

Ethnic Enterprises, Class Resources and Market Conditions: Indian owned SMEs in Malaysia

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Abstract

This article investigates changes in the conduct of ethnic enterprises following the emergence of a new generation of owners with varying class resources and as market conditions transform. The case study method is used to examine the impact of changing class resources and market conditions on ethnically-based enterprises, exploring the effects of generational transitions among small Indian owned companies in the food industry in Malaysia. The results provide an insight into key changes in the evolution of Indian owned enterprises. They indicate that changes in class resources and market conditions have enabled Indian owned food-based companies to alter their products to fit a larger market, while responding to the demands of a rapidly modernizing society.

Keywords: Ethnic enterprise, class resources, market conditions, generational change, SMEs

Introduction

Business enterprises in Malaysia have developed in the context of a historical practice of segregating economic activities along racial lines. This practice was introduced under British colonial rule. Subsequently, due to the nature of certain public policies, specifically affirmative action that favoured the majority ethnic community, minority groups were forced to become markedly self-reliant in order to overcome structural factors that inhibited the development of their business enterprises. However, over time, members of minority groups, specifically Malaysian Indians,¹ and particularly those among the lower middle class, have gained wider access to class resources,² such as education, financial resources and work experience. Class resources, obtained primarily through education, have endowed Indians with the opportunity to secure better jobs, as professionals and in the civil service, as well as in business.

According to Sivalingam (1994), most Indian owned firms in Malaysia operate as small and medium sized enterprises (SMEs). SMEs, a key

component of the developing economies of Southeast Asia, are widely recognized as vital contributors to the creation of new products and technology; SMEs are entrepreneurial enterprises that have contributed to economic growth and modernization. As in East Asia, SMEs constitute a vital component of the Malaysian economy and are seen as a major engine of growth as they constitute 99.2 per cent of all businesses in the country. According to the Economic Census of 2011, conducted by the Department of Statistics Malaysia, SMEs contribute 56.4 per cent of total employment in Malaysia.

Malaysia's food industry is rich in terms of tropical and agricultural products, reflecting the diverse cultures of this society, such as those of the Malay, Chinese and Indian ethnic groups. The Malaysian food industry is becoming increasingly sophisticated, relying on both local and imported goods for its supply of produce, following the rise of a new generation of businesspeople who are more open to adopting and adapting ideas from the cuisines of other ethnic groups into their products and catering services. This study will look at two areas within the Malaysian Indian food industry: the spice sub-sector and restaurant and catering sub-sector. These sub-sectors were chosen for assessment because participation of Indians in these areas can be traced back at least two generations.

Major players in the spice sub-sector that have been around for two generations or more include 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 the study: Santha Store Flour Mills, Gemini Flour Mills and M.P. Lingam & Sons. Most firms within this spice sub-sector started out as small home-based businesses. Key companies in the restaurant and catering sub-sector who have been around for two generations or more include 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.

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 and health foods. As noted, the food industry in Malaysia is dominated by SMEs. Another core dimension of this sector, a trend that emerged in the 1990s, is its focus on Halal-based products. Given that about 65 per cent of Malaysia's 30 million

population is Muslim, demand for halal³ food is extremely high. The need to secure halal certification for food products has extended from meat products to non-meat goods, such as spices and curry powder. And, since halal-sanctioned food products are considered to be of high quality in terms of cleanliness, sanitation and compliance with religious requirements, goods with this certification have added value in Malaysia.

Malaysian Business Environment

During the colonial period, while urban Indians played a pivotal role in the civil service and the growth of the infrastructure and telecommunications sectors, the majority were employed in rural plantations (Sandhu 1969). By 1970, Indians in the higher rungs of the civil service constituted 26.2 per cent of total staff (Ampalavanar 1972).

By 1970, Indians owned about 1.1 per cent of total corporate equity, while Malays owned 2.4 per cent and Chinese owned 27.2 per cent. There has since been little improvement in the socioeconomic position of the Indians. In 1970, the government introduced the affirmative action-based New Economic Policy (NEP) to achieve national unity between the ethnic groups by attempting to eradicate poverty and by restructuring society to achieve inter-ethnic economic parity between the predominantly Malay *bumiputera*⁴ and the predominantly Chinese non-*bumiputera* population. The second objective necessitated, in the government's view, state intervention in the economy to acquire corporate wealth for redistribution to the ethnic Malays to reduce inter-ethnic economic differences (Ampalavanar 1981).

The implementation of the NEP ushered in a long winter of discontent amongst the non-*bumiputera* population. This was mainly due to a weak official commitment to addressing the problems of poor Chinese in urban and semi-urban areas as well as the predominantly Indian workers in the plantation sector (Gomez and Jomo 1999: 39). Ethnic Chinese companies – among them two major Chinese-controlled banks, Malayan Banking and United Malayan Banking Corporation – came under state ownership, 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). It was during this time that Indian owned banks such as Oriental Bank of Malaya were taken over by the government.

By the late 1980s, the Malaysian Indian Congress (MIC), a political party that was a key member of the multi-party ruling coalition, the *Barisan Nasional* (National Front), had gone so far as to propose that a positive discrimination policy be established specifically for poor Indians, since the economic condition of this ethnic group had hardly changed under the NEP (Sivalingam 1994). An investment holding enterprise, Maika Holdings, was incorporated in 1982 and despite the Malaysian economic recession at that time, it managed to raise a massive RM106 million by 1984, its shares being heavily over-subscribed. Although Maika Holdings benefitted from business opportunities provided by the government, especially through the privatization policy, the company failed to use these to its advantage as it soon came to be mired in corruption scandals that implicated MIC leaders. One of Maika Holdings' aims after its inception was to obtain a banking licence. Despite its political connections, Maika Holdings was unable to procure a licence since the central bank had felt that there were already too many banks in Malaysia (Gomez 1994). In 1985, when the government of India announced its intention to divest its interests in United Asian Bank (UAB), a bank that had long been operating in Malaysia, the MIC's president, S. Samy Vellu, led a delegation of Maika Holdings officials to India to negotiate the takeover. However, Samy Vellu was later asked by the Malaysian government to drop Maika Holdings' takeover plans of UAB (Gomez 1994).

When the government initially fixed the tenure for the implementation of the NEP at 20 years, from 1970 to 1990, it declared that the bumiputera should own 30 per cent of corporate equity by that time. However, in 1990, according to government figures, the bumiputera population owned only about 19 per cent of Malaysia's total corporate equity, still a marked increase compared to the community's mere 1.5 per cent stake in 1969. On the other hand, Indian ownership of share capital merely increased from 1.1 per cent in 1970 to 1.2 per cent in 2004 (Gopal & Karupiah 2013), and to 1.6 per cent in 2008.

By the 2010s, government policies such as the NEP, even with its twin objectives of poverty eradication and wealth redistribution, had had minimal impact on redressing the pressing economic problems faced by Indians in Malaysia. According to Marimuthu (2016), many Indian owned small businesses were badly undermined 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).

Defining Ethnic Entrepreneurship

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 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.(2004: 1040)

According to Light and Bonacich (1988), the 'supply-side' approach prevalent in the culturalist perspective attributes to migrant businesses ethnic or cultural traits in order to explain their mode of development, rather than look at the opportunity structures in the host countries (see also, Berger & 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.

Aldrich and Waldinger (1990) 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 resources. 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.

Although Light and Bonacich (1988) and Aldrich and Waldinger (1990) have stressed the importance of issues such as resources and opportunity structure when theorizing the concept of ethnic entrepreneurship, the key topic of generational change was not analyzed. Generational change is a crucial scenario in the case of Malaysia as most enterprises owned by ethnic minorities such as the Indians are now under the control of the second, third or even fourth generation of family members. This article therefore seeks to address the transformations seen in ethnic enterprises due to generational changes, particularly as class resources evolve and new opportunity structures emerge as market conditions develop.

Class Resources

Class resources are linked to particular ethnic groups and include material goods such as property or wealth as well as 'bourgeois values, attitudes and knowledge' (Light & 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 achieved enterprise growth more quickly. 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). Research conducted by sociologists also suggests that groups with high rates of self-employment have higher than average rates of educational and occupational inter-generational mobility, while their descendants enjoy individual and family incomes higher than the national averages (Portes & Zhou 1992).

Academic qualifications serve as an effective passport into the business world of the host country.⁵ 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 & Drinkwater 2010). Drew (1995) and Jones et al. (2012) report that many from the British-born generations, especially Indians and Chinese, pursue new horizons in the economy. In particular, their burgeoning acquisition of high-level educational qualifications enable 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 socio-economic structure and among ethnic minorities such as the Indians and Chinese.

Besides education and knowledge, the other important class resource is financial resources for business. Bourdieu argues that 'capital can present itself in three fundamental guises. Firstly, it can present as economic capital, also known as financial capital, that can be immediately and

directly converted into money and can be institutionalized in the form of property rights'. According to Trevor et al. (2012), access to financial capital is extremely important and until this is unlocked, the potential of Indian entrepreneurial talent would remain largely unrealized.

Secondly, it presents as cultural capital, convertible, under certain conditions, into economic capital, which may be institutionalized in the form of educational qualifications. After investigating the importance of 'cultural values' among ethnic entrepreneurs in Southeast Asia, Koning and Verver (2012), concluded that such values and norms appear to be plummeting in importance among the second and third generation of the migrant cohort.

Thirdly, it can present as social capital, also known as networks, which constitute social obligations or 'connections' which are convertible and may be institutionalized in the form of a title of nobility. In certain conditions, social capital can be converted 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 & Zhou 1992; Basu 1998; Dunstan et al. 2004). Social networking research indicates that better social resources heighten the chance of ethnic groups to improve their business prospects (Kasarda 1989).

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, which are key factors contributing towards business development (Portes & Zhou 1992; Sanders & 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 appeal to 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, 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 shown

by 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).

Market Condition

Market forces largely determine opportunities for ethnic entrepreneurs, whereas the environment drives entrepreneurial success. Venkataraman (1997) and Eckhardt and Shane (2003) both note that the nexus of opportunity and the individuals who seize it influence their understanding of entrepreneurship, and that entrepreneurial opportunities arise from inefficiencies within existing markets. Demands vary within markets in terms of the 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.

While these challenges are common to small and newly-started businesses regardless of ethnicity, ethnic entrepreneurs may be 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 be problematic when negotiating market barriers. This is part of the ethnic disadvantage concept, where ethnic entrepreneurs face relative disadvantage in the market 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, which also means they face greater market barriers (Aldrich et al. 1984; Barrett et al. 2001).

On the other hand, ethnic communities are heterogeneous and adaptable by 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 & 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 analyzed 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 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 also added that the non-ethnic and non-local market strategy is the best way to 'break out' of local ethnic market niches (2011). This implicitly suggests 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 since ethnic entrepreneurs start out by serving the local ethnic market, 'breaking out' of those markets is imperative.

Generational Change and the Concept of Ethnic Entrepreneurship

While the focus of this study is 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.⁶ The first generation in business, the migrant generation, aims to attain for themselves and their families levels of 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 descendants. In order to start or develop an ethnic enterprise, the descendants of the migrant generations seemed to need a stronger motivating 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 from 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).

While ethnic economies were able to offer the second generation jobs and training opportunities (Bailey & Waldinger 1991), 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, they were 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.

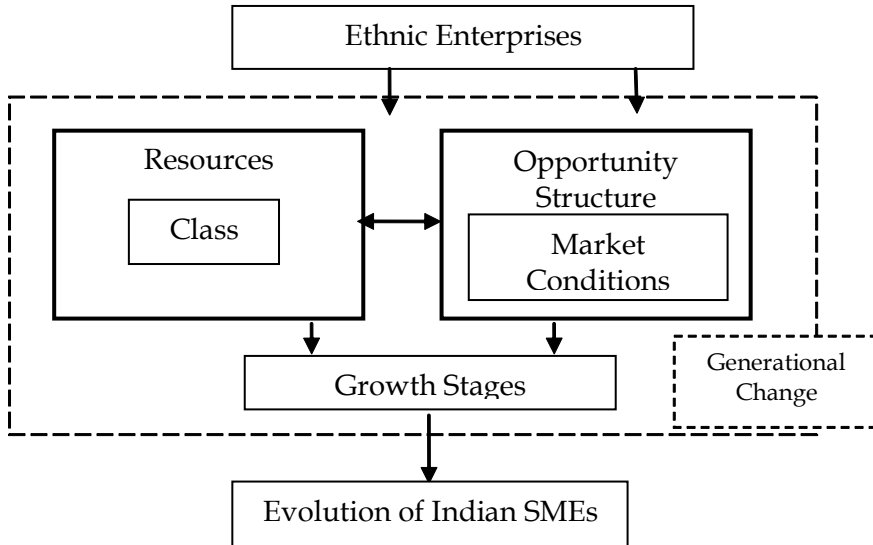
There has been much debate of the use of intra-ethnic connections or networks by the South Asian business community in Britain and North America to develop an enterprise (Ram & Jones 1998; Basu & Goswami 1999); similar arguments prevail in studies about ethnic Chinese in Southeast Asia. However, according to Benton and Gomez (2008), national and ethnic identities in Southeast Asia have 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 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. However, education and experience as well as market condition in the evolution of ethnic-Indian owned businesses in Malaysia has not yet been researched.

The paucity of research on the evolution of ethnic Indian owned enterprises through the generations is not limited to just Malaysia; it is also the case in both developed and developing economies, as a close review of the literature will indicate. Most studies on ethnic entrepreneurship rely primarily on concepts and theories that are components of or somewhat related to the interactive model. The interactive model, conceptualized by (Waldinger et al. 1990), suggests that the development of an ethnic business cannot be traced back to a single characteristic that is responsible for the entrepreneurial success of an ethnic group. Instead, the success of an ethnic enterprise depends on a complex interaction between opportunity structures and group resources. 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 ethnically-based enterprises following a generational change, especially in a uniquely diverse country like Malaysia.

Conceptual Framework

Research on ethnic entrepreneurship indicates the need to conceive a conceptual framework that merges the growth stages of firms and the interactive model, a merger done primarily to better capture what happens to a firm following a generational change. The main strategies of an ethnic enterprise can be seen through its resources and opportunity structure. Since this article focuses on class resources and market conditions, only these two concepts are presented in the framework for this study on Indian owned SMEs (see Figure 1). Most components of the model are directly linked to one another. Class resources and market conditions are directly linked, and this relationship affects the stages of growth in the firms as generations change. In this study, evolution of

FIGURE 1: Conceptual Framework



Indian SMEs in the food industry in Malaysia is assessed based on the firms' performance through the growth stages popularized by Churchill and Lewis (1983).

Churchill and Lewis (1983), using a database of 83 firms, investigated the growth patterns of small firms. They studied the stages of growth in these firms and created a theoretical model. In this model, the entrepreneurs were encouraged to identify the stages their firms had been through whilst explaining the main changes and characteristics of each stage. This study concluded that there are five stages in the growth model. These stages can be clearly seen in the evolution of Indian busi-

nesses in Malaysia. Stages one and two can be seen in the founders' generation of the businesses, whereas stages three, four and five are seen in the subsequent generations of the businesses.⁷

Stage one is the stage of existence, where the firm is newly founded. At this stage, the entrepreneur manages all aspects of the business with very few subordinates. There is very little or sometimes no formal planning in business management. Firms may sometimes face a financial loss at this stage. Stage two is the survival stage. The firm has now enough customers and is able to obtain profits. The management and organization of the firm is still simple, with a limited number of employees. Major business decisions are still taken by the entrepreneurs, with the main aim of survival.

Stage three is the stage of success. At this stage, the firm is stable and draws consistent financial profit. Entrepreneurs may wish to exploit the firm's achievements. The organization of the firm is now larger than it was before. Subordinates or managers may now take over certain tasks, which were previously performed by the entrepreneur. In most cases, the firms will choose to expand its business. This could be through market expansion⁸ or product development.⁹

The fourth stage is the take-off stage. As the firm develops, the planning and organization also decentralizes. Entrepreneurs and managers must be competent in handling the changing business landscape. Besides having only an operational plan, firms must now also be equipped with strategic planning. The fifth stage or final stage is the resource maturity stage. In this stage, the operational and strategic plans are detailed. The firm is now a formidable force in its industry. The business development of the cases in this study will be analyzed using the five stages of growth.

Research Methods and Data

Case studies are used to increase knowledge and understanding of special interest, information-rich situations (Patton 1990). According to Simons, case studies 'can document multiple perspectives, investigate contested point of views, and exhibit the influence of key actors and interactions between them' (2009:21). 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. 2007: 78). When carrying out research on ethnic enterprises, case-intensive methods are imperative in order to understand their key features, particularly following a generational change (Litz 1997).

In this study, all five companies are now owned by ethnic Indians who are also Malaysian citizens. All five companies deal with ethnically-Indian products and have been in operation for two generations or more. The major source of primary data was in-depth interviews with the founders as well as the second generation owners of these businesses. These interviews provided the most suitable means to explore and review processes of change, including the changes in class resources and market conditions that have shaped these businesses. The secondary data collection method was an in-depth analysis of the annual company reports of these five firms that were filed with the government agency, Companies Commission of Malaysia. All companies in Malaysia are required by law to file their annual reports, which include their profit and loss account, balance sheet, list of shareholders and directors and statement by the chairman of key corporate events.

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. Hence, Eisenhardt recommends at least four to twelve cases per study. For this study, five cases (see Table 1) were selected based on such criteria, in keeping with Eisenhardt's recommendation. Table 1 presents the transformation of class resources and market conditions which contributed to the growth of the five firms from the Malaysian food industry. This evolution is seen due to generational changes.

Class Resources, Generational Change and Evolution of Ethnic Enterprises

The empirical evidence from the case studies presented in Table 1 indicates that there was a clear improvement in the level of education¹⁰ through the generations. All businesspeople of the first generation only had obtained secondary¹¹ level education. Three out of five second generation businesspeople, from Santha Store Flour Mill, M.P. Lingam & Sons and Jumbo Restaurant & Catering, managed to attain tertiary¹² level education. This upward mobility through education is one core reason that contributed to the growth and diversification of these Indian firms.

TABLE 1. Changes in class resources and market conditions towards the growth of Indian SMEs

Company (Date of Incorporation)	Number of Generational Changes	Changes in Class Resources	Changes in Market Conditions	Transformation (in Growth Stages)
Santha Store Flour Mill (10/10/1990)	One	<p>First Generation Education: Obtained secondary level education. Entrepreneur could communicate only in Tamil and Malayalam which hindered development of his company. Experience: A full-time school teacher; worked part-time selling curry powder and garnered ideas how to expand products produced and the client base.</p> <p>Subsequent Generations Education: The key figure is first entrepreneur's son-in-law, who holds PhD in social science. Experience: Acquired experience managing an estate prior to assuming management of this firm.</p>	<p>First Generation Target Market: Indian migrants, specifically sub-ethnic Tamil and Malayalee groups due to language barrier. Product Offered: Manufactured powders that were coarse in nature.</p> <p>Subsequent Generations Target Market: Indians and non-Indians in Malaysia. Moving towards business to business sales and marketing. Product Offered: Manufactures refined powders to suit local taste and preference.</p>	<p>First Generation Stage One: No formal planning. Managed solely by founder. Stage Two: Simple and informal business management. Small number of employees, who were mostly family members.</p> <p>Subsequent Generations Stage Three: Financial profits were consistent. Management of the firm taken over by next generation (son-in-law). A larger number of employees. There was market expansion and product development. Stage Four: The firm is now seeking to become a big business.</p>
Gemini Flour Mills (20/2/1997)	One	<p>First Generation Education: Obtained secondary level education in Malaysia. Experience: Worked for a company producing and selling curry powder where he learnt the trade as well as possible markets waiting to be tapped.</p> <p>Subsequent Generation Education: Obtained secondary level education. Experience: He gained his business knowledge from his father.</p>	<p>First Generation Target Market: Targeted wholesalers such as food distributors and government agencies. Product Offered: Turmeric, curry and chilli powders.</p> <p>Subsequent Generations Target Market: Indians and non-Indians in Malaysia. Moving towards business to business sales and marketing in India. Product Offered: Additional products such as bryani masala powder, curry and instant mixes, various dhals, omum water, pickles, papadom and Hindu prayer items.</p>	<p>First Generation Stage One: No formal planning. Managed solely by founder. Stage Two: Simple and informal business management. Small number of employees, who were mostly family or friends.</p> <p>Subsequent Generations Stage Three: Financial profits were consistent, but falling. A larger number of employees. There is product development, but no market expansion.</p>

cont.

<p>M.P. Lingam & Sons (1/12/1965)</p>	<p>Two</p>	<p>First Generation Education: Unknown. Experience: Unknown. Entrepreneur migrated from South India.</p> <p>Subsequent Generations Education: Second generation entrepreneur managed to complete his degree. The third generation entrepreneur obtained degree in Accountancy. Experience: Second generation obtained business skills from father. Third generation entrepreneur spent four years at Price Waterhouse Coopers as an accountant. He is now being trained by his father.</p>	<p>First Generation Target Market: Indian migrants, and Indians in Malaya/Malaysia. Product Offered: Gingelly oil (main product), chilli powder, spices.</p> <p>Subsequent Generations Target Market: Indians and non-Indians in Malaysia. Product Offered: Manufactures various types of powders (meat and fish curry, turmeric and coriander), rice flour and flours for Indian desserts.</p>	<p>First Generation Stage One: No formal planning. Managed solely by founder. Stage Two: Simple and informal business management. Small number of employees, who were mostly family members.</p> <p>Subsequent Generations Stage Three: Financial profits were consistent. Management of the firm taken over by next generation (sons). A larger number of employees. There was market expansion as well as product development.</p>
<p>The Big Rajah Food Caterers (22/6/1999)</p>	<p>One</p>	<p>First Generation Education: Obtained secondary level education in Malaysia. Experience: Worked full-time with the National Film Board of Malaysia and part-time at a friend's catering business.</p> <p>Subsequent Generation Education: Completed A-levels. Has an honorary doctorate from Columbus International University. Experience: Began assisting his father when he was 13 years old.</p>	<p>First Generation Target Market: Targeted middle-class Indian families from the city area, especially those from middle- and high-income groups. Product Offered: Catered Indian food for Indian weddings and other functions.</p> <p>Subsequent Generations Target Market: Indians and non-Indians in Malaysia. Also targets company events. Product Offered: Caters Indian food but also offers a variety of Chinese and Malay delicacies for various types of events.</p>	<p>First Generation Stage One: Minimal formal planning. Managed by founder and his family. Stage Two: Simple and informal business management. Small number of employees, who were mostly family members.</p> <p>Subsequent Generations Stage Three: Financial profits were consistent. Management of the firm taken over by next son. A larger number of employees. There was market expansion (to the non-Indians) as well as product development (infusion of non-Indian delicacies). Stage Four: Strategic plan towards a holistic service is seen as firm offers event planning and management together with food catering. Stage Five: Firm is now a formidable force in the industry.</p>

cont.

Jumbo Restaurant & Catering (26/4/2005)	One	<p>First Generation Education: Entrepreneur was awarded an honorary doctorate in entrepreneurship. Experience: He co-founded one of the first catering businesses in Malaysia, prior to starting this business.</p> <p>Subsequent Generation Education: Diviyah completed her tertiary education in International Business. Experience: Two Malay directors with prior experience in the food industry were appointed.</p>	<p>First Generation Target Market: Targeted Indians in Malaysia. Product Offered: Catered Indian food for Indian weddings and other functions.</p> <p>Subsequent Generations Target Market: Indians and non-Indians in Malaysia. Also targets company events. Product Offered: Caters Indian food as well as Chinese and Malay delicacies for various types of events. Manufactures frozen foods such as fried ice-cream.</p>	<p>First Generation Stage One: Minimal formal planning. Managed by founder with his family and close friends. Stage Two: Simple and informal business management. Small number of employees.</p> <p>Subsequent Generations Stage Three: Financial profits were consistent. A larger number of employees. There was market expansion (to the non-Indians) as well as product development (infusion of non-Indian delicacies). Stage Four: Strategic plan of the firm was to tap into the international market via food manufacturing. New management was appointed to carry out this task. Stage Five: Firm is now a formidable force in the industry.</p>
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Due to the increase in the economic capital of these firms during their early years, the first generation was able to financially support their descendants to further their studies locally or abroad. In the case of Santha Store Flour Mill and M.P. Lingam & Sons, the second generation entrepreneurs were encouraged by the first generation to build good networks with members of the local and international community for the growth, expansion and diversification of their firms.

Better education not only provides better business and management understanding, it allows for better networking. Quality education provides the entrepreneurs with confidence and the capacity to better articulate themselves. This can be seen in the case of Santha Store Flour Mill, Jumbo Restaurant & Catering and M.P. Lingam & Sons. In the case of Santha Store Flour Mill, the second generation, a highly qualified individual, was able to network with Malaysian government officials as well as other food business owners from around the world. He stayed in contact with them via email and phone calls to sustain the close ties that he had cultivated.

In Santha Store Flour Mill, M.P. Lingam & Sons, as well Jumbo Restaurant & Catering, better education resulted in an improved ability to recognize opportunities to achieve faster growth in business. However, for

other enterprises, i.e. Gemini Flour Mills and The Big Rajah Food Caterers, the second generation asserted that they did not believe that education made a significant difference when it came to the development of their firms. For the owners of these two firms, only experience mattered.¹³

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 combined with experience provided for a stronger ability to recognize business opportunities and handle business challenges. Two out of five second generation entrepreneurs, Gemini Flour Mills and The Big Rajah Food Caterers, chose to learn, experience and take over the businesses which were set up by the first generation. This is inconsistent with many prior studies (Drew 1995; Clark & 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 drew much of their experience from their social capital, such as family members and members of the same ethnic, even sub-ethnic, community. All five of the second generation are being groomed or were groomed by their parents. Although they gained the necessary business skills from their family members, the respondents agreed that the younger generation may have lost some tacit knowledge due to their increased reliance on new technology to improve the quality of their products¹⁴ or refine them to suit local consumption tastes. Such new technology would also help them diversify their range of products in the food industry. In the restaurant and catering businesses, the owners no longer cook the food. Instead, experienced chefs are hired.

The first generation prioritized starting the firm, and later ensured that profits were steadily increased, as this was imperative to support the finances of their families. However, the latter generation placed emphasis on expanding their firms. They were also aware of the importance of obtaining necessary skills from non-Indians¹⁵ for the growth and diversification of their enterprises. In the case of Jumbo Restaurant & Catering, non-Indian directors were hired to widen the target market of the business. The upward movement, by obtaining better class resources such as education and experience, as well as the ability to improve their economic and social capital, enabled the second generation to avail themselves to the opportunities provided by the constantly changing market conditions. This can especially be seen in firms such as Santha Store Flour Mill, M.P. Lingam & Sons, The Big Rajah, and also Jumbo Catering & Restaurant.

Market Conditions, Generational Change and Evolution of Ethnic Enterprises

As market demand was smaller in the past, all five enterprises had very few competitors. In fact, when their businesses 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 sector, it was observed that the firms in this industry were mostly spread out across the peninsula. These companies were generally divided in terms of the geographical location of their firms, specifically into three areas – northern and southern Peninsula Malaysia, as well as the highly-urbanized Klang Valley. This dispersion of the location of their firms was to ensure intra-ethnic competition could be kept to a minimum.

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. Since most of these cooks were women, and as the number of women increased in the Malaysian workforce, the demand for manufactured curry powder rose further. This provided ample opportunity for businesses in the spices and curry powder industry.

Since the early 1980s, non-Indian Malaysian communities began enjoying and appreciating the products offered by Indian owned companies. These non-Indians, who were unaccustomed to spicy food, began enjoying curry and ethnic Indian foods. According to the second generation entrepreneur from Santha Store Flour Mill,¹⁶ Malaysian Chinese today are consuming more spices and curry powder compared to 50 years ago. This has contributed to a 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.

The younger generation business owners from the food industry have unanimously noted that their competitors are now quite diversified. There are currently many non-Indian competitors in the Malaysian market, in what was traditionally considered the domain of Indian firms. These non-Indian businesspeople, who have realized the potential of these products, are now competitors to ethnic Indian business owners. With this generational shift, the outlook of Malaysians has changed and has had a bearing on how consumers view and purchase products.¹⁷

Table 2 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 enterprises. The population percentage of Malaysian Indians was much higher in the past, especially when all five 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.

TABLE 2. Population of Malaysian Indians (1957-2010)

Year	
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

However, time changed these factors. By the year 2000, the percentage of Malaysian Indians in the country had reduced to a mere 7.68 per cent. 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 not 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.

Change over time or generational change is the most obvious reason why product change offered by these businesses has occurred. All the businesses studied here have maintained ethnic products as their main selling point, but they have also diversified their product range to increase their customer base, at the national and international level, in some cases. For example, M.P. Lingam & Son's supply of gingelly oil¹⁸ to the Malaysian Indian community during the time of the first generation leveraged on first-mover advantage. The company positioned itself as the first to supply gingelly oil in Malaysia, filling 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.¹⁹

Evidently, these ethnic enterprises have evolved from an ethnic niche type to an economically assimilated position (Kesteloot & Mistiaen 1997). The term 'assimilation' is defined by Park, Janowitz and Burgess 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' (1969: 735).

Conclusion

The case studies of Santha Store Flour Mill, The Big Rajah Caterers and Jumbo Restaurant & Catering noticeably indicate high levels of assimilation into the Malaysian market. These businesses have moved away from their core Indian identity to lure customers of other ethnic groups in order to expand their target market. Over time, these companies have adopted new strategies to secure a larger client base, domestically as well as internationally.

The younger generations were privy to tertiary education, a major class resource that helped them expand their businesses. Higher education gave this generation the confidence necessary to network on an inter-ethnic basis and embark on transnational ventures. Better education resulted in 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.

Given the demographics of the Indian population in Malaysia, which is now 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 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.

Thus, the change in the demographics of Indians in Malaysia altered how products were made or offered and this in turn 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 involved altering different aspects of the business, such as production, operation and marketing methods.

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NOTES

- 1 Malaysia consists of three main ethnic groups; Malays, Chinese and Indians. Of the three, the Indians are the smallest ethnic group in Peninsula Malaysia (Shamsul 2008).
- 2 According to Light and Bonacich (1988), class resources includes material goods such as wealth and property, as well as knowledge.
- 3 Any object or an action which is permitted, according to Islamic laws.
- 4 *Bumiputera* is a Malaysian term to describe the Malays and the indigenous peoples of Malaysia.
- 5 For this study, the home country would be India while the host country would be Malaysia, especially for the first generation ethnic entrepreneurs.
- 6 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).
- 7 See Table 1 for further details.
- 8 Market expansion is a strategy where entrepreneurs seek to focus on a larger number of markets or on a different market (Bradley 1999).
- 9 Products are developed with the knowledge and clear understanding of changing demands and needs of customers. It may involve modification of an existing product or formulation of a new product to satisfy the target market.
- 10 In this context, we see the level of education as the highest level of tertiary-level qualifications obtained by the business person.
- 11 Secondary education usually takes place after primary education. Secondary education in Malaysia is equivalent to high schools in the United States. In Malaysia, it is compulsory that students obtain primary and secondary education.
- 12 Tertiary education refers to academic, professional and technical training pursuits after secondary education. Academic programs in tertiary education include diplomas and bachelor degrees.
- 13 Skills and knowledge acquired over time due to practice which results in understanding the business.
- 14 Products in the food industry here include spices and curry powder or Indian food served by restaurants and caterers.

- 15 In Malaysia, the non-Indian target market usually means securing the patronage of the Malays and Chinese.
- 16 The second generation ethnic entrepreneur interviewed was Dr Balakrishnan from Santha Store Flour Mill.
- 17 The change is due to the increase in awareness of the different cultures in Malaysia, which changes the consumption patterns of Malaysians.
- 18 Gingelly oil is a type of sesame oil which was once commonly used by the Indians. It is said to have healing properties.
- 19 This is due to the declining Indian population in Malaysia. A large fraction of the second and latter generation Indians no longer use this oil.

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