

## Social Organisation of the Business Elite and Big Business Growth: Malaysia During the 1990s Economic Boom

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### ABSTRAK

*Kebanyakan kajian mengenai elit perniagaan Malaysia membincangkan tentang pertumbuhan pesat perniagaan yang diusahakan oleh golongan elit berkenaan, terutamanya semasa pertumbuhan pesat ekonomi negara pada tahun-tahun 1990-an. Kewujudan hubungan interpersonal yang dijalin oleh pihak ini dengan elit kerajaan dan politik memang diketahui umum. Kajian berkenaan banyak mengiktiraf kepentingan hubungan interpersonal itu kepada pertumbuhan pesat golongan peniaga besar dan dalam penentuan corak sistem kapitalis negara ini, iaitu kapitalisme kroni atau kapitalisme "esratz". Tanpa mengurangkan kepentingan hubungan interpersonal itu kepada pertumbuhan perniagaan besar, makalah ini mendapati hubungan interpersonal, yang wujud di antara ahli peniaga besar dengan anggota elit korporat yang lain, khususnya yang bukan peniaga, dan juga sumbangan hubungan sedemikian kepada pertumbuhan ekonomi pada tahun 1990-an telah kurang ditekankan. Oleh itu, pada tahun-tahun 1990-an kurang terdapat kajian yang sistematik tentang pengorganisasian sosial anggota elit perniagaan. Memandangkan kekurangan tersebut, pengarang makalah ini telah menjalankan satu kajian analisa jaringan sosial terhadap corak pengorganisasian sosial anggota elit perniagaan yang telah wujud pada tahun-tahun 1990an dan implikasinya ke atas pertumbuhan perniagaan secara besar-besaran (lihat Chan 2004). Hasil kajian menunjukkan anggota elit perniagaan yang berkenaan, terutamanya sebilangan daripada peniaga besar, telah membentuk hubungan sosial semasa perkembangan perniagaan mereka pada tahun-tahun tersebut. Anggota elit perniagaan itu diorganisasi secara sistematik dalam konteks hubungan antara syarikat dan juga di luar hubungan antara syarikat. Corak pengorganisasian sosial yang terdapat menunjukkan bahawa para elit perniagaan tertentu mengorganisasi sesama sendiri untuk kepentingan diri masing-masing. Maka, boleh dikatakan bahawa anggota elit korporat itu tidak bertujuan menggunakan hubungan sosial berkenaan untuk membentuk sebuah kelompok elit perniagaan yang berbilang kaum, bersatu padu dan yang mampu memperjuangkan kepentingan semua ahli perniagaan di seluruh Malaysia. Golongan elit korporat itu juga nampaknya bukan bertujuan menubuhkan sebuah kelas kapitalis perniagaan yang bersatu*

*padu dalam masyarakat Malaysia melalui hubungan sosial mereka itu. Di samping berkeupayaan untuk menerangkan corak pertumbuhan perniagaan kapitalis secara besar-besaran pada tahun-tahun 1990-an, hubungan sosial elit korporat juga bertindak sebagai angkubah explanatory yang berguna tentang sifat perkembangan sistem kapitalis pada masa kini dan akan datang di negara ini.*

#### ABSTRACT

*The analysis of the Malaysian business elite by many studies had mainly been concerned with the nature of rapid private business growth of a multi-ethnic segment of the business elite, i.e. big businessmen, namely during the 1990s economic boom in the country. Those business elite then were known to form interpersonal ties with state and political elites. Many studies acknowledged the significant contribution of such interpersonal ties to the big businessmen's rapid business growth, and for some, to the characterisation of capitalist development in the country, i.e. crony or ersatz capitalism. While not disregarding the significance of the interpersonal ties to big business growth, the author of this article observed a general lack of emphasis concerning the presence of interpersonal social relations between the big businessmen with other multi-ethnic business elite members, and particularly, concerning the contribution of the relations to the 1990s private big business growth. In particular, the author noted a general lack of systematic study on the nature of social formation and organisation of the business elite of the 1990s. As such, the author embarked on a systematic social network analytic study on the nature of social organisation of the 1990s business elite members and its implications on private big business growth (see Chan 2004). This article presents some of the findings. The study showed that business elite members did establish social relations during the process of their 1990s business growth. They were actually organised systematically both at and beyond intercorporate levels. The business elite members, especially big business people, organised themselves with particular business elite members to fulfil their own narrow common interests. They appeared not keen to organise themselves as a cohesive multi-ethnic business elite group and act as a group to advance general business interests on behalf of all multi-ethnic business elite members and business people in the society vis a vis the Malaysian state. They also appeared not keen to form a cohesive capitalist business class in the Malaysian society. While explaining the nature of private big capitalist business growth of the 1990s, the study argued that the nature of social organisation also acts as a useful explanatory variable of present and future private capitalist big business growth in the Malaysian society.*

## INTRODUCTION

During the 1990s rapid big business and economic growth in Malaysia, many studies and arguments claimed that interpersonal ties were formed by some multi-ethnic business elite members with some predominantly powerful Malay state and political leaders (especially the Malay party, i.e. UMNO, from the ruling coalition multi-ethnic political party, the Barisan Nasional/BN) facilitated the process of the growth (see Bowie 1991, Crouch 1996, Gomez 1994, Gomez 1999, Gomez 2002, Gomez & Jomo 1997, Heng 1992, Jesudason 1997, Leigh 1992, Searle 1999, Sieh-Lee 1992). The business elite members who were usually the focus of analysis and arguments were multi-ethnic big businessmen who owned and controlled prominent business groups in the Malaysian economy during the boom.

Some common terms that analysts coined to describe the nature of the ties included “loose alliance” (Leigh 1992), “multi-ethnic coalition” (Jesudason 1997), and “elite minority” (Gomez 1994). The big business people were also known to establish interpersonal ties with particular business elite members who were prominent company directors holding many directorships in many private and public-listed companies, including the ones that were owned and controlled by the business people. Those business elite members were also known to have interpersonal ties with the state and political elites (Gomez 2002). Although interpersonal ties between the business people and other business elite members were always acknowledged, analysts seemed to regard the ties as not significant to the process of the 1990s rapid growth. Thus, in most studies, the ties were usually less focused than the interpersonal ties formed by the big business people with the state and political elites. It was also widely argued that, amongst others, the bases of the ties were friendship, kinship, common political memberships and similar educational backgrounds or alma mater (eg. MCKK).

While acknowledging the presence of interpersonal ties between big business people and the state and political elites, the studies generally tended to focus on the implications of the ties to big business growth of the businessmen concerned. They regarded the ties as the foundation for rent-seeking activities in which some of the multi-ethnic big businessmen were widely known to be involved in during the 1990s. Thus, the studies shared a view concerning the role of the interpersonal ties in the 1990s rapid private big business growth. The ties with the state and political leaders were said to lead to lucrative state rents (e.g. license, contract, company shares, etc.) that were dispensed in a personal and selective manner by the leaders beyond institutional boundaries (Gomez 2002). Rent recipients were particularly selected people whom the state perceived could develop the rents, and consequently, the economy in a relatively quick manner. It was also argued that the businessmen would help the state to realise the NEP’s redistributive goals quickly, and specifically, the development of the Bumiputera Commercial and Industrial Community/BCIC).

Another argument was that the ties only brought benefits to the businessmen concerned. The rents apparently helped them to build their businesses, and consequently, their business groups in a relatively quick way. As such, big business growth during the 1990s had not always been based on productive activities. Nonetheless, throughout the 1990s growth, those businesses grew into large, prominent and successful business groups in the Malaysian economy. To describe the particular nature of capitalism of the 1990s, terms like 'crony capitalism', 'ersatz capitalism' (Yoshihara 1988) or 'rentier capitalism' (Gomez & Jomo 1997) were created. All these terms indicated the 'personalised' character of Malaysian capitalism of that period.

### SOCIAL ORGANISATION OF THE BUSINESS ELITE

Although the business-state interpersonal ties were always commonly talked about, the nature of the ties was never studied systematically and analytically. Therefore, the issues of who was linked to whom and what kinds of social ties or relations linking them were never focused, neither theoretically nor empirically. As such, the issue of 'how' were the ties formed had always been less prominent than the issue of 'why' were they formed. With exception to Lim's study in 1981 on business elite social relations at the intercorporate level, the nature of formation of the social relations during the 1980s and early 1990s was also never studied systematically nor in an in-depth manner (Lim 1981).

Although the various common arguments and studies regarding the 1990s business-state interpersonal ties, business elite social relations and rapid big business and economic growth in Malaysia did not specifically use the term 'social organisation', they offered an idea of the existence of *social organisation* at the business elite level in the process of private big business growth during the boom. Therefore, the author of this article had conducted a systematic study on the nature of social organisation of the least analysed and talked about social relations between some multi-ethnic big businessmen and other business elite members of the mid 1990s (Chan 2004). The author regarded the multi-ethnic big businessmen of the 1990s, especially those frequently focused in the studies and arguments, as being *socially organised* with the state and political elite members. In other words, the business elite members were linked with many people at the same time. The big businessmen were also *socially organised* with particular other business elite members (e.g. the prominent company directors), including those who had links to the state and political elite members and state and political institutions.

A social network analytic study was conducted on the structure of social relations formed by some Chinese and Malay big businessmen with some Chinese and Malay business elite members who were also company directors holding directorships in many public-listed companies. Some of the companies

were linked or belonged to the big businessmen. The social relations were shaped at and beyond intercorporate levels. They were established during the process of the businessmen's 1990s rapid business growth. In the study, the implications of the social organisation to the growth were also analysed vis-a-vis the significance or contribution of the social organisation and social relations to the growth. This article discusses some findings of the study.

The study argued that a systematic social network analytic investigation of the nature of social organisation provided a clear structural view of the already existing interpersonal ties established between the big businessmen and some business elite members at the intercorporate level. The structure also offered systematic explanations of the role of the ties in the businessmen's rapid big business growth and a better understanding of the 1990s character of Malaysian capitalism. In fact, the nature of social organisation could offer another insight of the character of business elite social organisation, private big business growth and capitalism in Malaysia today.

#### STRUCTURE OF BUSINESS ELITE SOCIAL ORGANISATION: SOME FINDINGS

The multi-ethnic big businessmen and the business elite members were found to be multiple directors who were known to hold at least five and more directorships in public-listed companies in Malaysia during the 1990s. Many of them were known to be directors in the same companies; that is they had common directorships. They also shared some common socio-economic backgrounds. At the time of the study, there were 67 multiple directors holding at least five and more directorships in public-listed companies in the entire Malaysian economic system.

Their background aspects that become the focus of analysis included the number of directorships in public-listed companies, active business involvement, business ownership and control, previous occupational experiences in key top posts in state and public institutions, political memberships, friendship with key Malay state and/or political leaders, kinship ties to state and/or political leaders, kinship to big businessmen, professional occupations, social and golf club memberships, professional organisation memberships, friendship with big businessmen, educational backgrounds and high social status. Some of these background aspects indicated the presence of expertise and experiences in business management and administration, and technical expertise and knowledge. Other than political connections and high social status, these background aspects were also commonly regarded as prerequisites for business growth, for example, at the big business level. Although some of the politically connected business elite members did not always lead to direct access to state rents for the businessmen, they were still appointed as directors in the

businessmen's companies. The idea of potential access to state rents always remained attractive to those business people. This situation can also be said to exist in contemporary Malaysia, especially in the case of people who aspire to be rich and successful business people in a relatively quick manner. In general, all the background aspects in the study implied that the multi-ethnic big businessmen only formed social relations with particular well-qualified business elite members who possessed particular backgrounds and who could contribute to their continual and successful business growth and business survival throughout the 1990s.

One of the initial findings in the study are several categories of business elite members. Solely for analytical purposes, these business elite members were categorised according to specific background aspects. The categories are (1) big businessmen (BB), (2) state-linked business elite members (SLEs), (3) politically-linked elite members (PLEs), and (4) professional directors (PDs). These analytical constructs are able to show the link of the business elite members to big business, the state and politics, and also the kinds of social networks they had established between themselves. Stated below are the categories:-

1. *Multi-ethnic Big Businessmen (BB)* Multi-ethnic big businessmen in the study were identified according to particular background aspects such as active business involvement and ownership and control of businesses (private and public listed companies) and business groups. Some of them had in common friendship to key state and/or political leaders. However, this does not mean that they were political members of UMNO or any political parties in Malaysia or had links with the parties concerned.

2. *State-linked Business Elite Members (SLEs)* Former top state bureaucrats and former top state managers in the study were categorised as "state-linked business elite members". A particular background aspect that enabled the identification was previous occupational experiences, notably in top positions in key state and public institutions. Some of these elites were Chinese while the rest of them were Malays. The study showed that these people were not just former bureaucrats but former top bureaucrats in the country. Many were prominent former bureaucrats by virtue of their former important positions in the state and public institutions and significant contribution to nation building. They were always sought after by business people. The state-linked elite members also had in common friendship to key state leader. However, this was only solely by virtue of their former top positions that had required them to deal in a formal capacity with state leaders concerning official state and national matters. The study do not claim that all the state-linked elite members concerned or any former state bureaucrats or former state managers in the country to be political members of the dominant Malay party, the United Malay National

Organisation (UMNO) or any other political party in the country or had personal ties with all political leaders or political elite members in the country.

3. *Politically linked Business Elite Members (PLEs)* Business elite members in the study who were categorised as “politically linked elite members” either had political memberships (especially in UMNO) or/and personal ties to state and political leaders. Some of them also had kinship ties to some state and political leaders. Many of them were also capable people and professionals, for instance as top lawyers, accountants, bankers, engineers and business managers and administrators. They were mainly well-educated and possessed good and valuable business-related and technical expertise, experiences and know-ledge. Many of them were Malays.

4. *Professional directors (PDs)* Some of the business elite members in the study were also found to be top corporate lawyers, accountants, merchant bankers and bankers, top business administrators and managers and engineers. In addition to being well educated, they were also found to be capable people with good technical and business administrative expertise and experiences. For that, they were also sought after by business people, just like the state-linked elite and politically linked elite members. A good mix of Malays and Chinese were found in this category.

The study showed that common background aspects had allowed members of these business elite types to simultaneously establish some forms of interpersonal social relations (or social networks). One of the forms is interlocking directorships. Interlocking directorships were formed in conjunction with other specific forms of social networks. This article demonstrates some findings on the interlocking directorships and those other social networks. Common directorships has led to the creation of interlocking directorships while common particular background aspects has led to the formation of other forms of social networks. Interlocking directorships were established within the intercorporate level while other kinds of social networks were formed beyond intercorporate level. The following section describes the implications of social networks to big business growth of the big businessmen of the study.

## STRUCTURE OF INTERLOCKING DIRECTORSHIPS

As noted earlier, business elite members who were directors in the same companies were considered as having common directorships. Patterns of common directorships thus shaped a series of interlocking directorships between the big businessmen and the business elite members. Theoretically, interlocking directorships are interpersonal *social relations* (see Scott 1985 and 1991 on

interlocking directorships and social network analysis). Other than interlocking directorships, other specific kinds of social networks are also social relations. In other words, social relations can be in the form of social networks, i.e. interlocking directorships and other kinds of social networks.

In the study, the interlocking directorships were referred to as a series of personal links that connected the big businessmen with other business elite members. The interlocking directorships were actually interpersonal social links formed at the intercorporate context. The big businessmen and business elite members were socially organised within the intercorporate context. Thus, the interlocking directorships also linked the companies in which the big businessmen (who owned and controlled the companies) and the business elite members were their directors. To be specific, by virtue of being directors in similar companies the business elite members were personally linked. Other than interlocking directorships, the business elite members and their companies in the study were also personally linked through other forms of social networks. The following section of this article elaborates on the patterns of those social networks.

#### SOCIAL NETWORK ANALYSIS

Social network analysis traced and investigated systematically the patterns of interlocking directorships and other forms of social networks. Social network analysis is a set of methods to study patterns of social relations systematically (Scott 1991; see also Borgatti & Everett 1996; Wasserman & Faust 1994). It is thus geared towards analysing social structures, specifically relational aspects of the structures (Scott 1991: 39). It is based on mathematical principles of graph analytic theory and sociometry. Social network analysis studies configuration of lines and points that constitutes social relations, i.e. networks, and its properties or characteristics (Scott 1991: 39). The points are agents while the lines are relations. Thus, social network analysis analyses patterns of relations between agents that shape networks, and characteristics of the patterns. Some properties of the configuration include agent centrality, network density, cliques, components and others (Scott 1991; Knoke & Kuklinski 1982; Wasserman & Faust 1994). Findings on these properties can be presented in the form of matrices, other kinds of quantitative data and graphs. Analysts need not study all properties or characteristics but are free to select particular properties depending on their research problems and theoretical orientations (Scott 1991).

#### UCINET V

Patterns of social relations, namely interlocking directorships, and the properties can be analysed in a quantitative manner by computerised social analytic programmes (Scott 1991; Borgatti & Everett 1996; Wasserman & Faust 1996). Social network analysis can also study the patterns in a systematic and

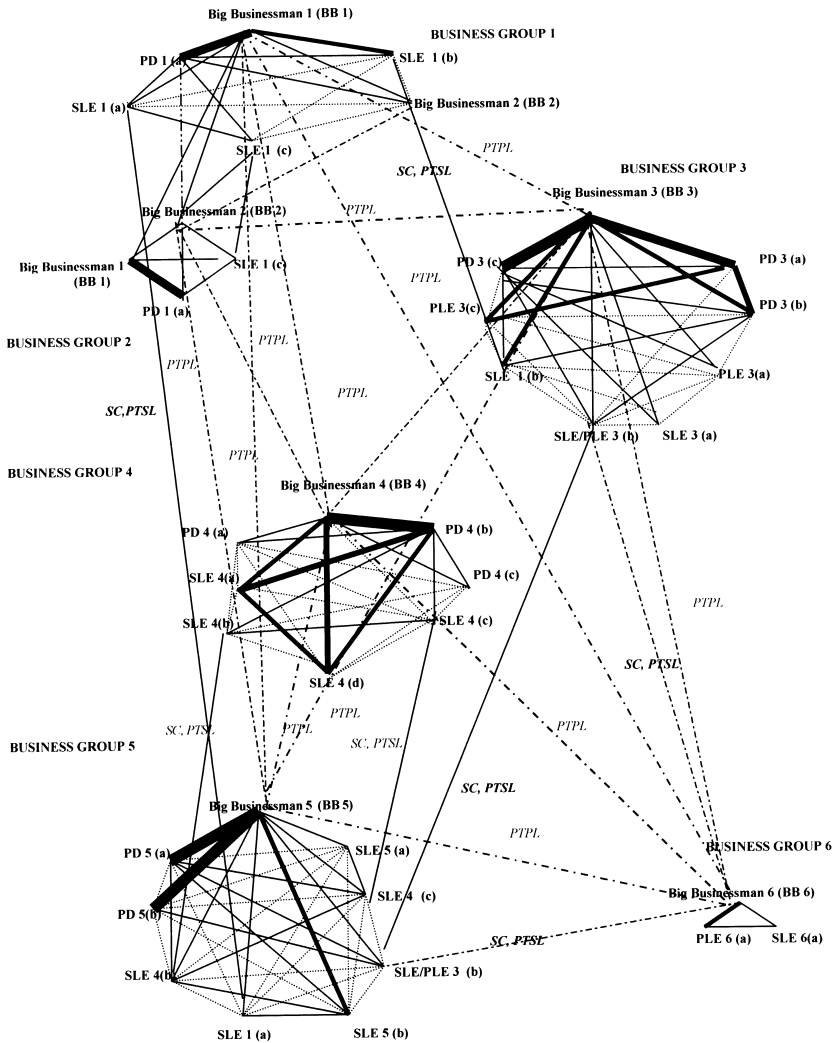


qualitative manner. Social network analysts will interpret the quantitative and qualitative data accordingly. In the study, UCINET V, a computerised social network analytic programme, was used to analyse the patterns of interlocking directorships while the patterns of other social networks were analysed in a systematic qualitative manner. UCINET V is one of several computerised social network analytic programmes available in the market (Scott 1991; Borgatti & Everett 1996). Other programmes are GRADAP and STRUCTURE (*ibid.*).

UCINET V programme was used because it was user-friendliest, practical and cost-effective programme compared to GRADAP and STRUCTURE programmes. UCINET V was created by a group of organisational sociologists from the University of California, Irving, USA to study social and intercorporate relations, for instance, networks of business power and business control, in a quantitative manner (Borgatti & Everett 1996). In UCINET V, the results of analysis of configuration of the lines and points and the properties are presented in the form of matrices and other forms of quantitative data (*ibid.*). The matrices can also be transformed into sociograms, i.e. graphical representations of networks, by several other complementary computerised network analysis programmes specially designed to analyse graphical representations of networks (Scott 1991). The next sub-section of this article describes some findings by UCINET V while the following section elaborates on findings by the systematic qualitative analysis.

In the study, the business elite members or multiple directors were the agents while the lines represented patterns of their interlocking directorships. Underlying the patterns of interlocks were patterns of other kinds of social networks. Investigation of the interlock patterns by UCINET V revealed formation of a large loosely connected component of big businessmen and business elite members linked by a series of interlocking directorships (see Borgatti & Everett 1996; Scott 1991 and Wasserman & Faust 1994 on components in social network analysis). The loose nature of this component indicated the presence of indirect links in the overall network. Indirect links generally implied an extension of the social networks of the big businessmen and other business elite members. In other words, who else was linked to whom through whom. These links were formed by third persons, otherwise known as intermediaries. In simple social network analytic understanding, intermediaries are popular with agents. The role and popularity of intermediaries is interpreted accordingly by social network analysts.

The intermediaries indirectly linked some business elite members and the companies in which they were the directors. The indirectly linked business elite members did not have common directorships between themselves. They, however, had common directorships with the intermediaries. Many state-linked elite members (SLE) were found to be intermediaries. They played a significant role in determining the overall structure of social organisation of the business elite members. The backgrounds of these SLEs appeared attractive to the



**Indicators**

- |  |                                                                                                 |                                       |                                                             |
|--|-------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------------------------------|
|  | 5 Direct Lines                                                                                  | BB = Big Businessmen                  | PTPL= Personal ties based on friendship to Political Leads  |
|  | 4 Direct Lines                                                                                  | SLE = State-linked Elite Member       | PTSL= Personal Ties based on friendship to State Leaders    |
|  | 3 Direct Lines                                                                                  | PLE = Politically linked Elite Member | SC = State Connections                                      |
|  | 2 Direct Lines                                                                                  | PD = Professional Director            | PTBB = Personal ties based on friendship to Big Businessmen |
|  | 1 Direct Line                                                                                   |                                       |                                                             |
|  | Indirect Interlock within Business Groups                                                       |                                       |                                                             |
|  | Interlock through Intermediary from the Same Business Groups and From Different Business Groups |                                       |                                                             |

Source: Own Research, KLSE 1995, 1996, 1997 and 1998

DIAGRAM 1. A simplified version of the social organisation of the Malaysian business elite

different big businessmen concerned who sought them out as directors in their companies.

For the directly linked business elite members, they were linked by at least one common directorship. What this means is that the business elite members shared one or more directorships in one or more public listed companies. In Diagram 1, the number of shared company directorships (in particular companies) is indicated by the thickness and darkness of lines – the darker and thicker the lines, the higher the number of common directorships. The names of the companies had been ascertained by systematic qualitative social network analysis but for practical purposes as well as to protect confidentiality, the names are not indicated in Diagram 1. The diagram is a simplified version of the actual component that is constituted by a series of direct and indirect links connecting all the business elite members in a complex manner. It simplifies the overall complex structure of social organisation of all the business elite members involved in the study.

In social network analytic terms, a loosely connected component also indicates a rather low level of overall network density and the presence of sub components of agents, rightly known as cliques (Scott 1991; Wasserman & Faust 1994). Empirically, the presence of cliques in a component implies the presence of smaller groups of people within a large group, and that these groups are still linked to one another while remaining distinctive from one another. Thus, the presence of cliques does not mean the break up of a component. The parties responsible for the linkages between the cliques act as intermediaries; between the groups, and between people from those groups. These intermediaries are popular with people from the different groups.

The study found that within the large component are various cliques. Unlike a component, a clique is a tightly knitted group of agents (see Borgatti & Everett 1996, Scott 1991, and Wasserman & Faust 1994 on cliques). In a clique, the members are directly linked, unlike some members of a component. All clique members in a clique can be directors in at least one similar company or several similar companies. In other words, pairs of members in the same clique can be directors in more than one similar companies. In the study, the interlocking directorships has led to the formation of various cliques of which each clique consisted of a big businessman and several business elite members who were directors in at least one similar company owned and controlled by that businessmen. To illustrate, as shown in Diagram 1, say in the case of Business Group 1, there are several cliques of 3 business elite members. Big Businessman 1 (BB 1), Professional Director 1(a) (PD 1(a)), and State-linked Elite Member 1(b) (SLE 1(b)) are found in 1 clique. They are directors in one company. BB 1, PD 1(a) and Big Businessman 2 (BB 2) are directors in another similar company. In another case, BB 1, PD 1(a) and SLE 1(a) are members of another clique, and they are directors in one similar company. PD 1(a), SLE 1(a) and State-linked Elite Member 1(c) (SLE 1(c)) are members of yet another clique in Business Group 1. They are directors in another company. Moreover, BB 1 and PD 1(a) are directors in five

similar companies. BB 1 and State-linked Elite Member 1(b) (SLE 1(b)) are directors in 2 similar companies.

As one can see from the examples above, some are members in several different cliques (and in several different companies) at the same time, for example, BB 1, PD 1(a) and SLE 1(a). This indicates that those cliques are empirically and analytically linked to one another. Empirically, the clique members concerned are simultaneous directors in several different companies that are owned and controlled by the big businessman concerned. Therefore, for analytical purposes, those cliques are combined. The combination of the cliques lead to formation of business groups. In Diagram 1, these business groups are referred to as Business Group 1, Business Group 2, Business Group 3, Business Group 4, Business Group 5 and Business Group 6.

When the cliques are combined, it can be seen that there are some indirect links, in addition to the direct links. Therefore, it can be said that the business groups are established through both the direct and indirect interlocking directorships. However, there are more direct than indirect links shaping the business groups, as revealed in Diagram 1. The indirect links can be seen in Diagram 1, for example, in the case of Business Group 1. There are indirect links between SLE 1(a) and SLE 1(b), and between SLE 1(b) and SLE 1(c). In general, BB 1, PD 1(a), SLE 1(a), SLE 1(b) and SLE 1(c) are mainly directly and indirectly responsible for creating the interlocking directorships in Business Group 1. All the directly and indirectly linked companies in which these people are their directors are owned and controlled by the businessmen concerned. The nature of interlocks in each business group is similar, i.e. in each business group, there is a big businessman (BB), some state-linked business elite members (SLEs), and/or politically linked business elite members (PLEs), and some professional directors (PDs). To reiterate, combination of cliques is significant as it systematically reveals the formation of a business group, and especially the role of business elite members with particular backgrounds who are responsible for shaping the structure of the group. Thus, based on the findings of the study this article shows that social network analysis, through its component and clique analyses, is capable of systematically revealing the structural basis of some business groups in Malaysia.

The study also showed that the business groups were not mutually exclusive as they were linked to one another by some business elite members to form the large loosely connected component mentioned earlier. For example, in Diagram 1, SLE 1(a) connects Business Group 1 and Business Group 5. SLE 1(a) is the intermediary between these two groups, especially their owner-controllers BB 1 and Big Businessman 5 (BB 5), and their companies. Another example is SLE 1(b) who links Business Group 1 and Business Group 3, and he is the intermediary between these two groups, especially between BB 1 and Big Businessman 3 (BB 3). State-linked Elite and Politically linked Elite Member 3 (c) (SLE/PLE 3(c)) connects Business Group 3 and Business Group 5 while State-linked Elite

Member 4(c) (SLE 4(c)) links Business Group 4 and Business Group 5. SLE 1(a), SLE 1(b), SLE/PLE 3(b) and SLE 4(c) are directors in some companies owned and controlled by BB 1, BB 3, BB 4 and BB 5. The presence of these intermediaries indicates that the different business groups, especially their owner-controllers (or the big businessmen) seem to want the same business elite members as their directors in their companies and to form social networks with them. This finding has some other implications that will be discussed in the last section of this article.

The analysis on agent centrality reveal less than 50 percent of all the business elite members in the entire component acted as central agents. Agent centrality is the level of interlocks of individual agents (Scott 1991; Wasserman & Faust 1994). That means the number of agents that are linked to an individual agent. The higher the degree of agent centrality, the higher the level of interlocks of individual agents. In the study, many central agents were found within business groups. They were mostly big businessmen, some state-linked elite members and some professional directors. In empirical terms, they were the key persons responsible for shaping the structure of the business groups.

As noted above, the study had managed to demonstrate one structural basis of some business groups in Malaysia, i.e. social networks in the form of interlocking directorships. Patterns of other kinds of social networks are another basis of business groups (which is to be discussed in the following section). Another structural basis is intercorporate shareholdings; however, it will not be discussed in this article.

## STRUCTURE OF OTHER FORMS OF SOCIAL NETWORKS

### SHARED BACKGROUNDS AND FORMATION OF SOCIAL NETWORKS

As noted earlier, the study reveal that certain shared background aspects had become the bases for specific forms of social networks. In other words, the sharing of certain background aspects has led to the formation of certain forms of social networks. Sharing of background aspects and formation of social networks cut across ethnic and cultural backgrounds. That means multi-ethnicity characterised the nature of the social organisation. Chinese and Malay big businessmen formed interlocking directorships and social networks with many Malay and some Chinese business elite members. The following are some of the shared backgrounds and formation of social networks:

1. Shared previous occupational experiences in top posts in state and public institutions such as PNB, MIDA, EPF and Ministry of Finance – formation of a form of social network called ‘state connections’ (SC).
2. Shared political membership (e.g. in UMNO) – formation of “formal political ties” (PT).

3. Shared friendship to political leaders – formation of “informal political ties” (IPT). IPT is also known as personal ties based on common friendship to political leaders (PTPL).
4. Sharing of friendship to key state leaders (e.g. the Prime Minister, Deputy Prime Minister and Finance Minister) (PTSL) – personal ties based on common friendship to key state leaders.
5. Sharing of friendship to big businessmen – formation of personal ties based on common friendship to the big businessmen (PTBB).
6. Shared social and golf club memberships such as in Royal Selangor Golf Club, Royal Selangor Country Club and Kelab Golf Subang – formation of ties based on similar social and golf club memberships (SCT).
7. Shared professional organisation membership, for example in the top government-related Malaysian Business Council (MBC) or various chambers of commerce and business-related associations – formation of ties based on similar professional organisation membership (TPO).
8. Similar educational backgrounds in schools such as Malay College Kuala Kangsar (MCKK) – educational ties (ET).
9. Some of the business elite members were also relatives of some big businessmen, for instance siblings, nephews and uncles – kinship ties (KT).

With regard PTPL (or IPT) and PTSL, there is an empirical and analytical difference between PTPL (or IPT) and PTSL. In the Malaysian context, the key state leaders are usually political leaders (e.g. of the dominant Malay party, UMNO, in the coalition multi-ethnic ruling party, the Barisan Nasional) whereas political leaders are not necessarily key state leaders. Therefore, in the study, PTPL would be ties formed between some business elite members because of their similar friendship with political leaders who were and were not key state leaders.

In comparison, PTSL would be ties formed between some business elite members because of their similar friendship with key state leaders who were also political leaders. PTSL was specially constructed in order to put forth the argument that all the state-linked business elite members and some big businessmen in the study were not necessarily political members, politicians or personally linked to all political members and politicians in the country. To re-iterate, state-linked elite members formed PTSL only by virtue of their former top positions in key state and public institutions. Also, they formed PTSL with some certain big businessmen because they all had in common personal ties with the key state leaders.

#### FORMS OF SOCIAL NETWORKS AND TYPES OF BUSINESS ELITE MEMBERS

In the study, distinctive types of business elites were identifiable with distinctive kinds of social networks. However, some kinds of social networks were formed

between many different types of business elite members because of their common backgrounds.

Politically linked elite members (PLEs) established personal ties between themselves based on similar friendship to key state and/or political leaders (PTPL or IPT). They also formed this kind of social network with some big businessmen (BB). They formed personal ties with the businessmen because of their friendship with the businessmen concerned (PTBB). Some politically linked elite members formed formal political ties between themselves (PT). Some had kinship ties (KT) to political leaders. State-linked elite members (SLEs) generally established state connections (SC), and only by virtue of their previous top posts in key state and public institutions, they formed personal ties between themselves based on similar friendship to key state leaders (PTSL). State-linked elite members also formed personal ties with some big businessmen (BB) because of their common friendship with state leaders (PTSL) and friendship with the businessmen concerned (PTBB). Besides that, state-linked and politically linked elite members established personal ties between themselves as a result of their common friendship with state leaders (PTSL).

In the study, many professional directors (PDs) were found to be friends with the big businessmen (BB) in the companies they held directorships. As a result, they (PDs) formed personal ties between themselves based on similar friendship to the big businessmen (PTBB). Some professional directors (PDs) and some state-linked elite members (SLEs) established ties based on similar social and golf club memberships (SCT) and personal ties based on similar friendship to the businessmen (PTBB). Some professional directors (PDs) and politically linked elite members (PLEs) also established personal ties based on similar friendship with the businessmen concerned (PTBB). Some big businessmen (BB) have been found to form educational ties (ET) although this is only in minor instances. Some state-linked elite members (SLEs) and some big businessmen (BB) formed ties based on similar memberships in professional organisations (e.g. MBC) (TPO). In minor cases, some professional directors (PDs) had kinship ties (KT) between themselves. Some others had kinship ties to certain big businessmen (BB) and key state leaders. In short, only certain kinds of social networks were formed between big businessmen with many categories of business elite members. They were IPT, PTSL and PTBB. This situation is evident in all the business groups as seen in Diagram 1 which demonstrates these three common forms of social networks.

The above discussions reveal that the big businessmen and the business elite members in the study had been found to have established specific forms of social networks while at the same time they formed the interlocking directorships. The social network patterns actually became the basis of the interlocking directorships. The networks also strengthened the interlocks. In fact, the interlocking directorships were simultaneously formed with the specific social networks. However, it was also found that in some cases, some indirect

interlocking directorships were established with some directly formed specific social networks. This situation merely strengthened the structure of the social relations. The next section of this article discusses some findings. In Diagram 1, the patterns of interlocking directorships and specific social networks are evident in the overall structure of the large component. However, they are clearly seen in the cliques of the business groups.

#### FORMATION OF INTERLOCKING DIRECTORSHIPS IN CONJUNCTION WITH SPECIFIC FORMS OF SOCIAL NETWORKS

Diagram 1 demonstrates that specific forms of social networks actually support and strengthen the interlocking directorships in the cliques of each business groups. The networks help to shape the structure of the business groups as well as the large component.

To quote some examples from Business Group 1, besides interlocking directorships, SLE 1(a) and SLE 1(c) also establish SC and PTSL between themselves. PD 1(a) and BB 1 form PTBB in addition to interlocking directorships. BB 1 and SLE 1(a), and BB 1 and SLE 1(b) form PTSL, besides establishing interlocking directorships. BB 1, PD 1(a) and SLE 1(a) establish PTBB and interlocking directorships. Finally, BB 1, PD 1(a) and SLE 1(b) establish both PTBB and interlocking directorships. Another example from another business group (Business Group 3) is BB 3, PD 3(a) and PD 3(c) establish PTBB and interlocking directorships. BB 3, PD 3(a) and PLE 3(c) form both interlocking directorships and PTBB. BB 3 also establishes both forms of social networks with PD 3(b), PD 3(c) and SLE 1(b). BB 3 also establish PTPL and interlocking directorships with PLE 3(a) and PLE 3(c). BB 3 and SLE/PLE 3(b) establish PTPL/PTSL and interlocking directorships between themselves. BB 3 also form PTSL and interlocking directorships with SLE 1(b).

Diagram 1 also shows that in certain cases, indirect interlocking directorships are formed together with some directly established specific social networks. For example, from Business Group 3, PLE 3(a), SLE/PLE 3(b) and PLE 3(c) are indirectly linked through interlocking directorships but directly linked through PT and IPT. SLE 3(a), SLE 1(b), PLE 3(a), PLE/SLE 3(b) and PLE 3(c) from the same business group create PTSL, but are indirectly linked through interlocking directorships. PLE 3(a), PLE 3(c) and SLE/PLE 3(b) establish IPT but they are indirectly linked.

#### IMPLICATIONS OF THE BUSINESS ELITE SOCIAL ORGANISATION TO BUSINESS ELITE BUSINESS GROWTH OF THE 1990S

The social network analysis conducted on patterns of interlocking directorships and other forms of social networks indeed revealed that during the 1990s private



big businesses and economic growth in Malaysia, some multi-ethnic big businessmen systematically established a series of social relations with particular business elite members at and beyond intercorporate levels. The structure and nature of social organisation of the business elite of the 1990s was thus revealed. The network analysis was able to show what other studies on the 1990s private big business development did not, i.e. to systematically trace and analyse the patterns of social relations. It revealed which big businessman was personally linked to which business elite member through what forms of social networks during the process of their 1990s rapid business growth, and what the nature of their social relations was like. These findings are significant as they can offer some insights on the nature of social organisation at the business elite level and its implications on contemporary and future Malaysia.

Furthermore, the study was able to explain implications of the social organisation to the big businessmen's rapid business growth, i.e. the significance of the social organisation to the 1990s growth. It showed that the big businessmen had to establish interlocking directorships and specific social networks with particular business elite members, especially with those with links to state and/or political leaders and/or political party such as UMNO. Such relationships were established because the social relations helped to sustain the big businessmen's already existing interpersonal links with the powerful Malay state and political leaders and that in turn, helped to sustain access to lucrative state rents or ensure potential access to state rents in the future. Thus, the social relations helped to ensure continual successful business growth of the big businessmen throughout the 1990s. Moreover, the social relations with particular business elite members also helped to ensure the big businessmen's continual successful business growth.

Particular business elite members also provided useful and necessary technical expertise and experiences, business management and administration, general managerial capabilities, high social status, knowledge of state machinery because of state connections to state and public institutions (esp. key ones) and others that were required for successful and continual 1990s business growth, especially at the big business level. Those business elite members also gained from the social relations. These gains could be in the form of enhanced high social status, continual access to big business, maintenance of personal ties to big businessmen, monetary and non-monetary remunerations, multiple directorships, potential or future appointment as multiple directors, enhanced knowledge of business management and administration and exposure to the business world, continual access to state and political machinery, and others.

In general, the Malaysian big businessmen of the 1990s had organised themselves with particular other business elite members through social relations (interlocking directorships and specific social networks) more to fulfill their narrow common interests (i.e. economic) than to advance general business interests of all members of the ethnic-based business communities and to develop

a large cohesive multi-ethnic capitalist business class capable of overcoming the power of the Malaysian state. The social network analysis confirmed that the Malaysian big businessmen and the business elite members of the 1990s were quite unlike some business elite members in advanced Western (American and British) capitalist business societies. In fact the Malaysian business elite members were unlike some American and British business elite who have shared social backgrounds and form socially cohesive social networks to advance their own upper class interests (see Domhoff 1970).

The Malaysian business elite members of the 1990s were also unlike some other American and British business elite members who formed social networks for other reasons. According to the Inner Circle theory proposed by Useem (1984 and 1978), American and British business elite members are socially cohesive and capable of acting on behalf of all members of the American and British capitalist classes, i.e. to advance their general interests vis a vis the state. They are the “vanguards” of the capitalist business classes. They are powerful against the state and influential in decision-making and policy-making in matters concerning the business sector (see also Useem & McCormack 1981 and Domhoff 1996).

The American and British business elite social cohesion is based on common or shared social backgrounds and outlook. The elite members also have common directorships in many large companies in the American and British societies. As a result, they form interlocking directorships and are personally linked through the interlocks. Some of them own and/or control those companies. Their companies are also linked through the interlocking directorships. Moreover, at the same time, these American and British elite members share particular social backgrounds and form social networks (other than interlocking directorships) on that bases. They are members of similar prominent social and golf clubs, similar professional business organisations, similar public governing boards, and graduated from similar schools and/or universities. They form old school ties, social club ties, ties based on similar membership in public governing boards and ties based on similar professional business organisations. The elite members are thus socially cohesive because they are simultaneously linked through their interlocking directorships and social networks. They are also personally linked through interlocking directorships and social networks with state elite members.

The study showed that the Malaysian the business elite members, namely the big businessmen, appeared more keen to use their social relations with particular business elite members to build their businesses and business groups in a relatively quick manner than to advance the general interests of all business people in the country throughout the 1990s. To reconceptualise Granovetter’s argument, economic action of the Malaysian business elite members of the 1990s and presumably in present and future Malaysia was, is and will be embedded in social relations, albeit specific kinds (Granovetter 1992 &

Granovetter 1996). In fact, the social network analysis findings revealed the absence of a capitalist class in the western capitalistic sense in the Malaysian context, during the 1990s. The situation is presumably the same in the present and would be in future times in Malaysia.

## CONCLUSION

Through the study on interlocking directorships of some multi-ethnic Malaysian business elite members of the 1990s, the author had successfully demonstrated the ability of social network analysis to analyse systematically the structure of social organisation of the business elite members and produce significant findings concerning the nature of the structure and its implications on the 1990s private big business growth. This is the structure of business elite social relations that many analysts had chosen to bypass or ignore in their analyses of the 1990s capitalist big business and economic growth. Rather, those analysts preferred to concentrate on implications of interpersonal social relations between the big businessmen and state and political elites to the businessmen's business development.

While not disregarding the significance of business-state social ties to the growth, the study conducted by the author successfully proved that the multi-ethnic business elite members, namely some big businessmen, systematically established a series of social relations in the form of interlocking directorships and other kinds of social networks with particular business elite members in order to advance their own narrow business interests and quicken their business growth during that period. Some of the business elite members had links to the state and political elites and their state and political institutions. The interlocking directorships and other kinds of social networks were established simultaneously in a complex way. They were established at and beyond intercorporate levels.

Specifically, the social relations served to fulfill individual interests of the big businessmen and the particular business elite members linked to the businessmen, i.e. in terms of assurance of access to state rents; potential access to key state and political leaders or the rents in the future; acquisition and provision of valuable business-related expertise, experiences and knowledge; acquisition and provision of technical expertise and knowledge, acquisition and provision of knowledge of and access to state machinery; enhancement of corporate and social prestige; acquisition and provision of monetary and non-monetary remunerations; and potential acquisition of multiple directorships. In the case of the big businessmen, their social relations with state-linked and politically linked business elite members also played a role in sustaining their already existing interpersonal ties with state and political elites, and in turn sustaining their continual, rapid and successful big business growth, notably

throughout the mid 1990s in Malaysia. Thus, the Malaysian business elite members of the 1990s were unlike American or British business elite members who are capable of forming interlocking directorships and social networks to advance general business interests and develop a socially cohesive and powerful capitalist business class *vis a vis* the American or British states.

The social network analysis that was conducted provided a systematic and analytical understanding of the structure of Malaysian business elite social organisation and its contribution to the 1990s private big business growth. A better understanding of the commonly understood personalised character of the 1990s capitalist business growth has also been achieved. The nature of social organisation thus acted as a useful explanatory variable for the 1990s growth, and presumably for the present and future times.

#### NOTES

In this article, all names of organisations and individuals have been withheld in respect of their privacy and confidentiality.

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