

# The Contradiction of Entrepreneurship through Affirmative Action: The Case of Malaysia

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## Abstract

Malaysia's affirmative action, introduced as the New Economic Policy (NEP)<sup>1</sup> in 1971 to redress Malay economic setbacks, failed in its objective to acquire 30 percent equity of Malaysian public companies for Malays by 1990. This failure was translated into the government's failure to develop a sufficient number of Malay entrepreneurs with the skills to meet this target. The government had devised affirmative action under the NEP in the belief that it was a recipe for entrepreneurial development. This paper argues that affirmative action for the development of entrepreneurs is likely to fail as it contradicts the principles of entrepreneurship. This paper offers a proposition that affirmative action, far from uplifting Malay entrepreneurialism, had intuitively benefitted non-beneficiaries as they were driven to greater resolve.

*Keywords:* affirmative action, Malaysia, entrepreneurship, NEP, Malays

## Introduction

The paper will begin with a general discussion on affirmative action, its beginnings as state policy and a means for upliftment of the marginalized. It will follow with background on Malaysia, the focus of this paper; its multi-ethnic people and their economic disparities. Following will be a discussion on the New Economic Policy (NEP), here referred to interchangeably as affirmative action, how it was used to address Malay marginalization, its outcomes and its implications for Malay entrepreneurship development. A proposition is offered in the next section along with a survey and its findings before the conclusion of the paper.

## Why Affirmative Action?

Affirmative action is to 'affirm to act' against perceived social imbalances and is essentially based on the principle of non-discrimination (Findley

*et al.* 2004). To put it another way, it means assistance to the underprivileged. Whichever way we look at it, it is not new as various ways of asserting affirmative action have been with us since time immemorial. But its institutionalization is quite recent. India can be said to be the first country to introduce affirmative action policies when it extended special treatment to its untouchable castes following independence in 1947. But, of course, India never called it affirmative action.

We could take a page from the US since it was there where the term was introduced. President John F. Kennedy first applied the term officially in an Executive Order in 1961 that established the President's Commission on Equal Employment Opportunity (Sowell 2004: 4). Though Kennedy said in that landmark speech that the government 'will take affirmative action to ensure that applicants are employed, and employees are treated during their employment, without regard to their race, creed, color, or national origin', the order did not advocate preferential treatment of affected groups, rather it called for employees to be treated without regard to their ethnic or national differences and sought to eliminate discrimination. When Kennedy's pronouncement subsequently became law during President Lyndon Johnson's tenure under the Civil Rights Act (1964), courts were empowered to order an organization to adopt 'affirmative action as may be appropriate as both punishment and correction for a finding of discrimination' (Crosby 1994: 13-41).

Since then there have been several edicts that reinforced the requirements of equal employment opportunity and affirmative action. In defining affirmative action, it means to affirm action to ensure that ethnic minorities, women, people with disabilities and other underrepresented groups are fairly represented in colleges and in the workplace (Miller *et al.* 1997). This includes preference for qualified and employable 'target groups' identified by the US Code of Federal Regulations as ethnic-minority groups (African American, Hispanic American, Native American and Asian American) and women and as those bearing the brunt of discrimination (Crosby 1994).

But definitions of affirmative action are not entirely satisfactory as there are tensions in applying it between equal employment opportunity and equal opportunity policy. Basically, affirmative action seeks to address historical injustices or avoid the wrongs of the past. It is proactive and looks to public policy for redress, whereas equal opportunity is reactive and focuses on the individual or what he or she considers to be equal. There is also the paradox of inequality as either can perpetuate tyranny. Affirmative action policies are applied in a variety of ways: em-

ployment, workplace issues and minority quotas in colleges were given the most prominence in the US. But there is no escaping the fact that an underlying objective of affirmative action must be the general economic upliftment of marginalized communities. In the case of Malaysia, this is the focus through which entrepreneurship development is given special attention. What does affirmative action mean in Malaysia?

## Malaysia Background

Malaysia has a population of 25 million comprising 50 percent Malays, 24 percent Chinese, 11 percent indigenous, seven percent Indians (mostly Tamils), and eight percent others. The Chinese have been in the Malay States since the fifteenth century; by 1930 they were over a million in number (Andaya and Andaya 1982). Most Chinese came as traders but their biggest presence was in the tin industry. The Indians, too, came as traders from as early as the fifteenth century but the majority were brought in by the British as indentured rubber tappers at the turn of the last century. Indians were later brought in to fill positions in the civil service, teaching professions and the railways. Though Indians are the smallest minority of the three major races they have a higher percentage of professionals and entrepreneurs, such as the late rubber plantation owner Arumugam Pillai, Kishu Tirathrai, a well-known textile trader, and Malaysia's richest man, billionaire Ananda Krishnan. But most Indians are poor. This was highlighted in the Ninth Malaysia Plan, which noted that Indians control only 1.2 percent of the economy having declined from 1.5 percent since the Eighth Malaysian Plan. There has been a shift of Indians to the urban areas for work as the rubber and palm estates they had worked in were turned into commercial and residential complexes. Indians had blamed the NEP and the lack of educational facilities for the rise in poverty and high crime among their youth. They vented their displeasure with a series of militant street demonstrations in 2008, which Indian activist groups reasoned was the culmination of decades of being the most marginalized among the three major races of Malaysia.<sup>2</sup> The economic distress of the Indian population is not new and their economic situation has been deteriorating since the advent of the NEP (Mohamed Nawab 2007).

The Chinese have tended toward self-employment and are known for their proclivity for business, but given their large population they have not been indifferent to the politics of the country. This is underscored by their partnership in the ruling Barisan Nasional and their sizeable mem-

berships in the Democratic Action Party (DAP) and Keadilan. Chinese businessmen, though, are known to independently align themselves with the political elite to whom they will appeal for the resolution of their problems rather than deferring them to their own *kongsi* network (Gomez and Benton 2004). Chinese business relationships with the political elite and the ruling class have a long history (McVey 1992; Yoshihara 1988). Perhaps one of the most glaring examples is the gaming licence for a casino development in the Genting Highlands in the state of Pahang that was approved by the ruler of the state and given to the late Tan Sri Lim Goh Tong. Chinese entrepreneurs such as Tan Sri Lim Goh Tong and Robert Kwok and the family members of the Hong Leong Group were friends of the late Prime Minister Tunku Abdul Rahman and they have been known to have close royal connections.<sup>3</sup> Despite Chinese businesses being so dominant, they have yet to gravitate as a cohesive business group (Gomez and Benton 2004: 15). Their different clan loyalties, business competition, and political connections could be some reasons why they are this way. Given the ethnic composition, the Chinese hold the balance of power in Malaysian politics, and contrary to Gomez and Benton (2004), they are not treated as 'second class' citizens, considering they are better off economically with a higher standard of living. With the economy dominated by the Chinese and the civil service by the Indians, the Malays, who are mostly found in the armed forces and police or confined to the rural areas working as fishermen or farmers, felt left behind. Malay dissatisfaction came to a head at the 1969 parliamentary General Elections when bloody riots (commonly remembered as the May 13 Riots) broke out between the Malays and the Chinese. The event precipitated the far-reaching reforms of the NEP, which was primarily a policy to address Malay grouses (Yoshihara 1988: 60; Crouch 1992: 23). The NEP was justified not only on economic but also political grounds. A major event that followed the May 13 Riots was the establishment of Barisan Nasional (BN), a multi-party grand coalition that combined all the major ethnic parties. The brainchild of incoming Prime Minister Tun Razak, the establishment of the BN was heralded as the most successful political event and has been the government continuously since. Tun Razak immediately set out to address Malay dissatisfaction and initiated the government's report on the May 13 Riots (in a White Paper entitled *Towards National Harmony*) which stressed political and psychological factors had contributed to the conflict. The report and public comments of government leaders also emphasized economic causes: it cited the failure of earlier

economic policies to address the 'relative deprivation' of the Malays in comparison with non-Malays. Expert commentaries at the time, while accepting that the Malays still lagged behind the Chinese economically, did not, however, subscribe to relative deprivation as a reason for the conflict (Means 1991: 23). Yet theories of relative deprivation continued to be ascribed to the May 13 Riots by the Razak administration to justify certain policies. Resting on the notion of Malay dissatisfaction as the cause of the 1969 unrest, Razak embarked on an aggressive economic agenda that was primarily directed to correct the perceived inequities of Malay underdevelopment.

To allay anti-Malay cynicism, he assured non-Malays that their wealth and jobs would not be expropriated to hasten Malay aspirations as his economic policies 'will be distributed in a just and equitable manner'. Underlying this assurance, he promoted the slogan of *Masyarakat Adil* (Just Society) in his launching of the NEP in the Second Malaysia Plan on 11 July 1971.

## **The New Economic Policy (NEP)**

At the outset, it should be noted that the NEP was not a document as such, rather it was a series of policies that were developed following the May 13 Riots and were entrenched in the Second Malaysian Plan launched in July 1971.

Often incorrectly identified as a mechanism to facilitate Malay rights, the NEP was primarily designed to reform the economy to meet Malay expectations for a greater share in the economy (Shome 2002: 98-101). The NEP prioritized its objectives by tending first to the needs of rural Malays whose plight was identified with stagnated rural projects, lower production yields, and rising poverty in their rapidly increasing population. Recommendations in the NEP included the rapid modernization of rural development, facilitating the more efficient access and use of state-sponsored land and the reducing of stringent requirements for state loans. Along with these facilities the government also stepped up its drive to improve public amenities in the rural areas and training opportunities for the high number of unemployed rural youth. The second measure was for the progressive reduction of Malay dependence on the diminishing agriculture subsistence. In line with this policy, the NEP recommended a concerted drive for greater Malay exposure in the urban sectors of commerce and industry to be steered by public enterprises such as the Majlis Amanah Rakyat (MARA) or Council of Trust for the

Bumiputera, Perbadanan Nasional Berhad (Pernas) or the National Corporation Ltd, the State Economic Development Corporations (SEDCs), the Urban Development Authority (UDA), and the Malaysian Industrial Development Finance Ltd (MIDF).

Razak set a range of goals for the next two decades to measure the success of the NEP recommendations. One of those goals was to target 30 percent of the country's corporate wealth for Malay ownership by the year 1990. To achieve this, the government adopted a highly corporatist 'government-in-business' strategy to fulfil 'bumiputera' (literally 'son of the soil', which applies to indigenous peoples of Malaysia but more often to Malays) ownership of public corporations. The government's deft acquisitions and equity holdings in major public companies through Pernas, UDA and the SEDCs, though growing steadily, did not immediately address the more pressing needs of economic assistance for most ordinary Malays. To overcome this problem the NEP bolstered its objectives with a range of measures that were designed to accelerate Malay participation in the reform process. Included in these measures were the retrospective expansion of Malay special rights in the form of land rights, subsidized education, generous recruitment quotas for the civil service and certain business prerogatives that were already protected in the Constitution and had been gradually expanded in the past decade. The NEP re-formulated the system of job quotas and Malay special rights for greater privileged access to higher paying jobs, management positions, the professions, tertiary education admissions and equity stakes in companies. The NEP restructuring targets were also extended to the private sector. Companies were asked to submit plans for employing, training and promoting Malays at all levels of their operations and to adhere to the Malay employment quotas that were generally set at 40 percent of the total labour force of the company.

Many companies however chose to ignore this directive for the obvious impracticality of it and the absence of effective monitoring of their compliance. But for new foreign companies there was no escape from this policy, as Malay employment was a condition for their acceptance of the licensing and tax concessions that were available to them.

## **The Outcomes of the NEP**

The implementation of the NEP coincided with a buoyant Malaysian economy during the years from 1971 to 1974. Politically, the environment presented Razak with a most propitious time to push through



with relative ease many of the provocative NEP recommendations as it made the task of managing opposition dissent and racial cynicism easier to handle. The vitality of the NEP in the Second Malaysia Plan 1971-75 was manifested by a real GDP growth rate of 7.1 percent per annum that was achieved against the target growth rate of 6.8 percent per annum. While the industrial sector had doubled its share of growth since 1961, agriculture declined by a third, underscoring a successful policy shift towards industrialization (Bowie 1991: 93).

Due to a worldwide recession, the hiatus in 1975 was cushioned by the high growth rates of earlier years. The rapid recovery that followed in 1976 meant that little or no adjustment was necessary to alter either the pace or strategies of the NEP. In the early 1970s the government acquired multinational companies that had their major business interests in Malaysia such as London Tin (by whose acquisition Malaysia controlled the world tin market) and rubber giants Sime Darby and Socfin (Yoshihara 1988: 22). By 1975 Malay ownership of capital increased to 7.8 percent from 2.4 percent in 1970 but still fell short of the target of nine percent. Within three years of the NEP implementation, 98 percent of all those recruited for government service were Malays, a percentage that far exceeded the 4:1 Malay ratio (Means 1991: 26). During the period of the Second Malaysia Plan, Malay employment in the commercial and industrial sectors rose rapidly to parallel the rate in the public service. Similarly, Malay admissions to institutions of higher education also increased dramatically. Malay student numbers at the University of Malaya, for instance, increased from 49.7 percent to 66.4 percent between 1970 and 1979 and in about the same period government expenditure per student rose from RM 3,700 to RM 12,900, underscoring the NEP policy for greater access and privileges for Malay students. Of the total of 4,930 scholarships offered in its 1974-75 calendar year, the University of Malaya offered 3,505 to Malay students. The government also actively participated in funding Malay students for overseas studies.

The Razak administration's efforts to eradicate poverty did not match the impressive growth in the economy. It managed to reduce poverty by a paltry 5.4 percent of the 49.3 percent of households living in poverty (Means 1991: 70). Part of the problem was attributed to the government's policy of moving away from agriculture, which caused untrained rural Malays to look for work in the cities where they soon established themselves in the notorious squatter colonies of Kuala Lumpur – the subject of constant jibes by cynics of the NEP. The Second Malaysia Plan had also experienced a widening gap in income between the rich and the

poor, a phenomenon that not only called into question the inequality of Razak's reforms but was also a perennial embarrassment that successive governments were simply unable to redress. While the NEP was generally positive to the overall well-being of the Malays, it did not give them benefits at the speed that Razak had intended. One of the reasons for the slower-than-expected growth was the government's acquisitive policy of corporate ownership that muddled fiscal policy and foreign investment. First, inordinate government spending in infrastructure and non-productive sectors caused revenue deficits and increased borrowings. Funds were also being drained for an equity buying spree to meet corporate ownership objectives. Second, rising inflation, ambiguities in acquisition policies, and interventionist regulations as well as repressing private sector expansion compounded by capital outflows, frightened away foreign investments.

Investors also found it hard to reserve bumiputera preferential shareholding since bumiputera capital was acutely scarce. Capital was of no issue if the government was itself the equity partner as funds could be allocated from state budgets or from borrowings from state boards that also had been set up with state endowment. But for the average private individual, the option was often straight government loans through either state loan agencies or banks such as Bank Pembangunan, Bank Rakyat and Bank Bumiputra, whose liquidity in the main was also tax-resourced. The shares were often enough for the collateral required for the loans and interest could be nothing or minimal. Sometimes shares were gifted at absolutely no cost to the beneficiary bumiputera director, especially in instances where the benefactor was of such prestige that his name (always male) alone carried enormous commercial value to the investor. If access to loans was impossible and if the investor wanted a bumiputera partner badly enough, a company advance was usually arranged for the partner and repayments were offset against future dividends or other remuneration. This system could alternatively have a complex 'buy back' arrangement where the shares could only be resold to the investor at a pre-determined price (Shome 2002: 101). Although bumiputera equity obliged no further contribution from the partner, the company would normally utilize the services of its Malay partner in largely public relations roles. The performance and the day-to-day running of the company rested exclusively with the investor and the prohibition on the repatriation of foreign capital negated debt-recovery by liquidation.

Though the NEP managed only 19.4 percent<sup>4</sup> Malay ownership of public companies in 1990 against the target of 30 percent, it had



fulfilled a well-conceived policy that was anchored by its main objectives of poverty eradication and the reduction of inequality of wealth (Shome 2002: 169). On the face of it everyone ought to be happy with it as the NEP was not race-specific and sought equal treatment across all ethnic groups. But implicit in its objectives was its intention to boost Malay participation in the commercial activity of the nation that was dominated by the Chinese, the second largest ethnic group (Milne and Mauzy 1999: 51-53; Korff 2001). The policy has been seen as successful in attaining its first objective of poverty eradication but less successful in attaining the second objective of wealth distribution (Yusof 2001: 74-92). Granted, under the NEP the Malays had been exposed to all the tools of modern business, but that alone would not be enough to catch up with the Chinese since there had to be equity first in the employment market to get some sense of what the commercial world is about. It is well known that the Malays were faced with difficulties in obtaining employment in business organizations mainly owned by Chinese and foreigners (Gullick 1981: 149). This may be attributed to the lack of confidence by foreigners of Malay entrepreneurial and managerial skills and the inclination by the Chinese to employ Chinese workers (Mahathir 1970: 39-40, 82-83).

The NEP also provided an avenue for Malays to mobilize their capital and increase their savings. This was achieved through the establishment of agencies such as the Pilgrims Fund Board or Lembaga Tabung Haji and National Equity Corporation or Permodalan Nasional Berhad (PNB). Traditionally, the Malays, being Muslims, shunned saving money at banks due to the usury associated with investment activities of banks (Gullick 1981: 148). In addition, unlike the Chinese who were more sophisticated with money dealings, the Malays were seen as less capable of managing their money competitively (Mahathir 1970: 167-69; Yoshihara 1988: 56; Mackie 1992: 164). The Chinese also had a strong and organized network to mobilize their capital and this had served as their competitive advantage over the Malays in business activities (McVey 1992: 20-21; Othman *et al.* 2005). Concerted effort by the government to strategically mobilize Malay capital and to encourage investment among Malays had helped them to build their commercial acumen as well as to increase their savings.

Another advantage of the NEP was that it provided Malays with an opportunity to obtain better qualifications (Shamsul 1997) with the assumption that it would create entrepreneurial savvy. By 1990 it did create an enlarging Malay middle-class and more professionals so that

by 2004 there were, in fact, more Malay doctors than Chinese doctors (Kessler 1992: 145; Sowell 2004: 70). The presence of these Malays in various professional and employment sectors had, in some ways, helped to restore Malay confidence and the perception that the NEP had helped the Malays to improve their standard of living and economic position (Sloane 1999: 54, 119-120).

A significant outcome under the NEP was the creation of government-owned entities that became directly involved in the commercial activities of the nation. These public and state enterprises became proxies of Malay wealth, supposedly on behalf of the Malay population (Jesudason 1989: 72, 86-100; Searle 1999: 58-78). Therefore, even though Malay corporate ownership had increased during the period of NEP, this ownership was mainly concentrated in public enterprises rather than in the hands of individual Malays, a situation Malays find unacceptable (Gullick 1981: 147). Another major setback of the NEP was that it gave too much attention to the economic aspect of Malay capital building and too little attention to the psychological and sociological aspects of enterprise creation. For example, the government was accused of providing Malays with easy access to large amounts of capital without instilling and nurturing an entrepreneurial spirit among them as well as providing a conducive environment for their entrepreneurship development (Gomez 1999: 35; Tan 2006). Finally, while the NEP had been successful in containing Malay discontent towards other ethnic groups in Malaysia, the policy created dissatisfaction with non-Malays (Tan 1992: 194; Milne and Mauzy 1999: 54). The non-Malays, in particular the Chinese, felt that they had been discriminated against under the policy and this then created feelings of insecurity with regards to their business investment in the country (Gullick 1981: 146, 149, 250). As a result, there had been massive movements of capital overseas (Gomez and Jomo 1999: 44).

The foregoing discussion has illustrated the advantages and disadvantages of Malaysia's NEP. While the NEP had been successful in eradicating poverty and reducing inter-ethnic income disparities by providing Malays with better access to education and employment opportunities, its success in promoting and providing a conducive environment for Malay entrepreneurial development was questionable. Even though the NEP had been successful in restoring Malay confidence in the government and reducing their discontent towards other ethnic groups in Malaysia, the policy has been seen as discriminating against non-Malays.

## NEP on Entrepreneurship Development

Before we begin to discuss this issue, we should explain, at least briefly, what we understand by entrepreneurship in the context of the NEP. First, what is entrepreneurship? Despite a mass of literature, scholars are still not able to come up with a clear and consistent definition of entrepreneurship. Part of this difficulty is due to a failure to integrate the two main approaches in defining the term: the functional approach and the indicative approach (Casson 2003). The functional approach is quite abstract and it simply describes what an entrepreneur does. On the other hand, the indicative approach provides a description of the entrepreneur by which he may be recognized. The former approach has been adopted mainly by the economic theorist, the latter by the economic historian. One can find almost as many definitions of the entrepreneur as there are literatures. Generally, an entrepreneur can be defined as:

- one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on them (Foley 2003: 135)
- enterprising individuals who dare to be different and risk envy and ostracism to reap possible personal gain from the exploitation of opportunities (Kalantaridis 2004: 39)
- individuals who innovate, identify and create business opportunities, assemble and coordinate new combinations of resources so as to extract the most profits from their innovations in an uncertain environment (Swierczek and Quang 2004: 134)
- any member of the economy whose activities are in some manner novel and entail the use of imagination, boldness, ingenuity, leadership, persistence and determination in the pursuit of wealth, power and position (Montanye 2006: 555).

Most scholars are agreed that entrepreneurship is about vision, innovation and change, but there are those like Schumpeter (1934) who will not accept the often-touted quality of risk-taking while others, such as Knight (1921), think uncertainty is a significant element in the making of an entrepreneur. Schumpeter detaches the entrepreneur from risk bearing. He says 'risk taking is in no case an element of the entrepreneurial function. Even though [the entrepreneur] may risk his reputation, the direct economic responsibility of failure never falls on him' (Schumpeter 1934: 137). He makes a clear distinction between entrepreneurship and invention. To him, inventions are economically irrelevant if they are

not being put into practice. He accepts that entrepreneurs could well be inventors but proposes that they are inventors, not by nature of their function, but by coincidence and vice versa (Schumpeter 1934: 88-89). He further argues that the typical entrepreneur is more self-centred and relies less on tradition and connection (Schumpeter 1934: 92).

Schumpeter associates entrepreneurship with creating and the entrepreneur as a resourceful innovator (Kirzner 1973). To Schumpeter, the entrepreneur is the bold leader who was willing to break through a wide array of ordinary constraints that set him apart from the manager (Kalantaridis 2004). Schumpeter (1934) advances the view that the entrepreneur is motivated by first, 'the dream and the will to found a private kingdom'; second, by the will to prove oneself superior to others; third, for the challenge of creating (Schumpeter 1934: 93). But he does not seem to think that entrepreneurship is necessarily a life-long pursuit. Rather, he says, as the market becomes more cluttered and competitive, the rate of profits will deteriorate and the innovative activity will diminish (Kalantaridis 2004). Schumpeter is no different from other theorists who see the entrepreneur as one strongly motivated by pecuniary profit and sociologically distinct, a creative innovator unafraid to break away from established routines (Kirzner 1973; Montanye 2006).

Frank Knight's work appeared about the same time as that of Schumpeter. One of Knight's main contributions is attributed to his well-known theory of profit (Knight 1921). He says profit is the reward for those who are willing to bear the cost of uncertainty. What distinguishes entrepreneurs from non-entrepreneurs is their 'capacity by perception and inference to form correct judgments as to the future course of events in the environment . . . of special importance is the variation in the power of reading human nature, of forecasting the conduct of other men' (Knight 1921: 241-42).

Another important aspect of Knight's contribution to entrepreneurial studies is his detailed distinction between risk and uncertainty as an economy-wide feature affecting all economic agents (Grebel *et al.* 2003). Knight argues that uncertainty cannot be treated as risk because one cannot formulate a risk distribution for unique events such as the likelihood of a singer losing his voice (Khalil 2003). Hence, unlike risk, uncertainty cannot be estimated and therefore it cannot be insured. Knight (1921) further emphasizes that the only risk that leads to profit is a unique uncertainty resulting from an exercise of ultimate responsibility, which in its very nature cannot be insured nor capitalized nor salaried (Knight 1921: 310). Knight asserts that the major effect of uncertainty follows

with the establishment of enterprises where most of the population, who provide productive services to the entrepreneurs are offered the certainty of employment and income.

For Knight, the entrepreneurs are distinguishable from the others due to their willingness to bear the uncertainty with control and social responsibility. The entrepreneurs are ultimately in control of the venture and are ultimately responsible for all receipts and outlays (Kirzner 1973). In return they will be justly rewarded if they succeed.

## **The Implications of the NEP on Entrepreneurship Development**

In discussing the implications, we should look at some of the elements of entrepreneurship and their relevance to Malay entrepreneurial development on the back of the NEP. In her study on early Malay entrepreneurialism, Li-Murray points out the differences in the migrating patterns of Malays and Chinese, saying that the former were more dispersal than the waves of the collectivist Chinese bands. (Li-Murray 1998: 150). By this, Li-Murray posits that the Malays were inclined to individualistic pursuits and supported themselves as independent wage earners since there were few Malay businesses. Li-Murray also says that the personalization of commercial relationships contributed to Chinese business success.

While it is true that Malays lacked the kind of organizations or *kongsi* that the Chinese had, they were no less entrepreneurial, as observed by such eminent Malay World historians as Andaya and Andaya (1982), Reid (1993) and Ricklefs (1993). However, in modern Malaysia, not only did Malay enterprises remain small and traditional, independent trading scarcely survived. Malays were drawn into the kind of productive services Knight (1921) talks about where the certainty of employment was better than the uncertainty of business. The risk of uncertain income also meant that Malays were averse to venturing into business. Kalantaridis (2004) says it takes a certain amount of dare to venture into business. Malay entrepreneurs, especially in the rural areas, were looked upon with hostility for their apparent obsession with money and profit (Li-Murray 1998: 159). This probably explains their reluctance to go into business. Besides, religious virtuousness frowns upon the exploitative nature of business as it is sometimes perceived to be. The Schumpeter (1934) thesis of the entrepreneur as the 'bold leader looking to found a private kingdom' also does not go down well with the Malay egalitarian psyche.

The Islamic concept of the *ummah* or community has reinforced the Malay spirit of *gotong-royong* or cooperative work. Together they inspire the laudable giving nature of the Malay. From this we can infer that the individualism and competitiveness that are demanded in entrepreneurship are traits less likely admired and pursued. On one level this may be true of those more religiously inclined, particularly in the rural and semi-urban areas where traditions and religions are strong. The Malay trader in the urban centres, though, is more likely to be the individualist who is forced to go it alone since there is a lack of community networks to organize businesses as successfully as the Chinese, as observed by Li-Murray (1998). Similarly, there are many independently-run Malay businesses all over urban centres that are characteristically small to medium size and unspecialized. They are not built upon the qualities of innovation, boldness or wealth creation that identify the classical entrepreneur (Schumpeter 1934; Swierczek and Quang 2004; Montanye 2006). These businesses tend to be sole proprietorships or partnerships and operate around their families and their lack of growth can be owed to the Malay psyche of the virtues of self-contentment (Shome 2002).

On another level, we have the 'Melayu Baru' of well-educated technocrats who are in positions of influence in government-linked companies, in the private legal and medical professions, information-technology and other professional consultancies who have been influential in Malay entrepreneurship development. Though not entrepreneurs in the real sense, they are a critical link for Malay business interests who connect with these technocrats, for example, through the Malaysian Technology Development Corporation (MDTC). Formed in 1992, it is a partnership of the government-owned trading company, Khazanah, and a number of private-sector companies. The management is headed by a highly qualified Malay woman with a team of experienced and equally highly educated Malays and non-Malays. The objective of the company is to invest in high-technology companies worldwide.

Malays are, without a doubt, inspired by Chinese successes in business but these successes were built on the strong survival instinct of early immigrants. For many of these immigrants their only means of livelihood was doing business, usually petty, but for some their businesses grew substantially during the boom period of the mining and rubber industries. The Malays, some would argue, have no such legacy and their fortitude for entrepreneurial challenges is not as acute as the Chinese. What the Malays lack they make up amply with political power, which



is useful to make many things possible but would not, by itself, provide a guarantee of economic growth or a recipe for a creative enterprise.

Based on this premise, developing entrepreneurs through the aegis of the NEP would be an exercise in futility if its objective was an inclusive stimulus. But, of course, the NEP was not all about entrepreneurship development. A significant part of it was about Malay equity, that 30 percent of all corporate stock would be owned by the Malays by 1990 (Sowell 2004: 61). That was assumed on the basis that Malays would be sufficiently entrepreneurial by then. The government had believed that if Malays were attracted by generous financing and preferences for licences, permits and public tenders, this would give rapid birth to a generation of entrepreneurs who would have the experience to garner the 30 percent corporate equity. What was not anticipated was that the Malays were lacking in adequate skills and know-how to develop a large enough base of Malay enterprises that had the liquidity to acquire equity in public companies. What was disturbing was that the Malays, who had been recipients of various concessions, such as timber mining, or licensed government contracting, or given access to cheap financing, bartered their privileges to the Chinese in return for silent partnerships or company board seats.

Former Prime Minister Tun Mahathir said, 'the vast majority regarded the opportunities given them as something to be exploited for the quickest return . . . became sleeping partners . . . learn[ed] nothing . . . became less capable of doing business' (*Straits Times*, 1 August 2002).

This has been termed the 'Ali-Baba' syndrome, where the former, Ali the Malay, sold off to the Chinese, the Baba.<sup>5</sup> It has been alleged for many years and repeated even more recently by former Deputy Prime Minister Tun Musa Hitam (*Star*, 23 March 2007). The NEP had also been exploited by 'fake entrepreneurs' or what some called the 'rent-seekers' (Yoshihara 1988: 68; Searle 1999). The main activity of this group of people was not entrepreneurial in nature but merely to take advantage of their political connections and access to government resources (Yoshihara 1988: 68). To some extent, the politicized nature of Malaysian businesses has discouraged many Malays from getting involved in business as they feel that they are at a disadvantaged position to compete with the more politically-connected business people (Gomez and Jomo 1999: 49). There were allegations that the 20-odd percent that was achieved went to Malay elites whose political support was important to the United Malays National Organisation (UMNO)<sup>6</sup> (Crouch 1992: 37-38). Of this, only five percent of Malays benefitted from the NEP (Sowell 2004: 74).

One of the major setbacks of the NEP was in fact its policy of dependency that equates to a 'crutch-mentality' according to former Prime Minister Tun Mahathir when he addressed the UMNO General Assembly in June 2003. He said it was he and his government 'who provided the crutches. The NEP was meant as a leg-up but it consigned the Malays to permanent disability' (*Far Eastern Economic Review*, 23 June 2003). What he is saying is that the government could not create a class of Malay entrepreneurs if it continued to give out assistance and provide a superficial safe and comfortable environment for them. This goes against the grain of risk taking, innovativeness and autonomy, the elements that are crucial in the development of entrepreneurship. Another problem with the NEP, like any other affirmative action, was that once it was in place, it was very difficult to put an end to it. Instead, it was likely to grow and create a subsidy mentality with the Malays (Khoo 1992: 65; Gomez and Jomo 1999: 25). In this respect the Malays were inclined to expect more regardless of whether the government was capable of meeting their demands (Milne and Mauzy 1999: 54). They would feel that it was within their right to be favoured and any attempt to question or put an end to this right would very likely cause a stir and anger with the Malays (Khoo 2003: 194-95).

A government handout, some analysts alleged, was yet another example of the dependency culture as shown in February 2000 when the government announced a RM 300 million (US\$ 87 million) stimulus fund to help ethnic Malays survive in business. Analysts supportive of the initiative described the central bank fund as a necessary lifeline following the 1997 Asian financial crisis. Bank Negara Malaysia Governor Ali Abul Hassan Sulaiman said the Bumiputera Entrepreneurial Project Fund was aimed at helping bumiputera entrepreneurs of small- and medium-sized companies with financing at reasonable costs to enable them to undertake new or existing projects (*Straits Times*, 11 February 2000).

## **The Proposition**

The proposition is that Malaysia's affirmative action, far from uplifting Malay entrepreneurialism, intuitively benefitted non-beneficiaries; they were driven to greater resolve, had higher resilience and optimized their network collaboration.

A mail-out questionnaire was conducted among a group of Malaysian business people, firstly, to test the proposition offered and, secondly,

to elicit views of the NEP, particularly on whether it contradicts the principles of entrepreneurship.

This paper has, thus far, relied on existing literature to find out if there is a contradiction to the theories of entrepreneurship in Malaysia's affirmative policy that is embodied in its NEP. While the literature would support such a conclusion, an empirical view through the lens of antagonists (namely, the non-beneficiaries) could uncover a range of opinions that are difficult to glean from the literature. Besides, questioning of Malay rights is prohibited by law and it was not until the end of the NEP in 1990 when the government elicited Malay views on its failure to garner the 30 percent corporate equity.<sup>7</sup> But public discussions of Malay rights remained muted until the General Elections of 2008 when Malay opposition leaders (obviously exempt from sedition laws) challenged the Barisan Nasional government over the continued use of Malay privileges. There has never really been robust discussion on the merits of the NEP, which was hot-footed into law in the aftermath of the May 13 Riots, but much street talk ensued. The Malays were obviously not too displeased but they themselves had been unconvinced given the disproportionate distribution of its benefits (Shamsul 1997; Yusof 2001).

This research, therefore, decided that a sampling of views on Malaysia's affirmative action could make a contribution of some depth into questions that, up to now, have not been properly asked.

## **Background**

To address the proposition we need to review briefly some of the earlier points. The NEP was formulated in response to a political crisis, a disgruntled Malay electorate that felt left out in the economic process. The loss of several Malay seats in the 1969 General Elections to Chinese further fuelled Malay antagonism that was later to erupt into the bloody May 13 Riots. The reaction of the government was to appease the Malays and the result was the NEP. When it failed to meet Malay equity objectives to build a core of budding entrepreneurs, changes were put in place to put less emphasis on setting targets for ethnic restructuring and income distribution. The reality is that it continued very much on the path of the original NEP. This was due to the political pressure that was brought to bear on UMNO by its grassroots. The Prime Minister, Dr Mahathir, took a number of Malay entrepreneurs under his wing to stimulate Malay stewardship in a number of enterprises that had gov-

ernment interests. These entrepreneurs included Halim Saad of Renong, Tajuddin Ramli of Malaysia Airlines, businessman-lawyer Daim Zianuddin, and Syed Mokhtar Al-Bukhary, to name a few (Balfour 2002). All went well until the bubble burst with the 1997 Asian financial crisis and the mantle of cronyism was cut wide open with several bailouts that included Mahathir's son.

The government's sponsorship of Malay entrepreneurs was received with understandable resentment by non-Malays and equally by Malays who saw this as betrayal of the objectives of affirmative action, which was about narrowing income gaps not enriching the elite class. The non-Malays, more significantly the Chinese, had always grouped themselves in cartels under the aegis of their *kongsi* that ensured a system of self-help (Jesudason 1989; Mackie 1992; Heng 1992; Gomez 1999). The Chinese *kongsi* organization has a very long tradition in Malaysia that dates back from their earliest arrival in the country. It is clan-based and till today Chinese businesses can be identified by their clan affiliations. The system has served them well to the extent that they are virtually self-supported with their own welfare services, schools, temples and a source of financing. Chinese attribute their success over other indigenous rivals to their stronger socialization process and family patrimony characteristics (Mackie 1998: 142). In their pioneering days they enjoyed a high degree of autonomy and had a free rein in involving themselves in any business. That all changed quite significantly, when the NEP was introduced, where the system of preferences for Malays precluded them from many businesses. Even then, under the Ali-Baba relationship, Chinese were able to circumnavigate the restrictions. But over time, Chinese business influence eroded, firstly through dwindling population numbers, secondly by the absorption of their businesses into public conglomerates that are no longer ethnically distinguishable. As the government tightened its policing of Ali-Baba business, the reach of the Chinese into new businesses was curtailed. But far from weakening, Chinese entrepreneurship is still formidable and the Chinese are now (since the General Elections of 2008) more vocal in their resentment of the NEP policies.

The Chinese have accommodated the political realities of the country typified by their doggedness but appear most comfortable doing business with other Chinese; in many cases, with a preference for their own dialect groups. They can be clannish and even chauvinistic and owe their successes to Confucian and other Chinese values. Their tendency to work within their racial community is not only to optimize kinship but also to

create a protective curtain for their continuing survival. This can be seen as a reaction against outside forces and defence against policies inimical to their interests. The Chinese, similarly the Indians, are not altogether fazed by Malaysia's affirmative action which, in a way, has contributed to an impetus for greater resolve in their entrepreneurial endeavours.

## **Methodology**

A qualitative approach was chosen as perceptions and personal observations were required of the respondents in the survey. Snowball sampling was utilized as this was the best method where a linking of contacts was needed and a degree of confidentiality maintained (Page and Meyer 2000: 44, 100-03).

A semi-structured questionnaire was chosen as the best option for this survey and was individually mailed to the participants. As participants were not identified in the survey, complete anonymity and confidentiality was assured. Twenty-five Malaysian Chinese business people were surveyed; they were chosen through a network of Chinese businesses in Australia and New Zealand. This sample is appropriate and good for the study because firstly, they are Chinese who are perceived to be marginalized by the policies of the NEP. The Chinese were the most vocal about the NEP, which was seen, albeit incorrectly, as a challenge to their economic dominance. The Chinese in Malaysia have a significant voice in the ruling coalition government and are ever mindful of the role their businesses play in the Malaysian economy and overseas. Their influence should, therefore, not be taken lightly. Secondly, these overseas Chinese business people had experienced doing business in Malaysia under the rules of the NEP. The fact that several of them still have business in Malaysia underscores the point that they are either not opposed to or are tolerant of the NEP. The survey was structured to avoid any personal bias; the thrust of the survey is about entrepreneurship. It is about how affirmative action had impacted their business, and whether affirmative action is an effective way to develop Malay entrepreneurship. It is pertinent to note that the Chinese business network in Australia and New Zealand is actively linked to its counterparts in Malaysia. To this extent the participants in the survey are more likely to address the issues with a level of objectivity.

The sampling population was considered adequate since the saturation point on responses had been reached and any enlargement would be unlikely to materially affect the findings. The choice of these two

countries was made because they are two among the three favourite destinations for Malaysian immigration with a good concentration of Malaysian business people.<sup>8</sup> The survey was interested in differentiating emotions between those who were generally dissatisfied about their business fortunes and those who felt that the government's affirmative action policies had directly impacted their businesses. The questionnaire had some general questions on the participant's business, such as how long he or she had the business; the size of the company; how the company was funded; if the company was family-run; and if he or she had any business with the Malaysian government. The second part of the questionnaire is given below and has been condensed for brevity.

- a) What part of the NEP do you think disfavours the non-Malays?
- b) Do you believe that the NEP was designed to help Malays become entrepreneurs?
- c) Do you believe that the benefits of the NEP have been fairly distributed?
- d) Who do you think were the greatest beneficiaries?
- e) Do you think it is necessary to abolish the NEP? If so, why?
- f) How helpful have government departments been to you in your dealings on business matters?
- g) Do you consider some of the government policies to be racially discriminatory?
- h) Have unfavourable government policies made you more determined to succeed in your business?

## Findings

As is the nature of a semi-structured questionnaire, flexibility and elaboration of the responses were encouraged. A summary of the responses is appended below.

- a) What part of the NEP do you think disfavours the non-Malays?  
None of the participants had a good understanding of the NEP; most thought it was all about the government giving benefits to Malays. But 80 percent did not think the NEP generally disfavoured the non-Malays but resented the fact that certain business licences were reserved for the Malays.
- b) Do you believe that the NEP was designed to help the Malays become entrepreneurs?  
Twenty-two did not believe the NEP could create Malay entrepreneurs. All said by giving financial assistance and licences, the



government was spoon-feeding the Malays. Most recalled that the NEP was planned soon after the May 13 Riots in 1969 and thought the idea of the NEP was to appease the Malays. Some disagreed that many Malays were economically backward. They felt that the Indians were poorer.

- c) Do you believe that the benefits of the NEP have been fairly distributed?

Nearly all said that the NEP benefits were not fairly distributed.

- d) Who do you think were the greatest beneficiaries?

All said the elite in UMNO and some Malay business cronies benefitted most. They added that many Chinese business people with connections to the Chinese political parties of the MCA and Gerakan had also benefitted through these people. Most believed affirmative action had worked better for political and business elites than for ordinary Malays. They believed affirmative action was responsible for creating an environment of cronyism but thought much of it had abated since the 1997 Asian financial crisis. Still, they are disturbed to see too many plum projects being concentrated in the hands of a few elites.

- e) Do you think it is necessary to abolish the NEP? If so, why?

Surprisingly, only five said the NEP should be abolished. The five said the NEP had already outlived its usefulness and the Malays are much more prosperous now. The others think there is still a role for the NEP if it is properly managed and its benefits distributed to all races. They said the Malays are mostly in the civil service and have insufficient numbers in the private sector. They think the NEP should use its resources to train (all races) in acquiring the necessary skills to work in the private sector.

- f) How helpful have government departments been to you in your dealings on business matters?

Here the responses were mixed. Some, such as those in the transportation and construction business who had more to do with government departments, allege corruption was rife and efficiency dismal. Whereas others in retail or insurance, who had little or nothing to do with the authorities, assumed government departments were generally inefficient because, they say, utilities, roads and drainage are not well maintained. But there were some who make frequent trips back to Malaysia, who say conditions have vastly improved. Generally, for those who had a lot of contact with government departments, their comments were scathing of the civil servants.

- g) Do you consider some of the government policies to be racially discriminatory?

Most did not think that government policies were racially discriminatory but said they had suffered racial discrimination when they competed with Malays for government business. They were unhappy with Malay preferential rights, which they claimed had excluded them and other non-Malays from new business opportunities. But, despite this, they do not believe they are racially discriminated against by the government or the Malays. Most have very good Malay friends and find Malays generally honest, caring and easy to work with.

- h) Have unfavourable government policies made you more determined to succeed in your business?

Most said they would consider themselves disadvantaged by certain government policies but being 'smarter' and 'streetwise' (some of the terms used by the respondents) gave them the impetus to find ways and means to 'get around the rules'. Some said they have used their Malay friends (some are, in fact, partners in their companies) to 'win' government business. Sixty percent of the respondents said they did not depend on the government too much as finding resources was easier for them as they had good working relationships in their network. Finding capital, too, was not very difficult as they could depend on family, their clan connections and Chinese banks, which were usually quite accommodating to their needs. They did not allow government policies to discourage them; the majority did not think they impacted their businesses much as they were more determined to succeed against all odds. Interestingly, all said they see better business opportunities in Malaysia than in Australia or New Zealand.

## Comments

The findings answered the proposition offered, that is, the NEP had, in a way, worked to the advantage of non-Malay business people. On the second premise, the respondents do not believe that government assistance can create entrepreneurs, and in this respect, accept that affirmative action contradicts entrepreneurship.

These findings from a small sample are by no means conclusive. Responses were repeated and underlined the saturation effect of the survey and this goes some way to validate the conclusion. It should be noted

that there were no sharp differences in the responses from either current or former business people. Some bias from disgruntled immigrants was expected and this was factored into the analysis. Responses were not quite as acerbic as was expected; some felt the affirmative action policies were necessary for political stability.

## What of the Future?

Though the NEP ended officially in 1990, its policies are still in practice.<sup>9</sup> During the hustings of the 2008 General Elections, Malay opposition voiced aloud its dissatisfaction over the continuing use of Malay rights and the lack of economic equity. Unlike in previous elections, when such protests were muted, the election campaign this time was vitriolic and extremely acrimonious. The opposition was emboldened by stern calls from Anwar Ibrahim, then leader of the opposition Parti KeAdilan Rakyat (now leader of the opposition coalition Pakatan Rakyat), for the abolition of Malay privileges in the NEP, and the promotion of affirmative action policies for the poor of all races (*Asia Times*, 7 March 2008). This could be seen as appealing to non-Malay voters since Anwar's party and the Islamic party, PAS, are in coalition with Chinese opposition parties in the grand coalition of the Pakatan Rakyat.

The General Elections on 8 March 2008 saw the opposition wrench control of five states from the ruling alliance Barisan Nasional but it does not quite have the two-thirds majority in parliament to carry out its promises on the NEP. The call to remove the NEP has evoked some backlash from Malays as it is seen as a betrayal of their preferential rights guaranteed by the constitution.<sup>10</sup> Malaysians are reminded of the bloodshed following the 1969 General Elections, precipitated in part by sizeable opposition gains in the polls (Shome 2002). But it would be overstating to say that abrogation of the NEP would have similar consequences, bearing in mind that the Malay elite during Mahathir's government had also questioned the need to prolong the NEP (*Time Asia*, 20 August 1990), and Mahathir himself had started dismantling Malay privileges in the NEP (*Businessweek*, 29 July 2002). Anwar and the Malay constituent parties in the Pakatan Rakyat coalition have publicly supported a phasing out of the NEP. Whether this could be defensible for a constitutional change, since it could impinge on some sectors of Malay traditional rights, is a moot question. While the openness of such a call could well signal a growing Malay political maturity, it is doubtful if it could count on crucial grassroots endorsement. The rural Malays,

whom the NEP intended as the greatest beneficiaries of NEP, are also the bastion of UMNO, the Malay party and the largest coalition partner in government.

What then is the political cost to UMNO for the change? The loss of five states to the opposition in the 2008 General Elections was put down by several media commentaries to corruption and cronyism in the Abdullah Badawi government. With Najib Razak's impending transition to the UMNO leadership and to Prime Minister in March 2009, there is still some disquiet in UMNO over his leadership and party unity. He will need every bit of support to galvanize Malay unity, ever more critical in 2009, which is expected to be a tumultuous year. Najib Razak or UMNO would therefore be least likely to play into the hands of the opposition on matters of Malay preferential rights. Still, the clarion call by the opposition for the abrogation of the NEP affirmative action policies resonated with some middle class Malays but mainly with non-Malays, though most would be prepared to see it watered down.<sup>11</sup> That the call was made by Anwar Ibrahim, a Malay, and de facto leader of the opposition, was important. As a former Minister of Finance in the Mahathir government he was responsible for implementing many of the affirmative action policies and, no doubt, had seen firsthand many of the abuses of the policies. He would have also realized that the NEP was no route to developing Malay entrepreneurship as well. But to win Malay hearts, he, too, would barter for a status quo of Malay privileges.

## **Conclusion**

This paper contends that there is a contradiction of entrepreneurship through affirmative action in the case of Malaysia. In arguing for this position, the paper offered definitions of affirmative action and entrepreneurship and applied them in the Malaysian experience. The NEP was also examined to see in what ways it has assisted in entrepreneurship development. The NEP has had many successes but in its role for entrepreneurship development it did not measure up. This is based on its benchmark of 30 percent Malay ownership of public companies. While there is some justification in pursuing a policy of affirmative action to redress economic imbalances, it is hard to see how it can create entrepreneurs since its policies contradict the principles of entrepreneurship. The state, through the NEP, is seen as perpetuating a culture of dependency on the electorate, by which it claims its continuing right to govern. Indeed, what party would not want to be in power forever? So, is there

a will by the Malaysian government to do anything less with the NEP if its political survival depends on it? Probably not. To not do anything would be to recycle the dependency ethos and that would inevitably lead to disaster as handouts swell with population growth.

The NEP reaffirmed Malay preferential rights and this aggregated mostly with jobs in the civil service and in the uniformed and armed services, preferential treatment of Malay businesses for public projects and tertiary admissions. With the security offered in their employment, there is the question of whether this has inhibited the Malays from striking out on their own. Paradoxically, affirmative action could be seen as the Malays' worst enemy as it has the potential to 'uncreate' entrepreneurship because it takes away the psychological element of risk-taking. And, with no burden of risks, there is little pain should the business fail. Rather than making the Malays more entrepreneurial, government assistance can be seen as indirectly contributing to the greater resilience of the non-recipients namely, the Chinese and Indians. These non-Malays, in their effort to survive, could be expected to find innovative and creative ways to compete and consolidate their prudent use of capital and resources. There is also the moral question of equity: the NEP budget is funded by taxpayers, many of whom are poor; is it conscionable to see their hard-earned money enriching others?

There is no cultural reason why Malay entrepreneurship cannot be developed. It should be noted that the lack of entrepreneurial drive by Malays cannot be attributed to their strict adherence to religious precepts because Islam does not prohibit business. In fact, Islam was propagated throughout the Malay isles by the entrepreneurial endeavours of Muslim traders in the spirit of their *ummah* (Ricklefs 1993). If we do away with affirmative action, since evidence says it stifles creativity, innovation and competition, we will still have to find another way to deal with the difficult questions of racial estrangement and inequality that spawned affirmative action in the first place. Simple answers will be to apply selective application and exacting preconditions. That could work where marginalized communities are demographically small and where the political cost is minimal. It is more problematic and politically unfeasible where the majority are the beneficiaries. Such is the case with Malaysia.

There is already talk about clipping the perks of the NEP (*Star*, 23 March 2007). Former Deputy Prime Minister Tun Musa Hitam, who sat on the advisory council of the huge Iskandar Development Project in the southern state of Johor, said investors will not be constrained by the

NEP policies of local partnerships, capital structures, Malay employment quotas and other pro-bumiputera policies (*Straits Times*, 24 March 2007). While this was a heartening announcement, Musa Hitam did not really have the powers to see through such policies. But coming from such an influential person, it showed a willingness to negotiate the objectives of the NEP. How the NEP will pan out eventually, and if the changes to it will apply equitably to all parts of the country, is a political minefield the government will have to tread very carefully indeed. Doing away with it cannot be an urgent or immediate option as there is still much to be done to redress Malay economic unhappiness and the underdevelopment of entrepreneurship. There are also the consequences of losing grassroots support of rural Malays who regard affirmative action as their inviolable right and a symbol of national ownership. That said, Malaysia's non-Malay constituents are not exactly demanding the abolition of the NEP and will continue to tolerate it if it promises further political stability, growth and ethnic harmony. For the longer term, a watered down version of the NEP, cleared of the more obvious inequities and one that is inclusive of all economically marginalized communities, would be a more palatable and sustainable proposition. Indeed this has been the call of moderate Malays and non-Malays that holds the promise of revitalizing Malay entrepreneurship development.

The paper also reconfirmed, by the proposition offered, the premise that affirmative action policies have the effect of driving non-beneficiaries to greater determination. It also confirms the assumption that state assistance, because of its dependency ethos, inhibits entrepreneurial development as it cushions failures and uncertainty inherent in the challenges of entrepreneurship. We can safely conclude that affirmative action policies contradict the principles of entrepreneurship.

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## NOTES

- <sup>1</sup> The NEP ended officially in 1990 but in name only; since then it has been sustained by other names such as the National Development Policy (NDP), the National Vision Policy (NVP) and the National Mission Plan (NMP). For simplicity the NEP acronym will be used throughout this paper. This is also still the acronym frequently mentioned by politicians and the media.
- <sup>2</sup> The Hindu Rights Action Force (HINDRAF) in its report the 'Malaysian Indian Minority and Human Right Violations Annual Report 2008', which was made public at a conference in Chennai, India, 7-9 Jan. 2009, (<http://makkal.org/files/mimhrvar2008.pdf>, retrieved 23 Jan 09), claims not only are the Indians (mainly southern Indians) the most marginalised but also the most oppressed. Though the group is obviously partisan, the data offered in its report were implied to be accurate as they were quoted from figures reported in the *New Straits Times* of 29 Aug. 2008, 23 and 28 Oct. 2008, and the *Utusan Melayu* of 27 June 2008.
- <sup>3</sup> <http://www.genting.com/history/index.htm> retrieved 28 December 2008. Honorifics such as Tan Sri or Dato' are conferred by rulers or sultans of Malaysian states as proof of their patronage.
- <sup>4</sup> There had never been an agreement on a formula for equity calculation. This figure appears in the Ninth Malaysian Plan as released by the Economic Planning Unit of the Prime Minister's Office. <http://www.epu.jpm.my/rm9/html/english.htm> retrieved 27 Jan 2009.
- <sup>5</sup> This is a euphemism for a Malay-Chinese illegal partnership, that is, normally to mean a Malay allowing his name to be used by the Chinese.
- <sup>6</sup> The UMNO, MCA (Malaysian Chinese Association) and the MIC (Malaysian Indian Congress) are the three largest component parties of the BN (Barisan Nasional or National Front). Other parties in the BN are the Gerakan, PPP, etc.
- <sup>7</sup> It should be noted that discussions on Malay rights are sacrosanct and offenders could be liable under the Sedition Act.
- <sup>8</sup> Information gathered from Malaysian Chinese in Australia and New Zealand. All of the respondents maintain business and social ties in Malaysia, and as noted, most still see better business opportunities in Malaysia.
- <sup>9</sup> The NEP has been superseded by different names, the most current one being the National Mission Plan.
- <sup>10</sup> The *New Straits Times* of 31 December 2008 reported a demonstration by a Malay group who protested against calls to abolish Malay preferential rights. In 2008, HINDRAF, a Hindu Indian activist group had widespread demonstrations against the excesses of the NEP and had sought redresses against Indian economic plight.
- <sup>11</sup> This was mentioned several times by panel members of election forums on Malaysian TV during the 2008 General Elections.

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