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## **Islam, entrepreneurship and business values in the Middle East**

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**Abstract:** Entrepreneurship has become a defining business trend around the world, especially in economies transitioning towards free market systems. The Middle East, specifically the Gulf Region is a growing, lucrative marketplace that has captured the interest of the world for political, economic and cultural reasons. This research explores the impact of Islam on the cultural, geo-political and economic dimensions which shape and influence entrepreneurship and private enterprise development in the Middle East.

**Keywords:** entrepreneurship; Islam; culture; Middle East; family firm; business.

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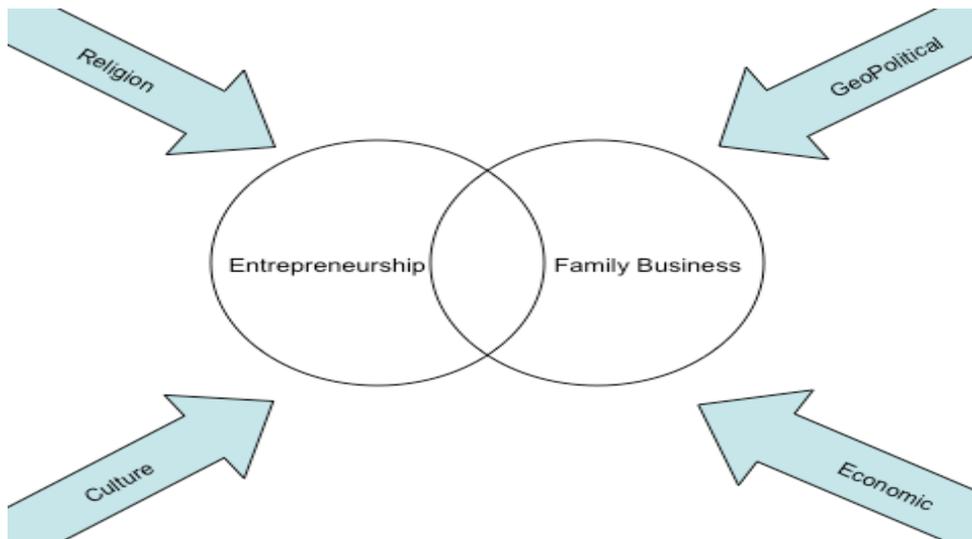
## 1 Introduction and overview

Entrepreneurship has become a defining business trend around the world, especially in economies transitioning towards free market systems. The Middle East, specifically the Gulf Region is a growing, lucrative marketplace that has captured the interest of the world for political, economic and cultural reasons. Religion is a driving force exerting great influence on economic development and business performance. Islam is often perceived as an impediment to business development and entrepreneurship, yet most Islamic economists view markets as the normal vehicle for conducting transactions.

This research explores the impact of Islam on the cultural, geo-political and economic dimensions which shape and influence entrepreneurship and private enterprise development in the Middle East (see Figure 1). Our analysis is organised into five sections. Following the introduction the second section provides an overview of Islam. The pillars of the Islamic faith are investigated to establish an understanding of how religion shapes Arab culture in the Middle East. The third section focuses on Islamic culture and how it shapes Arab business values. The role of family and gender issues will be addressed. The fourth section looks at the influence of Islam on the geo-political landscape. Islamic politics are an important force shaping entrepreneurship in the Middle East.

The fifth section looks at Islam and the economy in relationship to entrepreneurship and private enterprise development. The Gulf Region is experiencing a new economic era with increasing interest in how entrepreneurship can be a socio-economic growth engine. As the region strives to diversify their economies away from oil dependency it seems certain that private enterprise growth is essential. This section provides insights into how Islam influences and shapes the traits and characteristics of Middle Eastern entrepreneurship. Lastly, some concluding thoughts and a call for more research will be set forth.

**Figure 1** Impact of Islam on society in the Middle East (see online version for colours)



## 2 Islam the faith and the faithful

The Muslims define Islam around five pillars that form the core obligations and spiritual beliefs (see Table 1). One significant distinction of Islam is how the religion categorises human actions. The majority of religions divide human actions into three categories: commanded, permitted and forbidden. In Islam there are five categories and a more complex approach including: commanded, recommended, permitted, disapproved and forbidden. In Islam, those who do not accept Muhammad as the Prophet and the Koran as God's scripture are unbelievers.

**Table 1** The five pillars of Islam

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<p>1 <i>The creed</i></p> <p>The creed is based on two very clear beliefs:</p> <ol style="list-style-type: none"> <li>1 There is no God but Allah and that Muhammad is the prophet of Allah</li> <li>2 Muhammad is God's final prophet to human kind, after whom there will be no other</li> </ol> <p>2 <i>Prayer</i></p> <p>There are two types of prayers central to Muslims:</p> <ol style="list-style-type: none"> <li>1 <i>Salat</i>, ritual prayers prescribed at specific times in particular forms</li> <li>2 <i>Du'a</i>, a personal prayer or invocation addressed by the believer to God</li> </ol> <p>3 <i>Charity</i></p> <p>The third pillar called <i>zakat</i> relates to 'alms giving and social welfare':</p> <ul style="list-style-type: none"> <li>• Conceived as a <i>tax</i> paid by Muslims to the community, which is used to help the needy</li> <li>• Early social security system that emerged into a complex global system of charitable foundations and institutions</li> </ul> <p>4 <i>Fasting</i></p> <p>The fourth pillar relates to primarily to the Holy month of Ramadan and abstention:</p> <ul style="list-style-type: none"> <li>• <i>Fasting</i> from dawn to dusk for the entire month as prescribed by the Koran and following the solar calendar</li> <li>• <i>Abstention</i> from certain food and drink, tobacco, sexual relations, alcohol and pork</li> </ul> <p>5 <i>Pilgrimage</i></p> <p>The fifth pillar relates to the obligation of all Muslims who are able to make a pilgrimage to Mecca for <i>Haji</i>:</p> <ul style="list-style-type: none"> <li>• Once in a life requirement to make a pilgrimage to the holy cities of Mecca and Medina and engage</li> <li>• Two types of pilgrims, scholars and merchants centred around experiences connected with knowledge and contacts</li> </ul>
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*Source:* Lewis and Churchill (2009)

Unlike the Ten Commandments where three (banning polytheism, idolatry and blasphemy) things are related to man's duty to God, in Islam, four of the five pillars of faith are concerned with belief and worship.

Islam is the second largest religion in the world. Estimates of the total number of Muslims in the world vary greatly ranging from 800 million to well over one billion. At a level of 1.2 billion, they represent about 22% of the world's population (Ontario Consultants on Religious Tolerance, 2008; [Fattah and Butterfield, 2006](#)). Only

Christianity is larger, with 33% of the world's inhabitants. Countries with majority Muslim populations can be found across north central Africa, through the Middle East and into Asia (see Table 2). There are large groups of Muslims living and working around the world and especially in Europe and the North America.

**Table 2** Cross-section of countries with Muslim majority

<i>Country size</i>	<i>Middle East</i>	<i>Africa</i>	<i>Asia</i>
Large	Iran – 65.9 M	Egypt – 81.7 M	Bangladesh – 153.5 M
	98% Muslim	90% Muslim	83% Muslim
	89% Shi'a 9% Sunni	Majority Sunni	
Medium	United Arab Emirates – 4.6 M	Libya – 6.1 M	Turkmenistan – 5.2 M
	96% Muslim	97% Sunni	89% Muslim
	84% Sunni 16% Shi'a		
Small	Bahrain – 718 K	Djibouti – 506 K	Maldives – 386 K
	81.2% Muslim	94% Muslim	100% Sunni Muslim
	Shi'a majority Sunni minority		

*Source:* CIA World Factbook (2008)

As Table 2 illustrates there are two primary groups, the Sunni and the Shi'a Muslims. These groups go back to the beginnings of Islam and were in its origins purely political [Lewis and Churchill, (2009), p.61]. They have evolved in two distinct factions that continue to shape Islam and the Muslim culture. These groups have a tradition of competing for the leadership of the Muslim community. Overtime some differences in of law and doctrine have evolved, but nothing of significant. The most significant difference has been a culture of dominance and subordination between the Sunni and Shi'a groups. Over time this has created social hardship and psychological pain for people of both groups.

There is another small group of Muslims known as the Kharijites who differ in their interpretation of the hereditary succession rejecting the caliphates of Medina, Damascus and Bagdad. The Ibadi movement within the Kharijites group is the predominate form of Islam in Oman and is also found in East and North Africa [Lewis and Churchill, (2009), p.66].

Only Iran and Iraq have Shi's majorities, with the Gulf states, Saudi Arabia, Lebanon and Syria having Sunni majorities. The Kingdom of Bahrain is the only Arab Gulf state to have a Shi'a majority, but be ruled by a Sunni royal family [England, (2008), p.7].

The Muslim faith encompasses considerable portions of two continents claims over one billion racially and linguistically diverse followers. Given the complexity and geographical dispersion of Muslims our analysis will focus on the cradle of Islam, the Middle East and in particular the Gulf states region.

Islamic culture considers lawful personal effort as a legitimate way of gaining money. Arabs are taught to respect money, but money to Muslims is not considered valuable in and of its self. Islam stresses working collectively rather than individually creating an

affiliation orientation. However, free market enterprise and business transactions are encouraged by Islam (Creevey, 1985) Researchers Vogel and Hayes (1998) pointed out that in Islam some fundamental concepts associated with hard work and legitimate business operations are acceptable forms of behaviour.

### **3 Muslim culture in the Middle East and Gulf states**

The cultures of the Middle East are unique. Guided by Islam and governed by the decedents of royal tribes who have emerged as Kings, Princes or dictators (or a combination of all), there is a prevailing tendency toward fatalism. An example of this fatalism is depicted in the expression 'insha' Allah', translated as 'Allah (God) willing'. This expression has also associated with 'if the boss wills it' [Rice, (1999), p.346]. Allah is often used to explain uncertainties in life and sometimes reposition decision making (Welsh and Raven, 2006). In the Gulf region traditional Muslim culture is being greatly impacted by population growth and the influx of people from outside the region.

However, traditions run deep and unlike Jews and Hindus both Christians and Muslims view their truths as universal, exclusive and final and that they should bring them to all human kind, overcoming and removing or destroying what obstacles may be in the way. Traditional diversity, within limits, was acceptable and beneficial. Until modern times Islam had no constituted or empowered authorities to define what was correct or incorrect belief and behaviours. Consequently there are often problems with misconceptions and interpretations. For example the virtues of one value system can often be a shortcoming of another.

Muslim culture has segmented into three ideological groups, traditionalists, modernists and secularists. Traditionalists gain respectability through the strict following and interpretation of Islam's original leaders. They believe that anything not established in Islam should not be followed, that Islam is complete and perfect and failure to adopt this perspective will lead to castigation (Jibril, 2003).

Modernists search for approaches and values that are compatible with Islam. They believe that Muslims can learn whatever is good for themselves and society regardless of the origins. For example modernists may read and accept parts of the work of thinkers such as Darwin, Marx, Kant and Freud, because in their interpretations, not everything they said was wrong and in violation with Islam (Fattah and Butterfield, 2006).

Secularists believe that Islam or any religion, for that matter, can, when necessary be used to justify any form of government or economic system. The underlying assumption driving secularism is that Muslims need to follow the paths of the most successful, systems if Islam is to surpass them. This belief includes reading, understanding and adapting components of non-Muslim Western philosophers such as Locke, Machiavelli, Voltaire and Rousseau.

As one might expect the convergence of these three Muslim ideologies creates great debate, conflict and confrontation within the Islamic world and around the globe. As Islam struggles with the challenges of integrating and adapting to changing mindsets and cultures Muslim value systems continue to differ significantly from Christian beliefs.

The Muslim and Christian value systems often have contrasting and conflicting views and interpretations (see Table 3). This result is misconceptions around social, cultural, political and economic life.

**Table 3** Muslim and Christian value standards

<i>Muslim value standards</i>	<i>Christian value standards</i>
• Thrift equals avarice	• Thrift equals sensibility
• Generosity equals extravagance	• Generosity equals kindness
• Courtesy equals subservience	• Courtesy equals respect
• Loyalty equals nepotism	• Loyalty equals partnership

*Source:* Lewis and Churchill (2009)

The values associated with loyalty and nepotism are especially important to this analysis as they are embedded in the Muslim and Arab cultures socioeconomic and political systems. At the root of loyalty and nepotism is the deep rooted and continuing tradition of tribalism. Tribalism in the form of *hamula* continues to dominate Middle Easter culture today.

A *hamula* is a group of descendents connected to a shared ancestor typically over five to seven generations who live in close proximity in urban or rural settings. Loyalty to family and kinship is a fundamental and traditional moral obligation in Islam. Those in positions of power and influence are expected to use their rank to provide socioeconomic benefit to family and kinship as part of their moral and social values and commitment to their faith.

Culture has been found to be a major situational variable in understanding entrepreneurship across cultures (Fahed-Sreih, et. al., 2009; Pistrui, et al., 2006). Entrepreneurship is embedded in a complex network of social relationships often tided to kinship and family. The Arab Gulf states share many societal norms and practices that stem from their religious, social, economic and political characteristics which shape entrepreneurship and enterprise development.

Arab culture, the Muslim religion and political leadership are an interesting and important model of the complex relationships and practices that influence entrepreneurship and economic development in the Middle East. The next section provides some insights into the geo-political fabric of the Middle East and Gulf states.

#### **4 The geo-political landscape in the Middle East**

The geo-political landscape of the Middle East and Gulf states is unique. Unlike in many Western countries there is no separation of 'church and state', an example being the Islamic Republic of Iran. Across the region there is a range of dictatorships (Iran and Libya), Kingdoms (Saudi Arabia, Bahrain), States (Qatar, Kuwait) and Emirates (Dubai, Abu Dhabi). All of these countries are being governed by ruling families including King Abdullah bin Abdul Aziz Al Saud in Saudi Arabia, King Hamad bin Isa Al Khalifa in Bahrain, Sheikh Mohammed Bin Rashid Al Maktoum in UAE and Sheikh Hamad bin Khalifa Al Thani in Qatar.

Governments across the region are very centralised and managed by family members and trusted people loyal to the regime. Arab leaders dislike federalism and feel that decentralising power is very risky to their control (Smiley, 2008). Yet in the UAE there are some questionably federal experiments. In the UAE seven families control the Emirates. The richer two Dubai and Abu Dhabi dominate a brokered deal to help the less

fortunate five. Yemen has struggled to bring together the north and south together with very little success. Tribes and local clans still dominate much of the political process today.

What all these countries have in common is a challenging set of geo-political issues to address (see Table 4). According to McKinsey, the Gulf economies need to create 280,000 jobs a year to employ the young people graduating from schools and universities (*Economist*, 2008). The major challenge is that students do not graduate with the skills to work and compete in the marketplace. Plus, as McKinsey reports a quarter of native employees in Bahrain, Saudi Arabia and the UAE fail to show up for work (*Economist*, 2008). What is really called for is a change in mindset, which will take time.

One primary ways to change the region's mindset is through education. This is at the forefront of all Arab nations. Qatar has been especially aggressive here. Education City, on the outskirts of Doha has approximately 2,000 students enrolled in branches of six US universities including Northwestern, Texas A&M, Weill Cornell Medical College, Virginia Commonwealth, Carnegie Mellon and Georgetown (Devi, 2008a).

Saudi Arabia is also making significant investment into education. King Abdullah University of Science and Technology (KAUST) is being built in Saudi Arabia as an international, graduate-level research university dedicated to inspiring a new age of scientific achievement in the Kingdom. KAUST is the realisation of a decades-long vision of the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz Al Saud and boasts a multi billion dollar endowment. ([www.kaust.edu.sa](http://www.kaust.edu.sa), 2008)

**Table 4** Geo-political forces shaping the landscape in the Middle East

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<ul style="list-style-type: none"> <li>• <i>Youth and job creation*</i></li> </ul>	<p>Over 180 million young Arabs in the region who will be entering the workforce – Arab Business Council report to World Economic Forum, 2005</p>
<ul style="list-style-type: none"> <li>• <i>Education reform*</i></li> </ul>	<p>Need to reform educational system in order to teach the skills required by modern economies – education key to make youth the driving force of the economy</p>
<ul style="list-style-type: none"> <li>• <i>Gender emancipation**</i></li> </ul>	<p>The empowerment of women is at the forefront of the debate over the future of the Arab world – there has been a dramatic shift in Arab attitudes over the past decade</p>
<ul style="list-style-type: none"> <li>• <i>Socioeconomic diversification***</i></li> </ul>	<p>Need to create a large-scale platform to encourage public participation by starting new businesses – focused attempt to diversify and create jobs</p>
<ul style="list-style-type: none"> <li>• <i>Oil and energy*</i></li> </ul>	<p>Debate and often disagreement about how to manage oil and gas production levels – exploring how to diversify into the production of renewable energy sources</p>

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Source: \**Saudi Business Focus* (2007a, 2007b, 2007c, 2007d);

\*\**Financial Times* (2007),

\*\*\*Javed (2008); *Gulf Business* (2008a).

The limited participation of women in the work force is a consequence of economic and social forces that pre date the oil era ([Dechant and Lamky, 2005](#)). Requiring woman to cover their entire bodies, preventing them from driving a car and separating students by gender are not mandated by Qur'anic law but culturally driven practices in some parts of the Gulf (Ruff, 1998).

The Arab world is making strides but has not been able to leverage the full potential of women in industry and public service. Challenges facing Arab women in business include (Gulf Business, 2008b):

- lack of gender sensitivity and hinders woman's economic participation
- women still face gender-based discrimination in hiring and non-wage benefits
- the private sector displays preferential treatment for male employees, partly due to labour regulations
- continued perception that women's income is secondary to the household.

Although gender emancipation is progress in the Arab world much more is needed. Some notable improvements are taking place in Kuwait where women have the right to vote and be elected to legislative posts. Another example in Kuwait is in the area of entrepreneurship where women are leading both small, midsize and larger enterprises and serving on the boards of banks (Al Salem, 2007). Bahrain is also quite progressive with women serving on boards of family businesses and starting and serving as managing directors in both the private and public sectors.

Female entrepreneurs and industry leaders are a relatively small club. The majority of successful female entrepreneurs are primarily children of the privileged from family businesses or members of the royal families. What is obvious is that change is coming, but very slowly. Organisations such as the London based Arab International Women's Forum are calling for a focus on training and to help women gain the confidence and to help them create small and medium sized enterprises (SMEs) (Khalaf, 2007).

Socioeconomic diversification is critical to the stability of the Middle East Gulf States. Government leaders face three primary challenges:

- 1 which sectors to focus on
- 2 the role of the private sector
- 3 building a workforce to meet the needs of socioeconomic diversification.

There is an increasing need to foster development of the private sector to meet the growing demands for certain services like healthcare. In Dubai the government is challenged by the rise in healthcare costs and rates of chronic disease and is turning to the private sector to solve problems and meet the growing markets demands (Bladd, 2008).

In Saudi Arabia the expanding non-oil sector is increasingly becoming the driver of economic growth, most notably manufacturing, telecoms and financial services (Big, 2008). In Bahrain the crown prince Sheikh Salman bin Hamad Al Khalifa is leading a drive to specialise in niche areas of financial services such as hedge funds, Islamic banking and insurance. Abu Dhabi is experimenting with a more interesting future where in February 2008 kicked off Masdar Institute of Science and Technology, the first step in an initiative to foster renewable energy technologies, from conception to manufacture (*Economist*, 2008).

## **5 The economy, entrepreneurship and family business in the Middle East**

The Gulf states have been greatly influenced by oil reserves and the revenues they generate. To a large extent their economies are being built around expatriate workers and Western technology. Yet, Arab leaders across the region recognise the need to empower entrepreneurship, the development of sustainable SMEs and help the well-established family businesses navigate succession and prosper into the next generation. Some countries from the region including Qatar, UAE and Bahrain are highly competitive with healthy macroeconomic environments, strong public institution and governments committed to change and modernisation (Blake and Lopez-Claros, 2005).

One of the most unique and distinctive developments in the Arab world is the emergence and growth of Islamic finance products and services. Islam forbids the lending or borrowing of money with interest. As a result an entire industry is being created around Shari'a compliant products including mortgages to support home ownership, construction financing and the creation of local stock markets. The basic principle of Islamic finance is risk-sharing. Someone invests \$1000 dollars in your enterprise and the takes a share of your profit or loss.

Built on this one simple principle Islamic finance seems to work very well. Shari'a compliant banks are also being developed outside the region as well. Currently the UK has five Islamic banks and a growing number of other banks such as HSBC, Lloyds TBS offer Islamic mortgages (Oakley, 2008).

Although interest is forbidden profit taking is not only permitted, it is praised, even extolled, in many of the hadiths, saying attributed to the Prophet: "The best gains from honourable trade and from a man's work with his own hands", and "To seek lawful gain is the duty of every Muslim" (Lewis and Churchill, 2009). Clearly entrepreneurship is permitted and encouraged in the Muslim religion.

The family and its kinship network are one of the central elements powering the Middle East socioeconomic system. Family businesses are the engine that drives socioeconomic development and wealth creation around the world and entrepreneurship is a key driver of family businesses. Family and closely held businesses tend to be entrepreneurial led, owner managed enterprises where the family or a small group has financial and managerial control. The ability to create and foster an entrepreneurial mindset across generations is a major element of family business continuity and longevity and is instrumental in effective strategic execution, innovation and growth (Pistrui, 2005).

Although they are the backbone of all market and most developing economies family businesses are delicate beings. Entrepreneurial led family firms have only an average life span of 24 years. Only 30% survive into the second generation, 10% into the third and a mere 3% into the fourth (Pistrui, 2005). Over the next decade approximately 43% of family firms will change hands representing the largest intergenerational transfer of wealth in recent economic history. Given the prominent socioeconomic role that family and closely held businesses play it is no wonder that they are gaining the attention and admiration of service providers, academics and the media.

Throughout the Middle East family and closely held companies dominate the private sector economy. Estimates are that 85%–90% of all commercial activities in the Gulf region are controlled by families (Gulf Business, 2008a). The majority of family enterprises, as in most developing economies, are young emerging SMEs in the first and second generation. In SMEs the family plays a leading role, often serving as the primary

source of start-up capital, not to mention low-cost labour and know-how. The tradition of involving younger brothers in the start-up of a business suggests that there could be a large number of sibling partnerships across the region. As in other developing economies SMEs are being called upon by local governments to create jobs and foster social stability in an effort to promote socio-economic growth. For example in the Kingdom of Bahrain and the UAE, especially Dubai entrepreneurial led family centred start ups, including women owned businesses are being encouraged.

In the Middle East extended family networks own and operate most large private sector companies as well. Many of these companies have evolved into diversified global corporations with business units in a variety of different activities including light manufacturing, shipping, transportation, travel, importing, retail, automobiles and construction. Examples include Al Zayani Investments, a third generation Bahraini company, the Almajdouie Group, established in 1965 as a transport company in the KSA and the Jashanmal National Company who in 1919 opened its first retail store in Iraq and has subsequently expanded across the region. Larger family businesses are also being called upon by local governments to create jobs and stimulate socio-economic growth. Challenged with small and limited markets many Middle East family companies are branching out across the region and in some instances to other parts of the globe.

As a result of changing socioeconomic conditions many are asking what makes Middle Eastern family businesses unique. The answer is threefold. First is the new and emerging business climate across the region. Given the need for regional socioeconomic growth and development governments are placing greater emphasis on building and supporting private sector development. This includes the privatisation of some state enterprises and the establishment of support institutions such as the Bahrain Development Bank's Bahrain Business Incubator Centre and UAE's Indus Entrepreneurs Organisation initiatives.

The second factor is the unique ownership and governance practices. This includes the availability of external capital in combination with the reform of accounting and compliance systems. These changes are impacting ownership and control of the businesses as a growing number of family businesses go public to secure external funds for expansion and growth.

The third factor is the leadership and mindset associated with multigenerational continuity and business succession. This can be seen in the development and professionalisation of family and non-family management practices.

Today there is a new found respect for family businesses in the Middle East. Family businesses are a deeply rooted tradition in the region and although they were largely overshadowed by the discovery of oil the ongoing call for the development of the private sector is encouraging the revival of entrepreneurial led family and closely held businesses. The availability of large pools of capital in combination with the need for business growth and regional development are encouraging new venture creation, business continuity and succession strategies and the development of more professional managerial practices.

Several support institutions and specialised programs are being established throughout the region to help family businesses with their many unique challenges. This includes the Family Business Academy, a Saudi Arabian not-for-profit organisation that provides education and assistance programs. Academic institutions are also playing a leading role. An example is the Lebanese American University's Institute of Family and Entrepreneurial Business. The Middle East Economic Digest (MEED) has also

recognised the needs of the region's family enterprises with the establishment of an annual Family Business Conference, which brings together family businesses and global experts for dialog and learning.

## 6 Conclusions

Entrepreneurial led family businesses are the key to unlocking the region's potential. Family firms tend to be more long term oriented. This policy includes an emphasis on long term relationships and investment strategies. They also take a keen interest in their employees and tend to be community-minded often supporting local philanthropic causes. Family firms typically create unique loyalties and traditions that can both support and inhibit business growth and change. Given the unique opportunities and profound challenges the Middle East and Gulf region faces both entrepreneurship and family business development need to become an even greater focal point of governments, service providers, academics and the media.

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