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# TOWARDS INTER-ETHNIC BUSINESS DEVELOPMENT AND NATIONAL UNITY IN MALAYSIA[1]

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*This paper investigates Chinese-Bumiputera partnerships in small and medium enterprises (SMEs), particularly in the manufacturing sector, in the economic liberalisation of post-New Economic Policy (NEP) Malaysia. The research also considers how and why Chinese-Bumiputera partnerships in the construction sector have succeeded. It focuses especially on the development of Chinese-Bumiputera SME joint ventures from a sociological perspective, considering five major questions: (1) Is there a mutual nurturing when Chinese and Bumiputera work together in business partnership? (2) What is the nature of this mutual nurturing process? (3) To what extent does this process help them to advance in their business development? (4) To what extent does this process help to bridge the divide between these two ethnic groups? (5) To what extent is this type of partnership sustainable, especially in the era of the New Economic Model that emphasises equitable access and inclusiveness?*

Keywords: Bumiputera, Chinese, inter-ethnic, business partnership, New Economic Policies, small and medium enterprises, national unity

## INTRODUCTION

The economic development of Malaysia has gone through a number of phases since independence in 1957. The government adopted a *laissez faire* policy from 1957–1969. Under this policy, Chinese capital was well developed, but the situation of Malays improved only marginally, and they remained at the periphery of mainstream economic development. This unequal development led to dissatisfaction that resulted in the race riots of 13 May 1969. After this incident, the Malaysian government implemented the New Economic Policy (NEP) in 1971. The objective of this twenty-year policy was to facilitate national unity through the eradication of poverty and restructuring of society. One of its goals was to promote the emergence of a Malay entrepreneurial community within one generation. However, economic recession in the mid-1980s and changes in the domestic class structure led the government to introduce several economic reforms (Gomez and Jomo, 1999; Searl, 1999). One of these was the liberalisation of its economic policy to attract more foreign investments. In 1986, the government began to deregulate and liberalise the NEP to support the private sector; consequently, privatisation of the public sector soon followed. The

National Development Policy (NDP, 1991–2000), the Sixth Malaysia Plan and Vision 2020 also showed a significant shift of the government's economic policies towards encouraging inter-ethnic business partnership (Jomo, 1994; Gomez and Jomo, 1999).

To realise Vision 2020, beginning in mid-2009, a series of pro-growth economic policies were implemented to promote more equitable access and inclusion of all ethnic groups and the disadvantaged, which is beyond just economic partnership and for material gain. It began with the deregulation of 27 services and financial sub-sectors[2] of the economy in June 2009, which was in the context of increasing global economic challenge, financial meltdown in the West and world economic recession. The slew of measures included: repealing the 30% Malay equity requirement for Malaysian companies seeking public listing, which has been enforced since the implementation of the NEP; immediately repealing, without any new guideline in place, the Foreign Investment Committee (FIC) guidelines covering the acquisition of equity stakes, mergers and takeovers; ownership in the wholesale segment of the fund management industry was to be fully liberalised to allow 100% ownership for qualified and leading fund management companies to establish operations in Malaysia; for the retail segment, foreign shareholding limits on unit trust management companies was raised from 49% to 70% (Izatun Shari, 2009). In March 2010, the government introduced the very ambitious and drastic New Economic Model (NEM). The NEM's objective is to reduce red tape, ensure equal economic opportunities, encourage more private investment and to promote growth, and to move Malaysia out of the middle income trap (NEAC, 2010). One of the tenets of the NEM is to be inclusive, which is aligned with the spirit of 1Malaysia espoused by the Prime Minister, Najib Razak. However, this model received strong reservations by certain quarters of the Malay community, among others, the Malay Consultative Council (MPM, comprising 76 Malay NGOs), led by Perkasa or Pertubuhan Pribumi Perkasa, a Malay nationalist organisation.

At the level of small and medium-size enterprises (SMEs), there are new initiatives to be implemented by the government as stated in the NEM: one of them is recognition for SMEs. It is recognised that the growth of large firms and global giants need clusters and critical masses of SMEs to support their growth and creativity. Indeed, SMEs are still the most important employment providers and sources of talent for large firms. Under the NEM, the government will provide financial and technical support for SMEs, support rapid transformation of SMEs with potential for innovation and promoting SME growth by providing support for SMEs in innovative and technologically advance areas (NEAC, 2010). It is hoped that under the NEM, the government will further relax or even abolish the requirements of the Industrial Coordination Act (ICA) first imposed in 1975, which generally affects large-scale private companies and the SMEs.

Under the ICA, business firms with more than RM100,000 in shareholders' funds and more than 25 workers were required to ensure that Bumiputera (an umbrella term for the Malays and other 'indigenous' groups) made up 30% of the workforce and held 30% of equity. In 1977, the ceiling for mandatory Bumiputera share equity was raised to RM250,000 in shareholder funds and RM500,000 in fixed investment. By 1986, this requirement was further relaxed and raised to RM1 million, and again in 1990, to RM2.5 million for all companies with fewer than 75 workers, at a time when the economy was benefiting from accelerating growth. Since 1990, SMEs have no longer been subjected to the ICA stipulation of Bumiputera equity participation.

One important macroeconomic strategy of the NDP used to keep Malaysia internationally competitive was to restructure industry towards more technologically sophisticated and better-quality products that are integrated with the markets of developed countries. In line with this strategy and in order to advance the Bumiputera Commercial and Industrial Community (BCIC), the government encouraged and provided assistance to Bumiputera entrepreneurs to venture into the strategic aerospace, automotive, machinery and engineering, petrochemical and telecommunications sectors (*Malaysia*, 1996: 13). To enable the transfer of entrepreneurial skills to Bumiputera, an important strategy at the micro level was to encourage joint ventures with non-Bumiputera or foreign investors. These joint ventures were expected to serve as vehicles for the transfer of technical and managerial know-how to Bumiputera partners. It was envisaged that Bumiputera 'technopreneurs' would become active in sectors such as: advanced electronics, equipment/instrumentation, biotechnology, automation and flexible manufacturing systems, electro-optics and non-linear optics, advanced materials and software engineering, food production and food processing, aerospace and optical electronics and alternative energy sources (*Malaysia*, 2000: 43).

This paper researches important recent developments in Chinese-Bumiputera SME partnerships in the manufacturing sector, encouraged by the government under the NDP in this context of economic liberalisation. For comparative purposes and because of the differences in the nature of these two sectors, this research also investigates the success of Chinese-Bumiputera joint ventures in the construction sector. The difference between the sectors is that manufacturing requires long-term commitment, while construction is often based on contracts of variable length. The present study has not included analysis of partnerships in the trading (service) sector. However, to assess sustainability levels compared to manufacturing and construction, some Chinese-Bumiputera partnership company profiles were analysed.

## THE SCOPE OF EXISTING STUDIES ON INTER-ETHNIC SME PARTNERSHIPS

The study of Chinese-Bumiputera business relations in Malaysia has attracted the attention of scholars since the introduction of the NEP. An early study was that of Nonini (1983), who examined the Chinese truck transport 'industry' in a market town in northern Peninsular Malaysia. Conducted between 1978 and 1980, the study investigated the constraints imposed by the country's affirmative action policy and explained how the Ali-Baba 'partnership'[3] worked in Chinese truck companies. The Ali-Baba practice is also widespread in the construction sector: no detailed study exists, although it has been examined briefly (see, for example, Jesudason, 1989; Heng, 1992).

According to a study by Rasiah (1997), which focuses on the corporate manufacturing sector, inter-ethnic 'integration' in business operations has improved since the end of the 1980s, especially in the industrial sector (Rasiah, 1997: 11, 15). The term used by Rasiah, advisedly, is 'integration' to distinguish it from 'cooperation'.

A few sociological studies of SMEs are available, including by Rugayah Mohamed (1994), Sia (1994) and Chin (2003a, 2004). Rugayah's study provides structural analyses of two Sino-Malay businesses: one in the food-catering service industry, the other a leather shoe manufacturer. In both, Chinese and Bumiputera partners hold share equity and responsibility and both companies were established at a time when Malaysia's economy was growing fast. Sia's study offers a brief profile of a company that was majority-owned and managed by the Bumiputera staff of Yeo Hiap Seng (M) Berhad. This company operated independently from Yeo Hiap Seng (M) Berhad with the rationale being to capture the Bumiputera segment of the drinks market. My own studies of Chinese-Bumiputera partnerships show notable shifts in such joint ventures from involvement, mostly in construction, to manufacturing, which has resulted in significant acquisition of technology and know-how. These new 'strategic' partnerships, officially endorsed as 'genuine' joint ventures, and initiated by the government in 1995, signal not only a major evolution in the character of Chinese-Bumiputera partnerships but also significant outcomes for government policies and the efforts of the business communities. In the agricultural sector, Rutten (2003) has studied rural entrepreneurs in the Muda region in Kedah and offers an analysis of inter-ethnic family enterprises and business networks among owners of combine-harvesters and agricultural machinery workshops.

Gomez's (2003) study of the top 20 big companies on the Kuala Lumpur Stock Exchange (KLSE) in 2000 and Wazir's (2002) observation of inter-ethnic business linkages of listed companies in the KLSE have captured the structural shift of Chinese family-based organisations to Sino-Bumiputera alliances. Wazir views these 'new' partnerships positively. For her, they bring together Bumiputera 'know-who', that is access to contracts, negotiation and capital, with Chinese 'know-how', thus providing a subtle combination of resources. Although Gomez notes that there is ethnic co-existence in business partnerships in the post-NEP and NDP period, he questions the sustainability of such partnerships and argues that business partnerships cannot be state-driven.

## RESEARCH METHODOLOGY

This study focuses on the development of Chinese-Bumiputera SME joint ventures from a sociological perspective. It focuses on equity joint ventures, considering five major questions:

1. Is there a mutual nurturing when Chinese and Bumiputera work together in business partnerships?
2. What is the nature of this mutual nurturing process?
3. To what extent does this process help them to advance in their business development?
4. To what extent does this process help to bridge the divide between these two ethnic groups?
5. To what extent is this kind of partnership sustainable, especially in the era of the New Economic Model that emphasises equitable access and inclusiveness?

This research operates at both the macro and micro level. An important element at the micro level was the systematic gathering of official and secondary data from relevant government agencies and ministries, including the Small and Medium Industries Development Corporation (SMIDEC), the Genuine Joint Venture Promotion Council (GJVPC), the Associated Chinese Chambers of Commerce and Industries of Malaysia (ACCCIM) and the Companies Commission of Malaysia (CCM). One difficult task was the identification of Chinese-Bumiputera partnerships in private limited companies. To this end, an interview with the chairperson of the GJVPC (who is also Deputy Secretary-General of the ACCCIM) helped to clarify the nature and scope of current Chinese-Bumiputera partnerships in business.

Data collection started with a list of 50 Chinese-Bumiputera joint venture companies obtained from the *ACCCIM Bulletin*. Of these 50 companies, 32 were technology-based manufacturing companies, but only 23 were listed in the CCM database and records. Our next step was to search for joint venture companies via SMIDEC, which yielded a list of 325 companies. A more detailed search of over

250 company profiles and documents from the SMIDEC list was then conducted at the CCM between May 2004 and June 2005. A further search of the 23 companies originally identified from the CCM database was conducted between October 2006 and May 2007. Of these 273 companies, only 144 are Chinese-Bumiputera; the rest are joint ventures either with foreigners or with other ethnic groups, mainly Indians. From the 144 Chinese-Bumiputera joint venture companies, 24 construction companies and 87 technology-related companies were selected for this study; those not selected are mainly in trading and investment. A number of companies in this study had stopped submitting reports to the CCM and were classified as inactive; therefore, information about such companies could not be found in the CCM's database and was acquired from the CCM's archive. However, in October 2006, the CCM initiated disciplinary action against dormant companies and those failing to update their company information and annual financial statements. For some of the companies involved in the present, this generated more up-to-date information. Therefore, information has been updated on 27 of the manufacturing companies included in the research conducted in 2004 and 2005.[4]

In summary, this research investigates the corporate profiles of 111 Chinese-Bumiputera joint venture companies listed at the CCM. At the macro level, a longitudinal approach is used in data collection, allowing for the observation of the joint venture companies' directors, shareholders and capital shares over an extended period. Internet resources were also used to collect additional information on these companies.

At the micro level, more than 40 company directors, managing directors and CEOs were contacted with requests for interviews. Of the 40, 14 responded: three from the construction sector, nine from manufacturing and two from trading.[5] Of the 14 interviews, 11 were conducted in the Klang Valley and three in Penang. Two interviews were conducted via telephone, 11 were face-to-face interviews at the company premises and one in an informal setting at a pub. Two out of the 14 respondents were Malays: one interview involved both Malay and Chinese partners and one was conducted with individual Malay partners. Bearing in mind the sensitive nature of the subject, the conversations were not recorded and we opted to take notes, which were later typed up for systematic qualitative data analyses.

## ANALYSING PARTNERSHIP CASES

### The Context and Pattern of Partnership

Table 1 lists the 111 Chinese-Bumiputera partnerships by year of establishment and economic sector. Seventy-one, or 63.1%, of these companies involved in the construction and manufacturing sectors were incorporated between 1989 and 1996, a period of rapid economic growth in Malaysia before the 1997 financial crisis set in. The average GDP growth rate during this period was 9.1% (Jomo, 1998). The only manufacturing partnership company established in the 1960s was started by the Chinese and only entered into a Bumiputera partnership in 1993. The distribution also shows that inter-ethnic joint ventures increased gradually during the NEP and NDP years and reached a peak towards the early 1990s.

Table 2 shows that 53 of the 111 companies were started and owned by the Chinese while only 15 started and owned by Bumiputera. All of the 68 manufacturing and construction companies that were started and owned by a single ethnic group later evolved into joint venture companies. Generally, between the years of 1989 and 1996, there were 34 manufacturing and six construction companies that started as Chinese-Bumiputera partnership companies at the date of incorporation. Twenty-three of the 34 manufacturing companies that started as partnership companies were established through the GJVPC under the auspices of the Ministry of Entrepreneurial Development in three different phases: 1995, 1997 and 1998.[6] Due to the 1997 financial crisis and difficulties in securing bank loans, fewer partnerships were established thereafter.

There are several explanations for the patterns of data in Table 1 and Table 2. First, they indicate that economic growth, which generates more business opportunities, is fundamental to the proliferation of inter-ethnic partnerships. Second, an educated middle-class, which includes Bumiputera, expanded rapidly in the 1990s (Abdul Rahman, 2002) and became available as business partners. Third, perceptions amongst the Chinese business community towards the Bumiputera began to improve following the emergence of this Bumpiutera middle-class (Chin, 2004). These three factors led to the creation of the GJVPC in 1995, which focused on the promotion of 'genuine' joint ventures or smart partnerships during the late 1990s. Both ethnic groups responded positively to the government-led liberalisation policy, whose strategies included partnership formation and expediting the formation of a BCIC via the institutional vehicle of the GJVPC. The Ministry of Entrepreneurial Development, ethnic-based chambers of commerce and local financial institutions, all of which have created a stimulating environment for business partnerships, support the GJVPC.

Moreover, the late 1990s also marked a shift in Chinese-Bumiputera partnerships from the construction to the manufacturing sector.

These data sets also reveal several important patterns. First, partnership initiatives work two ways: through Chinese inviting Bumiputera into business partnership and vice versa. However, the relationship is rarely linear and context is important. For example, one Chinese-founded company faced difficulties in securing a bank loan but received financial support from a Bumiputera cooperative, and a partnership was founded. In another case, a Bumiputera approached three Chinese to establish ABCD Electronics as an offshoot of a multinational company in Penang. A number of partnership companies were founded with a mutual discovery of each other's experience, strengths, personality and connections, resulting in the decision to pool resources and enter into a partnership. However, information from the interviews with nine manufacturing companies showed that the idea and initiative behind establishing new business ventures came mostly from the Chinese.

Table 1: Distribution of companies by sector and year of establishment

| Year of establishment | Economic Sector | | Total |
|---|---|---|---|
| | Manufacturing | Construction | |
| 1960–1969 | 1 | 0 | 1 |
| 1970–1979 | 6 | 0 | 6 |
| 1980–1988 | 11 | 2 | 13 |
| 1989–1996 | 52 | 18 | 70 |
| 1997–2001 | 17 | 4 | 21 |
| Total | 87 | 24 | 111 |

*Source*: Compiled by the author based on company corporate information from CCM.

Table 2: Company ownership when first established

| Pattern of ownership (Ownership since the date of incorporation) | Economic sector | | Total |
|---|---|---|---|
| | Manufacturing | Construction | |
| Completely Chinese-owned | 43 | 10 | 53 |
| Completely Bumiputera-owned | 9 | 6 | 15 |
| Chinese-Bumiputera partnership | 34 | 6 | 40 |
| Chinese-Indian partnership | 0 | 2* | 2 |
| Chinese-Bumiputera-foreign-owned | 1 | 0 | 1 |
| Total | 87 | 24 | 111 |

*Two companies started as Chinese-Indian partnerships but were changed to Bumiputera-owned and Chinese-owned companies within a year.
*Source:* Compiled by the author based on company corporate information from CCM.

Second, the economic liberalisation that began in 1986, especially the relaxation of the ICA regulation, did not cause the Chinese business community to stop involving Bumiputera in their businesses. Surprisingly, those Chinese who established businesses after this time continued to invite Bumiputera in as business partners. Third, it indicates a significant change in terms of business philosophy and culture in the family-based Chinese business organisation.

In the construction sector, companies that bid for government projects have to fulfil certain government requirements requiring Bumiputera involvement. According to informants, private companies that have less than 80% Bumiputera share ownership do not stand a chance of securing government projects. However, even if a partnership is 100% Bumiputera-owned on paper, many remain sceptical that this reflects reality. It is a rational choice, too, for Chinese to have Bumiputera partners; however, not any Bumiputera, but the 'right' Bumiputera, who has strategic personal contacts with high-ranking officials in the government to secure large and lucrative official contracts. There is a strong possibility that these are Ali-Baba partnerships. In a partnership, Bumiputera partners are usually given the post of director. They play important roles, meeting with government officials and lobbying for government contracts. However, we cannot rule out the possibility that there may also be a small number of Bumiputera who are real entrepreneurs in construction, as was discovered during interviews with Chinese managing directors involved in this sector.

**Manufacturing: Chinese and the Indispensable Bumiputera 'technopreneur'**

The distribution of partnerships by location and industry shows that the majority of partnerships were established in the Klang Valley, Malaysia's major economic hub. About 60% (52) of the total partnerships in manufacturing were created there. Of the remainder, 13 partnerships in the manufacturing sector were located in Penang, and 22 in other states. The location of the majority of partnerships in the Klang Valley and Penang has to do with the availability of the most developed infrastructure facilities and economic opportunities in these two areas. Penang is well known as a 'Silicon Island', where many multinational semiconductor companies have located their plants. This helps to create opportunities for the development of local entrepreneurs, especially SMEs, as support industries for foreign multinational companies (MNCs). Moreover, the acquisition of knowledge, experience and networks, the transfer of technology, of know-how and management in the electronics and electrical (EE) sector from MNCs to local SMEs takes place through these linkages. Economic deregulation since 1986 has created new opportunities for the establishment of Chinese-Bumiputera partnerships in the EE, basic metals and fabricated metal sector.

The data in Table 3 show that partnerships in manufacturing are mostly involved in the technology-based industries, especially in the following sectors: EE (27), basic metals and fabricated metal (18), automotive components (8), plastic products (6), information technology (5), chemicals (3), and rubber products (2). Only a few partnerships were established in light industry, including food processing (2), paper, printing and publishing (5), and wood and furniture (2).

Involvement in the manufacturing and technology-based industries, skills, knowledge and techniques are fundamental. The figures in Table 3 do not cast light on the nurturing processes that take place between Chinese and Bumiputera partners. It is also difficult to trace the source of technology accumulation and/or the people responsible for technology accumulation in these companies. Further research through in-depth interviews with nine partnership companies helped to illuminate the nurturing processes and explain how partners worked together in the manufacturing sectors.

Table 3: Distribution of companies by industry

| Industries | Number of companies |
|---|---|
| Food Processing | 2 |
| Rubber Products | 2 |
| Paper, Printing and Publishing | 5 |
| Basic Metals and Fabricated Metal Products | 18 |
| Automotive Components | 8 |
| Plastics Products | 6 |
| Electric and Electronics (EE) | 27 |
| Wood and Furniture | 2 |
| Industrial Chemicals and Chemical Products | 3 |
| Construction | 3 |
| Information technology | 5 |
| Miscellaneous | 6 |
| Total | 87 |

*Source*: Compiled by the author based on company corporate information from CCM.

From the interviews, it was established that Bumiputera were intensively involved in daily business operations in four out of 10 companies. In the first case, Ahmad,[7] who had extensive experience as general manager with a Japanese company and three long-time Chinese colleagues established ABCD Electronics. In 2001, when the Japanese company, HM, in Penang decided to shut down the branch, Ahmad was called in to discuss this matter with his Japanese boss. Ahmad's entrepreneurial spirit was revealed when he spotted an opportunity and proposed to HM that, rather than close the company, they sell it to a team of local managers. He successfully brought together three Chinese partners: two production engineers and a company accountant. He selected 60 people from the existing company – the best managers, supervisors and other support staff, all with experience in the industry. Additionally, he successfully pooled together physical capital. Ahmad is now Managing Director of the company, and his three Chinese partners are directors, two responsible for production and one as financial controller. Ahmad, as the single largest shareholder and MD of the company, has ultimate decision-making power over the company. However, he does not hold a controlling stake and prefers consultation with his partners to avoid unnecessary conflicts. The company achieved a turnover of RM10.2 million in its first year (2003), with RM1.8 million in profit before tax.

In the second case, Khoo and Mahmud were colleagues in their former company. Khoo was in the sales division, and Mahmud was a technical engineer. Khoo invited Mahmud to form Accuracy Engineering (AE) in 1985, and their partnership continues to this day. AE is a moulding, stamping, tooling design, technical drawing, material and precision company set up with four partners, two Chinese and two Bumiputera. Of these four, two (one Bumiputera and one Chinese) are sleeping partners, according to Khoo. Only Khoo and Mahmud are active partners. As of December 2006, total Bumiputera shareholdings in AE were 36.7%: alone the Mahmud family of five hold 25.2% of the total shareholdings of a paid-up capital of RM1.59 million. This is undoubtedly a smart partnership: 98% of its products are for export and at most only 2% of its business dealings are with government bodies. Besides capitalising on Mahmud's technical know-how, another reason for Khoo's partnership could be the licensing factor imposed by the ICA. Khoo and Mahmud have a good division of labour. Mahmud has a degree in engineering, experience in the industry, and is responsible for technical operations. Khoo, meanwhile, is responsible for sales and marketing. A visit to the operations-side staff confirmed that the company's general manager is both responsible for production and indeed a Bumiputera.

In the third case, Karim and Hong established Auto Parts Manufacturing (APM) – which manufactures auto parts for Proton, Perodua, Toyota, Isuzu, Nissan, Hyundai, Mitsubishi and Daihatsu – in 1988. Both partners worked for different companies selling different products to Proton. Hong had known Karim for about three years and found him 'a straight-forward man [who] can be trusted, and also enterprising'. Hong therefore suggested to Karim that they should start their own auto business. With an initial capital of RM70,000 (Hong holding 70%, Karim 20% and another Chinese 10%) they started a trading company dealing in auto parts. Their business developed into a medium-scale auto parts manufacturing company with an annual turnover of RM14 million in 2006 and a pre-tax profit of RM269,205. Karim and Hong described how they support each other in the business operation. Each has his set of customers:

> The relationship with customers is unique, I handle a particular person or customer and Mr Hong handles his own customers. We fully utilise our strengths. (Karim)
>
> We share the same authority in managing the company. (Hong)
>
> Mr Hong is in charge of the operational task force with the management to support me to deal with the customers and sustain the business. (Karim)
>
> Joint decisions and sharing the responsibility must be there. (Karim)

On nurturing processes, Karim was proud that he had obtained ISO status for APM within six months, when other companies usually take more than a year. Karim headed the Management Representation (MR) task force and encouraged employees to work more aggressively in following ISO procedures:

> He (Karim) is the MR and he leads very well and within a short period we got the ISO …his humble way helps him to get support from fellow workers and customers, he handles them very well. I have to admit he is a good partner, he shows no temper and very hard-working. (Hong)

This complimentary statement can be verified by examining the attempts to make an appointment with Karim, when his secretary informed me that he was in Indonesia for business meetings. After Hong left the interview, Karim accompanied me on a visit to the operation line, and he revealed knowledge of the production operations. He explained how the management team had learned from their Japanese customers, Daihatsu and Isuzu. One of the improvements made in the production line was automation. Karim explained:

> I learned more on how to handle the export market from him (Hong) … about the requirements that are needed for export and to conform to customers' requests … how Hong controls the operation … how he deals with down line, areas that I have never learned before.

Another aspect that Karim had most likely learned through their partnership was managing money, savings and reinvestment: they plough back profits into their company. As Karim remarked, "we developed our company to its size today".

The fourth case involves Lau and Hassan in the manufacturing of electrical components and equipment. Hassan has a degree in mechanical engineering and worked with Lau's father in a mechanical and electrical consultancy firm for eight years. Lau invited Hassan to join him in his company as sales and marketing director, offering him a share in the company and responsibility for obtaining government contracts. According to Lau, Hassan was on the verge of resigning on four separate occasions, because he had problems coping with the stress, but was urged by Lau to stay. Lau said Hassan was 'not that smart' but heeded his advice, was teachable and willing to learn, and developed with the company. As Hassan's reputation grew within the industry, others tried to recruit him, but he chose to stay. In return, Lau improved his terms and conditions. Lau suggested that Hassan had chosen to stay because of the following reasons: he had a sense of belonging; the management was willing to pay; and the management was transparent so his future was more secure. As Hassan had proven to be a reliable partner, he was asked to take the position of chairman in a listed company controlled by Lau's father.

These four cases clearly show the active involvement of Bumiputera business partners in the day-to-day business operation of their companies. Furthermore, they illustrate that some Bumiputera partners bring both technical and technological knowledge and managerial experience to these partnerships. They represent the new Malay middle class that emerged as a result of the NEP and are now part of the knowledgeable, productive force forming new strategic partnerships with the Chinese in the technology-based industries. As Evers (2005: 106) has argued, in an emerging knowledge-based economy, new strategic groups develop that will compete in "structuring society to maximise their chance for appropriating wealth and power…".

The following two cases are examples in which Bumiputera are only investors, without managing the business, although they are directors and shareholders. However, they do play an important role in providing their Chinese partners with sources of capital.

In the first partnership, Weng and two other Chinese partners established Well Flextronics (WF) in 1995 with an initial capital of RM200,000, with Weng contributing RM70,000. The following year, Weng needed a capital injection for his company, but failed to get a bank loan from local banks because his company had no track record. Soon afterwards he met a friend, Dato' N, who was a close associate of one of the country's former deputy prime ministers. Dato' N introduced Weng to two Bumiputera who had links to a Bumiputera cooperative in Penang. Weng presented his proposal to the cooperative and invited them to join him as business partners. Within a week, the cooperative had agreed to put a capital injection of RM300,000 into WF. How does this partnership work? From the research on WF at the Companies Commission of Malaysia (CCM), it was determined that one of WF's shareholders BPPP (100% Bumiputera-owned company) holds 51% of the total shareholdings. In addition, BPPP has two Bumiputera directors who are also shareholders. It started with an initial paid-up capital of RM2.00 in 1993 and allocated 334,998 ordinary shares of RM1.00 each to the Bumiputera cooperative in Penang in 1995 for a loan of RM334,998. BPPP is registered as an investment holding company and held shares in WF with a paid-up capital of RM335,000 in 1996. This would imply that Weng's information is reliable. Information from CCM also proved that the Bumiputera partners are very influential and helped WF secured a RM21.1 million bank loan in 1996–1999 from a local bank. From 2000–2004, WF managed to obtain another RM50.45 million from four other government-backed industrial and development banks. The status of most of these charges is classified as 'unsatisfactory'. As of May 2007, WF's paid-up capital totalled RM3.72 million with RM1.37 million as pre-tax profit for 2006.

Weng acknowledged that the presence of his Bumiputera partners made loan approval much easier from financial institutions, provided that the banks were also convinced by the proposal. In this partnership, the Bumiputera directors were not involved in business operations – the chairman only went in twice a week to sign cheques. According to Weng, his Bumiputera partners hoped to receive their return as soon as possible. They expected a high return, lacked patience and asked him a lot of 'funny questions'. This was particularly noticeable during the 1997/98 regional financial crises when, according to Weng, his Bumiputera partners had asked him: "why are the fixed deposit rates so high and our dividend so low?" Sometimes they demanded up to 50% dividend.[8] Weng said he had arguments with his Bumiputera partners on investment returns, but had managed to convince them that the company would not be able to grow if they wanted high returns. His partners had accepted his explanation: they could see the result of their investment in a small rented warehouse that had been developed into an industrial plant. As managing director of WF, Weng held only 15% of the company's shares, and sometimes the Bumiputera felt that they should head the company and wanted to control the management. Weng convinced them of their different abilities, and promised to leave WF when the Bumiputera partners were ready to take over the management. Over the decade of the partnership, the Bumiputera partners appear to have learned about investment and reinvestment, as evidenced by their rejection of offers from other Bumiputera who were interested in buying their shares. They knew that WF was a profit centre, they saw how the company was growing and they trusted Weng's proven leadership. Additionally, they knew that WF would be ready for listing soon and there were profits to be made. The Bumiputera partners were proud of this and told others that WF belonged to them. As for Weng, he learned to adjust to his partners' demands and had become a diplomat and businessman, having learned that Bumiputera are also very good at diplomacy, especially in politics.

Our second partnership in which Bumiputera invest rather than manage is Innovative Metal (IM), which was established by Chan, Lam and Dr Ibrahim in

1994. The company has 150 workers and specialises in metal stamping. According to Chan, the rationale for forming a partnership with Bumiputera was the government drive in 1993 and 1994 to enlarge Bumiputera participation in SMIs: companies that had 60–70% Bumiputera ownership would qualify as vendors for MNCs.[9] Policy at the time demanded that MNCs should help develop local SMIs. When Chan and his partners started their company, they targeted a Japanese company, SONY, because it had an SMI vendor development programme for Bumiputera companies. Chan and Lam also had a connection with SONY from their previous jobs. Moreover, Dr Ibrahim's status as a Bumiputera and holder of a PhD in computer science would certainly add value to the partnership. They took advantage of Bumiputera vendor status, which meant the MNCs are obliged to help Bumiputera companies achieve an annual sales turnover of RM300,000. Once the company had achieved this level, it was considered mature and was required to be independent. IM became SONY's vendor in the second year of its business operation. In 2006, it achieved RM14.9 million in sales turnover with a pre-tax profit of RM1.01 million.

Chan and Lam had worked in the same company in the stamping industry for more than 10 years. Chan was a production manager and Lam was in the marketing division. It was Chan who suggested to Dr Ibrahim that they start the company. Lam's sister was married to Dr Ibrahim; thus, a relationship and trust already existed. Dr Ibrahim was also director of another company wholly owned by a large-scale listed company. According to Chan, Dr Ibrahim contributed 80% of the RM400,000 initial working capital. IM also secured RM2.97 million in bank loans in 2001 and 2003 from two industrial banks backed by the government. However, Dr Ibrahim was not involved in everyday business operations. He was the Managing Director of the company but only ever attended the AGM meetings to close accounts for the financial year. When I asked Chan whether he was happy with the partnership, he was silent for a moment before answering:

> … [it is] not simple for both ethnic [groups] to [be] actively involved because of the different set of values … sometimes you have up and downs … you have mixed feeling. I am telling you honestly, you have to do everything and sometimes you grumble, but you carry on.

Even though Dr Ibrahim was the largest shareholder, he gave Chan total authority to make decisions for the company. Chan was pleased that Dr Ibrahim trusted him and Lam to manage the company, because the company had a good track record. It had made a good profit over the years and had distributed a dividend to its directors. Moreover, Dr Ibrahim did not draw any salary or allowance.

The cases of WF and IM outlined above show the need to examine the partnership information from the CCM company profiles to further to understand the role of Bumiputera in joint venture companies. For example, a Bumiputera partner with the status of a doctor or professional engineer does not necessarily contribute directly to the technical or managerial aspects of a partnership. Interviews with three other companies revealed that they were effectively Ali-Baba partnerships. The Bumiputera involved in these companies were directors who held company shares. One was a US graduate in electrical engineering, who was a director and shareholder of an engineering software and computer hardware manufacturing company. However, his role was to secure government projects. The other two were directors and shareholders of computer companies (producing electronic displays and systems; and memory modules and peripherals, respectively) but were not involved in daily business operations.

Analysis of the company profiles also shows that 12 of the 87 partnerships involved foreigners partnering with Chinese Malaysians and Bumiputera. All of these companies were involved in technology-based industries: three in metals (high-precision tooling and stamping of engineering components); two in the automotive sector; four in EE (producing capacitors and air-conditioners); one in the oil and gas industry; and one in rubber (making rubber compounds and moulded rubber parts). The foreign partners were Korean, Taiwanese and British. It is likely that these partnerships involved the transfer of skills and technology from the foreign partners. Chinese businessmen commonly create business opportunities and new markets through partnership with those foreign or local companies, which possess the necessary technology and expertise (Lim, 2000: 6).

In general, the nine cases above reveal that Bumiputera partners do not play a significant role in technology-based industries. However, their presence in the manufacturing sector is clearly on the increase: more than 200 first-tier Bumiputera vendor companies were established in this sector during the period of the Eighth Malaysia Plan (2001–2005) (*Malaysia*, 2006: 115). But compared to the construction sector they are less actively involved in the technical and managerial aspects of the business, as described in the next section.

## Partnerships in the Construction Sector: Who Benefits More – Ali or Baba?

The model illustrated in Figure 1 is based on ideas drawn from interviews with three Chinese directors from three construction companies. The model seeks to illustrate how Chinese-Bumiputera partnerships work, how the 'nurturing processes' takes place and how each partner adds value to the partnership.

As shown in Figure 1, A&A is a 100% Bumiputera-owned company, as on paper Ahmad and Ali are company directors and own 50% each of the shares. In reality, Ali acts as a nominee for a Chinese company (XYE) owned by Wong. Ali goes to work in A&A every day. He holds a licence as an electrical charge-man. According to Ding, Ali receives his monthly salary of RM5,000 a month from XYE. The means of overcoming risk in this form of partnership could be that Ali has pre-signed the share certificates given to Wong. This acts as an open resignation letter, which would force Ali to resign as director and relinquish all the shares if he breaks the 'private agreement'. Thus, ownership and control is not a problem and this kind of practice is commonly called the 'control of the board room' in business circles, according informants. However, this agreement should not be viewed as a control mechanism. Trust is central to this kind of partnership. As one management scholar puts it, "trust involves an assessment of the partner and willingness to take action that puts its fate in the hands of the other partner" (Inkpen and Currall, 2004: 589). Wong and Ali have a good relationship, and they have been working on this basis since 1995. Wong and Ali's relationship was established when they were colleagues–Wong was Ali's superior in a GLC company. Conversely, Ahmad is a friend Wong was introduced to through some business associates who also worked for the same GLC company, working in cable manufacturing. Their relationship grew from acquaintance to friendship and finally to business partnership. In the network of construction, DEC is linked to A&A because Wong is a good friend of Ding. Hence, relationship, 'trust', familiarity and networks are the foundation for the establishment and sustainability of this model.

DEC, as a mechanical and electrical (M&E) engineering consultant, plays an important role for XYE and A&A. Wong, who indirectly owns 50% of A&A's shares through Ali, was responsible for awarding M&E jobs to DEC for which XYE lacks the specialisation. As shown in Figure 1, A&A operates with support from XYE and DEC. However, a genuinely 100% Bumiputera-owned company such as BE could operate in three possible ways:

1. If the company is competent, it will usually be able to operate independently on the basis of its track record. The Chinese subcontractors and suppliers, who dominate the construction networks, because Chinese sub-contractors always seek good partners, would support it. There are a small number of successful Bumiputera construction companies, mainly GLCs. Almost all of the government's mega projects are awarded to GLCs, which manage to pay for foreign expertise thanks to a larger profit margin. However, quality and delivery schedules are always compromised and go unpunished.
2. If the company is incompetent and fails to deliver, it will soon stop receiving credit support from the Chinese suppliers and sub-contractors. Most of the companies in this category have been

awarded government projects thanks to their 'know-who' and not to their know-how. Cash flow and management problems, especially financial and network support, are always an issue.

3. There is also a third category of Bumiputera company that has no interest at all in learning, but simply capitalises on its status as Bumiputera. It takes advantage of the affirmative action policy, forms a pure Ali-Baba partnership by passing on the job to Chinese contractors, and is satisfied with a fixed percentage of commission. In other words, such companies simply help to acquire the necessary licence and access to government tenders. 'They don't even provide capital', as one informant put it, leaving the Chinese to bring in money and expertise while taking all the risks. In these cases the Bumiputera have no sense of ownership. However, they cannot bear all the blame, as the affirmative action policy creates this dilemma, allowing them to earn money simply by being the middleman.

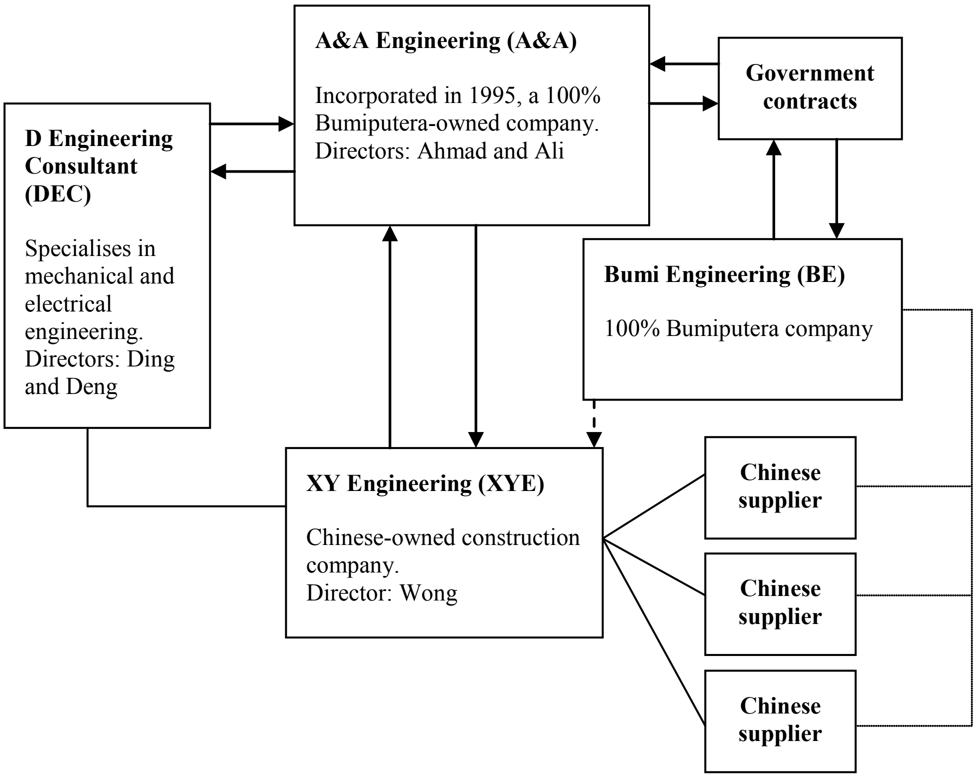


Figure 1: Model of a Chinese-Bumiputera partnership in the construction sector

In our model, A&A is not exactly an Ali-Baba company in the sense that they do handle some small jobs if they can do so by themselves. It is only when the jobs are more complicated that A&A seeks help from DEC. DEC acts on behalf of A&A as a consultant in tendering for government contracts, doing all the calculations, costing, design and building. Although A&A plays no role, the tender is nevertheless awarded to A&A, and the letter of award is addressed to them. During the tendering process, Ahmad and Ali will attend meetings and present the company, while Ding and Deng will present details of the technical aspects.

Ding does not consider his partnership with A&A to be an Ali-Baba one, as on paper DEC must fulfil the government's requirements and A&A has its own set of clients. Ahmad also tenders for projects on his own and had completed a number of projects for the Kuala Lumpur City Council and for several GLCs. Ding said jokingly that "it is not that we [DEC] do not have the qualification, but we do not have the '*kulitfication*' [literally, not qualified in terms of skin colour]". In one of DEC's previous tenders for a government contract, the company submitted two tenders: one through company A (owned by DEC) and one through A&A. Moreover, another competitor, Company B, bid for the same job. The bid results showed that Company A was ranked first, Company B second and DEC's tender through A&A third. The difference in the tenders between Company A and A&A was 2% (for a RM2 million job). However, A&A got the job despite its higher tender. It is commonly recognised in the business community that non-Bumiputera companies cannot guarantee that they will obtain government contracts, even if their tender is lower than those of rival Bumiputera companies. For this type of business and tendering process, the companies involved usually have inside information. Tender board committees tend to be made up of managers and senior officials from the Economic Planning Unit (EPU) and the Ministry of Finance (MoF). The EPU allows a 5% difference between Bumiputera and non-Bumiputera tenders. Consequently, non-Bumiputera tenders have to be 5% lower than Bumiputera to compete.

Officially and on paper, DEC is simply A&A's sub-contractor and will complete jobs in A&A's name. Whenever payment arrives, the cheque goes to A&A: Ahmad banks the cheque into A&A's account, taking off a few per cent in commission. This commission depends on the job, and ranges between 3 and 10%. This model works because both the Chinese and Bumiputera partners need each other: DEC gets government jobs and A&A gets a greater number of government jobs. This model of partnership has benefited A&A in three ways:

1. DEC has helped A&A to set up an external marketing arm, even though most of the work is still done by DEC in A&A's name (as A&A's name appears in the tender documents). This assumes

competence and efficiency on DEC's part because if they fail it is A&A's reputation that will suffer. But A&A and DEC have been in this partnership for the last six years. According to informants, DEC's total turnover for A&A in this time was RM25 million. Taking an average of 3% commission for Ahmad over the six years, this yields an income of some RM750,000: RM125,000 a year or about RM10,000 a month. This does not include the entertainment expenses that the Chinese have to bear: it is a net income for A&A, with no associated costs or activities.

2. The partnership has also helped A&A to increase its company profile. A&A has managed to get many jobs, and to complete them on schedule, which has added value to Ahmad's company.
3. On occasion, Ahmad has wanted to tender for jobs for which he lacked the expertise, time or capacity to handle. He therefore sub-contracted to DEC, tendering at a marked-up price based on Ding's estimates. On these occasions, Ahmad has shown considerable marketing strategy and a talented business mind; therefore, the terms 'window dressing' and 'wallpaper'–often used when describing this kind of partnership–are not necessarily fair.

Relationships are very important in this kind of business model, as well as delivery. Ahmad and Ali have very close relationships with the leading Chinese suppliers and sub-contractors in the construction sector. In this example, an initial familiarity led to the partnership; then the subsequent development of 'trust' between them plays a central role in the partnership's management; and when trust is established, control is no longer an issue.

## Capital and the Issue of Ownership and Control

### *Size and sources of capital*

Table 4 shows the capitalisation of the Chinese-Bumiputera partnerships. Authorised capital distribution of most of the manufacturing companies (72.8%) and construction companies (58.3%) at set-up stage was RM500,000 or under. This pattern of low capitalisation is repeated in their paid-up capital: 81.5% of the manufacturing companies and 87.5% of the construction companies started with a paid-up capital of less than RM10.00 on incorporation. Indeed, this is because at the preliminary stage of a company, the founders tend to fulfil the minimum requirements for set-up, which could be as little as a few ringgits. This also occurred in partnerships with foreign investors in Malaysia (Hara, 1994). Moreover, this is a common phenomenon in newly established companies in Malaysia. However, the size of capital began to increase when the companies began operations. Authorised and paid-up capital for the manufacturing companies increased far more than for the construction sector. The difference is due to the nature of each sector: manufacturing requires long-term investment, while construction is project-based and there is no legal contract with the sub-contractor.

For this study, any company with paid-up capital in operation of RM500,000 and below is considered small-scale, a company with paid-up capital between RM500,001 and RM3,000,000 is regarded as medium-scale, and a company that exceeds RM3,000,000 in paid-up capital is considered large-scale.[10]

If the above measures are adopted when analysing the 87 manufacturing companies in this study, 46% are involved in small-scale industries, 35.6% in medium-scale industries and 18.4% in large-scale industries. Whereas, in the construction sector, 62.5% are small-scale companies, only 25% are medium-scale and 12.5% are large-scale companies. Overall, approximately 82.9% of the Chinese-Bumiputera partnerships in this study are SMEs. In 1998, SMEs comprised 91% of all manufacturing establishments in the country and, the Chinese established more than 80% of these SMEs (*Productivity Report,* 2002). This indicates that the Bumiputera are encroaching into a sector that is dominated by the Chinese. Putting together the type and scale of industries as shown in Table 3 and Table 5, it appears that the Bumiputera are making inroads into this sector by means of partnerships with the Chinese to the acquire the skills, knowledge and experience necessary for them to venture into 'new' business sectors. However, analysis of the data obtained from our interviews reveals that there is little involvement in terms of technical input and management from the Bumiputera partners.

When the paid-up capital is classified according to group and size by share ownership, the results in Table 5 shows that large-scale manufacturing partnerships are dominated by Bumiputera. While 10 (or 27%) of the 37 Bumiputera controlled companies have paid-up capital in excess of RM3 million, only six (or 14%) of the companies controlled by the Chinese fall into the same category. A reason for this pattern could be that the Bumiputera partners have easier access to financial support, especially from the government. This has been shown in the two cases of Well Flextronics (WL) and Innovative Metal (IM), which were discussed above. Moreover, three out of 10 large-scale companies that have majority Bumiputera share ownership are listed companies with capital investment from a number of government bodies.

Table 4: Distribution of number of companies by capital size and industries

| Capital-size (RM) and Industries | Authorised Capital | | | | Paid-up Capital | | | |
|---|---|---|---|---|---|---|---|---|
| | Set-up | | In Operation | | Set-up | | In Operation | |
| | Construction | Manufacturing | Construction | Manufacturing | Construction | Manufacturing | Construction | Manufacturing |
| Less than 10 | 0 | 0 | 0 | 0 | 21 | 66 | 4 | 9 |
| 10–50,000 | 1 | 12 | 0 | 3 | 0 | 8 | 4 | 11 |
| 50,001–200,000 | 8 | 30 | 7 | 15 | 1 | 1 | 5 | 11 |
| 200,001–500,000 | 5 | 17 | 4 | 16 | 1 | 4 | 2 | 9 |
| 500,001–1,000,000 | 2 | 11 | 1 | 16 | 0 | 0 | 4 | 16 |
| 1,000,001–2,000,000 | 4 | 2 | 4 | 2 | 0 | 0 | 0 | 9 |
| 2,000,001–3,000,000 | 0 | 1 | 0 | 1 | 0 | 0 | 2 | 6 |
| 3,000,001–5,000,000 | 3 | 4 | 5 | 18 | 0 | 0 | 2 | 8 |
| 5,000,001–10,000,000 | 0 | 2 | 2 | 7 | 1 | 1 | 0 | 3 |
| 10,000,001–20,000,000 | 0 | 0 | 0 | 3 | 0 | 0 | 1 | 1 |
| More than 20,000,000 | 1 | 2 | 1 | 6 | 0 | 1 | 0 | 4 |
| | 24 | 81* | 24 | 87 | 24 | 81* | 24 | 87 |

*No information available for six companies on share capital at set-up
*Source*: Compiled by the author based on corporate information from CCM.

In addition, the Chinese partners are aware of the advantages of having Bumiputera business partners. For example, under the GJVPC, a joint venture company with at least a 30% Bumiputera shareholding is eligible for project financing. Joint ventures can also tap the vast resources of the government-backed industrial banks, GLCs and local Bumiputera cooperatives. It can be suggested that the increase in the number of partnerships is either directly or indirectly related to this improved access to financial support that a Bumiputera partner brings. However, Chinese partners bring into the partnerships their experience, knowledge and expertise (Chin, 2004). Such a partnership can be likened to Searl's (1999) notion of 'capital integration', that is 'financial and ownership integration'. In the case of ABCD Electronics, the company managed to secure financial assistance from the Malaysian Industrial Development Fund (MIDF). At a later stage it also received a loan from the SME Bank. A further analysis on the ownership of share capital shows the presence of GLCs in these partnerships, especially in partnerships controlled by Bumiputera.

Table 5: Distribution of companies and ownership by paid-up capital

| Group, type of industries and capital size | Shares ownership | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares ownership of > 51% | | | | | | 50% Bumiputera and 50% Chinese | |
| | Chinese | | Bumiputera | | Foreigners | | | |
| | Construction | Manufacturing | Construction | Manufacturing | Construction | Manufacturing | Construction | Manufacturing |
| Small-scale ≤RM500,000 | 7 | 23 | 6 | 13 | 0 | 1 | 2 | 3 |
| Medium-scale RM500,001–RM3,000,000 | 3 | 14* | 3 | 14 | 0 | 1 | 0 | 2 |
| Large-scale >RM3,000,000 | 2 | 6 | 1 | 10 | 0 | 0 | 0 | 0 |
| Total | 12 | 43 | 10 | 37 | 0 | 2 | 2 | 5 |

*Note*: One company's share structure is 40% Chinese, 30% Malay and 30% foreign-owned.
*Source*: Compiled by the author based on corporate information from CCM.

As mentioned above, interview sources confirmed that three partnerships received financial support from government-backed industrial banks and local banks due to the Bumiputera partner's status and connections. Of the 87 manufacturing companies, analysis of company profiles shows that three companies received capital investment from GLCs.

In the first case of one of Malaysia's largest steel manufacturing company, WSteel, this involved Khazanah Nasional Berhad (KNB).[11] KNB holds 71,000,000 shares of RM1.00 each in Wsteel.[12] This company is much larger than the SME classification, as it is a private limited company with RM1,000,000,000 authorised capital in operation and over RM600 million in paid-up capital. A listed company that is majority Chinese-owned and three other private limited companies, which are owned equally by Chinese and Bumiputera, controls Wsteel.

The second case (MWF) involved Bumiputera and Technology Venture Capital Berhad (BTVCB), a company in which the Penang Development Corporation has invested. The primary objective of BTVCB is to create Bumiputera entrepreneurs in the high-technology industry.[13] BTVCB also encourages the setting up of partnership projects between Bumiputera and non-Bumiputera, aiming to introduce Bumiputera entrepreneurs to good management practices, technical expertise and international marketing. BTVCB holds 400,000 shares of RM1.00 each in MWF, a manufacturing company that produces metal windows and floor frames. A Chinese and a Bumiputera started this company in 1997, and they own it equally. In July 1998, the company's paid-up capital increased by RM399,998 to RM400,000; the Chinese had put in RM300,000, while the Bumiputera put in RM100,000. By the end of 1998 the company's paid-up capital reached RM700,000 when BTVCB invested RM300,000. In 1999, BTVCB injected another RM100,000 and increased the company's paid-up capital to RM800,000.[14]

The third case involved Perbadanan Usahawan Nasional Bhd (PUNB)[15], a GLC under the Ministry of Entrepreneur and Cooperative Development. PUNB took up 600,000 shares of RM1.00 each in AMM, a Bumiputera-controlled steel fabricating company. PUNB's investment in AMM lasted nine years, from 1996 to 2004, with a paid-up capital of RM2.8 million and turnover of RM46.7 million in 2003.[16]

Table 6: Number of companies by ownership and control

| Ownership and Control | Economic sector | | Total |
|---|---|---|---|
| | Manufacturing | Construction | |
| By individuals who are citizens | | | |
| Bumiputeras | 26 | 4 | 30 |
| Chinese | 33 | 9 | 42 |
| Equal shares by each ethnic group | 5 | 2 | 7 |
| Corporate bodies controlled by | | | |
| Bumiputeras | 11 | 6 | 17 |
| Chinese | 10 | 3 | 13 |
| Foreigners | 2 | 0 | 2 |
| Equal shares by each ethnic group | 0 | 0 | 0 |
| Total | 87 | 24 | 111 |

*Source*: Compiled by the author based on company corporate information from CCM.

### *The issue of ownership and control*

Ownership refers to share ownership and control refers to control over companies. To have control over a company is to have the capacity to determine the policies and course of action of that company. These policies range from the most basic and general to the most specific (Lim, 1981: 4). In sole proprietorships and partnerships, ownership is almost always synonymous with control. In private limited companies, the number of shareholders is usually limited, with the shares tightly held by members of several partnership families (Tan, 1982: 138). In the present study, in which most companies are small and medium-scale, a simple majority of over 50% share ownership by any individual or family or group of shareholders is considered to give control.

In this study, ownership and control is divided into four different types: by Bumiputera; by Chinese; by foreigners; and an equal division between ethnic groups. The distribution of manufacturing companies by ownership and control in Table 6 shows that Bumiputera controls approximately 42.5% of the partnerships. Of this 42.5%, individual Bumiputera control 26 companies and Bumiputera corporate bodies control 11 companies. In the construction sector, Bumiputera control 42% of the 24 companies; of this 42%, individual Bumiputera control four companies and Bumiputera corporate bodies control six. Although these would appear to be Bumiputera companies, often they are Ali-Baba partnerships.

However, partnership trends in the manufacturing sector do suggest changes in Malaysian business culture. First, there is a shift from the traditional model, in which the Chinese were perceived as the dominant partners in inter-ethnic partnerships, especially those that were Ali Baba ones. Second, Malaysian Chinese business culture in the manufacturing sector seems to be transforming from intra-ethnic to inter-ethnic ownership: Chinese entrepreneurs avoided this in the NEP era, after the introduction of the Industrial Coordination Act (ICA) in 1975. This shift from intra-ethnic to inter-ethnic ownership marks an erosion of traditional Chinese business practices based on family, clan and ethnic group members. Third, as the majority partner in some of the companies, Bumiputera are able to influence company policy, management philosophy and financial control. However, this is not absolutely true in some cases, in which Bumiputera partners are just investors and trust the Chinese to take a management lead. This could be due to their lack of technical and management skills or for other reasons.

## Shareholders and Directors

### *Shareholders*

There are different types of shareholders and the role and significance of each type varies. However, two major categories can be identified: personal shareholders and institutional shareholders (Lim, 1981: 35). The first category consists of ordinary shareholders and director shareholders and can be broken down by ethnic group. The second category consists of private companies controlled by different groups and government-linked companies.

Table 7 shows that 83.2% of all 357 shareholders in the 81 manufacturing sector partnerships in this study are personal shareholders. Of these, 49.9% are director shareholders and 33.3% ordinary shareholders. These personal shareholders own 69.4% of the total shares: Bumiputera 29.5% and Chinese 35.5%. Clearly, Chinese personal shareholders have a larger shareholding value than do Bumiputera. Conversely, institutional investors, who account for only 16.8% of all shareholders, own 30.6% of total shareholdings: of these, Bumiputera hold the largest shareholding value, followed by Chinese and foreigners. Overall, Bumiputera partners, their corporate companies and GLCs have contributed 46.5% (or RM51,015,517) of the total value of shareholdings in these 81 partnerships. This indicates that Bumiputera partners are a source of financial capital for inter-ethnic partnerships.

Table 7: Distribution of number of shareholders, value of shares in 81* manufacturing companies by types of shareholders

| Types of Shareholders | Number of Shareholders | % | Value of All Shareholdings (RM) | % |
|---|---|---|---|---|
| **Individuals** | **119** | **33.3** | **21,647,217** | **19.8** |
| Chinese | 70 | 19.6 | 10,808,560 | 9.9 |
| Bumiputeras | 35 | 9.8 | 8,323,935 | 7.6 |
| Indians | 3 | 0.8 | 365,000 | 0.3 |
| Foreigners | 11 | 3.1 | 2,149,722 | 2.0 |
| **Directors** | **178** | **49.9** | **54,444,684** | **49.6** |
| Chinese | 105 | 29.4 | 28,109,934 | 25.6 |
| Bumiputeras | 71 | 19.9 | 24,058,965 | 21.9 |
| Indians | 1 | 0.3 | 570,785 | 0.5 |
| Foreigners | 1 | 0.3 | 1,705,000 | 1.6 |
| **Companies** controlled by | **54** | **15.1** | **31,046,980** | **28.3** |
| Chinese | 26 | 7.3 | 12,917,192 | 11.8 |
| Bumiputeras | 22 | 6.1 | 16,149,789 | 14.7 |
| Foreigners | 6 | 1.7 | 1,979,999 | 1.8 |
| **Government Link Companies** | **6** | **1.7** | **2,571,909** | **2.3** |
| Total | 357 | 100 | 109,710,790 | 100 |

*WSteel Sdn Bhd is not included since its paid-up capital far exceeds that of an SME. Two joint venture companies that are successfully listed as public companies are not included because of their large-scale capital. Two other companies that are 100% owned by public listed companies, where information of shareholders are difficult to determine, are not included in the calculation. The figures also exclude a company for which we lack shareholder information.

*Source*: Compiled by the author based on company corporate information from CCM.

In contrast, Table 8 shows that there is no involvement of GLCs and other Bumiputera investors in the construction sector. There are also very few Bumiputera shareholders, whether personal (1%) or institutional (0.8%). Even though Bumiputera directors hold 32% of the total shareholdings in 24 companies, these could just be 'on paper' and not 'in reality'. As discussed above, these shareholding patterns could be due to three factors. First, Bumiputera director shareholders are likely to be 'Ali', and may not actually have invested themselves. Shares are unlikely to have been purchased with cash, and they could well be held in trust and later covered by profit-sharing or director's fees ploughed in for the allotment of shares. Second, most Chinese-Bumiputera partnerships in the construction sector are commission-based. Third, almost all government contracts are awarded to Bumiputera companies and GLCs. Chinese companies generally only take the role of sub-contractors.

Table 8: Distribution of number of shareholders, value of shares in 24 construction companies by types of shareholders

| Types of Shareholders | Number of Shareholders | % | Value of All Shareholdings (RM) | % |
|---|---|---|---|---|
| **Individuals** | **21** | **28.8** | **2,002,322** | **25.7** |
| Chinese | 18 | 24.6 | 1,707,322 | 21.9 |
| Bumiputeras | 1 | 1.4 | 75,000 | 1.0 |
| Indians | 1 | 1.4 | 200,000 | 2.5 |
| Foreigners | 1 | 1.4 | 20,000 | 0.3 |
| Directors | **44** | **60.2** | **4,591,791** | **59.0** |
| Chinese | 29 | 39.7 | 2,098,888 | 27.0 |
| Bumiputeras | 15 | 20.5 | 2,492,903 | 32.0 |
| **Companies** controlled by | **8** | **11.0** | **1,189,902** | **15.3** |
| Chinese | 7 | 9.6 | 1,129,902 | 14.5 |
| Bumiputeras | 1 | 1.4 | 60,000 | 0.8 |
| Total | 73 | 100 | 7,784,015 | 100 |

*Source*: Compiled by the author based on company corporate information from CCM.

### *Directors*

> Directorship is a position associated with the performance of certain duties. It is a role. Normally a director is expected to participate in making broad policies for a company and to oversee the execution of these policies [but] directorship does not always imply control… (Lim, 1981: 39)

The 87 manufacturing partnerships have 210 Chinese and 158 Bumiputera directors. As Table 7 shows, 71 of the Bumiputera directors are also shareholders; the remaining 87 Bumiputera directors are not. Bumiputera directors appear in 72 partnerships: 10 are dominated completely by Bumiputera directors, 12 have majority Bumiputera directors, 35 have minority Bumiputera directors, and 15 have an equal number of directors from each ethnic group. In other words, 15 of these partnerships are without Bumiputera directors and 10 are without Chinese directors. The interview data confirm that Bumiputera are investors only in these 15 companies. However, it seems unlikely that the Chinese are investors only in the 10 companies without Chinese directors.

Although 158 Bumiputera are involved in 72 partnerships as directors, it is possible that Bumiputera partners are involved in the partnership management in some capacity. Based on the total shareholdings owned by Bumiputera directors (46.5%, either as personal or institutional shareholders) it would seem that Bumiputera also own, control and manage some of these companies. In other words, in the manufacturing sector Bumiputera can and do act as genuine lead partners. However, this is not so in the construction sector.

**Explaining Sustainable Partnerships: Selection, Learning, Adjustment, Trust and Control**

There is no clear-cut definition of what a successful partnership entails. However, the duration of a partnership can be considered a useful measure. In this study we also considered the sustainability of the 111 inter-ethnic partnerships. As shown in Table 9, covering the manufacturing sector, 4.6% had a lifespan of less than two years, 46% exceeded four years of partnership, while 49.4% had worked together for more than nine years. Partnerships in the construction sector were quite resilient: 8.3% had a lifespan of less than two years, 75% surpassed four years of partnership, while 20.8% had been in partnership for more than nine years. The data show that eight companies ceased operation in 1997/1998, possibly as a result of the Asian financial crisis.

Data analysis of the manufacturing sector shows that 24 of the 87 partnerships were badly affected by the 1997 financial crisis; 17 (or 70.8%) of these, 24 companies started their partnerships between 1994 and 1997. Of these 24 companies, six are dormant; four have been wound up; and there is no information about the remaining 14 companies in the CCM database after 1999. The dormant companies have not necessarily failed. They may simply have decided not to go on with their business plan amid the sudden economic slump. Also, using the snowball method, data from related company profiles reveal that three companies were established by the same partners within a year or two to synergise their businesses: only one company continues to operate; the other two are dormant, but continue to exist. However, we can safely assume that the 14 companies for which data stops in 1999 also suffered as a result of the financial crisis. In a separate study (Chin, 2003b), it was found that the crisis, which persisted for several years, affected SMEs negatively on several fronts. In this study, a total of 53 companies survived the extended crisis (10 were incorporated after 2000), but 8 can no longer be considered inter-ethnic partnerships. Out of the eight, seven evolved to become completely owned by a single ethnic group–three by Chinese and four by Bumiputera–and one became a partnership between Chinese and foreigners (without continued Bumiputera participation).

The present study has not included analysis of partnerships in the trading sector. However, to assess sustainability levels compared to manufacturing and construction, data from 14 Chinese-Bumiputera partnership company profiles were analysed. This indicates that partnerships in the trading sector are less sustainable than in the manufacturing and construction sectors. A number of these partnerships moved to full Bumiputera-ownership. There are three explanations for this. First, it is relatively easier to manage trade than it is manufacturing or construction. Thus, after gaining the necessary trading knowledge, Bumiputera partners tend to go it alone. Second, government projects (which usually have a larger profit margin and are less competitive than the private sector) have helped Bumiputera partners become independent. Third, Bumiputera can take advantage of the Approved Permit (AP), which enables them to import without paying duty.

Table 9: Distribution of companies by years of partnership

| Years of partnership | Economic Sector | | Total |
|---|---|---|---|
| | Manufacturing | Construction | |
| < 2 | 4 | 2 | 6 |
| 2–4 | 17 | 4 | 21 |
| 5–8 | 23* | 13 | 36 |
| 9–12 | 29 | 3 | 32 |
| 13–16 | 6 | 1 | 7 |
| > 16 | 8 | 1 | 9 |
| Total | 87 | 24 | 111 |

*Three companies established in 2001 are dormant until 2006.
*Source*: Compiled by the author based on company corporate information from CCM.

However, sustainability in Chinese-Bumiputera partnerships cannot be fully understood if we only take the economic dimension into account. Interview data reveals that all 14 trading partnerships involved the establishment of a relationship even before they became business partners. Bumiputera partners were carefully selected, including through investigation of their family background, previous track record and attitude. Some were colleagues; some became acquaintances through business associates and developed friendships; some were family members through inter-ethnic marriages; and some were long-term family business partners in which the partnership has extended to the second generation. Three companies had been working together with two generations of the same Bumiputera family. In these partnerships the main source of capital and networks came from the more established and experience businessmen (the Chinese and Bumiputera patriarchs) who channelled their resources into new businesses (from construction to IT). Both Chinese and Bumiputera patriarchs had groomed the younger generation for interethnic business partnerships, which were understood on both sides to be more stable in terms of finance, partnership form and social impact.

Over the years, the partners had adjusted to each other's differences and had proved their integrity. In these three cases the Chinese partnered with the Bumiputera patriarch and later partnered their sons. They became familiar with each other's way of business management; therefore, allowing trusted, capable partners – even those with minority shareholdings – to lead the company. Their partnerships had been formed in economic scenarios and at different points in time. As Inkpen and Currall put it "learning and adjustment by the partners are the keys to alliance longevity and the avoidance of premature dissolution" and "trust requires familiarity and mutual understanding and, hence, depends on time and context. As the relationship ages, previous successes, failures, and partner interactions will influence the level of trust" (2004: 586 and 588).

## CONCLUSION: THE STRENGTHS AND LIMITATIONS OF INTER-ETHNIC PARTNERSHIP FOR NATIONAL UNITY

Inter-ethnic partnership, as a model for the development of national unity, has its strengths and limitations. In the process of economic liberalisation, economic opportunities were created in the private and public sectors. Strong economic growth, social and financial institutional support, and a positive response from the two different societies led to the institutionalisation of Chinese-Bumiputera business partnerships. Moreover, as business partners learned, they adjusted and came to trust each other. Over time, repeated actions came to mean the same thing to the partners and they become institutionalised: institutionalised actions are economically efficient, because making decisions and carrying them out becomes simpler when each partner can predict and understand the actions of the other (Biggart, 1991: 222–223; Rutten, 2003: 239). Such institutionalised action has become established in the manufacturing and construction sectors, as clearly discussed in this paper. Furthermore, the positive response to Ali Baba partnerships by the Bumiputera themselves in the 1990s came to light at the Third Bumiputera Economic Congress in 1992 (Troii, 1997: 236) and this strengthened the institutionalisation of inter-ethnic partnerships in the construction sector, which in fact is Ali Baba but with a new meaning.

As shown in this study, inter-ethnic partnerships involving the SMEs are, in a way, a class matter–ethnic unity is limited only to those who can add value to a partnership. Values such as academic qualifications and political connections are advantages in inter-ethnic partnerships. This is similar to inter-ethnic partnerships in large-scale companies: the only difference is in business volume and the strength of political connections. This creates a different level of co-operation between the Chinese and Bumiputera from the lower strata of society. There are two different impacts from these partnerships. First, they help to enlarge the small and medium scale Bumiputera entrepreneurial class, especially the BCIC, and indirectly reduce the income gap within Bumiputera society. In a way, they help to reduce intra-ethnic conflicts, especially within Bumiputera society as a result of uneven development.

Second, intra-ethnic partnerships provide opportunities to create wealth together with the Bumiputera. Furthermore, these partnerships help to develop platforms that go beyond just economic integration but also involve social interaction that could contribute towards national unity. However, this model has its limitations. Businessmen are rational actors; when partnerships are formed, partners have already calculated anticipated profits. If business partners, both Chinese and Malays, are opportunists and instrumental in their partnerships, tensions and conflicts could be expected and eventually the partnership could come to a premature dissolution. This is true within Chinese intra-ethnic partnerships as well. However, if the partners work together on a value-oriented basis, for example by practising 'give-and-take', learning, adjusting to each other, showing trust, tolerance and interdependence, then unity will have a chance to develop amongst partners of different ethnic groups.

Another limitation is the economic conditions conducive for unity to develop within inter-ethnic partnerships. The NEP concepts, which "try to force inter-ethnic corporate marriages in ways that favour the *Bumis* are only conducive during a period of strong economic growth like in the 1970s" (Khoo, 1995: 139) and also the 1990s. The same trend, but with a different degree of 'coercion on' and 'response to' inter-ethnic partnership, is also observed in small and medium enterprises in the context of policy and global economic changes. Chinese, Indian (and Bumiputera) entrepreneurs are responding and constantly adapting to changes as necessary. With the implementation of NEM it is hoped that more inter-ethnic business partnerships will be established on an alacritous basis.

Finally, the insights from this study suggest that the distribution of income by ethnicity can be restructured to improve inequality of income and wealth across different ethnic groups. However, the NEP lacks the capability to change Bumiputera culture, instead making them more dependent on policy. Although inter-ethnic partnerships had been officially institutionalised as a new business culture in Malaysia, the level of entrepreneurial determination between partners varies. Entrepreneurial determination of Bumiputera partners has remained lower, thanks to the NEP that made them over-dependent on the government for special privileges. Thus, the problem is with the structure, not the culture. The Bumiputera are making a good income by riding on the back of their Chinese partners, especially in the construction sector. Even though this practice has become acceptable and has been tolerated for more than three decades, there is a danger that if the economy were suddenly to head downwards for a prolonged period, ethnic conflict could resurface.

In conclusion, this research illustrates the recommendation that a gradual lifting of the NEP, especially with the successful implementation of the main tenets of NEM,[17] could create a more competitive environment to stimulate already-emergent Bumiputera entrepreneurial determination. Once this is achieved, each partner could have a sense of belonging and a contribution that would make inter-ethnic partnership more meaningful and could further enhance national unity.

## NOTES

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2. The 27 sub-sectors are Computer and Related Services, Health and Social Services, Tourism Services, Transport Services, sporting and other recreational services, business services, rental/Leasing Services without Operators, supporting and auxiliary transport Services.
3. The case in which a Bumiputera 'investor' provides the licence and/or listing requirements for a Chinese entrepreneur but otherwise remains a silent partner. Ali is a common Malay name, while Baba is a Malay slang term for the Chinese.

4. In October 2006, the CCM gave some 150,000 dormant companies three months grace to dissolve to avoid a penalty. According to their report, of the 748,221 companies that had been incorporated in Malaysia, 235,147 had yet to submit their annual financial report to the CCM; of these, more than 148,000 were dormant companies (*Metro,* 11 October 2006).
5. Part of the aim of the research was to understand to what extend the *modus operandi* of Chinese-Bumiputera in the service sector was similar to or different from manufacturing and construction. However, only two cases were examined in the services sector.
6. See Chin (2004) for details of the 23 joint venture companies.
7. Pseudonyms are used throughout this article.
8. The Bumiputera directors and shareholders in WL are of the older generation (one was born in 1933, and the other three in 1945, 1946 and 1955) and probably lack knowledge of the market economy. In 1984, Horowitz interviewed a senior official of the National Unit Trust (Amanah Saham Nasional or ASN). The officer described the Malays as "too uneducated to understand the ups and downs of the market; they certainly do not understand a loss and would think they had been cheated. Malays need to be educated to think in terms of long-term savings, not short-term capital gains" (Horowitz, 1989: 266).
9. During the Eighth Malaysia Plan (2001–2005), government-linked companies (GLCs) such as Proton, Petronas, Tenaga Nasional Berhad (TNB) – and a number of MNCs – created more than 200 first-tier vendor companies involved in manufacturing and related activities (*Malaysia,* 2006: 115).
10. The term SME (small and medium-sized enterprises) and SMIs (small and medium industries) are often used interchangeably. For Lee and Lee (2003), SMIs refer to enterprises primarily involved in manufacturing, while SMEs refer to the larger group that includes nonmanufacturing industries such as retail. SMIDEC broadly categorises SMEs as follows: (1) in manufacturing, manufacturing-related services and agro-based industries they are enterprises with full-time employees not exceeding 150 or with an annual sales turnover not exceeding RM25 million; (2) in services, primary agriculture and the information and communication technology sectors, they are enterprises with full-time employees not exceeding 50 or with an annual sales turnover not exceeding RM5 million.
11. KNB is the investment-holding arm of the Government of Malaysia and is empowered as the Government's strategic investor and trustee to the nation's financial assets.
12. See Chin (2007) for more details on WSteel.
13. See details about BTVCB at http://www.btvc.com.my/#Anchor-48133.
14. No further information available from the CCM shortly after this date.
15. PUNB was established on 17 July 1991 with an authorised capital of RM300 million of which 250 million is fully paid-up. It is a commercially oriented organisation, wholly owned by Yayasan Pelaburan Bumiputera (the Bumiputera Investment Foundation). It is also the secretariat of the Project for Bumiputera Entrepreneurs in Retail Sectors (Prosper), a scheme launched in 2000 to increase the number of Bumiputera in the retail industry. As of 17 August 2004, a sum of 558 projects with a total value of RM150.6 million has been approved.

16. The last search on AMM at the Companies Commission of Malaysia was in late 2005.
17. The NEM is being formulated to put Malaysia in a good position economically, to have good talent on demand, to attract sound investments and to be a high-income nation. The NEM once in full implementation will remove the protected subsidies under the NEP that benefit ethnic Malays for the last 40 years. The NEM will improve competitiveness, eradicate un-efficient rent seeking and patronage behaviour, which enriched only an elite group and failed to achieve the intended virtue the NEP. The NEM will also adopt the concept of inclusiveness as the fundamental of the new economic approach, in which all Malaysians contribute and benefit from economic growth.

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