The Process of New Venture Creation in the Islamic World: An Organizing Framework

Wafa N. Almobaireek, Ahmed A. Alshumaimeri, and Tatiana S. Manolova

1 Introduction

This book chapter highlights the majozr characteristics and unique aspects of the new venture creation process in the Islamic world. As elsewhere around the world, entrepreneurship in Muslim countries[1] can foster individual self-empowerment and serve as an engine of job creation, economic growth, innovation, healthy community development and constant transformation and reinvigoration of economic life (Audretsch 2007; Kelley et al. 2011a). Through the entrepreneurial process, the creative energies of millions of individuals can be harnessed to create value and generate vital social and economic benefits. Not surprisingly, nurturing a culture of entrepreneurship is a critical priority to public policy at the national and supranational level. At the 2012 World Economic Forum in Davos, Switzerland, entrepreneurship and self-employment were identified as a key mechanism to promote employment growth (World Economic Forum 2012a), whereas a recent Global

[1]Here and hereafter in the text we use the term *Islam* or *Islamic* in reference to the religion and its subsequent cultural concepts and the term *Muslim* with reference to the followers of the religion of Islam.

W.N. Almobaireek
Department of Marketing and Entrepreneurship, King Saud University, Riyadh, Saudi Arabia

College of Business and Administration, Princess Nora bint Abdulrahman University, Riyadh, Saudi Arabia
e-mail: WNALmobaireek@pnu.edu.sa

A.A. Alshumaimeri
Dar Aluloom University, Riyadh, Saudi Arabia
e-mail: alshum@ksu.edu.sa

T.S. Manolova (✉)
Department of Management, Bentley University, 175 Forest St., Waltham, MA 02452, USA
e-mail: tmanolova@bentley.edu

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Entrepreneurship Monitor report, focused specifically on entrepreneurial activity in the Middle East and North Africa (MENA) region (International Development Research Centre 2010) urged public policy makers in these Muslim countries to encourage more people to become involved in the business creation process.

The process of new venture creation is a complex and multifaceted phenomenon. Just as the Islamic world is extremely diverse in the level of economic development, natural endowments, and institutional and cultural heritage, so is entrepreneurial activity wide-ranging and multilayered (Ramadani et al. 2015). Research suggests Malaysia, Indonesia and the United Arab Emirates (UAE) are three Muslim countries where entrepreneurship has flourished, while entrepreneurship has languished in other Muslim countries such as Mali, Sierra Leone, Somalia and the Sudan (Zahra and Yavuz 2008). Thus, there is a need to better understand the drivers, processes, and desired outcomes of the process of new venture creation in the Islamic world in order to inform both individual entrepreneurship initiatives and public policy. This is the purpose of the present investigation.

The chapter is structured as follows. We begin with a synopsis of the economic, institutional, and cultural context of the study. Next, we present our overview of the process of new venture creation in the Islamic context, organizing it around Hitt et al. (2011) strategic entrepreneurship framework. We conclude by suggesting some avenues for future research in the domain of new venture creation in the Islamic context and by offering several recommendations to public policy makers for the promotion of entrepreneurship in the Islamic world.

2 The Islamic World and Entrepreneurial Activity

About a quarter of the world population, or over 1.6 billion people, are Muslims, representing an estimated 23 % of the 2009 world population and spread around 200 countries worldwide (Pew Research Center 2009). More than 60 % of the global Muslim population is in Asia and about 20 % is in the Middle East and North Africa. The MENA region, however, has the highest percentage of Muslim-majority countries, with more than half of the 20 countries and territories in the region having populations that are 95 % or more Muslim (Pew Research Center 2009). On the other hand, even though India has the third largest population of Muslims in the world (about 161 million as of 2009), Muslims represent only 13.5 % of the country's total population. In determining the scope of our overview, we use membership in the Organization of Islamic Cooperation as a guide. The Organization of Islamic Cooperation (OIC) was established in 1969 as "the collective voice of the Muslim world" (OIC 2012) and is currently comprised of 57 member states. Table 1 presents an overview of these countries' socio-demographic, economic, and institutional profiles, as well as the current levels of entrepreneurial activity.

As the information in the table illustrates, the Islamic world presents a fascinating collage of contrasts. Per capita GDP, a key indicator of the level of economic

Table 1 Profiles of OIC Member States: level of economic development, institutions, and entrepreneurial activity

Country	Official name	Population[a]	Percent Muslim[a]	Government type[a]	GDP/p.c. (USD)[a]	Stage of economic development[e]	2011–2012 GCI rank[e]	2011 HDI[f]	Entrepreneurial activity[b]			
									TEA	N/B (% TEA)	O/B (% TEA)	Entry density[d]
Afghanistan	Islamic Republic of Afghanistan	30,419,928	99	Islamic republic	1000			0.398				
Albania	Republic of Albania	3,002,859	70	Parliamentary democracy	7800	3	78	0.739				0.84
Algeria	People's Democratic Republic of Algeria	35,406,303	99	Republic	7200	2	87	0.698	16.7	18.0		0.44
Azerbaijan	Republic of Azerbaijan	9,493,600	93.4	Republic	10,200	2	55	0.700				0.93
Bahrain	Kingdom of Bahrain	1,248,348	81.2	Constitutional monarchy	27,300	5	37	0.806				
Bangladesh	People's Republic of Bangladesh	161,083,804	89.5	Parliamentary democracy	1700	1	104	0.500				
Benin	Republic of Benin	9,598,787	24.4	Republic	1500	1	104	0.427				
Brunei-Darussalam	Brunei-Darussalam	408,786	67	Islamic monarchy	49,400	2	28	0.838				
Burkina-Faso	Burkina-Faso	17,275,115	60.5	Parliamentary republic	1500	1	136	0.331				0.08
Cameroon	Republic of Cameroon	20,129,878	20	Republic	2300	1	116	0.482				
Chad	Republic of Chad	10,975,648	53.1	Republic	1900	1	142	0.328				

(continued)

Table 1 (continued)

Country	Official name	Population[a]	Percent Muslim[a]	Government type[a]	GDP/p.c. (USD)[a]	Stage of economic development[e]	2011–2012 GCI rank[e]	2011 HDI[f]	Entrepreneurial activity[b] TEA	N/B (% TEA)	O/B (% TEA)	Entry density[d]
Comoros	Union of The Comoros	737,284	98	Republic	1200			0.433				
Cote d'Ivoire	Republic of Cote d'Ivoire	21,952,093	38.6	Republic	1600	1	129	0.400				
Djibouti	Republic of Djibouti	774,389	94	Republic	2600			0.430				
Egypt	Arab Republic of Egypt	83,688,164	90	Republic	6500	2	94	0.644	7.0	53.0	25.0	
Gabon	Republic of Gabon	1,608,321	<1.0	Republic	16,000			0.684				4.27
Gambia	Republic of the Gambia	1,840,454	90	Republic	2100			0.420				
Guinea	Republic of Guinea	10,884,958	85	Republic	1100			0.344				
Guinea-Bissau	Republic of Guinea-Bissau	1,628,603	50	Republic	1100			0.353				
Guyana	Republic of Guyana	741,908	7.2	Republic	7500	2	109	0.633				
Indonesia	Republic of Indonesia	248,216,193	86.1	Republic	4700	3	46	0.617				0.18
Iran	Islamic Republic of Iran	78,868,711	98	Islamic republic	12,200	2	62	0.707	12.4	38.0	39.0	
Iraq	Republic of Iraq	31,129,225	97	Parliamentary democracy	3900			0.573				
Jordan	Hashemite Kingdom of Jordan	6,508,887	92	Constitutional monarchy	5900	3	71	0.698	10.2	28.0		0.74

Kazakhstan	Republic of Kazakhstan	17,522,010	47	Republic	13,000	2	72	0.745				2.59
Kuwait	State of Kuwait	2,646,314	85	Constitutional emirate	40,700	2	34	0.760				
Kyrgyzstan	Kyrgyz Republic	5,496,737	75	Republic	2400	1	126	0.615				1.26
Lebanon	Republic of Lebanon	4,140,289	59.7	Republic	15,600	4	89	0.739	15.0	18.0		
Lybia	Lybia	6,733,620	97	Transitional government	14,100			0.760				
Malaysia	Malaysia	29,179,952	60.4	Constitutional monarchy	15,600	3	21	0.761	5.0	12.0	41.0	2.55
Maldives	Republic of the Maldives	394,451	99	Republic	8400			0.661				3.09
Mali	Republic of Mali	14,533,511	90	Republic	1300	1	128	0.359				
Mauritania	Islamic Republic of Mauritania	3,359,185	100	Military junta	2200	1	137	0.453				
Morocco	Kingdom of Morocco	32,309,239	99	Constitutional monarchy	5100	3	73	0.582	15.8	25.0		1.28
Mozambique	Republic of Mozambique	23,515,934	17.9	Republic	1100		133	0.322				
Niger	Republic of Niger	17,078,839	80	Republic	800			0.295				0.00
Nigeria	Federal Republic of Nigeria	170,123,740	50	Federal republic	2600	1	127	0.459				0.79

(continued)

Table 1 (continued)

Country	Official name	Population[a]	Percent Muslim[a]	Government type[a]	GDP/p.c. (USD)[a]	Stage of economic development[e]	2011–2012 GCI rank[e]	2011 HDI[f]	Entrepreneurial activity[b] TEA	N/B (% TEA)	O/B (% TEA)	Entry density[d]
Oman	Sultanate of Oman	3,090,150	98	Monarchy	26,200	4	32	0.705				1.67
Pakistan	Islamic Republic of Pakistan	190,291,129	95	Federal republic	2800	1	118	0.504	9.1	41.0	39.0	0.03
Palestine	State of Palestine	4,332,801	84.6	Palestinian National Authority	2900			0.641	10.4	32.0	33.0	
Qatar	State of Qatar	1,951,591	77.5	Emirate	102,700	2	14	0.831				
Saudi Arabia	Kingdom of Saudi Arabia	26,534,504	100	Monarchy	24,000	2	17	0.770	9.4	10.0	75.0	
Senegal	Republic of Senegal	129,669,606	94	Republic	1900	1	111	0.459				0.22
Sierra Leone	Republic of Sierra Leone	5,485,998	60	Constitutional democracy	800			0.336				
Somalia	Republic of Somalia	10,085,638	90.0[c]	No permanent federal government	600							
Sudan	Republic of the Sudan	34,206,710	88.24[c]	Federal Republic	3000			0.408				
Suriname	Republic of Suriname	560,157	19.6	Constitutional democracy	9500	3	112	0.680				0.44
Syria	Syrian Arab Republic	22,530,746	80	Republic	5100	2	98	0.632	8.5	37.0		
Tajikistan	Republic of Tajikistan	7,768,385	90	Republic	2000	1	105	0.607				0.48
Togo	Republic of Togo	6,961,049	20	Republic	900			0.435				

Tunisia	Republic of Tunisia	10,732,900	98	Republic	9500	3	40	0.698	6.1	24.0	48.0	1.23
Turkey	Republic of Turkey	79,749,461	99.8	Republican parliamentary democracy	14,600	4	59	0.699	8.6	37.0	47.0	0.87
Turkmenistan	Turkmenistan	5,054,828	89	Presidential republic	7500			0.686				
Uganda	Republic of Uganda	35,873,253	12.1	Republic	1300	1	121	0.446	31.3	50.0	34.0	0.78
United Arab Emirates	State of the United Arab Emirates	5,314,317	96	Federation	48,500	5	27	0.846	13.3	9.0		
Uzbekistan	Republic of Uzbekistan	28,394,180	88	Republic	3300			0.641				0.78
Yemen	Republic of Yemen	24,771,809	93.0[c]	Republic	2500	1	138	0.462	24.0	35.0		

Sources
[a]The World Factbook (CIA 2012)
[b]Global Entrepreneurship Monitor, 2010 (Kelley et al. 2011a, b) and GEM-MENA Regional Report, 2009 (IDRC 2010); *TEA* total entrepreneurship activity; *N/B* necessity-based; *O/B* opportunity-based
[c]World Distribution of Muslim Population, 2009 (Pew Research Center 2009)
[d]The World Bank Group Entrepreneurship Snapshots, 2010 (World Bank 2010); *Entry Density* newly registered limited liability firms per 1000 working-age people (those ages 15–64) in 2009
[e]2011–2012 Global Competitiveness Report (World Economic Forum 2012b); *1* factor-driven; *2* transition from factor to efficiency-driven; *3* efficiency-driven; *4* transition from efficiency to innovation-driven; *5* innovation-driven
[f]Human Development Index (UNDP 2011)

development, ranges from $600 (Somalia) all the way up to $102,700 (Qatar). In other words, some of the poorest and some of the richest countries in the world are part of the Islamic world. According to the World Economic Forum's methodology for classifying economies into stages of development,[2] (World Economic Forum 2012b), 28 of the OIC member states were classified as either factor-driven or in transition to an efficiency-driven stage of development, 7 economies were classified as efficiency-driven, and five were classified as either in transition from efficiency to innovation-driven economies (Turkey, Lebanon, and Oman), or innovation-driven (Bahrain and the United Arab Emirates).[3] The highest ranked Muslim country in the 2012–2012 Global Competitiveness rankings was Qatar (14th out of 142 countries included in the report),[4] and four more Muslim countries were ranked among the top 30 most competitive economies in the world (Saudi Arabia [17], Malaysia [21], the UAE [27], and Brunei-Darussalam [28]). The lowest ranked Muslim country was Chad (142nd, the least competitive economy among those included in the study).

In terms of institutional influences, although governance is shaped to a large extent by the Islamic tradition, institutional arrangements vary widely. Seven countries are declared Islamic states (Afghanistan, Bahrain, Iran, Mauritania, Oman, Pakistan, and Yemen) and the primary basis for government in these countries is Islamic religious law (Rehman and Askari 2010). Twelve countries have declared Islam as the state religion (Algeria, Bangladesh, Egypt, Iraq, Kuwait, Libya, Malaysia, Maldives, Morocco, Qatar, Tunisia, United Arab Emirates). Economic, political, and legal institutions have been additionally imprinted by different, and often successive, colonial legacies. Some of the states are former British colonies (for example, Iraq, Afghanistan, or Pakistan); some are former French colonies (for example, Algeria, Tunisia, or Morocco); while some countries were at some point in time part of the Arabian Caliphates or the Ottoman Empire (for example Syria, Egypt, or Palestine). In more recent history, the republics of Azerbaijan, Uzbekistan, Tajikistan, Turkmenistan, Kazakhstan and the Kyrgyz Republic were all part of the former Soviet Union, and are currently transitioning from a centrally planned to a market-based economy.

Culturally, the Islamic world is similarly diverse and represents a kaleidoscope of ethnic and tribal identities. Even within the countries which constitute the Arab Middle East, the most ethnically and religiously homogenous part of the Islamic world, there are multiple ethnic groups besides Arabs and sometimes sizeable

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[2]The five stages are: factor-driven, transition from factor-driven to efficiency-driven, efficiency-driven, transition from efficiency-driven to innovation-driven, and innovation-driven (World Economic Forum 2012b).

[3]Forty of the 57 OIC member-countries were included in the 2011–2012 Global Competitiveness Report (World Economic Forum 2012b).

[4]Qatar is ranked as a more competitive economy than economies at a higher stage of development because the 12 dimensions of competitiveness are weighed differently depending on an economy's stage of development. Details on the ranking methodology are provided in the Global Competitiveness Report (World Economic Forum 2012b).

Jewish or Christian minorities (Zahra 2011). Islam itself is divided into two major sects, Sunni Muslims and Shia Muslims, with multiple schools of jurisprudence within both (Pew Research Center 2009). Reliable statistical information on entrepreneurial activities across all Muslim countries is not readily available. Two authoritative sources of data are the World Bank Group's Entrepreneurship Snapshots (World Bank 2010) and the Global Entrepreneurship Monitor (GEM). The World Bank's study tracks formal company registrations, whereas GEM tracks early stage entrepreneurial activity, including entrepreneurial initiatives in the informal economy (Acs et al. 2008). According to the GEM-MENA 2009 Report (IDRC 2010), based on information from 13 predominantly Muslim MENA countries, between 4.7 % (in Saudi Arabia) and 24 % (in Yemen) of the population aged 18–64 in these countries is involved in an early stage entrepreneurial activity. The World Bank data suggest, however, that early stage entrepreneurial activity does not necessarily translate into formal company registrations (Acs et al. 2008). In fact, the 2004–2009 average entry density, or the number of newly registered limited liability firms as a percent of the country's working age population, was 0.63 in the MENA region, the second lowest in the world and only higher that the entry density in Sub-Saharan Africa (World Economic Forum 2012c). A variety of reasons accounts for the low level of formal company registrations, most importantly the relatively high barriers to doing business, particularly for smaller firms; (2) cultural norms in which entrepreneurial activity is seen by young graduates as not as attractive as a government job; (3) the very low participation of women in the labor force and in entrepreneurial activity (OECD 2011; World Economic Forum 2012c).

As the short preceding overview suggests, Muslim countries around the world exhibit extreme heterogeneity in levels of economic development, institutional arrangements, cultural legacies, and entrepreneurial dynamics (see Dana 2010 for explanatory examples of how entrepreneurial attitudes are formed or discouraged and how entrepreneurial practices are shaped by different Muslim cultural milieus). Painting a cohesive unitary portrait of the process of new venture creation in the Islamic world is, therefore, a daunting task. Hence, we turn next to the entrepreneurship literature for theoretical guidance in our exploration.

3 The Process of New Venture Creation in an Islamic Context: An Organizing Framework

Currently, there is a lack of agreement on what constitutes entrepreneurship. Some scholars view entrepreneurship as a process of new venture creation (Gartner 1985). Others conceptualize it as the process of opportunity recognition, opportunity creation, and opportunity exploitation (Alvarez and Barney 2010; Shane and Venkataraman 2000) or, more broadly, as "a dynamic interaction of entrepreneurial attitudes, entrepreneurial activity, and entrepreneurial aspiration that vary across

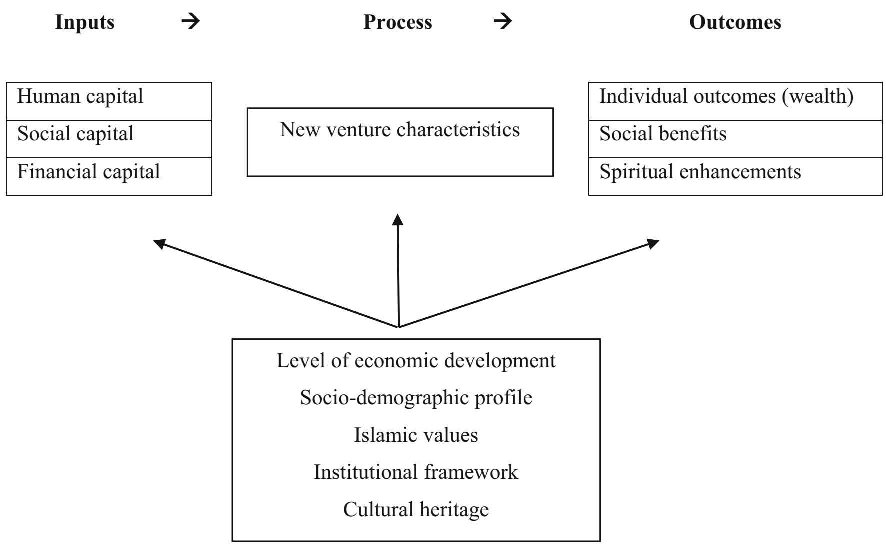

Fig. 1 New venture creation in an Islamic context: an organizing framework. Adapted from Hitt et al. (2011)

stages of economic development" (Acs and Szerb 2009: 17). Still others define entrepreneurship, or strategic entrepreneurship, even more broadly as a social process of mobilizing and orchestrating resources, creating value and generating wealth and other benefits (Hitt et al. 2011). Hitt et al. (2011) developed a multilevel input-process-output strategic entrepreneurship model, incorporating environmental, organizational, and individual foci into the dynamic process of simultaneous opportunity-and-advantage-seeking behaviors. These authored argued that, when used effectively, these behaviors create value for societies, organizations, and individuals.

To organize our argument, we follow Hitt et al. (2011) and take a mid-range theoretical lens, conceptualizing entrepreneurship as a socially-embedded and context-specific process of resource mobilization and opportunity exploitation, culminating in the creation of a new venture, whose purpose is to create value and generate wealth and other social enhancement benefits. This approach provides a broad and theoretically-robust framework that allows us to critically review and integrate conceptual developments and empirical evidence and highlight the unique characteristics of the process of new venture creation in an Islamic context. We construct our exploration in three parts, focusing on the inputs, the characteristics of the new venture, and the outcomes of the entrepreneurial process. Figure 1 presents our organizing framework.

3.1 Inputs

We focus on three types of resources vital for new venture creation: human capital, social capital, and financial capital (Cooper et al. 1994; Ireland et al. 2003), in the specific context of the Islamic world. Human and social capital are the “building blocks”, or the initial resource endowments embedded in the entrepreneur that mold the character and leave a long-lasting imprint on the strategic orientation of the new venture (Brush et al. 2001). Financial capital, on the other hand, is fungible, in that it can be converted into any type of tradable resource the new venture needs. Thus, it offers strategic flexibility to the new venture in constructing an adequate resource base. In addition, an adequate capitalization provides a safety cushion which buffers against the liabilities of newness and smallness (Cooper et al. 1994) and allows owners to engage in product development and pursue market opportunities (Van Auken 2004). Financial capital input levels, therefore, are strong determinants of a new venture’s survival prospects (Cooper et al. 1994) and growth (Wilklund and Shepherd 2003).

3.1.1 Human Capital

Human capital refers to the intangible resources embedded in individuals (Becker 1962). These intangible resources include the stock of competencies, knowledge, skills, expertise, and connections that individuals gain through education and experience (Becker 1993). Investments in human capital, in turn, are activities, such as schooling, on-the-job training, medical care, or acquiring information about the economic system, which influence future real income (Becker 1962: 9; Novos and Waldman 1997; Schultz 1961). All of these investments improve the physical and mental abilities of people and thereby raise their real income prospects while yielding a return over a long period of time. Empirical research in the domain of entrepreneurship generally indicates that entrepreneurs with higher levels of human capital are more capable and willing to start and manage innovative and high-growth businesses (Acs and Szerb 2009; Brush et al. 2001; Cooper et al. 1994; Davidsson and Honig 2003).

As can be expected from the heterogeneity in the Islamic world, the level of human capital development likewise varies widely. Overall, however, Muslim countries at all stages of economic development can invest more in their national human capital. According to the United Nations Development Programme’s 2011 Human Development Index (UNDP 2011), which measures three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living, only four Muslim countries (the United Arab Emirates, Brunei, Qatar, and Bahrain) were classified as countries with very high human development (see Table 1). Fourteen countries had high human development, 14 more had medium human development, while 24 countries had low level of human development.[5]

Of particular concern is the low number of years of schooling across all categories of countries. Even the highest ranking Muslim country, the United Arab Emirates (2011 worldwide rank: 30), reported a mean of 9.3 years of

[5]Somalia was not covered in the UNDP’s (2011) Human Development Report.

schooling as of 2011 (UNDP 2011), compared to over 12 years of schooling in other countries with very high levels of development of human capital, such as Norway, the United States, New Zealand, or Germany. The problems in human capital development are aggravated by the low emphasis on research and innovation and the low research orientation of universities in both business and the technical skills (Zahra 2011). Apparently, revamping and modernizing the educational system (and the university system, in particular) in the Muslim world and improving its focus on new business creation and technology commercialization is needed in order to support high-potential entrepreneurial initiatives (Zahra 2011; Zahra and Yavuz 2008). This is a particularly relevant issue for the Muslim countries at the innovation-driven stage of development or those that are right now making the transition from an efficiency-driven to an innovation-driven stage of development.

At the other end of the spectrum, poor Muslim countries at the factor-driven stage of development face overwhelming challenges in their human capital development. The 2011 mean number of years of schooling for these countries ranged between 1.3 (Burkina Faso) and 4.9 (Pakistan), e.g., barely any schooling resulting in high levels of illiteracy. Indeed, illiteracy is a major problem in many Muslim countries. According to the 2005 United Nations' Department of Economic and Social Affairs data (United Nations 2005), the 2000–2004 illiteracy rate stood at, for example, 49.7 % among men and 68.6 % among women (Bangladesh), 81.5 and 91.9 % (Burkina Faso), 59.4 and 87.3 % (Chad), 46.6 and 71.5 % (Pakistan), 30.5 and 71.5 % (Yemen). Human development problems are exacerbated by the extremely low life expectancy in Sub-Saharan Africa, as low as 47.8 years (Sierra Leone). Many scholars and public policy experts have advocated a bottom-up solution to alleviate these severe social problems through individual entrepreneurial initiatives and self-empowerment aided by micro-finance lending (Khavul 2010). In other words, while in countries at relatively more advanced stages of economic development human capital can serve as an input into high-potential entrepreneurial activity, at relatively low levels of economic development, the opposite is true, i.e., entrepreneurial activity can serve as a powerful mechanism of individual empowerment and human capital development through improving the quality of life.

Another important aspect of the role of human capital in the entrepreneurial process is the burgeoning young population, particularly in the Arab Middle East. The rapid population growth is such that youths under the age of 24 now make up 50–65 % of the population of the Middle East and the mean age across the MENA region is 25 years (Herrera 2009). This challenge is coupled with the persistent high levels of youth unemployment (15–24 years), which averages 25 % across the region (compared to 17 % in the OECD) and reaches 30 % in countries like Saudi Arabia and Tunisia (World Economic Forum 2012c). The cost of youth exclusion, stemming from the depletion of their human and social capital has been estimated to reach as high as $53 billion in Egypt alone (Chaaban 2008). In the next 10–15 years, some 100 million jobs must be created in the MENA economies to absorb the emerging workforce (Kabbani and Kothari 2005).

Unfortunately, the age distribution of the population, in and of itself, directly affects the aggregate level of new venture activity in a country. More specifically, countries whose populations are excessively skewed toward young cohorts may experience low levels of entrepreneurial activity, because young people lack the necessary experience or financial resources in order to start a new business (Lévesque and Minniti 2011). Research on youth employment suggests that potentially 20 % of the youth population in the MENA region could become self-employed or start a micro enterprise if they are well prepared for this career option (ILO 2010). Not surprisingly, the 2009 GEM MENA Regional Report (IDRC 2010) encouraged governments in the region to develop and implement age-appropriate modules or classes in entrepreneurship at all levels of the education system.

Last, but not least, an important aspect of human capital mobilization in the Islamic world is the encouragement of a fuller participation of women in the entrepreneurial process (Dechant and Al Lamky 2005; McElwee and Al-Riyami 2003; McIntosh and Islam 2010). According to GEM's 2010 Women's Report (Kelley et al. 2011b), the MENA countries, in particular, contain the lowest proportion of women entrepreneurs and no country in the region reports that more than a third of the entrepreneurs are female. Notably, other Muslim countries, such as Malaysia, report a balanced representation of men and women nascent entrepreneurs (Kelley et al. 2011b) and countries with a sizeable Muslim population, such as Macedonia, also report shares of women entrepreneurs in line with average global trends (Ramadani et al. 2013). The low participation of MENA women in the entrepreneurial process can be attributed to the strict gender roles upheld by the conservative Muslim societies in the Middle East. Women in these societies are expected to be first and foremost wives, mothers, and homemakers, while men are expected to provide for and protect their families (McIntosh and Islam 2010). Women are also considered the repositories of their families' honor (*izzat*), so their conduct at all times needs to be above reproach (Roomi and Parrott 2008). In addition, the relatively recent phenomenon of women's entrepreneurship has not provided enough role models of successful women-entrepreneurs in order to reinforce the pursuit of entrepreneurial initiatives as a legitimate and desirable career path. Prospective women entrepreneurs are further discouraged by the numerous obstacles women business-owners face, such as dealing with bureaucracy and paperwork, balancing work and family life, gaining access to capital, entering men-dominated business networks, working with male employees, or being taken seriously as a business owner (Alturki and Braswell 2010).

The low participation of women in entrepreneurial activities limits the growth potential of the Muslim countries in the MENA region because a significant share of talent is not put to economic use (World Economic Forum 2012c). This is unfortunate, as women's entrepreneurship can substantially alleviate unemployment among women in the MENA countries. Because gender segregation is practiced at various degrees across the region, employment at a woman-owned and/or or woman-managed business may be the preferred (or the only) option for qualified women who would otherwise remain outside the labor market.

3.1.2 Social Capital

Social capital, defined as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or a social unit" (Nahapiet and Ghoshal 1998: 243), determines the strength of institutional endorsement and emotional support for the entrepreneurial initiative. In addition, the social network in which entrepreneurs are embedded influences their ability to access scarce resources needed to operate (Stuart et al. 1999) and find niches in opportunity structures (Aldrich and Carter 2004). Overall, social networks are a critical source of resources and support, which alleviates the liabilities of newness and smallness (Stinchcombe 1965) and allows entrepreneurs to engage in the pursuit of growth opportunities. Students of social networks further differentiate between strong and weak social ties (Granovetter 1973). People linked through strong ties, or close and frequent interactions (e.g., family and friends), are easier to access, more willing to be helpful, and more likely to be trusted. Weak ties (or "friends of friends"), characterized as distant and infrequent interactions, in turn, can be instrumental as sources of novel information and ideas as well as providing access to new resources.

In an emerging or developing economy, such as most of the economies in the Muslim world, where material and financial resources are scarce and the institutional environment is unstable and often openly hostile, it is plausible that social networks are even more important for the success of entrepreneurial initiatives. Personal connections provide moral support and encouragement, and allow entrepreneurs to access hard-to-find resources, navigate through obscure regulations, and deal with unsympathetic and sometimes opportunistic government officials. Not surprisingly, the role of personal connections (*blat* in Russian; *guan-xi* in Chinese), has been extensively studied in the context of transition economies such as China or Russia (Batjargal 2003; Peng and Heath 1996; Puffer and McCarthy 2001; Xin and Pearce 1996), and developing economies such as Ghana (Acquaah 2007).

In the Islamic world, strong ties, originating from family, kinship, or tribal affiliations are similarly a powerful source of trust, moral and financial support and the creation of opportunity (Dana and Dana 2008; Nadvi 1999; Zahra and Yavuz 2008). Family, in particular, lies at the core of Muslim society, in political, economic, social, and religious terms. From a young age, Muslims become aware of the networks they are embedded in and their own positioning in them; because participation in these networks of family and religion is mandatory and unquestioned, they form the cultural matrix for business and management (Weir and Hutchings 2005).

Personal connections are known as "*wasta*" in Arabic. Hutchings and Weir (2006: 143) define *wasta* as "social networks of interpersonal connections rooted in family and kinship ties and implicating the exercise of power, influence, and information sharing through social and politico-business networks". An individual can be said to have "good *wasta*" if he or she is well-networked, and also seen as trustworthy (Weir and Hutchings 2005). However, the role of *wasta* in business life has also given rise and prominence to a class of intermediaries who make it their profession to befriend and provide access to people of power and influence.

W*asta* is often associated with favoritism, or the preferential treatment of relatives, friends, neighbors, or other acquaintances. In a recent study of the role of *wasta* for entrepreneurial activities in Jordan, Loewe et al. (2008) found that many Jordanian business people continued using *wasta* for four reasons: first, because they did not see any alternatives for achieving their goals; second, people went on using their *wasta* as long as everybody else did the same; third, many Jordanians associated the use of *wasta* with cherished values such as solidarity or loyalty, i.e., they believed that the use of *wasta* was part of their culture, and fourth, Jordan's administrative and political system lacks transparency and accountability on all levels. A recent quasi-experimental study involving 421 Egyptian undergraduate students (Mohamed and Mohamad 2011) reported that the respondents perceived those who used *wasta* to obtain a job as less competent and less moral; still, participants from lower socioeconomic groups evaluated *wasta* users more positively than more affluent respondents.

In sum, while the practice of *wasta* can open doors, reinforce trust, and grease the wheels of the entrepreneurial enterprise, it can also lead to unproductive use of entrepreneurs' time as entrepreneurs need to choose between investing their time in building social contacts or in developing a better product/service for the market. The degree to which social capital in the Islamic world can be used productively or unproductively depends to a large extent on the transparency of government regulations, the degree of arbitrariness of enforcement and the overall institutional development of an economy. According to Transparency International's (2011) Corruption Perceptions Index (Transparency International 2011), most Muslim countries had mid-range rankings in terms of the level of perceived corruption, with the UAE perceived as least corrupt and the Central-Asian ex-Soviet Union republics, Afghanistan, Iraq, Sudan, and Somalia perceived as the most corrupt.[6]

3.1.3 Financial Capital

Financial capital provides the lifeblood for any entrepreneurial venture. As proposed by the financial growth cycle (Berger and Udell 1998), different sources of finance become more or less important when companies become larger, older, and more financially transparent. New and small firms, which are highly uncertain and lack a track record, will heavily rely on inside finance (coming from personal sources, family, and friends) and trade credit. Importantly, at the initial stages of new venture development, capital is raised from multiple sources through "bootstrapping" techniques, such as use of credit cards, delaying of tax payments,

[6]Transparency International's Corruption Perception Index ranges from 0 (most corrupt) to 10 (least corrupt). The 2011 rankings were as follows: UAE: 6.8; Iraq: 1.8; Turkmenistan: 1.6; Uzbekistan: 1.6; Sudan: 1.6; Afghanistan: 1.5; Somalia: 1.

sharing of equipment and employees with other businesses, or leasing (Van Auken 2004). As the company grows in size and develops valuable assets, thus increasing its borrowing capacity, which can serve as collateral (Vos et al. 2007), bank financing also becomes available. Once a company reaches a certain size threshold and develops a track record of past performance, thus reducing adverse selection risks through informational transparency, it can add the public equity and debt markets as additional sources of growth financing. This influx of financial resources provides adequate capitalization which buffers against the higher risks and costs associated with growth.

Access to financial capital in the Islamic world is strongly influenced by the respective countries' level of economic development, availability of financial resources, as well as the overall influence of Islamic principles of financing, the most important of which is the strict prohibition on giving or receiving any fixed, predetermined rate of return on financial transitions, more popularly known as the ban on interest (*riba*). Instead, Islamic financing offers a variety of investment and profit sharing vehicles that are relevant for the support of entrepreneurial initiatives (Aggarwal and Yousef 2000; Özcan and Çokgezen 2006). Farid (2007) discusses four major ways in which individuals and Islamic financial institutions can fund an entrepreneurial venture, namely: when moneylenders/investors can share as active partners (*Musharakah*) by providing capital and labor; as non-active partners (*Mudarabah*), by providing capital while the other partners provide labor; a cost-plus financing or sale with markups (*Murabaha*); and a lease or hire (*Ijara*), when a moneylender/investor acts as a buyer of capital assets required by a venture and then acts as a lessor of the asset, retaining ownership, while the new venture has an option to buy (for an in-depth analysis of the Islamic principles of financing, see also Ramadani et al. 2015). All of these investment mechanisms can be used to effectively finance a start-up business, particularly in situations where investors and entrepreneurs are willing to share profits, losses, risk, and liabilities. Still, it should be noted that an estimated 72 % of people living in Muslim-majority countries do not use formal financial services (Honohon 2007). Businesses started by women, in particular, prefer to finance internally, tapping into family and friends' funds (Alturki and Braswell 2010).

At the macro level, the availability of financing to support entrepreneurship is extremely skewed. At one extreme, the oil-rich Gulf economies generate abundant cash inflows and their sovereign wealth funds, with a market value estimated at $1.2 trillion at the end of 2008 (Setzer and Ziemba 2009), have financed entrepreneurial enterprises (and other business initiatives) around the world for many years. For example, the Qatar Investment Authority (QIA) has been an active investor and developer in English real estate, including the development of the Olympic Village Project, whereas the Abu Dhabi Investment Authority (ADIA) has taken a 15 % stake in the London Gatwick airport and a stake in Hyatt Hotels (www.swfinstitute.org/swi-news). The Gulf countries have also created various funds to assist entrepreneurial initiatives, such as the Fund for the Development of Youth Projects ("Sharakah") in Oman, the Centennial Fund in Saudi Arabia, and the Al Tomooh Finance Scheme for Small National Business in the UAE. Overall, the Gulf countries rank high in their financial market development in the 2011–2012 Global Competitiveness Report (World Economic Forum 2012b): Bahrain, Saudi Arabia, and Qatar are ranked 14th, 16th, and 19th, respectively; Oman is ranked 30th and the UAE are ranked 33rd; with only Kuwait lagging behind [59th]. In sum, the cash-rich Gulf economies have both financial resources and financial market institutions available to support entrepreneurial initiatives.

At the other extreme, many Muslim countries are cash-poor and have been traditional recipients of international aid, as well as beneficiaries of micro-financing initiatives. Some provisions of Islamic finance structures, such as the *Zakat* funds (funds established by Islamic banks to collect and manage the levies required for income redistribution and helping the needy) can be successfully used for alleviating poverty through microfinance (Amal 2011). A recent global survey (Karim et al. 2008) revealed that Islamic microfinance has a total estimated global outreach of only 380,000 customers and accounts for only an estimated 0.5 % of total microfinance outreach. The supply of Islamic microfinance is very concentrated in a few countries, with the top three countries (Indonesia, Bangladesh, and Afghanistan) accounting for 80 % of global outreach. Apparently, Islamic microfinance schemes can be used more extensively in order to help self-sufficiency and alleviate poverty in the poor Muslim countries.

In sum, the availability and quality of critical inputs into the entrepreneurial process—human, social, and financial capital, vary considerably across the Islamic world. They are strongly influenced by the level of institutional sophistication, and cultural heritage. The economic and institutional environment also shapes to a large extent the scope and character of entrepreneurial initiatives in the Islamic word, as will be discussed next.

3.2 New Venture Characteristics

The stage of a country's economic development determines to a large extent the scope of entrepreneurial activity in an economy, as well as the nature of feasible entrepreneurial initiatives. As mentioned earlier, economies can be classified into five stages of economic development, namely factor-driven, in transition from factor-driven to efficiency-driven, efficiency-driven, in transition from efficiency-driven to innovation-driven, and innovation-driven. In the first stage, companies compete on the basis of price and sell basic products or commodities with low productivity reflected in low prices. As a country becomes more competitive, and moves into the efficiency-driven stage of development, companies must begin to develop more efficient production processes and increase product quality because wages have risen and they cannot increase prices. Finally, as countries move into the innovation-driven stage, wages will have risen so much that countries are able to sustain those higher wages and the associated standard of living only if their businesses are able to compete with new and unique products. At this stage, companies compete by producing new and different goods and services using the most sophisticated production processes and innovating new ones.[7]

In terms of scope, the entrepreneurial activity in an economy follows a curvilinear, "U"-shaped relationship with GDP/p.c. At low levels of per capita GDP, the entrepreneurial sector provides job opportunities and potential for the creation of new markets (Audretsch 2007; Minniti 2010). As per capita income increases, the emergence of new technologies and economies of scale allows larger and more established firms to satisfy the increasing demand of growing markets and increases their relative role in the economy while the role of smaller and newer firms decline (Acs and Szerb 2009). Finally, in the third stage, the role played by the entrepreneurial sector in countries with higher GDP increases again, as more individuals have the resources to go into business in an economic environment that may present high-potential opportunities (Minniti 2010; Wennekers et al. 2005).

Thus, in terms of the nature of entrepreneurial initiatives, at lower levels of economic development, entrepreneurship is predominantly necessity-driven. Necessity-based entrepreneurship occurs when individuals participate in entrepreneurial activities because all other employment options are either absent or unsatisfactory (Acs 2006). At higher levels of economic development, technological and institutional sophistication gives rise to opportunity entrepreneurs, e.g., those who are driven by the achievement of success through exploiting an opportunity for some form of gain, often believed to be economic (Kelley et al. 2011a, b). Opportunity-driven entrepreneurship is more desirable, because it is more likely to be technology or innovation-based and high-growth oriented and thus contribute to economic growth and development. As the level of economic development of the country increases, the ratio of necessity-to-opportunity entrepreneurship goes down.

Data from the Global Entrepreneurship Monitor (Table 1) provides evidence for these arguments. Indeed, the levels of early stage entrepreneurial activity in the Islamic world appear to be highest in countries at lower levels of economic development (e.g., with lower GDP/p.c.). These high levels of entrepreneurial activity are coupled with high levels of necessity-based entrepreneurship and low levels of formal company registrations (e.g., high levels of informal economic activity). Thus, Uganda reports 31.3 % of the population ages 15–64 is engaged in entrepreneurial activity, of which 50 % is necessity-based, and there only 0.72 limited liability companies per 1000 working-age people. In contrast, Malaysia, a country at the efficiency-driven stage of development, reports 5 % total entrepreneurship activity, but only 12 % of this activity is necessity-driven, and there are 2.55 limited liability companies per 1000 working-age individuals. Further, entrepreneurial activity in the United Arab Emirates (an innovation-driven economy) is relatively high (at 13.3 %), as expected, and only 9 % of this activity is driven by necessity.

[7]The discussion of the stages of economic development follows the 2011–2012 Global Competitiveness Report (World Economic Forum 2012b: 8–9).

In addition to levels of economic development, institutional arrangements and cultural legacies also significantly imprint individual entrepreneurial propensity and the new venture creation process. In a recent overview of the barriers to entrepreneurship in the Muslim countries, Zahra and Yavuz (2008) identified several institutional barriers to the promotion of entrepreneurship, such as the inadequate protection of property rights, the inefficient bureaucratic systems and institutional corruption. Other researchers have pointed out the egalitarian inheritance system and the lack of a concept of legal personhood for corporations as a reason why entrepreneurial enterprises in the Islamic world have tended to stay small and short-lived (Kuran 2008).

Zahra and Yavuz (2008), Dana (2009, 2010) and Ramadani et al. (2015) also focus on the role of religious values and social mores for the social acceptance of entrepreneurs. Muslims can be characterized as conservative, acquiescent to group norms and policies enacted by authorities, self-transcendent (as opposed to self-enhancing), benevolent (e.g., concerned with maintaining a high social status and esteem in the community), and universalist (e.g., expected to redistribute some of their wealth to the poor in the community). These values and social norms help explain why Muslims attribute greater status to working for respected and well-established organizations rather than engaging in uncertain, risky, and failure-prone entrepreneurial activities. They also suggest entrepreneurial activities in the Islamic world have a larger, social value component, as will be discussed next.

3.3 Outcomes

In Hitt et al.'s (2011) model of strategic entrepreneurship, the outcomes of the process include competitive success, financial and socioemotional wealth and happiness for the owners/entrepreneurs, innovation at the firm level, and social value through the creation of new jobs and enhanced market valuations. In addition, the emerging field of social entrepreneurship is specifically concerned with addressing social needs, such as helping the underprivileged, improving human life or protecting the natural environment. Social entrepreneurship is exercised when some person or persons (1) aim either exclusively or in some prominent way to create social value of some kind, and pursue that goal through some combination of (2) recognizing and exploiting opportunities to create this value, (3) employing innovation, (4) tolerating risk and (5) declining to accept limitations in available resources (Peredo and McLean 2006). In fact, some theorists have argued that entrepreneurs can successfully exploit market imperfections to obtain entrepreneurial rents and simultaneously improve local and global social and environmental conditions, thus enabling sustainable entrepreneurship (Cohen and Winn 2007).

Entrepreneurship in the Islamic world is understood to be a spiritual as well as an economic activity (Ramadani et al. 2015). Discussing economic Islamicity, Rehman and Askari (2010: 4) note: “Unlike most other major religions, Islam is a rule-based system explicitly affording detailed rules and guidelines for crafting a successful and just economic system, good governance, respect for human rights, freedom of choice and protection under a specified code of law, and the code by which to manage external relations (with non-Muslims). . .. Islam, while advocating freedom of choice and freedom of religious practice, gives its followers much more detailed rules of conduct than Christianity, including a legal code, and the details for governance by the state and for management of economic and social affairs”.

According to Kayed and Hassan (2010: 379), “[M]uslims who consider entrepreneurship a religious and economic duty intend to generate *halal* (lawful) income to meet their financial obligations and to contribute to the *falah* (well-being) of the Muslim *ummah* (nation) in this life and hereafter”. Thus, Islamic entrepreneurship has a strong moral dimension, in that Islam regulates profit accumulation by prohibiting dishonesty, greed, exploitation and monopoly. In addition, Islamic entrepreneurship is a means by which Muslim entrepreneurs extend help to those in need (Kayed 2006). In that sense, Islamic entrepreneurship has a spiritual component and is directed both at generating profits and enhancing social welfare. Kayed (2006) developed a model of Islamic entrepreneurship and tested it in the context of Saudi entrepreneurs. He found that Saudi entrepreneurs saw no conflict between being a faithful Muslim and running a successful business, but felt torn between their traditional value systems and the advent of modernity.

The traditional Islamic *waqf* system is a good example of infusing economic activities with a social value component. According to Kuran’s (2001: 842) definition, “A *waqf* is an unincorporated trust established under Islamic law by a living man or woman for the provision of a designated social service in perpetuity. Its activities are financed by revenue-bearing assets that have been rendered forever inalienable.” In other words, a *waqf* is an “Islamic trust” or a “pious foundation”. In return for providing a public good, *waqf* founders were offered tax and other benefits, and enjoyed high social status as well as satisfaction of having performed a social service. Starting in the eighth century A.D., the *waqf* system served as a primary provider of public goods and a helpful instrument for solving numerous social problems. Today, it is still used as an instrument for financing mosques, schools, libraries, research centers, cooperative housing, or monuments (Kuran 2001; Salarzehi et al. 2010). For example, the King Saud University’s *waqf*, an important source of finance for the school, amounts to about 950 million Saudi Riyals. Although traditionally the *waqf* system was restricted to fixed assets, nowadays cash *waqfs* allow Muslim entrepreneurs to give specific funds in cash as loan to applicants who in turn use the money to provide social services for the vulnerable strata (Cizakca 1995; c.f. Salarzehi et al. 2010).

An added benefit of social entrepreneurship in the Islamic world is that it provides an important avenue for socialization and self-realization of women. For example, Saudi women have participated since the 1960’s in charitable organizations, generally under the aegis of princesses, and their activities have won social acceptance because they require skills considered typically female, such as generosity and devotion to others (Le Renard 2008). As a case in point, the King Abdul-Aziz Women's Charity Society, Burayda, run by local women and backed by Nura bint Muhammad bin Saud, performs all traditional charity services, plus micro-credit schemes, parenting training to prevent child abuse, family counseling for men by men, conflict resolution with *qadis* (judges), lectures on endogamy, drugs, hereditary diseases, pre-marriage blood tests, mental health, training the parents of handicapped children, family therapy, environmental and water issues, shelters and the legal position on family violence, and finally outreach in the villages around Burayda (Montagu 2010).

In sum, the process of new venture creation in an Islamic context has traditionally embodied a strong social responsibility and spiritual enhancement component. The combination of financial and altruistic goals allows Muslim entrepreneurs to generate both individual wealth and social value and is an important source of personal satisfaction. Social entrepreneurship initiatives, in particular, can provide Muslim women with a legitimate and socially acceptable path towards a more active participation in economic, social, and political life.

4 Implications and Conclusions

Our organizing framework has important implications for theory and public policy. The most obvious implication for research, as the data in Table 1 illustrate, is that we need to know more about the process of new venture creation in the Islamic world. GEM has data on 16 Muslim countries and the World Bank Entrepreneurship Snapshots database includes 23 Muslim countries. Only seven countries have complete records. Apparently, further research is well warranted so we have a better understanding of the context, drivers, process, and outcomes of new venture creation in the Islamic world.

In particular, some critical interactions of economic, institutional, and individual-level effects need to be examined in more depth. For example, what is the differential effect of institutional pressures by gender and age cohort? What are the mechanisms through which social capital is acquired, structured, and utilized by men and women entrepreneurs and does it vary with the level of economic and institutional development of a country and/or with entrepreneurs' age, level of education, or social position? How do Islamic financing schemes compare to traditional angel and venture capital financing in the West and at what level of a country's economic development are they most appropriate? Exploring the confluence of individual and institutional level effects will generate valuable insights on the dynamics, opportunities, and constraints for entrepreneurship in the Islamic world.

Public policy makers in Muslim countries at all stages of economic development can do more to create a national framework in support of entrepreneurship. Key components of this framework would include transparent and business-friendly institutions, strategic investment in human development and entrepreneurial training targeted specifically towards women and youth, and availability of entrepreneurial financing commensurate with the country's level of economic development (e.g., micro-financing schemes; profit-sharing financing arrangements, as well as growth financing for high-potential growth-oriented new ventures).

In conclusion, the proposed organizing framework integrates extant theoretical work and empirical evidence to present the multifaceted and multilayered phenomenon of new venture creation in an Islamic context. Our study serves a dual purpose. First, by applying a universally acknowledged and well respected framework of the entrepreneurial process, it places Islamic entrepreneurship in the broader conversation of the global entrepreneurship phenomenon. Second, it simultaneously highlights and elaborates on the unique features of Islamic entrepreneurship. Thus, it presents the phenomenon of Islamic entrepreneurship in the duality of the universal and the specific.

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