

## **Empowering Innovation: A Comprehensive Perspective on Muslim Business Ownership**

**Ume Kalsoom**

*Department of Economics, University of Chakwal*

**Waqar Muhammad Khan (Corresponding Author)**

*Assistant Professor, Department of Economics, University of Chakwal*

**Fozia Sultana**

*Doctoral Candidate, School of Economics, International Islamic University Islamabad*

**Muhammad Obaid Ahmed**

*Undergraduate student, Department of Economics, University of Chakwal*

### **Abstract**

In an increasingly vigorous business world religion and culture are influential factors in business development. Islam is the second largest religion so there is a dire need to present a holistic picture of the Islamic perspective of entrepreneurship. This paper demonstrates the Islamic principles of entrepreneurship and Islamic entrepreneurial ethics by utilizing the Quran, Hadith, and other available literature. The primary goal of this paper is to unravel the approach of Islam as a religion towards business activity and entrepreneurial activity. In addition, this paper focuses on how Islam as a religion affects entrepreneurial activity from micro to macro levels. The major themes of the study are halal, haram, taqwa, utilization of resources, business financing, and social and entrepreneurial responsibilities. In conclusion, the study regards Islam as an entrepreneurial religion. Topics for further recommendation are also given at the end for future researchers.

**Keywords:** Islamic entrepreneurship, Islamic business, social entrepreneurship, Islamic business ethics

### **I. Introduction**

Entrepreneurial activities and business development highly rely on its context. Term context encircles spatial dimensions, temporal dimensions, business dimensions, and institutional dimensions. Entrepreneurship is the process of business creation through the exploitation of opportunities. Researchers in the recent past have argued over various types of entrepreneurs. (Barot, 2015) classified entrepreneurship into two categories namely opportunity-based entrepreneurship and necessity-based entrepreneurship. Entrepreneurs who choose entrepreneurial or business activity as active careers are regarded as opportunity-based entrepreneurs. On the other hand, a necessity-based entrepreneur is left with no other choice of earning a living, entrepreneurship in this case is not a choice but a compulsion. Major categories of entrepreneurship are innovation-based entrepreneurship and small business entrepreneurship (Aulet & Murray, 2013). Welter, et al., (2017) categorized entrepreneurship into high-growth, technology-enabled and venture-backed businesses. However, from the lens of social sciences, entrepreneurship is a more complex phenomenon than general understanding. Social scientists recognize entrepreneurship as a social phenomenon, profoundly rooted in societal structures. Broad literature on entrepreneurial activities has been authored from different social perspectives such as economic (Baumol, 1968), political, and sociological (Thornton, 1999). Nevertheless, religion has been neglected with limited rarities (Dana, 2010). We cannot separate religion from society and society from entrepreneurship. Religious beliefs of the individual highly influence the decisions of entrepreneurs (Dodd & Gotsis, 2007). Hence, a religious viewpoint of entrepreneurship will significantly contribute to the existing literature. In an increasingly vigorous world, religion and culture are influential factors in business development. We cannot isolate religion from research striving to examine entrepreneurship. Most of the entrepreneurs in history were motivated by their religious beliefs and aspirations to contribute positively (Kayed & Hassan, 2013). Islam stands as the second largest religion, thus there is a dire need to present a holistic picture of Islamic entrepreneurship. Islamic entrepreneurship

interlinks religious ethics and economic endeavors. Central to this paradigm are the notions of Halal (permissible) and Haram (prohibited). The doctrine of Halal and Haram serve as the guidelines for entrepreneurial ethics. This implies that business activities should be Halal and entrepreneurs should restrain themselves from Haram. Islam necessitates the establishment of businesses that are consistent with Islamic principles, known as Shari'ah. Fundamental principles of Islam are Tawhid (theism), Khilafah (vicegerency), and Adalah (justice) (Abdullah & Nadvi, 2011). From an Islamic perspective, success is not only measured by the results but also using attaining the goals. Islam considers entrepreneurship as an integral part of the religion; business activity is conceived as Ibadah or a virtuous act. Foundations of business and entrepreneurial activities are laid on the Holy Quran and the teachings of Prophet Muhammad. Business ethics and conduct should be by the character of Prophet Muhammad.

Islamic entrepreneurship is based on three interlinked pillars, first pillar is concerned with the definition of entrepreneurship, second and third pillars of Islamic entrepreneurship are socio-economical and religion-spiritual respectively (Gümüşay, 2015). All these pillars are strongly interwoven and each pillar shapes the other. These pillars are interconnected as Islamic entrepreneurship is not merely concerned about profit, rather it encompasses a wider perspective that integrates economic activities with social responsibilities and spiritual values. This paper will focus on the general and Islamic perspectives of entrepreneurship. In addition, the study focuses on how Islam as a religion shapes entrepreneurship from micro to macro level.

## **2. Entrepreneurship: Comprehensive Viewpoint**

This section contains a systematic literature review of entrepreneurship. The study begins by unraveling the brief history of the term “entrepreneurship”. Terms such as projector and undertaker were first used for entrepreneurs in England by authors such as Daniel Defoe, Walter Raleigh, and Adam Smith. Later, the term entrepreneur was borrowed from French. The history of the term entrepreneur can be traced back to the 17<sup>th</sup> century. The word entrepreneur was adopted from the French word “entrepreneur” which entails undertaking or beginning. Originally, it was used for military expeditions where an individual undertakes a mission or task. However, in the 18<sup>th</sup>

## Empowering Innovation: A Comprehensive Perspective on Muslim Business Ownership

century term entrepreneur attained economic magnitude. French economist Say (1803) contributed significantly to tailoring the modern understanding of entrepreneurship. During the 18<sup>th</sup> century, entrepreneurship was linked with risk-taking (Cantillon, 1755). After WWII the term entrepreneurship earned special attention from scholars and economists as academia explored the role and significance of small business and innovation in economic development. The entrepreneur is the one who shifts resources from lower production zones to higher production areas (Say, 1803). Entrepreneurship is neither an art nor a science (Drucker, 1985). Drucker (1985) anticipated entrepreneurship as a practice of searching for methodic change and responding to it by innovation. Schumpeter (1934) reckoned entrepreneurship as a process of innovative destruction wherein entrepreneurs confederate existing elements in a new fashion. Entrepreneurship is the chasing of opportunities beyond resources controlled (Stevenson & Jarillo, 1990). Shane & Venkatarama (2000) reasoned that entrepreneurship is the discovery, evaluation, and exploitation of future products. A broader definition of entrepreneurship is postulated by Zacharaki et al (2020), entrepreneurs perceive an opportunity and pursue it by establishing the organization. Zacharaki et al (2020) differ from Schumpeter on the point of destroying economic order. Zacharaki et al (2020) argued that very few organizations might rearrange the economic order such as Microsoft, Apple Meta, etc. but it is more likely to be of an incremental kind that enters a contemporary market. Innovation in the marketplace through the coordination of accessible resources and opportunities is the vital function of the entrepreneur (Aidis, 2003). Entrepreneurship is the process of business creation (Ramadani et al, 2015). The universal standpoint regarding entrepreneurship is economic and social development. A business-friendly environment is conditioned with capital development. Thus, the institutional framework of a country plays a significant part in business development. Moreover, the literature on entrepreneurship emphasizes the context in which entrepreneurship transpires. An enhanced and better understanding of economic behaviors can be inferred from historic, spatial, institutional, and social contexts (Welter, Contextualizing Entrepreneurship—Conceptual Challenges and Ways Forward, 2011). Organizational behavior is

substantially affected by the context, nevertheless, context is not recognized by the researchers (Johns, 2006). Entrepreneurs are affected by their surroundings, location, and circumstances (Ramadani et al, 2015). Thus, modification of business entrepreneurship based on the societal context is important.

### **3. Entrepreneurship: An Islamic Perspective**

Islam is a monotheistic religion based on the teachings of scripture revealed by Allah on Prophet Muhammad. The Quran is the primary source of Islam. Islam means submission to the will of Allah by following a code of social, spiritual, legal, and moral life, descended by Allah through Prophet Muhammad. In Surat 'Āli `Imrān Allah says “Indeed, the religion in the sight of Allah is Islam. And those who were given the Scripture did not differ except after knowledge had come to them - out of jealous animosity between themselves. And whoever disbelieves in the verses of Allah, then indeed, Allah is swift in [taking] account” (Quran 3:19). Prophet Muhammad defines Islam through five principles: “to admit that there is no God but Allah and Muhammad is his messenger, to establish prayer, to give charity, to fast during the Holy month of Ramadan and to perform pilgrimage (Hajj) to Mecca” (Hadith - Sahih Bukhari). Abul A'la Maududi in his book “towards understanding Islam” argues that Islam is the complete code of life. Islam is a philosophy that connects man with the whole cosmos. Islam provides a comprehensive ethical and legal code of conduct for business and entrepreneurship.

Islamic economics can be defined as doing business by carefully following the guidelines of Shari'ah to regulate business activity, and profit accumulation (Ullah et al., 2013). The purpose of business activity in Islam is to please Allah by following ethical and religious codes in the entire business activity (Ashraf, 2019). This entails that all Muslims are religiously obligated to contribute to the general benefit of society. Islamic perspective of entrepreneurship is different from the general perspective as Muslims are obliged to follow religious duties in business activity apart from mere economic and financial gains. Conventionally success of an entrepreneur is determined by typical financial success, however, the Islamic essence of entrepreneurship measures success by analyzing how adequately religious

obligations have been fulfilled which may cater to Islamic entrepreneurs in the life after. This idea of entrepreneurship is by the traditional idea of maximizing utility postulated by neo-classical economists. However, this utility is also acquired by fulfilling religious obligations. Hassan & Hippler (2014) reasoned that the prohibition of immoral activities such as alcohol, usury, and gambling eliminates the inherent unjust economic practices and enhances the social welfare of the society. Khan (1994) articulated that Allah created the universe for the universe for benefit of all human beings, God has created resources for humans who are responsible for making use of them, modifying them, and remodeling them according to his needs. This definition of entrepreneurship is in line with the contemporary definition of entrepreneurship as a practice of exploiting opportunities.

### **3.1. Taqwa (Faith)**

Islamic ethics revolve around the central concept of Taqwa. As stipulated by Islam, Taqwa is the highest state of spirituality and the only way to attain closeness to the divine. “Surely the most noble of you in the sight of Allah is the most righteous among you” (Quran 49:13). Following Islamic doctrine, Taqwa is a shield that protects believers from adverse consequences of vice. It involves maintaining the consciousness of the presence of Allah and acting upon His guidelines.

Islam compels its adherents to execute entrepreneurial activities with honesty to please Allah to gain His acceptance (Hamid & Sa’ari, 2011). In line with Islamic principles, entrepreneurship is the supreme form of livelihood. “An honest and sincere businessman will be placed with the prophets, Siddiqi and al-shahada” (Al-Tirmidhi).

### **3.2. Halal and Haram**

Generally, all activities in Islam fall under Halal (lawful), Mushtabeh (doubted), and Haram (unlawful) (Alserhan, 2017). Halal has further three categories namely Wajib (obligatory), Mandoob (preferable), and Makrooh (not preferable). “: The Messenger of Allah was asked about fat, cheese, and furs, so he said: 'The lawful ... what Allah made lawful in His Book, the unlawful is what Allah made unlawful in his Book, and what He was silent about; then it is among that for which He has pardoned” (Al-Tirmidhi). Entrepreneurs are required to fulfill obligatory duties, neglecting these

obligations will lead to harmful consequences in the afterlife. Entrepreneurs are encouraged to engage in commendable practices (Mandoob) while avoiding activities that are discouraged (Makrooh). Moreover, the concept of tayyab is also associated with Halal which means good, healthy, or quality. The conjecture of Halal and Tayyab broadens the definition of what is lawful (Abdullah & Azam, 2020). Thus, Halal signifies both, legitimacy within the bounds of Shari'ah and the endorsement of what is deemed good, sustainable, and ethical. "O mankind, eat from whatever is on earth [that is] lawful and good and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy" (Quran 2:168). Haram practices are forbidden and treated as a sin (Ramadani et al., 2015). Haram means taboo, forbidden, wrongdoing, or ill-gotten. Allah denounced unlawful practices in the Quran; "And you see many of them hastening into sin and aggression and the devouring of [what is] unlawful. How wretched is what they have been doing" (Quran 5:62).

### **3.3. Opportunity Recognition, Risk-Taking and Innovation**

Opportunity recognition, risk, and innovation are major concerns of entrepreneurship. Islam encourages its adherents to seek opportunities. "And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed" (62:10). A substantial body of academic literature available on opportunity creation and opportunity discovery (Kirzner, 1997; Alvarez & Barney, 2007). The opportunity discovery approach believes that opportunities are present, an entrepreneur just needs to recognize the opportunity. In this regard, Allah says "Indeed, the worst of living creatures in the sight of Allah are the deaf and dumb who do not use reason (Quran 8:22). Alternatively, opportunity creation theory emphasizes that opportunities do not always exist, entrepreneurs have to create opportunities (Mueller, 2007). Islamic scripture upholds this concept as well "and that each person will only have what they endeavored towards" (Quran 53:39). As mentioned earlier, entrepreneurship is associated with risk-taking. Nevertheless, motivation for establishing a business and risk is negatively related (Hamid & Sa'ari, 2011). Islam does not prohibit all kinds of risks. Nevertheless, Islam discourages transactions with excessive uncertainty (Gharar). Al-Sarakhsi described Gharar thus: "Gharar is that whose consequences are hidden". Furthermore, the risk-taking practice of

## Empowering Innovation: A Comprehensive Perspective on Muslim Business Ownership

gambling is also forbidden in Islam. “They ask you about wine and gambling. “They ask you ‘O Prophet’ about intoxicants and gambling. Say, “There is great evil in both, as well as some benefit for people—but the evil outweighs the benefit” (Quran 2:219). Islamic economic system protects entrepreneurs through the Mudarabah system. Quran and Hadith provide strong references in support of innovation and change. Nonetheless, innovation in religious practices is strictly forbidden, alteration of religious practice is known as Biddah. Islam profoundly advocates the acquisition of knowledge “Seeking knowledge is a duty upon every Muslim” (Ibn e Maja). Knowledge provides the foundational basis for innovation by cultivating creativity, problem-solving, research and development, and technological advancements. Islam in its essence encourages and advocates innovation. “Indeed, Allah will not change the condition of a people until they change what is in themselves” (Quran 13:11).

### **3.4. Utilization of Resources**

Islam emphasizes efficient, reasonable, and ethical use of resources. Quranic and Hadith texts strongly condemn wastefulness. the concept of Khilafah (stewardship) implies that man is the steward of the earth, assigned by Allah. The theory of Israf is related to restricting wastefulness and extravagance. "Eat and drink from the provision of Allah, and do not commit abuse on the earth" (Quran 2:60). In another section of the Quran Allah mentions “O children of Adam, take your adornment at every masjid, and eat and drink, but be not excessive” (Quran 7:31).

### **3.5. Business Financing**

Undoubtedly, Islam encourages entrepreneurship and business “You should conduct business, for it is 9 out of 10 livelihoods” (Sahih Al-Jami). However, Islam strongly denounces and prohibits financing through interest (usuary) loans. Allah categorically says “Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever” (Quran 2:226). Within scripture compelling evidence exists in favor of trade while discouraging usuary: “But Allah has permitted trade and has forbidden interest” (Quran 2:275).

### **3.6. Ethical Responsibility**



Ethics are the moral principle that empowers a person to differentiate between good and bad (Hashim, 2012). Islamic ethical system differs from the traditional ethical system that generally persists in society, often divorced from religion (Beekun, 1997). Morals and ethics are the foundational bases of the religious philosophy of Islam. “And give good tidings to those who believe and do righteous deeds that they will have gardens [in Paradise] beneath which rivers flow” (Quran 2:25). The Aforementioned verse demonstrates that Islam emphasizes good. An entrepreneur must follow good and should restrain himself/herself from bad and vice. It is essential for entrepreneurs should follow ethical conduct in the light of scripture while performing business activities. All business practices should follow fairness, justice, integrity, and honesty. “And give full measure when you measure, and weigh with an even balance. That is the best [way] and best in result” (Quran 17:35). Regarding just price Prophet said “Exchange gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt—like for like, equal for equal, and hand-to-hand. If the types differ, then sell as you wish, as long as it is hand-to-hand.” (Sahih Muslim). Prophet mentioned at one place while speaking about wages “Give the wages of employee before his sweat dry”.

### **3.7. Social Responsibility**

From an Islamic perspective, social responsibilities resemble the concept of “Takafal” which emphasizes the benefits of the community (Yaacob & Azmi, 2012). Social responsibilities of entrepreneurs according to Islam include paying zakat, helping the needy, and practicing business activities by the Shari’ah law. Assisting the less fortunate and fulfilling the obligation by paying Zakat stands as a paramount responsibility of the entrepreneurs. “Worship Allah and associate nothing with Him, and to parents do good, and to relatives, orphans, the needy, the near neighbor, the neighbor farther away, the companion at your side, the traveler, and those whom your right hands possess. Indeed, Allah does not like those who are self-deluding and boastful” (Quran 4:36). “Righteousness is not that you turn your faces toward the east or the west, but [true] righteousness is [in] one who believes in Allah, the Last Day, the angels, the Book, and the prophets and gives wealth, despite love for it, to relatives, orphans, the needy, the traveler, those

## Empowering Innovation: A Comprehensive Perspective on Muslim Business Ownership

who ask [for help], and for freeing slaves; [and who] establishes prayer and gives Zakah; [those who] fulfill their promise when they promise; and [those who] are patient in poverty and hardship and during battle. Those are the ones who have been true, and it is those who are the righteous” (Quran 2:177). These verses of the Quran underscore the significance of Zakat in Islamic doctrine.

### **4. Islamic influence on entrepreneurship**

At micro-level Islam influences individual entrepreneurs through diverse means. An individual may be motivated by Quran and Hadith with a different entrepreneurial motive of achieving success both in terms of worldly as well as metaphysical by purifying his/her wealth by paying obligatory charity (Zakat), avoiding usury, and restraining himself/herself from wasteful practices. Islam shapes entrepreneurship at the organizational level by multiple means. Religious practices may be influenced by establishing praying rooms, peculiar working hours during the Holy month of Ramadan, and festivals. In addition, the marketing and business strategies may follow scripture. Organizations will not only be motivated by profit-motive rather the organization will strive for the well-being of society.

At the macro-level Islam influences the market and state. Development of Islamic thought from the last 1400 years, provides intensive guidelines for the working mechanism of the market by establishing an office of ombudsmen. Moreover, many Islamic thinkers derived principles from the scripture that provides a complete code to run the state.

### **5. Conclusion**

In a highly globalized world, societies have become more complex. Exploration of different aspects and perspectives of entrepreneurship would help entrepreneurs to meet the needs of different communities. As Islam is the second largest religious community, this study will help entrepreneurs in addressing the requirements and needs of the Islamic community. The purpose of this study was to investigate the approach of Islam as a religion towards business and entrepreneurship. In light of the Quran, Hadith, and other Islamic texts we can infer that Islam is the entrepreneurial religion. Moreover, Islam shapes entrepreneurial activities from the micro level to the whole ecosystem. Future researchers should examine the concepts of

profitability in Islam in comparison with the traditional concept of profit. Moreover, detailed research focusing on the similarities between the modern entrepreneurial system and the Islamic entrepreneurial system will contribute significantly to the literature. Future research should explore the challenges of Islamic entrepreneurs in non-Muslim secular societies.

### References

1. Abdullah, M. A., & Azam, M. S. (2020). *Halal Entrepreneurship: Concept and Business Opportunities*. IntechOpen.
2. Aidis, R. (2003). Entrepreneurship and Economic Transition. Retrieved from
3. Alserhan, B. A. (2017). *The Principles of Islamic Marketing*. London: Routledge.
4. Alvarez, S. A., & Barney, J. (2007). Discovery and creation: alternative theories of entrepreneurial action. *Strategic Entrepreneurship Journal*, 1(1-2), 11-26.
5. Ashraf, m. A. (2019). Theory Of Islamic Entrepreneurship: A Conceptual Paper. *International Journal Of Entrepreneurship*, 23(3), 1-12.
6. Baumol, W. j. (1968). Entrepreneurship in Economic Theory. *The American Economic View*, 58(2), 64-71.
7. Beekun, R. I. (1997). *Islamic Business Ethics*. International Institute Of Islamic Thought.
8. Cantillon, R. (1755). *Essai sur la Nature du Commerce en Général*.
9. Cho, A. H. (2006). Politics, Values, and Social Entrepreneurship: A Critical Appraisal. In A. H. Cho, *Social Entrepreneurship* (pp. 34-56).
10. Dana, L.-P. (2010). *entrepreneurship and religion*. Edward Elgar Publishing.
11. Dodd, S. D., & Gotsis, G. (2007). The Interrelationships between Entrepreneurship and Religion. *The International Journal of Entrepreneurship and Innovation*, 8(2), 93-104.
12. Drucker, P. F. (1985). *Innovation and Entrepreneurship: Practice and Principles*. University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship.
13. Gümüşay, A. A. (2015). Entrepreneurship from an Islamic Perspective. *Journal of Business Ethics volume*, 130, 199–208.
14. Hamid, S. A., & Sa'ari, C. Z. (2011). Reconstructing Entrepreneur's Development Based on al-Qur'an And al-Hadith. *international Journal of Business and Social Science*, 2(19).
15. Hashim, M. (2012). Islamic Perception of Business Ethics and the Impact of Secular Thoughts on Islamic Business Ethics. *International Journal of Academic Research in Business and Social Sciences*, 2(3).
16. Hassan, M. K., & Hippler, W. (2014). Entrepreneurship and Islam: An Overview. *Econ Journal Watch*, 11(2), 170-178.
17. Johns, G. (2006). The Essential Impact of Context on Organizational Behavior. *Academy of Management Review*, 31(2), 286-408.
18. Kayed, R. N., & Hassan, M. K. (2013). *Islamic Entrepreneurship*. Routledge.
19. Khan, M. A. (1994). *An Introduction to Islamic Economics* (Vol. 15). International Institute Of Islamic Thought.
20. Kirzner, I. M. (1997). Entrepreneurial discovery and the competitive market process: An Austrian Approach. *Journal of Economic Literature*, 35(1), 60-85.

## Empowering Innovation: A Comprehensive Perspective on Muslim Business Ownership

21. Mueller, P. (2007). Exploiting Entrepreneurial Opportunities: The Impact of Entrepreneurship on Growth. *Small Business Economics*, 28, 355-362.
22. Ramadani, V., Dana, L.-P., & Ratten, V. (2015). The context of Islamic entrepreneurship and business: Concept, principles and perspective. *International Journal of Business and Globalisation*, 15(13), 244-261.
23. Say, J.-B. (1803). *Economy, A Treatise on Political*.
24. Schumpeter, J. (1883-1950. (1962)). *Capitalism, Socialism, and Democracy*. Harper & Row.
25. Schumpeter, J. A. (1934). *The Theory of Economic Development: An Inquiry Into Profits, Capital*, Harvard University Press.
26. Shane, S., & Venkataraman, S. (2000). The Promise Of Entrepreneurship As A Field Of Research. *Academy of Management Review*, 25(1), 217-226.
27. Stevenson, H., & Jarillo , J. (1990). A Paradigm of Entrepreneurship: Entrepreneurial Management. *Strategic Management Journal*, 11(5), 17-27.
28. Thornton, P. H. (1999). THE SOCIOLOGY OF ENTREPRENEURSHIP. *Annual Review of Sociology*, 25(1) 19-46.
29. Ullah, M. M., Mahmud, T. B., & Yousuf, F. (2013). Women Entrepreneurship: Islamic Perspective. *International Journal of Islamic Management and Business*, 5(11), 44-52.
30. Welter, F. (2011). Contextualizing Entrepreneurship—Conceptual Challenges and Ways Forward. *Entrepreneurship Theory and Practice*, 35(1), 165-184.
31. Yaacob, Y., & Azmi, I. G. (2012). Entrepreneur's Social Responsibilities From Islamic Perspective: A Study of Muslim Entrepreneurs In Malaysia. *Procedia - Social and Behavioral Sciences*, 58, 1131-1138.
32. Zacharaki, A., Corbett, A., & Bygrave, W. D. (2020). *Entrepreneurship*. John Wiley & Sons.