members or friends that the owners could trust. Other firms in this industry also prefer to hire only family members or distant relatives from India.

According to entrepreneurs from the restaurant and catering industry, it is imperative to employ trained chefs from India to ensure and provide customers with the best quality of food. All these entrepreneurs agree that foreign workers are not only cost efficient, but are also much more hardworking than Malaysians. John William Xavier of The Big Rajah Food Caterers explained that he initially began hiring Malaysian waiters and drivers. However, he was very disappointed when they began giving excuses especially when they were asked to work over the weekends. Mohan Natarajan of Sri Kumaran Pattu Mahligai faced a similar situation. According to them, most employees are needed during

the weekends as that is when customers flock to their businesses. However, Malaysian employees are unwilling and reluctant to work over the weekends, a problem they do not face with foreign workers.

It is important to note that Binwani's and Jumbo Restaurant & Catering have also begun hiring inter-ethnic employees. In the case of Binwani's, most of their salespersons are Malays. Clearly, this is to tap further into the Malay market in Malaysia.

Of the eleven firms, only seven (Santha Store Flour Mill, Gemini Flour Mills, M. P. Lingam & Sons, Binwani's, Sri Kumaran Pattu Mahligai, Ajuntha Textiles and V. Gopal Pather & Sons) were willing to divulge information about their suppliers. Interestingly, out of these seven firms, only two (Binwani's and V. Gopal Pather & Sons) have diversified their supplier base. A diversified supplier base allows for product diversification and it naturally follows that the range of products offered for sale by these firms are greater. Consequently, this expansion in supplier base would logically also result to proportionate and corresponding increase in its customer base, both in intra and inter-ethnic varieties. The logic stems from an undeniable premise – the greater the product offerings, the more attractive it becomes to customers.

Another point to note is how these supplier bases are expanded by firms. Interestingly, the two firms that have expanded their supplier base i.e. Binwani's and V. Gopal Pather & Sons had relied heavily on an efficient use of the class resource of education and inter-ethnic networks to do so. Whereas, the other five firms refrained from expanding their supplier base because the goods that are procured by them (eg; chilli, turmeric, spices, Indian textiles etc) are inherently ethnically Indian in nature and these supply chains are dominated predominantly by the Indian community.

The owners of the curry powder and spices firms explained that a large percentage of suppliers of raw materials are still from India. This is because the raw products from India are fresher and cost efficient. Similarly, the proprietors of Sri Kumaran Pattu Mahligai and Ajuntha Textiles also mentioned that they acquire most of their materials from India because they are cost efficient.

Only three out of the eleven companies have product distributors. They are Santha Store Flour Mill, Gemini Flour Mills and M.P. Lingam & Sons. Two (Santha Store Flour Mill and M.P. Lingam & Sons) of these firms have diversified their product distributors over the generations. According to Dr. Balakrishnan and Kaliaperumal, networking with inter-ethnic distributors has allowed them to better understand the needs and wants of non-Indian customers. These product distributors have also provided them with information to improvise the products they produce. Illango, the owner of Gemini Flour Mills, on the other hand, prefers to only rely on Indian distributors as he had a bad experience with a non-Indian distributor in the past.

#### **8.2.5 Market Conditions and Generational Change**

Market conditions will be explained through the opportunities and challenges faced by entrepreneurs of different generations. As market demand was smaller in the past, all eleven enterprises had very few competitors. In fact, when business first commenced, all competitors were from the same ethnic group. They knew each other well and even shared information on products and services. In the case of the curry powder and spices industry, Dr. Balakrishnan observed that most firms in this sector were spread out across the peninsula. These entrepreneurs generally divided the geographical location of their firms into three areas - northern Peninsula Malaysia, southern Peninsula Malaysia and the Klang Valley. This is so that intra-ethnic competition could be kept to a minimum.

However, the latter generation of entrepreneurs from all three industries have unanimously explained that the competitors in their respective industries are now quite diversified. There are currently many non-Indian competitors in the Malaysian market, in what were considered traditionally Indian industries. These non-Indian businessmen, who have realized the potential of these three industries, are now competitors to the ethnic Indian entrepreneurs. Due to the generational shift, the outlook of Malaysians has changed and has had a bearing on how Malaysian consumers view and purchase products.<sup>140</sup> Hence, the demand for certain ethnically based products may slowly lose its cultural identity, as there are more concerted efforts by entrepreneurs to market these products across a larger segment of the society.

In the 1950s and early 1960s, curry powder used to be prepared at home by Malaysians. Cooks would grind the curry paste themselves to make curry or other dishes. However, in the late 1960s, most cooks began purchasing manufactured curry powder, as it was a more convenient option. Seeing as most of these cooks were women, and as the number of women increased in the Malaysian workforce, the demand for manufactured curry powder further rose. This provided ample opportunity for the entrepreneurs in the spices and curry powder industry.

Since the early 1980s, non-Indian Malaysian communities began enjoying and appreciating the products produced by Indian-owned companies. These non-Indians, who were unaccustomed to spicy food, began enjoying curry and ethnic Indian foods. According to Illango from Gemini Flour Mills, Malaysian Chinese today are consuming more spices and curry powder compared to 50 years ago. This has contributed to a

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<sup>140</sup> The change is due to the increase in awareness of the different cultures in Malaysia, which changes the consumption patterns of Malaysians.



growing demand for Indian spices as well as Indian food year on year. This afforded enterprises from the food industry with a massive opportunity for growth.

Chitra Devi of Jumbo Restaurant & Catering observed that, in the past, customers were more prudent in their spending compared to customers today. This has given Jumbo Restaurant & Catering as well as other catering businesses better opportunities to grow and increase their revenue. Chitra Devi also mentioned that these days, customers placed importance on the quality of the food and generally do not haggle about prices once decisions are made on food orders, unlike in the past. Entrepreneurs from the textile and jewellery industries also admitted that they faced a similar situation, where customers are now willing to pay more for quality textile or jewellery of their choice. This could be due to the increase in the mean household income of Indians in Malaysia.

Table 8.2 presents the mean monthly household income of Malaysian Indians from 1970 to 2012. In the 1970s, when most enterprises first began, the mean household income was less than RM1000 per month. However, from the year 1995, the mean household income was above RM2000.

**Table 8.2: Mean Household Income of Malaysian Indians, 1970-2012**

Year	Mean (RM)	Average Annual Growth Rate (%)
1970	310	n/a
1979	756	n/a
1984	1094	7.7
1995	2140	n/a
1997	2725	12.8
1999	2702	n/a
2004	3456	5.0
2009	3999	n/a
2012	5233	9.0

Source: Department of Statistics, Malaysia

The increasing number of inter-racial marriages in Malaysia, especially among Chinese and Indians (Nagaraj, 2009; Chandran, 2016), has created a large and growing community of *Chindians*<sup>141</sup>. This inter-racial marriage ties have provided many opportunities for Indian enterprises in the textile industry to expand. As the number of inter-racial marriages increases, more families and friends of the non-Indian spouses choose to purchase and dress in ethnic Indian outfits. This, has in turn, created further awareness of the Indian textiles industry among non-Indians.

The first generation entrepreneurs from the textile industry grappled with a high tax rate, a scenario which does not prevail now. A lower tax rate came into force after the promulgation of the Common Effective Preferential Treatment (CEPT) in 1994. This has allowed entrepreneurs in the textile industry to register higher profits margins while accumulating additional capital necessary for expanding and diversifying their businesses.

Owners of all eleven enterprises unanimously agreed that the positive economic conditions in Malaysia have facilitated their need to expand and diversify their businesses. Table 8.3 presents the year-on-year growth of Malaysia's Gross Domestic Product, Gross National Income per capita and unemployment rates from 1971 to 2013. The increase in Gross National Income per capita and decrease in the unemployment rates afford clues as to why Malaysians are willing to spend more now than in the past. This corroborates the data given by all eleven entrepreneurs.

As Malaysia began its period of economic modernization, rapid industrialization led to the rise of the new middle class. The emergence of this new middle class affected different firms differently. It benefitted firms that were operating in upmarket areas which

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<sup>141</sup> A commonly used term to refer individuals of Indian and Chinese mixed parentage.

were frequented by Malaysians of multi-ethnicities. However, it does not appear to have helped firms that are still operating in ethnic enclaves as much.

**Table 8.3: Malaysia's Annual National Accounts, 1971-2013**

Year	GDP (Year-on-year growth %)	GNI per capita (Year-on-year growth %)	Unemployment (%)
1971	10.0	5.4	7.4
1972	9.4	7.2	6.7
1973	11.7	27.4	6.4
1974	8.3	18.2	6.4
1975	0.8	-3.6	5.9
1976	11.6	22.1	5.7
1977	7.8	12.3	5.5
1978	6.7	13.8	3.3
1979	9.3	19.7	3.4
1980	7.4	12.9	3.8
1981	6.9	5.3	5.0
1982	6.0	4.5	5.6
1983	6.2	7.7	7.4
1984	7.8	9.4	7.3
1985	-1.1	-5.6	7.2
1986	1.2	-9.7	5.7
1987	5.4	10.9	4.5
1988	9.9	11.7	3.7
1989	9.1	10.9	3.7
1990	9.0	12.0	4.1
1991	9.5	9.8	3.1
1992	8.9	8.2	3.1
1993	9.9	11.8	2.5
1994	9.2	10.5	2.5
1995	9.8	11.0	3.2
1996	10.0	11.2	3.4
1997	7.3	7.5	3.0
1998	-7.4	-2.1	3.5
1999	6.1	1.8	3.5
2000	8.9	9.5	3.6
2001	0.5	-2.3	3.5
2002	5.4	7.2	3.5
2003	5.8	8.3	3.3
2004	6.8	11.1	3.2
2005	5.3	8.5	3.3
2006	5.6	9.4	3.7
2007	6.3	10.3	3.3
2008	4.8	12.5	3.1
2009	-1.5	-8.2	3.7
2010	7.4	8.4	3.3
2011	5.1	10.4	3.1
2012	5.6	3.6	3.0

Source: Department of Statistics, Malaysia

### **8.2.6 Role of the State and Generational Change**

The two important areas in explaining the role of the state with respect to generational change are the level of reliance or assistance provided by the government, and the policy restrictions or facilitation of the development of non-Bumiputera owned enterprises in Malaysia.

None of the first, second or third generation entrepreneurs relied on government assistance for the start-up, growth, expansion and diversification stages of their respective businesses. According to all first generation entrepreneurs, they were aware that most of the government's policies were not in their favour, biased as these policies were towards Bumiputera firms. These entrepreneurs were therefore consciously aware of the need to work harder to ensure business sustainability. In the case of Gemini Flour Mills, a large portion of business opportunities were lost due to the New Economic Policy (NEP). Gemini Flour Mills, anecdotal evidence suggests, lost lucrative supply contracts after the introduction of the NEP. The supply contracts to government institutions such as the army and hospitals were rescinded and were instead awarded to Bumiputera firms.

Although policies implemented are now more cognisant of the needs of all businesses in this industry, i.e. even those owned by non-Bumiputeras, these state policies do not effectively assist Indian businesses as owners and managers are still in the dark about how funds set aside by the government are allocated or how these funds may be obtained. As a result of poor policy implementation and a reluctance to waste time dealing with bureaucracy, the latter generation entrepreneurs prefer to remain self-sufficient. This also suggests that these entrepreneurs have little confidence in Malaysian governmental policies to ensure the development and sustainability of their enterprises.

According to all entrepreneurs from all three industries, Malaysian foreign labour policies restrict the expansion of their businesses. Foreign workers are fast becoming a

crucial factor of production for these industries. Foreign labour is needed for an expanding firm as the utilisation of these labourers allows firms to keep their prices affordable. For firms serving the middle class and lower middle class, it was particularly important for them to produce goods and services their target market could afford. As the owners of most these 11 firms observed, foreign workers are more hardworking and are more reliable than most Malaysian employees. However, obtaining work permits for these foreign workers from the government has become extremely difficult and bureaucratic.

In the food industry, the area of hindrance to the diversification of their products is the excessively bureaucratic process in obtaining Halal certification. John William Xavier of The Big Rajah Food Caterers, Kaliaperumal from M.P. Lingam & Sons and Illango of Gemini Flour Mills expressed their extreme dissatisfaction with the manner in which the authorities deal with businesses which are trying to obtain Halal certification. In the past, businesses were allowed to obtain Halal certification from various approved bodies such as the Islamic Food and Nutrition Council of America (IFANCA). Recently, however, all businesses are required to obtain Halal certification only from the Department of Islamic Development Malaysia (JAKIM). According to these entrepreneurs, the process is not only inefficient and time consuming but also haphazard in its application, with no standard operating procedure.

The entrepreneurs from the textile industry were pleased with the reduction in tax rates which had reduced their cost of doing business. The Common Effective Preferential Treatment (CEPT) was implemented on 1 January 1994.<sup>142</sup> Under the CEPT, member countries have to gradually lower tariffs on each other's imports. Textiles were placed

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<sup>142</sup> CEPT was introduced to reduce and eventually eliminate duties in ASEAN.

under the Fast Track Programme of the CEPT. While in the past, textile firms had to pay tariff of 25 percent, since 1994, the tariff that has to be paid has been reduced only about 10 percent.<sup>143</sup>

### **8.2.7 Growth Stages and Generational Change**

The earlier chapters have drawn attention to the stages of growth: start-up, expansion, maturity and diversification. All first generation entrepreneurs commenced their business but only a few had shown capacity to expand their enterprises<sup>144</sup>. This is due to factors such as the language barrier, limited knowledge and skills, lack of education, lack of trust and confidence in communicating with members of other ethnic communities, heavy reliance on fellow Indians due to policy discrimination, the desire to maintain the culture and identity of the products manufactured and sold as well as lack of financial capital. At this stage, most firms remained as 'ethnic enterprises' as these firms were not able to network with the non-Indian communities in Malaysia, which in return did not allow them to appreciate and exploit the larger Malaysian market. Some first generation entrepreneurs managed to expand their business by increasing the variety of products sold.

The second generation entrepreneurs, many of whom had the opportunity to obtain higher education compared to the first generation entrepreneurs were better equipped to expand their enterprises by improvising the products offered as well as by hiring additional staff to meet the increasing demands of the market. Under the leadership of the

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<sup>143</sup> The harsh effects of policies such as the NEP, was somewhat mitigated by the CEPT as CEPT introduces a level playing field between all the firms in the relevant industries. This shows the relationship between market structure and role of the state, under the opportunity structure of the framework of this study.

<sup>144</sup> These are firms such as Gemini Flour Mills, The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Binwani's and Sri Kumaran Textile.

second generation, nine of these eleven firms (Santha Store Flour Mill, Gemini Flour Mills, M.P. Lingam & Sons, The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Binwani's, Ajuntha Textiles, Sri Kumaran Pattu Mahligai and Sri Ganesh Jewellery & Gem Corner) managed to reach maturity level. At this stage, products are manufactured and sold in large volumes. This is due to the fact that the second generation entrepreneurs were able to communicate effectively with the inter-ethnic community, which allowed them to gather knowledge and information whilst understanding the larger Malaysian market better. Many of the second generation entrepreneurs were also educated, and this provided them with the confidence to network as well as seize opportunities which arose in the market; such as the increase in per capita income of Malaysians as well as to recognize and adapt to the changes of taste and preference of Malaysian consumers.

Four of the second generation (Santha Store Flour Mill, Jumbo Restaurant & Catering, Ajuntha Textiles and Sri Kumaran Pattu Mahligai) and three of the third generation (M.P. Lingam & Sons, The Big Rajah Food Caterers and Binwani's) managed to diversify their products and began heavily investing in and penetrating into new markets. The Big Rajah Food Caterers and Jumbo Restaurant & Catering began diversifying into event planning and management, as a large percentage of their catering was for events such as weddings and corporate functions. In the case of Binwani's, the third generation entrepreneurs, Ravin Kumar Binwani and Vijay Binwani, diversified the business by working with well-known international brands to tap into the international market. The second and third generations, many of whom were educated in Malaysian national schools in Malaysia, were exposed to the Malay and English languages from a young age. These two languages are compulsory subjects in the national schools. This allowed for them to interact comfortably with members of other ethnic communities. This has proven to be a blessing for the latter generation as it facilitated the process of expanding their enterprises,

specifically by including non-Indians in their management as a means to expand their customer base.

### **8.3 Comparison Analysis**

The purpose of this analysis is to compare new and emerging themes among the eleven Malaysian Indian ethnic entrepreneurs from the food, textile and jewellery industries in Malaysia, and also to identify the factors that led them to success. This analysis will also evaluate the applicability of the term “ethnic entrepreneurship” as generations change. The adoption of a comparative analysis approach would also illustrate previously unrecognizable important socio-economic issues concerning the generational change in entrepreneurship among the Malaysian population of Indian ethnicity.

This comparative analysis is based on the qualitative analysis of the eleven case studies as set out in the previous chapter, where the entrepreneurs’ stories are chronologically narrated to illustrate their viewpoints on how the past shapes the present and how the present shapes the future of their respective businesses.

#### **8.3.1 Ethnic Enclaves**

In the context of location, this analysis proves that the location of business co-relates to the period of its establishment. As time progresses, businesses tend to move away from ethnic enclaves to non-ethnic enclaves, regardless of its original location of establishment, whether in Malaysia or overseas. Ethnic enterprises that remain in ethnic enclaves after the start-up stage are the ones that continue to mainly target Indians in Malaysia. Meanwhile, it would appear that businesses that move out of ethnic enclaves after the start up stage or did not originally start-up in ethnic enclaves are generally enterprises that target all ethnicities in Malaysia as well as overseas.



The definition of immigrant enclaves as explained by Portes (1981) is “immigrant groups which concentrate in a distinct spatial location and organize a variety of enterprises serving their own ethnic market and/or the general population.” With intentions of preserving both customs and other aspects of the culture in the region of origin in terms of business motive and needs of the group, ethnic enterprises were initially termed as “ethnic niche”. These include cafes and restaurants, textile shops, jewelers and sundry shops. Areas of ethnic minority concentration are typically where these enterprises are established, a distinct character that allows us to notice the differentiation between ethnic minority neighbourhoods from those populous less concentrated ones. It must be noted that in order for these business to be viable, they are usually located in central districts or are easily accessible parts of an area, for the sake of convenience of the minority ethnic group should they be scattered or to attract consumers from multiple districts (Cortie et al, 1986). Sociologists continue to debate the topic of the underprivileged and marginalized new immigrants, whether the enclave economy is a viable path for them to increase their mobility and be integrated into the larger society (Light et al. 1994; Portes and Jensen 1989; Sanders and Nee 1987; Zhou and Logan 1989). Almost all of the first generation ethnic entrepreneurs of this study were driven to starting up their enterprises in ethnic enclaves to attract their chosen target market, which were Indians. Their decisions reflect their understanding of their target audience’s needs for ethnic-based goods and their own need to source for manpower which can communicate effectively with the target audience as a way to build trust and develop intra-ethnic networks. However, a large number of second generation entrepreneurs<sup>145</sup> have opted to move out of the ethnic enclaves. This shows that these entrepreneurs are now targeting a

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<sup>145</sup> Such as Santha Store Flour Mill, Gemini Flour Mills, M. P. Lingam & Sons, The Big Rajah Food Caterers, Jumbo Restaurant & Catering as well as Binwani’s.

different and larger target market, hence these firms may no longer be categorized as “ethnic enterprises”.

According to Camagni (1991) and Maillat et. al. (1991), the reinforcement of interpersonal interaction and cooperation in the region comes from territorial agglomeration, which is closely associated with the unique local milieu formation based on similarity in the interwoven socio-culture and social relations. The enterprises which still remain in ethnic enclaves such as Ajuntha Textiles, Sri Kumaran’s Textiles, Abdul Razak Jewellers, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather prove that the Malaysian Indian jewellery and textile industries mainly serve the Indian niche market. These enterprises are risk averse. This could be due to the entrepreneurs’ lack of confidence to network with the larger inter-ethnic community which stems from the lack of education.

Storper and Walker (1989) and Walker (1988) stated that one factor that can significantly reduce transaction costs is proximity. The setting up of businesses in ethnic enclaves allow ethnic entrepreneurs to take advantage of labour supply and services, and this allows them to save on external economies and affords greater flexibility in the labour market. This view may be true of the first generation entrepreneurs but it may not apply to the second or third generation entrepreneurs as some of these firms<sup>146</sup> have begun using foreign employees instead of local workers.

As the enterprises began strategically expanding towards becoming a diversified enterprise, the setting up of branches in non-ethnic enclaves significantly reflect their intentions to attract a new target market. Santha Store, Gemini Flour Mills, M.P. Lingam, Big Rajah Caterers, Jumbo Restaurant & Catering and Binwani’s are examples of

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<sup>146</sup> Such as Santha Store Flour Mill, M. P. Lingam & Sons, The Big Rajah Food Caterers, Jumbo Restaurant & Catering,

enterprises that have branched out into non-ethnic enclaves to establish their businesses as corporate enterprises that are easily accessible to their inter-ethnic target audience.

The latter generation of entrepreneurs' competitive desire to excel and win has resulted in their decision to branch out into non-ethnic enclaves. Moreover, branching out reduces business competition and increase profit-making opportunities, as ethnic enclaves are usually saturated with enterprises offering similar goods and services and may impose challenges in terms of pricing, for example.

### **8.3.2 Target Market**

The case studies reveal that enterprises that sell traditional products and retain strong intra-ethnic connections attract customers from the same ethnic group, who tends to be from the middle to lower income group. Ajuntha Textiles, Sri Kumaran's Textiles, Abdul Razak Jewellers, Sri Ganesh Gems & Jewellers and V. Gopal Pather are the enterprises that form the basis of this finding. Once again, this can be linked to the issue of class resource, and lack of education which leads to low confidence in networking with the inter-ethnic community in Malaysia.

It was also found that enterprises which sell modern products and has strong inter-ethnic connections tend to attract customers from all ethnic groups as well as customers from higher income groups such as Santha Store, M.P. Lingam & Sons, The Big Rajah Caterers and Jumbo Restaurant & Catering. Meanwhile, enterprises that established inter-ethnic and international clientele since the first generation such as Binwani's found it easier to penetrate the intra-ethnic and international markets compared to businesses that solely established intra-ethnic clientele in the first generation.

The first generation of ethnically-based enterprises were more likely to target only Indian customers due to the traditional type of products offered and language spoken and

understood. At the start-up stage, the case studies show that all ethnic enterprises were addressing specific needs among the growing number of Indians in Malaysia, and in some cases Malaya, during their respective periods.

Business competitiveness can both be enabled and constrained by diaspora-based networks. Ram et al. (2000) noted that cities are able to support minority businesses that serve a co-ethnic clientele, given that it has a large ethnic minority population. Thus, the local intra-ethnic population's size influences business competitiveness on a large scale, through the supply of resources and provision of customer base. Hence, firms that target Indians may be facing threats as the number of Indians in Malaysia is slowly dwindling. Whereas, firms that have chosen to expand and diversify their target market, will be able to sustain their profitability in the long run. For example, The Big Rajah Food Caterers started by targeting Indians in Malaysia, especially those in the Klang Valley, after identifying that Malaysian Indian working women preferred to save time on cooking and enjoyed the convenience of entertaining their guests without worrying about doing the dishes after. However, in recent times, this firm has begun targeting non-Indians to further expand the business.

In the spice industry, Santha Store Flour Mill in its first generation of enterprise targeted Indian migrants in Malaysia, specifically those of the Tamil and Malayalee sub-ethnic groups, because its first generation entrepreneurs could only converse in their respective sub-ethnic languages. The business was started after realising that there was a strong demand for curry powder in the southern states of Peninsula Malaysia like Negeri Sembilan, Melaka and Johor. Now, the firm has obtained Halal certification and has begun targeting a larger Malaysian market to expand the business. Even Binwani's which quickly expanded into an international brand, initially targeted members of the local Indian community.

The thesis of “mixed embeddedness” by Granovetter (1973) proposes that business owners depend on their capacity to draw on wider market and institutional contexts, instead of depending only on “strong ties” with intra-ethnic networks (Jones et al., 2000; Kloosterman and Rath, 2001; Rath and Kloosterman, 1999). Hence, in order to expand and diversify their businesses, the latter generation of ethnic entrepreneurs began targeting the non-ethnic market, which is usually the Chinese and Malay communities in Malaysia.

Expansion of target markets is clearly seen in Santha Store Flour Mill, M.P. Lingam & Sons, The Big Rajah Caterers, Jumbo Restaurant & Catering and Binwani’s. In the case of Santha Store, the second generation entrepreneur, Dr. Balakrishnan, began targeting the non-Indians in Malaysia, especially the Chinese and Malays as well as wholesalers to increase sales, revenue and profit.

M.P. Lingam & Sons, Big Rajah Caterers and Jumbo Restaurant & Catering also shifted their focus from only targeting Indians to all races in Malaysia, to capture a larger market share. The measures taken by these businesses to increase their market shares include product expansion<sup>147</sup>, the implementation of product innovation<sup>148</sup> and hiring Muslim directors<sup>149</sup> to gain the trust of its new Malay target audience.

On the other hand, the retention of Indians as the main target market is clearly seen in the businesses of Ajuntha’s, Sri Kumaran, Abdul Razak Jewellers, Sri Ganesh Gems & Jewellery and V. Gopal Pather. This is mainly due to the nature of the jewellery and textile

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<sup>147</sup> M.P Lingam & Sons moved from selling only gingelly oil to a full range of spices. See case study on M.P. Lingam & Sons for further details.

<sup>148</sup> The Big Rajah Caterers diversified their menu to satisfy non-Indian clientele. See case study on The Big Rajah Caterers for further details.

<sup>149</sup> Jumbo Restaurant & Catering hired two Muslim directors to obtain the Halal certification. See case study on Jumbo Restaurant & Catering for further details.

industry where the pattern of brand loyalty is segmented according to race. Besides that, the empirical data also shows that these firms; Ajuntha's, Sri Kumaran, Abdul Razak Jewellers, Sri Ganesh Gems & Jewellery and V. Gopal Pather, were facing poor class resources in the second generation, and this could be another reason why these firms retain Indians as their main target market. In fact, their inability to deal with changing market conditions has required one firm; Sri Ganesh Gems & Jewellery, to focus on religious based products to create a new niche.

Ethnicity and nationality are insufficient as the only focus areas in the analysis of the ultimate sources of diversity, as noted by Vertovec (2007). Vertovec (2007) also argues that there are many other dynamic variables such as nationality, ethnicity, language, religious tradition, regional and local identities, cultural values and practice, social class, experiences in labour market, profiles of age and gender and factors that are spatially specific including service providers and residents' local area responses. These alone paint a bigger and more complex picture of diversity compared to the variables traditionally focused on in the past.

Taking the findings of the case studies into account, we agree with Vertovec (2007), especially in the case of a multicultural nation like Malaysia. Although Indians were the main target audience during the time when the first generation of ethnic entrepreneurs established their enterprises, factors such as urbanization, inter-racial marriages, word-of-mouth marketing, technological innovations and the thriving tourism industry have contributed to the widening of the target audience. We acknowledge that without the evolution of the target audience, it would have proven to be difficult for ethnic enterprises that intended to widen their brand reach to capture the inter-ethnic consumers, except and unless they expanded internationally.

### 8.3.3 Product Assimilation

The term “assimilation” was defined by Park, Janowitz and Burgess (1969:735) as "a process of interpenetration and fusion in which persons and groups acquire the memories, sentiments, and attitudes of other persons and groups and, by sharing their experience and history, are incorporated with them in a common cultural life." The conclusion of the case studies considers Santha Store Flour Mill, The Big Rajah Cateres, Jumbo Restaurant & Catering and Binwani's as enterprises that indicate high assimilation into the Malaysian market. Over time, these are ethnic businesses that have adopted a new strategy by targeting the Malaysian and international community.

All the businesses studied maintain ethnic products as their main selling point, but they also have diversified their product range to cater to the needs of the national and international target audience. For example, M.P. Lingam & Son's' supply of gingelly oil to the Malaysian Indian community during the first generation of entrepreneurship leveraged on the first mover advantage and positioned itself as the first to supply gingelly oil in Malaysia, fulfilling a commercial vacuum. Still, this firm was forced to change and has now moved on to newer products as there is no longer a high demand for this product.

Ethnic orientation is a concept that encapsulates both the ethnic group that is associated with the product and “ethnic embeddedness”, which is the degree of product association with that group (Williams, 1995). High ethnical embeddedness is displayed by advertisements that mix ethnic characters with ethnic consistent cues, including depictions of ancestral heritage; culture-specific assimilation experiences; and other cultural-bound traditions, practices, and symbols.

In terms of products, the case studies reveal that the first generation of ethnic entrepreneurs monopolized the demand and supply of “ethnically-inclined” products.

When Indian immigrants first moved to Malaya, the need or demand for certain foods, textiles or household items becomes highly inelastic, as these were a necessity.

According to Kesteloot and Mistiaen (1997), the initial motive of ethnic enterprises prioritizes the maintenance of a differentiation from the host community (to be similar with the home country), or meeting the minimum requirement to respond to arising needs as a result of being uprooted. During the era of the founder, the necessity of gingelly oil for cooking and medicinal purposes and its absence in the market gave M.P Lingam & Sons the advantage to tap into this market void. The enterprise thrived and grew by leaps and bounds, as they served a large market, unlike now, where urbanization and technology have rendered gingelly oil as a cultural want and no longer an important need, making it more elastic in demand.

Change over time or generational change is the initial and most obvious reason of product change offered by these businesses. As the minority ethnic group increasingly merges with the nation's general population, it is safe to postulate that ethnic enterprises evolved from the ethnic niche type to an economically assimilated position (Kesteloot and Mistiaen, 1997).

The "ethnic niche" business depends on a sizeable and specific clientele concentration in the immediate vicinity. What is sure to vary according to the nature of business is the spatial connection between the ethnic minority concentration area and the enterprise. But as the enterprise moves towards economic assimilation, its clientele widens geographically and its need for the aforementioned connection ceases.

The enterprises under the management of the latter generation entrepreneurs, as the case studies show, display visible product assimilation. As time progressed and the business was handed down to the latter generation entrepreneurs, M.P. Lingam & Sons



invested in product innovation, a move that translates to a wider target audience and increase in profits. Today, the enterprise produces turmeric powder, coriander powder, murukku flour, athirasam flour, rice flour, meat curry powder and also fish curry powder, products that are high in demand, especially amongst the Chinese community in Malaysia.

In the case of Binwani's, the enterprise offered traditional Indian textiles during the founder's time, but began offering products to entice non-Indian Malaysians when the second generation entrepreneur, Chandru Binwani took over. Today, the company offers packages for Malay brides, a range of accessories such as hand-beaded evening purses for women and cravats, bows and cufflinks for men and by introducing a new service where clients can customize their own fabric for a bespoke experience. Hence, the evolution of products offered by this enterprise indicates their high assimilation into the Malaysian market.

#### **8.3.4 Business Identity**

A person who strongly identifies with an ethnic group is understood as a strong ethnic identifier. Laroche et al., (1997) argues that individuals may be both "slightly ethnic" (a term coined by the media) and "strongly ethnic" at the same time. As generational shifts occur, there is a change from "strongly ethnic" to "slightly ethnic" among the Indian firms in Malaysia. But the extent to which this change occurs varies from company to company. In some cases, they have remained strongly ethnic even after a generational change.<sup>150</sup>

Although ethnicity is agreed by Laroche et al. (1997) to be a substantial predictor of multiple consumer attitudes and behaviours, ethnicity is proposed to involve ethnic

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<sup>150</sup> See commodifying ethnicities in this chapter.

identity, with socioeconomic status which includes educational level and occupational status and cultural awareness or acculturative balance<sup>151</sup> as complements.

Intra-ethnic-based businesses, such as Sri Kumaran's Textiles, Ajuntha Textiles, V. Gopal Pather, Abdul Razak Jewellers and Sri Ganesh Jewellery & Gem Corner retain the core cultural business identity of the Malaysian Indian community. These businesses target Indian customers and tend to preserve their business identity as close as possible to the one set up by first generation entrepreneurs.

According to Deshpande et al., (1986), due to economic, political, family socialization, occupational integration or educational influences, ethnic identity may differ between individuals and for the single individual over time. Inter-ethnic based businesses such as Santha Store, Binwani's, Big Rajah Caterers and Jumbo Restaurant & Catering have moved away from its core Indian identity to lure customers of other ethnicities in order to expand their target market. These companies embrace the modern cultures of the society.

The prevalence of ethnic Indian enterprises during their first generation of entrepreneurs ensured the preservation of the Indian identity in their respective businesses. This can be seen through their class resources, ethnic resources and networks. Enterprises like Santha Store, Big Rajah Caterers, Jumbo Restaurant & Catering, M.P. Lingam & Sons, Gemini Flour Mills, Binwani's, Sri Kumaran's Textiles, Ajuntha Textiles, V. Gopal Pather, Abdul Razak Jewellers and Sri Ganesh Jewellery & Gem Corner initially retained a strong Indian business identity as their target markets were solely Indian immigrants who settled in Malaya or Malaysia.

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<sup>151</sup> This is circumscribed by language proficiency, preference and use, tradition, customs and cultural and cultural identification.

It is probable that the identity of an ethnic enterprise is aligned with the characteristics of its entrepreneur. Ethnic resources including (i) the Indian target market, who spoke similar Indian language dialects as the founder, and the founder's drive to take advantage of the Indian community's inflexible needs for ethnic Indian products; (ii) manpower, where workers from India who spoke Indian dialects were hired for easy staff communication and management; (iii) class resources, where the founder gained experience by working in a similar industry and network, with the founder's network of family, friends and relatives all contributing to the building of a strong Indian business identity.

Through a linear, progressive learning process or model, minority ethnic groups involved in cultural assimilation adopt the host or dominant culture's beliefs, attitudes, values and behaviours (Kim, 1979; Faber et al., 1987). It is predicted through this "traditional assimilation model" by Padilla, (1980); Wallendorf and Reilly, (1983); Gentry et al., (1995) that behavioural patterns will emulate the likes of the host culture and move away from the culture of origin (Berry, 1990; Roberts and Hart, 1997). It is assumed that between the original home culture and host culture, individuals employ a linear path. Additionally, new behaviours are increasingly acquired via contact with the new culture and mass media influence (O'Guinn et al., 1986).

The reduction in the Indian business identity<sup>152</sup> and an increase in national identity over time for the case studies in the Malaysian Indian food industry, whether the spices or the catering firms, was with the objective of capturing a wider target audience, a decision catalyzed by demands from non-Indian Malaysians for Indian cuisine.

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<sup>152</sup> The first generation entrepreneurs targets Indian customers and tend to preserve their business identity as close as possible to the one set up by first generation entrepreneurs. This is not prominent in the subsequent generation of entrepreneurs.

Within the textile industry, the strategy of Ajuntha Textiles, Sri Kumaran's Textiles and Binwani's is premised on a chosen segment of their target audience. Ajuntha Textiles and Sri Kumaran Textiles have decided to hold on to their Indian business identity by supplying mid to low range textiles to cater to mass demands. Whereas Binwani's which runs luxury textile boutiques targets the elites, Indian and non-Indians alike which includes an international clientele to create an international brand for themselves.

V. Gopal Pather, Abdul Razak Jewellers and Sri Ganesh Jewellery & Gem Corner from the jewellery industry have all decided to hold on to their Indian business identity. As gold and jewellery in general is a culturally sensitive commodity in Malaysia, these companies serve the Malaysian Indian target audience who are the dominant gold purchasers.

We conclude that some firms have retained and some firms have decided to move away from preserving their ethnic Indian business identity for the purposes of a wider market reach. The assimilation of their product serves to suit the demands of the non-Indian market in Malaysia. This is also evident through the changes in class resources, ethnic resources and most importantly - networks.

### **8.3.5 Commodifying Ethnicity**

The firms studied here relied heavily on intra-ethnic resources during the founder's generation, due to limited or non-existent class resources to network with the non-Indian communities. All eleven firms commenced business by commodifying ethnicity. Most of them, particularly the migrants, did not diversify or innovate their products as they saw Malaya or Malaysia as a short term "host country", a venue where self-employment held the possibilities of lucrative income and savings. On the other hand, the latter generation

of entrepreneurs possess class resources, a powerful advantage amplified by the increase in the middle class among the target audience.

Intra-sectoral competition is among the reasons why some firms continue and maintain their efforts to commodify ethnicity while the rest have re-strategized to decommodify, or move away from commodifying ethnicity (Comaroff and Comaroff, 2009). The food production companies from the case studies such as Santha Store Flour Mill, Gemini Flour Mills and M.P. Lingam & Sons expanded their customer base by targeting co-ethnics and non-co-ethnics clientele to stay competitive. Big Rajah Caterers, Jumbo Restaurant & Catering and Binwani's put aside their ethnic identity to allow for diversification by moving into event management or fabric customisation. Meanwhile textile firms such as Sri Kumaran Textiles and Ajuntha Textiles innovate their products in order to create a balance that appeals to both co-ethnic and non-co-ethnic customers. On the other hand, jewelers; V. Gopal Pather and Sri Ganesh Jewellery & Gems Corner anchor on their Hindu identity to produce religious-based jewellery.

Anthropologists John and Jean Comaroff shed new light on the connection between ethnicity and business, introduced in *Ethnicity Inc.*, where they introduced the concept of "ethnopreneurship". They believe that the link between culture, identity and the market is the essence behind ethnopreneurship. However, the Comaroffs are aware of the issues behind the "commodifying" of ethnicity for product marketing. For them, these indicate the permeation of the prevalent neoliberal practices in society, adopted by people to reap profits by culture and identity misrepresentation. Market activities to sell ethnic-based products only serve as a support for their brand identities over time, resulting in selling an idea of communities and cultures that are "custom-made" purely for this marketing purpose. For the Comaroffs, the adoption of identity is determined by the company's vital factors, as observed in how migrants enter into a business venture.

Commodifying identity is increasingly seen as an obstacle to business growth among firms in food catering. All food caterers have had to shed their traditional emphasis on the Indianness of their products to secure a larger market base. The second generation had to respond to demographic changes in the Malaysian population brought by the declining growth rates of ethnic Malaysian Indians.

The declining growth rates of ethnic Indians in Malaysia, the changing government policies and economic conditions and the modernization of cultures have caused most of the firms to de-commodify ethnicity in efforts to keep up with the ever-changing demands of their target audience and expand it locally and even internationally, in the case of Santha Store Flour Mill, Jumbo Restaurant & Catering and Binwani's.

Following generational shifts, the dependence of these firms on strong co-ethnic ties to source funds and labour has diminished appreciably. Firms under the management of the latter generation entrepreneurs that de-commodify their ethnicity are closely related to higher class resources, allowing them to create inter-ethnic business networks, diversify products and change their marketing techniques according to trends.

However, there are firms that use their ethnicity to their advantage. The commodification of ethnicity among the textile firms Ajuntha Textiles and Sri Kumaran's Textiles to increase revenue, for example, is evident in the extension of their clientele to include Malays during Bollywood's rising popularity among the Malays. The opposite is true for Binwani's, which had engaged in de-commodifying ethnicity to widen its target market to elite and international customers.

### **8.3.6 Business Expansion**

While skills and experience including special technical or business backgrounds are identified as the foundation by first generation family firms in starting a business, McConaughy, Walker, Henderson and Mishra (1998) identified that business maintenance and enhancement are crucial in the expansion and success of those businesses.

Target market and geographical expansions are the two types of methods applied by the latter generations of the eleven firms under study. With the exception of firms that commodified ethnicity, the rest of the firms (M.P. Lingam & Sons, The Big Rajah Caterers, Ajuntha Textiles, Sri Kumaran's Textiles, Santha Store, Gemini Flour Mills, Jumbo Restaurant & Catering and Binwani's) initially targeted a small, ethnically Indian community, but now targets a larger Malaysian community. The firms that acquired class resources and inter-ethnic networks through the later generation of entrepreneurs had to oversee the expansion from the local target market to an international one.

Product expansion intertwines with target market expansion. As the latter generation identified a new target market segment, they expanded and embarked on product innovation after observing their new target market's needs, wants and trends. The entrepreneurial characteristic of the firms' founders were evident in their ability to recognize and exploit opportunities by creating new business ventures (Aldrich and Cliff, 2003). Although all the founders were entrepreneurial as they took the risk to start the business, they consciously minimized the risk of expansion or diversification. The lack of class resources and inter-ethnic networks prevented the founders from exploring beyond their intra-ethnic target market and geographical boundaries.

Innovation is often the foundation of first generation businesses; however, over time, their entrepreneurial momentum is often lost (Salvato, 2004). The founders' conservative

nature in running their businesses is grounded in their fear of failure of their entrepreneurial ventures (Morris, 1998) and subsequently their family wealth (Sharma and Chrisman, 1997) because their “don’t fix what’s not broken” mindset prevails in ensuring a lasting legacy for their children (Morris, 1998). The founders’ were always found to be in a position between their willingness to take risks with regards to starting a business and their intention to keep the business within the family, resulting in a low probability of them taking risks.

M.P. Lingam & Sons, The Big Rajah Caterers, Ajuntha Textiles and Sri Kumaran’s Textiles expanded their target market from catering solely for Malaysian Indians to all Malaysians while Santha Store Flour Mill, Gemini Flour Mills, Jumbo Restaurant & Catering and Binwani’s managed to secure an international target audience. Again, class resources such as education prove to be the deciding factor in determining these firms’ level of expansion.

The success of a firm’s trans-generational survival is usually dependent on the ability of the business to penetrate new markets and revitalize ongoing operations (Ward, 1987). This is seen in Santha Store Flour Mill, where modern machines were purchased to refine curry and spice powders as well as for instant food and frozen food production. This also shortens the manufacturing process so as to maximize the quantity of production.

The difference between the first and subsequent generation of family firms is that the former tend to want to maintain the status quo, but the latter generation tend to pursue new ways of doing business (Kepner, 1991). M.P. Lingam’s new way of doing business was evident in the decision to obtain Halal certification to further expand the business and widen their target market to the Muslim community in Malaysia.



Rejuvenation, re-creation and re-invention are essential in firms owned and managed by multiple generations for growth sustenance of the same level as the previous generation (Jaffe and Lane, 2004). Handler (1992) further substantiates that the modernization of organizational objectives and procedures through the offering of new and diverse perspectives is key for multigenerational firms to succeed. New perspectives were applied by Binwani's where fabric customization is offered alongside readymade ones to tap into the recent trend of customization.

### **8.3.7 Tacit Knowledge**

Organizational knowledge management understands tacit knowledge as subjective, informal and internalized and is a key concept in its field. Through learning from experience, insights, heuristic procedures etc., tacit knowledge gets embodied in people and is difficult to express and codify in a transferable manner, as ascertained by numerous scholars (see, for example, Polanyi, 1962; Reed and DeFilippi, 1990).

Among ethnically-based enterprises in Malaysia, tacit knowledge is a highly-valued resource that is increasingly diminishing. A major factor is the application of technology which directly and inevitably results in the reduction of tacit knowledge. Difficulty in obtaining foreign workers often results in business owners turning to technology to cope with fulfilling product demands.

Herrgard (2000) states that besides being available in an individual, tacit knowledge is also present in processes, culture and values at an organizational level. This is to a large extent true in the case studies, such as in The Big Rajah Food Caterers, Jumbo Restaurant & Catering, Sri Ganesh Jewellery & Gem Corner and V. Gopal Pather & Sons. Although technology is rapidly replacing manpower for higher efficiency and productivity, the machinery used to create products, manages to imitate the processes which was manually

applied by hands. Tacit knowledge through cultures can also be observed here – the workers who moved from India to Malaysia brought tacit knowledge with them as a resource to survive in a foreign land and to build and sustain a new livelihood.

The case studies reveals that tacit knowledge was the most crucial element in the jewelry industry during the founder's entrepreneurial generation – most of them obtained their artisanal knowledge through their fathers who acquired it in India, i.e., Subramaniam, the founder of Saena Jewellers (the predecessor of Sri Ganesh Jewellery & Gem Corner) and V. Gopal Pather, the owner of V. Gopal Pather were trained in India and brought with them many years of experience in the gold and jewelry industry and after leaving India to make a living in Malaya.

The jewelry industry viewed tacit knowledge as the most important factor in keeping the business identity as compared to the food and textile industries, it was the only industry that featured a highly specialized niche skill in which small-batch craft-based products were made by artisanal hands and was able to meet demands for the most intricate customized designs. Tacit knowledge transfer in the jewelry industry include an eye for detail, knowledge of traditional and modern Indian jewelry design patterns and shapes and the meaning behind these, and knowledge of the tool and terms used in the industry. Tacit knowledge through processes and cultures can be seen but not as much as before, as observed in the case of jewellery industry, such as in the experiences of Sri Ganesh Jewellery and Gem Corner and V. Gopal Pather. But in Abdul Razak, tacit knowledge has almost completely diminished because the firm is now geared towards business success rather than achieving artistic pursuits.

Abdul Razak, who came from India, used to design and produce his own jewelry pieces. But his son and grandson no longer continue to do the same. Sri Ganesh Jewellery and Gem Corner as well as V. Gopal Pather are now facing the same phenomenon. They

are not sure if their descendants can continue the tradition of artisanal jewelry-making. So they have begun hiring artisans from India to do it. Sri Ganesh Jewellery and Gem Corner began expanding in the late 1980s when Mohan took over. Mohan was trained by his father Subramaniam as soon as he finished his secondary level education. During this time, Mohan began modifying the products to cater to the demands of the modern and diversified Malaysians.

#### **8.4 Conclusion**

In the start-up stage by first generation entrepreneurs, most firms can be categorized as ethnic enterprises. This is because, when they started, their main target market was Indians in Malaysia. Due to this, these enterprises were located at ethnic enclaves and the products offered were ethnically Indian. These first generation ethnic entrepreneurs were also more comfortable working with family members, and members of the intra-ethnic community.

During this period also, most firms chose to commodify ethnicity, due to the segmented nature of the market. However, as generations passed, this is only clearly seen in the jewelry industry, where Chinese Malaysians typically purchase jewelry from Chinese jewelers, and likewise for the Malay and Indian communities in Malaysia. Hence, jewellers in Malaysia are still focused on serving their respective targeted consumers.

As new generations emerged and as the firms began moving towards the expansion and diversification stage, some<sup>153</sup> began losing their identity as an “ethnic enterprise”. This is because their target market now had been expanded and diversified, where they

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<sup>153</sup> These are firms such as Santha Store Flour Mill, The Big Rajah Food Caterers, Jumbo Restaurant & Catering and Binwani's.

had begun targeting non-Indians too. Hence, these enterprises began moving to new locations to reach to their new target market.

The latter generations of entrepreneurs are also comfortable networking with members of the inter-ethnic community. This could be due to the reduction in their cultural identity and the increase in their national identity, where they no longer see themselves as Malaysian Indians but now identify themselves as Malaysians – this also applies to their enterprises. Hence, here we see the changes in business identity as well as the reduction in tacit knowledge as generations pass. All these leads to the changes in the applicability of the term “ethnic entrepreneurship”.

Fascinatingly, the findings show that the concept of “ethnic entrepreneurship” is no longer valid in the food industry, partially valid in the textile industry and it is still valid in the jewellery industry. This demonstrates that the different communities in Malaysia does not evolve in a coherent manner.

## CHAPTER 9: CONCLUSION

### 9.1 Introduction

The purpose of this study is to further our understanding on the key changes among firms first established as an ethnic enterprise due to a generational change. The focus of this study is ethnic Indian enterprises located in Malaysia. Chapter 1 provided an introduction to the study. Chapter 2 presented a brief history of Indians in Malaysia. A comprehensive literature review was provided in Chapter 3. Chapter 4 outlined the methodology of the research. The empirical evidence was presented in Chapter 5, 6, 7 and 8 discussed the findings of the study. This chapter sums up the salient points posed by answering the research questions, discussing the empirical and theoretical contribution of the study, limitations of the current research and also provides suggestions for future research.

Based on the study and analysis carried out as described in Chapters 5 and 6, the results indicate that the concept of ethnic entrepreneurship is valid for some enterprises and invalid for the rest. Furthermore, the validity of this concept varies in different industries in the Malaysian economy. The study shows that due to generational change, the concept of ethnic entrepreneurship is no longer valid in the food industry. However, in the jewelry industry, this concept remains applicable, particularly among small firms, despite a generational change. In fact, many small-scale jewellers<sup>154</sup> have shifted to producing religious-based jewelry, commodifying their Hindu identity as a further means to survive. In the textile industry, there is an infusion of Indian and non-Indian fashion, mainly due to class and ethnic resources. Companies are now innovative enough to use Indian fabric

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<sup>154</sup> This does not apply to larger jewellery companies in Malaysia such as Habib Jewels. The owners of Habib Jewels were not interviewed for this study.

to create Malay-type attire have been most adept at expanding their clientele. Hence, the concept of ethnic entrepreneurship is no longer valid for one firm, yet valid for two other firms in the textile industry.

The findings also emphasize that the reasons for change in the validity of the concept of ethnic entrepreneurship varies. For some firms, the change in class resources was the reason why this concept is no longer valid. For other firms, it was the change in ethnic resources, networks or market conditions. As mentioned in the previous chapters, most of the first generation entrepreneurs were not equipped with class resources. These entrepreneurs, without class resources, did not have the management skills to diversify their products and services in a manner that can allow them to increase their market base. On the other hand, members of the second and third generations selectively employ ethnicity as a business tool when determining how their firms should operate. Their ability to adapt to changing economic conditions and government policies, by diversifying their products or by changing their marketing techniques, is why these firms have managed to grow and develop. Entrepreneurs with more class resources are more adept at incorporating innovation, coping with change and pursuing the prospects of new opportunities. They have sufficient flexibility to create inter-ethnic business networks conditioned by the need to tap into these new opportunities.

## **9.2 Research Questions and Objectives**

The analysis of this study discusses the evolution in the key themes together while exploring the opportunities and challenges of ethnic Indian enterprises in Malaysia, shows that the business landscape has evolved through the generations. The research questions and objectives will be discussed to show this evolution.

### 9.2.1 Research Question and Objective 1

The first research objective is to investigate if there were changes in class and ethnic resources for business purposes through the generations as well as its impact on the growth and evolution of Indian SMEs in Malaysia.

There are crucial variations regarding the degree to which these companies, established as ethnic-based enterprises, have shed their ethnic identity following a generational shift. The extent to which firms discard their ethnic identity is closely associated with the issue of class, involving social mobility following the attainment of high level education. The new generation, having attained tertiary education, are conversant in Malaysia's national language, Malay, as well as English, a key factor that has helped them respond to changes in society and expand their customer base, domestically and in three cases internationally (Santha Store Flour Mill, Jumbo Restaurant and Catering as well as Binwani's).

The latter generations were privy to tertiary education, a major class resource that helped them expand their businesses. High education gave this generation the confidence necessary to network on an inter-ethnic basis as well as embark on transnational ventures. Better education provided for better management as well as access to market information which allowed these businesses to improvise their products to suit the needs and demands of a larger market of customers.

Small firms without class resources do not have the management skills to diversify in a manner that can allow them to increase their market base. Interestingly, by commodifying identity in the jewellery business, small firms created entry barriers into their business domain, limiting competition to one based on an intra-ethnic basis. This, however, has limited their customers to a co-ethnic lower middle class clientele, though they do not appear too perturbed by their limited capacity to grow suggesting that they are comfortable operating in enclaves. Large enterprises, on the other hand, with much class resources such as wealth and high education, look to shed their ethnic identity,

evident in the case of Binwani's, though also seen among high-end jewellers. Commodifying identity is increasingly seen as an obstacle to business growth among firms in the food catering sector. All food caterers have had to shed their stress on the Indianness of their products to secure a larger market base.

Another reason why some firms seek to commodify their ethnicity while others strive to shed it is intra-sectoral competition. In the food production sector, companies target co-ethnics as well as non-co-ethnics to stay ahead of the competition and to expand their customer base. In food catering, all companies have sought to shed their distinct ethnic identity, a factor that has allowed them to diversify into related areas such as event management. Textile firms have tried to find a balance between Indian-based and non-Indian based products. Companies innovative enough to use Indian fabric to create Malay-type attire have been most adept at expanding their clientele. Small-scale jewellers have shifted to producing religious-based jewelry, commodifying their religious identity as a means to survive.

### **9.2.2 Research Questions and Objectives 2**

The second research objective is to examine the shift in market conditions and its effects on the growth and evolution of Indian SMEs in Malaysia through the generations.

The findings clearly indicate that first generation, specifically the migrants, viewed India as their "homeland" while Malaysia was merely a "host country," a venue to draw income and savings. This view they held of their short sojourn from India had an impact on business decision-making processes, specifically in terms of extending the range of products sold, a factor that hindered their pursuit of a larger client base.

Their ability to develop their firms was because they had some entrepreneurial expertise, such as a business experience in India and an apprenticeship with a firm owned by a co-ethnic (or co-subethnic) Indian (Santha Store Flour Mill, Gemini Flour Mills,



Binwani's, Ajuntha Textiles, Sri Kumaran's Textiles, Kedai Emas Abdul Razak, Sri Ganesh Jewellery & Gem Corner, V. Gopal Pather). They were able to identify a market waiting to be tapped, indicating their awareness of an opportunity structure. Such opportunities included the existence of a group of consumers interested in ethnic-type goods; among the first generation, this entailed catering to the needs of fellow migrants.

Given the demographics of the Indian population in Malaysia, which is relatively small in size, continued growth and expansion of these Indian businesses necessitated the inclusion of other ethnic groups as part of their clientele; this transition has not been difficult for the second generation. Indian SMEs that do not adapt to this reality face extinction in the market place. Second and third generation Malaysian Indian businesses also cater to the larger Malaysian market in the product offerings of their respective businesses. This phenomenon, termed "product assimilation" is a burgeoning practice.

Hence, the change in the demographics of Indians in Malaysia altered how products were made or offered which had a bearing on the decision to create inter-ethnic ties. As the Indian population began to register a decline in growth rates, the second generation chose to alter the type of products sold to cater to an inter-ethnic clientele in order to expand and diversify their enterprises. These changes allowed involved altering different aspects of the business such as production, operation and marketing methods.

### **9.2.3 Research Questions and Objectives 3**

The third research objective is to investigate if there were changes in networks for business purposes through the generations and its effect on the growth and evolution of Indian SMEs in Malaysia.

The study shows that one factor has remained unchanged; family ties remain the most essential element for sustaining and building a business. With only one exception, Jumbo

Restaurant & Catering, ownership and directorships have remained in the hands of the family members. However, the second and third generations did not rely on family or intra-ethnic ties to secure funding to expand, availing themselves to loans from banks for this purpose. Similarly, the subsequent generations were open to hire foreign labour, and not only co-ethnics, to serve as part of their workforce.

Other significant dissimilarities are evident between the founding generation and the subsequent generations, a key issue determining the importance of functioning as an ethnic enterprise. There was no certainty of survival of the companies established by migrants with little education, confronted also as they were with economic uncertainties arising from running a business in an alien land (M.P. Lingam & Sons, V. Gopal Pather, Sri Ganesh Jewellery & Gem Corner, Kedai Emas Abdul Razak). A similar situation prevailed among the founders of enterprises who were only conversant in an Indian language (Santha Store Flour Mill, Ajuntha Textiles). In these circumstances, they had to create strong intra-ethnic group ties in order to survive

Building ties based similar sub-ethnic identity was particularly useful as the founders of these companies served primarily fellow sub-group members, a factor that indicated the extent of cleavages among Indians in terms also of class, language and spatial difference, all issues that hampered the development of their enterprise. These impediments were not issues that the next generations had to overcome as they had the ability to create business networks that transcended these cleavages.

One key explanation that altered the business landscape is the breaking down of linguistic barriers by latter generations Malaysian Indian. The number of Malaysian Indians in the urban areas who are able to converse in their mother tongues such as Tamil, Hindi, Urdu, Sindhi, Punjabi, while conversant in English and Malay was a key factor. This has eased the ability of the new generation of business owners to forge inter-ethnic

networks. Therefore, the second and third generations strived to create strong inter-ethnic networks as they quickly realised that it is essential in expanding the businesses started by their forefathers. Networking with members of the Chinese and Malays enabled the latter generation to obtain crucial information in developing the businesses in the right direction, especially where product assimilation is at stake.

#### **9.2.4 Research Questions and Objectives 4**

The final research objective is to evaluate the validity of the concept of ethnic enterprise in the present context where firms incorporated by migrants has gone through generational changes.

The evidence from the eleven cases indicates the degrees to which the concept of ethnic enterprise is still applicable, but only in select cases. Although the second and third generations in business were born and bred in Malaysia, they selectively employ ethnicity as a tool when determining how their firms should operate. For small-scale enterprises as well as those located in ethnic enclaves, it is imperative they stress their ethnic identity to secure a constant customer base. The extent to which firms de-commodify their ethnic identity is linked to what they see as their “opportunity structure”; such decisions are closely associated with the class resources they have.

Their ability to adapt to changing economic conditions and government policies, by diversifying their products or by changing their marketing techniques, helps explain why they have managed to grow or have consigned themselves to a clearly defined ethnic space. Firms with more class resources are evidently more adept at incorporating innovation, as well as coping with change and pursuing the prospects of new opportunities. They have sufficient flexibility to create inter-ethnic business networks conditioned by the need to tap into these new opportunities.

The extent to which companies have been able to move beyond their focus on producing and selling only ethnically-based products can be gauged in the type of goods they offer for sale. In the food sector, a major conversion is noted among all firms, from an ethnic enterprise to one where the products offered are now extremely inter-ethnic in nature, though Indian food is its main fare. There is little attempt to commodify ethnicity by companies in this sector as it serves to severely limit their customer base. Firms in this industry also no longer are situated in ethnic enclaves. For all these reasons, it is clear to see that firms in this industry no longer fall in the category of “ethnic enterprise”.

In the textile sector, the primary focus of two firms – Ajuntha Textiles and Sri Kumaran’s Textiles – is still the sale of Indian-type material and clothes, but their clientele was extended to include Malays, specifically due to the growing influence of Bollywood movies on a large segment of this ethnic group. In this sector, there is an element of ethnic commodification to draw in non-Indian customers which has appreciably increased sales revenue. Binwani’s, however, a fairly large-sized firm company compared to the other two, and one dealing in upmarket products, makes no attempt to stress an ethnic identity. This difference draws important attention to class difference, though sub-ethnic identity is also an issue here. Binwani’s is owned by Sindhis, an ethnic group that has had a long history of trading, not seen among Tamils.

In the jewelry sector, in all three extremely small firms deeply situated in what can be constituted as ethnic enclaves, there has been no attempt to move beyond their Indian clientele. In fact, there is a concerted attempt to reinforce the commodification of their “Indianness” to draw customers. Interestingly, the operators of these small enterprises speak little English and Malay, a reason why they are reluctant to move beyond their current clientele. Thus, firms in this industry remain as ethnic enterprises.

### **9.3 Empirical and Theoretical Contribution**

This study contributes both empirically and theoretically in the field of ethnic entrepreneurship. As explained in earlier chapters, scant research was done in Malaysia on ethnic Indian enterprises. Furthermore, there were no studies on the effects of generational change on the validity of ethnic entrepreneurship in Malaysia, especially among the Indians. Due to the historical perspective of the study and the necessity for a deep and dynamic investigation, the case studies method was applied.

Empirically, the eleven case studies showed the growth disparity between the three chosen industries. A few firms from the food industry have moved from retailing to wholesaling, hence changing completely the core concept of their businesses. This means that they now target a wider market, which includes stakeholders from the non-Indian community in Malaysia. On the other hand, the empirical evidence also shows that the situation in the jewellery industry is dissimilar to the food industry. Most firms in the jewellery industry, particularly the SMEs, remain ethnically Indian, and they continue to locate themselves in ethnic enclaves, offer traditional products and mainly target the Indians in Malaysia. A combination of these is seen in the textile industry.

This study has also contributed theoretically to the ethnic entrepreneurship literature. The two major themes applied in the literature appraising the evolution of enterprises that function in an ethnic economy are ethnic enclaves and middlemen minorities. These concepts are applied when analysing relatively new and unassimilated migrant communities in developed and developing economies, including in Southeast Asia when waves of Indian and Chinese migration were recorded during the turn of the last century. In this study, where the Indian-owned firms are historically assessed, much attention is devoted to reviewing core concepts and themes from the interaction model (Waldinger et al., 1990) such as ethnic resources, class resources, predisposing factors, market

conditions, networks and mode of business growth, specifically in the context of a generational shift.

What becomes apparent from the foregoing discussion is that generational change has played a vital role in altering our understanding of the concept of ethnic enterprise. Most studies on ethnic entrepreneurship rely primarily on concepts and theories which are components of or somewhat related to the interactive model. There has been no framework that merges the interactive model, generational changes and the growth stages of firms. The merging of these concepts is important to capture the evolution of once what were evidently ethnic enterprises, especially in a uniquely diverse country like Malaysia.

As generations change, it is important to take into account the stages of growth of a firm. For this reason, the conceptual framework includes the stages of growth which was popularized by Kazanjian (1988) and Hanks et. al. (1993). With the addition of this theory, the evolution of enterprises can be captured.

Another important theoretical contribution would be the shift occurring with regards to one fundamental sub-theme: networks. Networks, which the orthodoxy suggests is placed under resources or the supply of ethnic entrepreneurship (Waldinger et al 1990), would now appear to be more appropriately placed between resources and opportunity structure. This is because in the Malaysian Indian experience of the second and third generation entrepreneurs, networks share both supply and demand qualities. Resources are now provided by members of the same ethnic community, where else the opportunities to grow, develop and diversify are provided by members of the non-ethnic Indian community.

As the interactive model indicates, the growth of an enterprise depends on a complex interaction between opportunity structures and resources. The first generation showed the

ability to tap into market opportunities, but also depended on learning the trade first, in most cases. Given their lack of class resources they typically obtained credit facilities and capital from family members and co-ethnics. New opportunities emerged following rapid modernization and with the rise of new generations in all ethnic groups. These firms have also had to respond to demographic changes involving declining growth rates of ethnic Indians. However, the extent of change within firms depended primarily on the class resources available to second and third generation. This in turn has a bearing on how, or if, they commodified their identity.

With generational shifts, the importance of strong co-ethnic ties has diminished, in terms of source of funds and labour. These companies avail themselves of loans from banks, a practice not evident among most of the founders, particularly poor migrants from India. Their markets have expanded as the second and third generations have the capacity to speak the national language and are familiar with the local economy. Most of these companies now hire foreign labour, a major segment of their employees. This cost of employing foreign labour, compared to co-ethnics, is low and they do not participate in sectoral-based unions, both crucial issues given the competition they face, primarily from co-ethnics. However, in keeping with a practice found generally among family firms, share ownership and directorships remain firmly under the control of the descendants of the founding generation.

#### **9.4 Limitations of Current Research**

It is important to recognize that the nature of the methodology adopted in the study limits the generalization of the findings to a wider Malaysian population. Firstly, the study was conducted in areas located in west Malaysia, mostly urban area with high population of business activities. However, there are still many areas in other states, for example, in

east Malaysia, or even certain rural areas with a high population of Malaysian Indian enterprises. Moreover, this study sheds light only on the food, textile and jewelry industries, while there may also be other industries which play an important role in the evolution of Indian enterprises in Malaysia.

The sample size of case studies in this research is relatively small. To accurately evaluate ethnic Indian enterprises and generational change, a larger sample size is desirable and a quantitative study should also be conducted. The problem here, however, is getting these firms to agree to be reviewed historically. Certainly, there are other factors that influence the evolution of ethnic enterprises in Malaysia such as the changes in entrepreneurial skills and ability<sup>155</sup> of entrepreneurs from the different generations.

Some of the firms that conformed to the predetermined criteria of this study were not included due to the reluctance of the managers, directors or shareholders to be interviewed. Participation of large-scale and prominent firms in the food (Baba's Products and Alagappa Flour Mills), textile (Haniffa Textiles, Kamdar and Gulati's Silk House) and jewelry (Habib Jewels and Madras Jeweller) industries in this study would have made a difference in further understanding this study as they play a crucial role in the evolution of Indian enterprises in Malaysia.

## **9.5 Suggestion for Future Research**

In view of the limitations, future studies may look into several aspects as recommended and can even go beyond the scope of this study. It is recommended that further empirical research is conducted to identify the importance and nature of the key factors that

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<sup>155</sup> Such as the ability to identify strengths and weakness of the firm, the ability to hire the right people, the ability to train and manage staff and the ability to leverage on social networking.



determines the evolution of ethnic Indian enterprises in Malaysia on a wider geographical spread.

A long term study that examines the historic and changing patterns of Indian enterprises in Malaysia can also be carried out. The continual study may give depth and advanced comprehension of the process of embeddedness of Indian businesses with the local and international communities. This may enable stakeholders to predict potential issues shaping the business landscape due to the involvement of various groups, locally and internationally.

As Indian enterprises in Malaysia expand and develop, issues such as succession planning and family business management should be given a higher priority. This is because most Indian enterprises are also family businesses which are passed down from one generation to the next. Ethnic enterprises which are also family businesses may face internal conflicts that typically arises from the inability to separate the business and personal lives due to the varied interests of each family member or personal rivalries that can spill into the business environment. Therefore, future studies should determine the risks heighten as intergenerational transfers take place in the evolution of ethnic Indian enterprises in Malaysia.

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