

A Literature Review on the Effects of Islam on Entrepreneurship in Muslim Countries With Focus on Iran

Dr. Jos G. Vargas-Hernandez¹, Dr. Jos G. Vargas-Hernandez² and Dr. Jos G.
Vargas-Hernandez³

¹ Universidad de Guadalajara.

Received: 6 December 2011 Accepted: 2 January 2012 Published: 15 January 2012

Abstract

This paper aims to explore the Entrepreneurship in general; Islamic entrepreneurship and also Iran will be studied as a Muslim country.

Index terms— Entrepreneurship, Entrepreneurship in Islam, wealth in Islam, Iran

1 INTRODUCTION

Consider the developed countries; one sees so much wealth, so much beauty, high ways that are landscaped, and so many extra ordinary developments. This is something people see everywhere in developed economies. However, this is something not seen in most other places. There are about six billion people in the world. One billion people come from developed countries like North America, Western Europe, Japan, and perhaps four other Asian "tiger s." But the majority of people are not in that situation. The other five billion come from what is typically called the developing world, or the Third World, and the former Soviet Union countries.

Until a few years ago, most of these countries were really following other systems rather than the capitalist system. That has all changed since the fall of the Berlin Wall. Even Deng Xiaoping in 1978 started marching in a different direction in China when he said, "It doesn't matter what color a cat is, as long as it catches mice." In the developing world, we've all begun to change, we've all been trying to get our macroeconomic systems in place, we've all been making sure that we have fiscal balance, and we've all been making sure that we don't issue too much currency. We are all trying to get our account balances in order, especially since the fall of the Berlin Wall (De Soto, 2006). Entrepreneurship is a factor that can change the economic equations of any country. And can engage lots of people as employee or self employed. Islam is one of the religions that try to encourage people to be entrepreneur.

This paper first defines the general entrepreneurship from different definitions and Schumpeter's View of Entrepreneurship then defines entrepreneurs and their common characteristics too. Then will have a brief comparative study on Entrepreneurship vs. Small Business. Later focuses on entrepreneurship in Islam and its relevant topics.

2 II. DEFINITION OF ENTREPRENEURSHIP

Bob Reiss, successful entrepreneur and author of Low-Risk, High-Reward: Starting and Growing Your Small Business With Minimal Risk, says: "Entrepreneurship is the recognition and pursuit of opportunity without regard to the resources you currently control, with confidence that you can succeed, with the flexibility to change course as necessary, and with the will to rebound from setbacks" (Hupalo, 2007).

Linda Pinson, author of much of the SBA's material about writing a business plan and creator of business plan software (business-plan.com) says: "I have always thought of an entrepreneur as a person who starts a business to follow a vision, to make money, and to be the master of his/her own soul (both financially and spiritually). Inherent in the venture is the risk of what the future may bring. Therefore, I believe that an essential key to success is that the entrepreneur also be an "educated" risk taker.... "

The concept of entrepreneurship has a wide range of meanings. On the one extreme an entrepreneur is a person of very high aptitude who pioneers change, possessing characteristics found in only a very small fraction

8 ENTREPRENEURSHIP VS. SMALL BUSINESS

of the population. On the other extreme of C definitions, anyone who wants to work for himself or herself is considered to be an entrepreneur (Hupalo, 2007).

Another definition of entrepreneurship is the assumption of risk and responsibility in designing and implementing a business strategy or starting a business ??Investor words, 2006).

Also according to business dictionary, entrepreneurship is the capacity and willingness to undertake conception, organization, and management of a productive venture with all attendant risks, while seeking profit as a reward. In economics, entrepreneurship is regarded as a factor of production together with land, labor, natural resources, and capital. Entrepreneurial spirit is characterized by innovation and risk-taking, and an essential component of a nation's ability to succeed in an ever changing and more competitive global marketplace (business dictionary, 2009).

3 III.

4 SCHUMPETER'S VIEW OF ENTREPRENEURSHIP

Austrian economist Joseph Schumpeter's definition of entrepreneurship placed an emphasis on innovation, such as:

? new products ? new production methods

5 ? new markets

? new forms of organization Wealth is created when such innovation results in new demand. From this viewpoint, one can define the function of the entrepreneur as one of combining various input factors in an innovative manner to generate value to the customer with the hope that this value will exceed the cost of the input factors, thus generating superior returns that result in the creation of wealth (entrepreneurship, 2007).

6 IV. DEFINITION AND CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur : somebody who sets up a business or enterprise. Or an entrepreneur typically demonstrates effective application of a number of enterprising attributes, such as creativity, initiative, risk taking, problem solving ability, and autonomy, and will often risk his or her own capital to establish a business ??BNET, 2006).

The word entrepreneur originates from the French word, entrepreneur, which means "to undertake." The Merriam-Webster Dictionary presents the definition of an entrepreneur as one who organizes, manages, and assumes the risks of a business or enterprise (entrepreneurship, 2007).

V. WIKI DICTIONARY DEFINITION FOR: ENTREPRENEUR

7 VI. CHARACTERISTICS OF AN ENTREPRENEUR

The Department of Labor predicts that the employer in 2010 will be "self." An Internet poll of 25-44 year olds revealed that 90% of them hoped to own their own businesses. A survey conducted by Ernst & Young found that 75% of influential Americans believe that entrepreneurship will be the defining trend of the 21st century. Some of the factors that have attributed to the rise of the modern day entrepreneurial spirit are access to technology, a global economy and corporate stagnation. Some of common characteristics of entrepreneurs are: ??Casto, 2008).? Responsible ? Hard Worker ? Risk Taker ? Creative ? Flexible ? Follows through with ideas ? Personable ? Optimistic ? Perceptive ? Self-confident ? Determined ? High degree of energy ? Innovative ? Independent ? Ability to anticipate needs ? Effective communicator ? Responsive to criticism ? Able to take the lead ? Learn from mistakes ? Self-directed VII.

8 ENTREPRENEURSHIP VS. SMALL BUSINESS

Many people use the terms "entrepreneur" and "small business owner" synonymously. While they may have much in common, there are significant differences between the entrepreneurial venture and the small business. Entrepreneurial ventures differ from small businesses in these ways:

1. Amount of wealth creation -rather than simply generating an income stream that replaces traditional employment, a successful entrepreneurial venture creates substantial wealth, typically in excess of several million dollars of profit.
2. Speed of wealth creation -while a successful small business can generate several million dollars of profit over a lifetime, entrepreneurial wealth creation often is rapid; for example, within 5 years.
3. Risk -the risk of an entrepreneurial venture must be high; otherwise, with the incentive of sure profits many entrepreneurs would be pursuing the idea and the opportunity no longer would exist.
4. Innovation -entrepreneurship often involves substantial innovation beyond what a small business might exhibit. This innovation gives the venture the competitive advantage that results in wealth creation. The innovation may be in the product or service itself, or in the business processes used to deliver it (entrepreneurship, 2007).

9 VIII. ISLAM AND ENTREPRENEURSHIP

Islam, currently the world's second largest religion (Hill, 2008), is described in the Qur'an as the submission to the will of Allah or God (Cullen and Parboteeah, 2008). The origins of Islam can be traced back to the Prophet Muhammad who is seen as the 'final agent of God's revelation' (Ludwig, 2001: 428).

We propose that Islam views extrinsic aspects of work positively. It is clear that the Islamic work ethic argues that engagement in economic activities is an obligation (Yousef, 2000). Work is thus the source of independence and the means to achieve a fulfilled life.

The Qur'an speaks in favor of free trade and legitimate profit so long as it is consistent with Islamic ethics and does not exploit others. In fact, Islam encourages prosperity through the appropriate use of the resources given by God. Such resources are seen as important to provide for basic survival and physical needs as well as accumulation of wealth (Kriger and Seng, 2005). As such, it is clear that those employees believing in Islam are likely to pursue extrinsic work values as such values are consistent with Islamic teachings. We thus expect that Islamic employees will also view the extrinsic aspect of their work positively as for 'Muslims, economic life is thus seen as a means to a spiritual end, where prosperity means the living of a virtuous life' (Kriger and Seng, 2005: 777).

Islamic teachings also suggest a positive relationship between Islam and intrinsic work values. As Islamic adherents approach work, they are likely to view the intrinsic aspects of work (i.e. having an interesting job or a job useful to society, etc.) positively, as 'work is considered to be a source of independence and a means of fostering personal growth, self-respect, satisfaction, and self-fulfillment' (Yousef, 2000: 515). Thus the Islamic work ethic encourages adherents to view the intrinsic aspects of work positively. As mentioned earlier, intrinsic aspects relate to openness to change and the pursuit of initiative and creativity at work. The Islamic work ethic clearly emphasizes creative work as an important source of accomplishment (Yousef, 2001; Parboteeah, 2009, p.57).

The pursuit of wealth must be accompanied by intention, means, management and usage as stipulated by Islam. Entrepreneurship and entrepreneurs have a special place in Islam. The call for Muslim to be in business is complete. Figure ?? summarizes the entire spectrum. Islam propagates business activities; provide the infrastructure; outlines the rules and procedures; and God promises rewards. To complete the model, Islamic history features role models for Muslim to emulate. The Quran and Hadiths provide ample support for the model.

10 IX. IRAN AND ENTREPRENEURSHIP

In Iran some policies have been formulated to support entrepreneurial activities such as:

1.

11 Possession Of Wealth Is Allowed Based On The Following Principles

The standard definition of money in contemporary economy is a commodity that is generally accepted as a medium of exchange. However, this definition is only partly accepted from the Islamic economic concept. Islam acknowledged the fact that money is a medium of exchange, hence should function as a measure of value. Yet, Islam strongly dismissed that money is a commodity by itself (Ismail, 2006, p.9).

? Allah, Subhanahu wa ta'ala, s.w.t is the absolute owner of wealth

12 XII. ISLAMIC ENTREPRENEURSHIP

The Islamic society has witnessed vigorous economic activity since the Prophet (PBUH) first came to Medina. To this agrarian community was added a group of experienced traders from Mecca, a great center of inter-regional trade. Monetization came early, and the ban on unequal exchange of similar fungibles seems to have facilitated the process. Muslims started with Byzantine gold dinars and Persian silver dirham, but early on they began to mint their own coins. The state had a monopoly on coinage, and any tampering with

13 Global Journal of Human Social Science Volume XII Issue II Version I 2 56

A Literature Review on the Effects of Islam on Entrepreneurship in Muslim Countries; With Focus on Iran their weight or purity was severely punished (Ismail, 2006, p.2).

Besides being holistic in approach, Islamic entrepreneurship dictates that the individual must first be a religious person, then a practitioner (religious person who also practice what he learn). The benevolent person (insan berihisan) submits only to the Almighty. Through his/her vocation the person is expected to perform his/her duties as an ibadah and entrusted with the role of a responsible leader (khalifah) (Radiniz, 2007).

The concept of entrepreneurship in Islam also bases on co-operation, generosity and benevolence.

That is why Islam really encourages 'uqud al-tabarruat or unilateral contract such as loan (al-Qard) in order to promote cooperation and inculcate sense of brotherhood amongst Muslims. At the same time Islam extremely prohibited monopoly, exploitation, fraud or usurious transactions. In other word, every entrepreneur should

always preserve the good deeds and avoiding the evil such as being honest, fair, and accurate in every transaction ??Ismail, 2006, pp.12-13).

Islamic Entrepreneurship Focus on Eight Principles of Thoughts 1. Entrepreneurship is an integral part of Islamic religion. 2. By virtue of human nature, the Moslem entrepreneurs are 'khalifah' and have the responsibilities developed prosperity and sees business as part of ibadah or good deed.

3. Motivation -success in Islam is not merely measured by the end result but also the way and means of achieving them.

4. Ibadah -business activity is part of ibadah or "good deed" 5. Position of Entrepreneurship and business in Islam -Islam encouraged its ummah to venture into business. Prophet Muhammad S.A.W expounded that 9 out of 10 source of rizque (reski) can be found in business. 6

XIII. ISLAMIC ENTREPRENEURSHIP AS INTEGRAL PART OF THE RELIGION

Islam is a complete way of life. There is no separation between business and religion. Islam has its own entrepreneurship culture and guiding principles based on the Al-Quran and Hadith to guide business operation. By virtue of the human nature, the person must firstly be a Muslim, then an entrepreneur. He has the responsibility to perform 'ibadah' and be a 'khalifah'.

Muslim entrepreneur should search for God's blessings above all other factors. Muslim entrepreneurs perform business not solely for profit, but above all, to fulfill the 'fardhu kifayah'. Muslims should note that it's time to build on their self-confidence as they have shown the world that their financial and other relevant Islamic systems they have, can withstand the recent financial turmoil. So one way to improve one's self-confidence is to study their strengths and weaknesses and to be surrounded with honest and positive people," Some suggestions for enhancing entrepreneurship in Iran are Some suggestions in Iran for enhancing entrepreneurship according to the study of Rahmati and others , 2010 are mentioned below:

15 Muslim Entrepreneurship Ethics

1 2 3

¹© 2012 Global Journals Inc. (US)

²A Literature Review on the Effects of Islam on Entrepreneurship in Muslim Countries; With Focus on Iran January

³60 January 2012 © 2012 Global Journals Inc. (US)

outcome the entrepreneurial Muslim will always be humble and redha (contented with what god has given) (Radiniz, 2007). In contrast to the Western concept of the Economic Entrepreneurship the Islamic Entrepreneurship propagates the concept of the Islamic Man. Some summarized characteristics are: ? Most entrepreneurs have the desire to achieve successful business venture.

ways: ? Innovative creation of opportunity ? Example: Portable phones linked to faxes and laptop will turn

- ? Attracting policymakers to the systemic relationship between entrepreneurship and other needed supports for entrepreneurship
- ? Respecting culture -building, awareness and propaganda to execute adopted policies
- ? Forming measuring policies for learners and audiences of courses and adjusting the courses in terms of competencies and capabilities of learners
- ? Forming the national entrepreneurship education policies
- ? Forming policies to support graduates
- ? Designing a system to evaluate the effectiveness of entrepreneurship education
- ? Designing incentive mechanisms for job creation as an effective entrepreneurship education criterion
- ? Determining the exact role and position of each institution in policy making entrepreneurship education
- ? ?
- ? Forming policies to organize entrepreneurship coaches and teachers
- ? Emphasizing on knowledge and experience in policies to employ education courses personnel
- ? Respecting and emphasizing on execution and evaluation the policies during development
- ? Selecting a policymaking institution as the main custody of policymaking in entrepreneurship education
- ? Establishing a central headquarters to harmonize entrepreneurship centers
- ? Fascinating policymakers to the position and importance of entrepreneurship in social growth and development

Figure 2:

.1 This page is intentionally left blank

[Mason] , O H Mason . South-Western Publishing.

[Rahmati, Mohammad Hossein, Seyed Mohammad Moghimi, Seyed Mahdi Alvani, Adel Azar ()] , *European Journal of Social Sciences* Rahmati, Mohammad Hossein, Seyed Mohammad Moghimi, Seyed Mahdi Alvani, Adel Azar (ed.) 2010. 2010. 15 (3) p. . Policymaking for University Entrepreneurship Education in Iran

[A Literature Review on the Effects of Islam on Entrepreneurship in Muslim Countries; With Focus on Iran 2. Business dictionary] <http://www.businessdictionary.com/definition/entrepreneurship.html> A *Literature Review on the Effects of Islam on Entrepreneurship in Muslim Countries; With Focus on Iran 2. Business dictionary*, 2009.

[business dictionary ()] <http://dictionary.bnet.com/definition/Entrepreneur.html> *business dictionary*, 2006. BNET Business Dictionary

[Casto ()] *Characteristics of Entrepreneur*, Michelle L Casto . <http://www.4-small-businesses.com/characteristics-of-entrepreneur.html> 4. ayat 2007. Quran. 104.

[Cullen and Parboteeah ()] J B Cullen , K P Parboteeah . *Multinational Management: A Strategic Approach*, 2008.

[Entrepreneurship ()] Entrepreneurship . <http://www.quickmba.com/entre/> *quick MBA, Internet Center for Management and Business Administration Inc*, 2007.

[Hill ()] *Global Business Today*, C Hill . 2008. New York: Irwin-McGraw-Hill.

[Yousef ()] 'Islamic Work Ethic -A Moderator between Organizational Commitment and Job Satisfaction in a Cross-cultural Context'. D A Yousef . *Personnel Review* 2001. 30 p. .

[Ismail et al. ()] 'Leadership with Inner Meaning: A Contingency Theory of Leadership Based on Worldviews of Five Religions'. Abdul Ismail , Ghafar , Y Seng . *Leadership Quarterly* 2006. 2005. 16 (0608) p. . (Paradigm Shift from Capitalism to Islamic Economics, Working Paper in Islamic Economics and Finance No)

[Yousef ()] 'Organizational Commitment as a Mediator of the Relationship between Islamic Work Ethic and Attitudes toward Organizational Change'. D A Yousef . *Human Relations* 2000. 53 p. .

[Parboteeah et al. ()] K Parboteeah , Yongsun Praveen , John B Paik , Cullen . 10.1177/1470595808096674. *Hinduism, and Islam Religious Groups and Work Values: A Focus on Buddhism*, 2009. 2009. 9 p. .

[Radiniz site ()] *Radiniz site*, <http://www.radiniz.com/blog/> 2007. (seeking trust in our priority, available online at)

[Soto ()] De Soto , Hernando . *Trust, Institution and Entrepreneurship, International research in the Business Disciplines, Developmental Entrepreneurship: Adversity, Risk, and Isolation*, 2006. Elsevier Publication.

[Ludwig ()] *The Sacred Paths*, T M Ludwig . 2001. Upper Saddle River, NJ: Prentice Hall.

[Ludwig ()] *The Sacred Paths*, T M Ludwig . 2001. Upper Saddle River, NJ: Prentice Hall.

[Jan et al. ()] *THEORIES & CONCEPT OF ENTREPRENEURSHIP, Position of Entrepreneurship and business in Islam available online at*, Mohd Jan , B Nawawi , Dato' Adnan Alias . www.perlis.uitm.edu.my/medec/images/.../ent300_module01.ppt 2009.

[Hupalo ()] 'Thinking Like An Entrepreneur'. Peter Hupalo . <http://www.investorwords.com/5548/entrepreneurship.html> 10. *Investor words*, 2007. 2006.