Islamic Entrepreneurship: Emergence and State of the Art

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Abstract: The Islamic social enterprise is a new type of entrepreneurship that is based on the Islamic (Shari’ah) principles. Previous studies on the social entrepreneurship are mainly viewed from the western perspective. Little is known about Islamic Social enterprise. The purpose of this paper is to explore the emergence of social Islamic enterprise by reviewing literatures on both the Islamic and conventional perspectives. The main findings of this study showed that studies on Islamic social enterprise is still at the infancy stage. The current literatures focus on defining the term and proposing models to understand it. In addition, current literature revolves around the influence of personality traits on Muslim social entrepreneurship intention, motives to initiate social enterprises, the relationship between social entrepreneurship and organisational effectiveness. Empirical studies are still limited and there are needs for more studies in this field.

Keywords: Islamic Social Enterprises, Social Muslimpreneurs, religious values, charitable activities

1. Introduction

During the last three decades, the field of entrepreneurship has attracted the attention of researchers, individuals, organisations, and local governmental bodies. Social entrepreneurs tend to apply any approaches which are practical, innovative, and sustainable in order to pursue opportunities that maximise social satisfaction rather than their own business profits (Babos, Clarence & Noya, 2007). Social enterprise is defined as a for-profit enterprise with the dual goals of achieving profitability and attaining beneficial social returns (Mariotti & Glackin, 2013). This indicates that social enterprises are business-oriented organisations which aim to achieve social welfare and prosperity for a society.

The emergence of social enterprise is due to the common practice of enterprises that operate within a free market system to adhere to competition as a means to make profit and to remain relevant in the market (Ferri & Urbano, 2010). As a result, such engagement do not address social needs, hence a downside effect of the capitalist entrepreneurship (Chell, 2007; Mair & Marti, 2006). As a short term remedy, social dimension is added to the enterprise so that it may resolve the need for both capitalism and socialism (Trivedi, 2010). Recently, a new kind of entrepreneurship emerges in order to better suit Muslim entrepreneurs. The Islamic social enterprise, despite its similarities with social entrepreneurship, is a new type of entrepreneurship that is based on the Islamic (Shari’ah) law. Islamic enterprises are driven by fulfilling two main purposes, which is financial sustainability and performing social or charitable activities that benefits a society. The main goal of this kind of entrepreneurship is to fulfil Allah’s wishes for human life and to win the hereafter. Thus, the mechanisms for operation and the rules that govern this type of entrepreneurship is different from others. For example, Islamic enterprises do not deal with interests.

This study seeks to explore the emergence and the status quo of the entrepreneurship in general with focus on Malaysia as an active country in developing the Islamic product and services such as Waqf and Zakat as well as Islamic banking.

This study is a literature review study. It consists of four main sections. First section discusses the issue of Islamic entrepreneurship. Next, the second section reviews and discuss the literature related to Islamic aspects of entrepreneurship. Third section presents and summarizes the findings. Last section discusses and concludes the findings as well as highlights the limitation and provides direction for future works.

2. Literature Review

2.1 Emergence of Islamic Social Enterprises

Several studies from different religious perspectives show that people’s action towards doing good deeds is rooted in their religious inclination. For example, charitable activities performed in Canada were significantly affected by the people’s religious belief (Berger, 2006). Other studies show the significant effect of religious value and moral behaviour on voluntary action and charitable work, as well as humanitarian assistance (Bekker et al., 2007; Wang & Graddy, 2008). A comparative study conducted by Salamon and Anheier (1997) reveal that Islam contributes more towards charitable activities compared to other religions. Many values are embedded in the Islamic culture, such as helping those who are in need, feeding those who do not have food, sheltering those who do not have homes, and being kind with workers, friends, relatives, and parents. Dedication of property to charitable work is one of the characteristics of the Islamic enterprise (Salarzehi et al., 2010). In addition, several evidences from the Qur’an and Hadith encourage Muslims to be helpful to the weak and the poor, which is considered as charity and devotion; “You cannot attain to righteousness unless you spend (in charity) out of those things which you love” (Qur’an, 3:91). Instructions given in the Qur’an are always inviting Muslims to ehsan, doing good things (Bandarchi, 1998). This is due to the fact that the Qur’an clearly states that the purpose of human creation is to worship Allah S.W.T., and He asks for humans to be good to each other in order to receive His love and blessing; “Do good to others, surely Allah loves those who do good to others” (Qur’an, 2:195).
The Holy Qur’an and the Hadith mention several categories of people that humans have to deal with, and give a great deal of guidance on how to behave towards them. Allah S.W.T. promises to those who spend money to be rewarded accordingly; “Those who spend their wealth [in Allah's way] by night and by day, secretly and publicly - they will have their reward with their Lord. And no fear will there be concerning them, nor will they grieve” (Qur’an, 2:274). The Prophet (p.b.u.h.) also said; “Give charity without delay, for it stands in the way of calamity” (Al-Tirmidhi, Hadith 589).

From the Islamic approach, everything is owned by Allah (Salarzehi et al., 2010). Thus, when Muslims give away, donate, or help others, they give from the property of Allah S.W.T. to His other servants “Spend (in charity) out of the sustenance that we have bestowed on you before that time when death will come to someone, and he shall say: O my Lord! If only you would grant me reprieve for a little while, then I would give in charity, and be among the righteous” (Qur’an, 63:10).

From the Islamic perspective, the purpose of businesses is to fulfil the society’s needs and wants by providing services and goods which enable them to live a good life, rather than to make only profits (Al-Qaradawi, 1996). Accordingly, Khalifa (2003) defines the purpose of businesses from an Islamic perspective as “to create and deliver goods needed and valued by the people, to provide opportunity for people to work and realise their mission in life, to develop themselves, to contribute to their societies and to live a good life”.

Islam and Muslims researchers put emphasis on the need to conduct businesses in ethical and socially-responsible manners (Ahmed, 2001; Khaliq, 2005). There are many ways in which Muslim entrepreneurs can demonstrate adherence to the Islamic principle in doing business, such as to deal with stakeholders in an ethical manner, to engage in business ventures that are morally driven, and to devote part of the profit to those who are in need through charity works (Fontaine, 2011).

Studies have attempted to identify the causes and the consequences of doing businesses in compliance with Shari’ah or Islamic law. As a result, many evidences and justifications for entrepreneurship are derived to support the legitimacy of Islamic entrepreneurship. Recent studies are conducted to investigate the intentions of Muslims to involve themselves with entrepreneurship (Bustamam et al., 2015), or to differentiate between entrepreneurship and business administration (Samah & Omar, 2011). However, empirical studies that theoretically and practically support the feasibility of Islamic social entrepreneurship are still lacking and have yet to receive adequate attention from researchers (Yaacob & Azmi, 2012; Adib, Muin, Fakhirin & Majid, 2014; Almarri & Meewella, 2015).

In Malaysia, the tradition of bringing about societal enhancement has been around for decades, albeit the term and concept of social entrepreneurship was rarely discussed. Private orphanages, old folks homes, disability centres, and private faith-based schools have all been in existence for many years and are surviving relatively well, making use of private financing, funding, and philanthropic donations. In the public sector, the government via its several ministries and agencies has initiated some well-known programmes that combine the concept of entrepreneurship and social development. Amanah Ikhtiar Malaysia (AIM), which imitates the microcredit financing model of the widely known Grameen Bank, and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) which micro-finances rural entrepreneurs, are among the earliest initiatives developed by the local government in 1987, years ahead of the emergence of the term social entrepreneurship in Malaysia (Adullah & Hoetoro, 2011).

### 2.2 Existing Studies

Most of the previous studies attempt to explain the emergence, the characteristic, and supporting evidences from the Qur’an and Hadith (Faizal, Ridhwan, & Kalsom, 2013; Sarif, Sarwar & Ismail, 2013; Kuran, 2008; Yaacob & Azmi, 2012). Researchers find that there are a lack of studies that focus on the relationship between social practices and Islamic social entrepreneurs (Smith & Nemetz, 2009; Weerawardena & Mort, 2006; Murphy & Coombes, 2009). Studies on social entrepreneurs from the Islamic perspective have yet been further developed in the context of social entrepreneurship (Yaacob & Azmi, 2012; Almarri & Meewella, 2015).

Adib et al. (2014) study the Islamic and sustainable social entrepreneurship model for development and social welfare programmes. Other studies focus on the concept of zakat and aim to holistically analyse its influence on social entrepreneurship in the Islamic context, and in the Gulf Cooperative Council context in particular (Almarri & Meewella, 2015). Furthermore, Yaacob and Azmi (2012) examine the social responsibilities of Muslim entrepreneurs in Malaysia in fulfilling the aspect of Shari’ah with regards to their responsibilities to family members and the poor. Their study also examines Muslimentrepreneurs’ responsibility towards the Muslim community by providing employment opportunities, conducting business in accordance with Islamic law, and creating an economic system. Adib et al. (2014) concludes that studies on social entrepreneurship are dominated by Western countries and the majority of these studies are conceptual and exploratory in nature. They find that studies on Islamic social entrepreneurship are limited.

Recently, Kadir and Sarif (2016) investigate the development of social enterprises in Malaysia. The authors noticed the shortage of the studies in this field and pointed out that the practices were established since two decades while the academic works in this field has yet to emerge. Prameli et al. (2014) investigate the characteristic of Muslim entrepreneurs from the view of Muslim scholars and academicians. They conducted interviews with Muslim scholars and academicians. The findings showed that Muslim entrepreneurs characteristics are the combinations of various elements including faith and worship to Allah, good intention, halalan thoyyiba, trustworthy, consent to the others.

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**Volume 7 Issue 9, September 2018**

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It can be concluded that there are many issues and limitations in the literature on Islamic entrepreneurship. This is because research and writing in the field of Islamic social entrepreneurship is very limited. Perhaps it is necessary for new things to be explored for researchers who want to understand and learn about Islamic social entrepreneurship. The cause and supporting evidence for Islamic social entrepreneurship exist in Qur’an and Sunnah. However, there is need to examine the external and the internal factors that comply with the current environment, as previous studies only attempt to develop conceptual theories without examining them empirically. Yaacob's (2012) study examines the relationship between Muslim entrepreneurs’ personalities and their achievements. The findings show that there is a significant relationship between Muslim entrepreneurs’ personalities with their achievement. Sarif et al.’s (2013) exploratory study examines the current practices of Muslim social entrepreneurs engaged in social entrepreneurship in Malaysia. The findings show that the concept is still new in Malaysia, and the government has to take steps to define the status of this manner of business. Zainol et al.’s (2014) conceptual study examines the relationship between social entrepreneurship and organisational effectiveness. In their study, Bustamam et al. (2015) examine the intention to conduct entrepreneurial activities by non-business students. The findings reveal that the students’ intention in entrepreneurial activities is motivated by their belief in the Sunnah of doing business.

**Table 1: Literature Survey**

<table>
<thead>
<tr>
<th>Author(s) / Year/ country</th>
<th>Independent Variable(s)</th>
<th>Dependent Variable(s)</th>
<th>Method/ Sample</th>
<th>Finding(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bustamam et al. (2015) Malaysia</td>
<td>Exploratory study</td>
<td>Successful entrepreneurial</td>
<td>Interview 25 alumni students</td>
<td>The belief in Sunnah of doing business and training are main drivers for successful entrepreneurial.</td>
</tr>
<tr>
<td>Sarif et al. (2013) Malaysia</td>
<td>Motivation for involvement</td>
<td>Sustainability</td>
<td>Interview of 5 participants</td>
<td>This study was conceptual in developing a model using the input of five entrepreneurs in Malaysia.</td>
</tr>
<tr>
<td>Royo et al. (2015) N/A</td>
<td>Big Five personality traits</td>
<td>Entrepreneurial learning</td>
<td>Literature review</td>
<td>This conceptual paper aims to examine the effect of the big five personality traits on the entrepreneurial learning.</td>
</tr>
<tr>
<td>Zainol et al. (2014) Malaysia</td>
<td>Innovation</td>
<td>Organisational effectiveness</td>
<td>Literature review</td>
<td>This conceptual paper proposes that IV could affect the DV to curb urban poverty in Malaysia.</td>
</tr>
<tr>
<td>Yaacob (2012) Malaysia</td>
<td>God fearing (taqwa) Islamic leadership</td>
<td>Achievement</td>
<td>Questionnaire of 183 Muslim entrepreneurs</td>
<td>The findings show that there is a significant relationship between Muslim entrepreneurs’ personalities and their achievements.</td>
</tr>
<tr>
<td>Raja Kasim &amp; Mohd Shamsir. (2012) Malaysia</td>
<td>This is a conceptual paper.</td>
<td>Islamic Microfinance performance</td>
<td>Literature review</td>
<td>The study proposes that accountability, independence, competence, confidentiality, and consistency significantly and positively influence the innovative governance of Islamic microfinance performance.</td>
</tr>
<tr>
<td>Alam Choudhury &amp; Hoque (2006) N/A</td>
<td>Exploratory study</td>
<td>Islamic governance</td>
<td>Literature review</td>
<td>The tawhid as episteme is the principle of Islamic governance. The Islamic governance consists of Shari’ah Board, shara, social wellbeing, and shuratic process.</td>
</tr>
<tr>
<td>Salarzehi et al. (2010) Malaysia</td>
<td>This is a conceptual paper.</td>
<td>Waqf as a social entrepreneurship</td>
<td>Literature review</td>
<td>Waqf is as one of the successful entrepreneurship patterns and can eliminate poverty and social welfare strata.</td>
</tr>
<tr>
<td>Pihie, and Bagheri. (2011) Malaysia</td>
<td>Entrepreneurial attitude</td>
<td>The intention of Malay student to become entrepreneur</td>
<td>Questionnaire of 2,574 students</td>
<td>Student scored high on entrepreneurial attitude components including self-esteem cognition, achievement cognition, and achievement affect. However, the students’ mean score for</td>
</tr>
</tbody>
</table>
The above table presents a summary of the studies in social and Islamic social entrepreneurship. It can be seen that a majority of the studies focus conceptual models. It can be seen that Islamic social entrepreneurship has not been largely investigated in the literature. Most of the studies relating to Islamic social entrepreneurship attempt to identify the term and its practicability among Muslim entrepreneurs (Sarif et al., 2013; Bustamam et al., 2015), the influence of personality traits on social entrepreneurship intention (Yaacob, 2012; Royo et al., 2015; İrengün & Arıkboğa, 2015), the motives to initiate social enterprises (Omorede, 2014), the relationship between social entrepreneurship and organisational effectiveness (Zainol et al., 2014), conceptually propose models related to the term, and examine the factors that affect Islamic banks and financial institutions (Hashim et al., 2015; Rahim, 2015; Raja Kasim & Mohd Shamsir, 2012; Abdel-Baki & Sciabolazza, 2014). In addition, few studies investigate upon Islamic governance (Alam Choudhury & Hoque, 2006; Bhatti & Bhatti, 2009; Bukhari et al., 2013). However, few have been found to relate to Islamic social entrepreneurship.

3. Findings

This paper reviewed the literature related to the emergence and status quo of Islamic social entrepreneurship. It can be seen that previous studies in entrepreneurship are concerned with identifying the role of entrepreneurs in a society, the characteristic and way of thinking of entrepreneurs, entrepreneurial environment, entrepreneurial phenomenon, and defining the concept of entrepreneurship itself (Bjerke, 2007; Çingitaş & Satti, 2015; Wiguna & Manzilati, 2014). Accordingly, it can be seen that the term is still in its phase of development, which explains the reason for the relatively few empirical studies in the field, and the reason why a majority of previous related studies focus on defining and conceptualising the term, which is more theoretical in nature. Studies in Islamic social enterprises are more interested in providing justifications for doing business from the Qur'an and Sunnah (sayings of the Prophet p.b.u.h.). As a result, many evidences and justifications for entrepreneurship are derived to support the legitimacy of Islamic entrepreneurship. However, most of the studies concerning Islamic social entrepreneurship attempt to conceptualise the term and identify its practicability among Muslim entrepreneurs (Sarif et al., 2013; Bustamam et al., 2015). It can be seen that the above studies focus on either personality traits, the intention to do work based on Islamic law, or the motives for conducting businesses. Due to the size of banking institutions and the early commencement of the concept of Islamic banking, most of the studies focus on the matter of Islamic governance in banking.

4. Conclusion, Limitation and Future Work

This study was conducted to explore the emergence and the state of the art of Islamic social enterprises. Studies related to the Islamic social enterprises were reviewed. It is found that empirical studies which theoretically and practically support the feasibility of Islamic social entrepreneurship are still lacking and are not receiving enough attention from researchers. Research matters also revolve around the influence of personality traits on Muslim social entrepreneurship intention, motives to initiate social enterprises, the relationship between social entrepreneurship and organisational effectiveness, conceptual proposition for models related to the term, and examination of the factors that affect Islamic banks and financial institutions.

The majority of the studies in Islamic entrepreneurship are conceptual. Therefore, there is a need for studies in this area in order to empirically support the antecedents (factors) and outcomes (performance) of Islamic social entrepreneurship. Malaysia is one of the most active Islamic-oriented countries in applying Islamic concepts related to trade, banking, shares, and entrepreneurship. As such, academic studies have been emerging to cover these areas in the local context. In terms of Islamic social entrepreneurship, studies are still emerging and developing in Malaysia. There is a dire need for more studies that would help discover and ascertain the implementation of this term and concept in the local context. In this case, practitioners outperform academicians in terms of Islamic social entrepreneurship.

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