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**ISLAMIC ENTREPRENEURSHIP:
A CASE STUDY OF
THE KINGDOM OF SAUDI ARABIA**

**A thesis presented in fulfilment of the
requirements for the degree of**

Doctor of Philosophy in Development Studies

**Massey University
Palmerston North, New Zealand**

Rasem N. Kayed

2006

“In the name of Allah, Most Gracious, Most Merciful”

But seek, with the (wealth) which Allah has bestowed on thee, The Home of the Hereafter, nor forget thy portion in this world, but do thou good, as Allah has been good to thee, and seek not (occasion for) mischief in the land: for Allah loves not those who do mischief (The Holy Qur'an, 28, 77).

ABSTRACT

The point of departure in this study is that entrepreneurship, regardless of how it is defined, is more than a means to create employment opportunities and maximise economic returns; it is rather a development alternative with great potential to contribute to the well-being of individuals, communities and nations in developed, developing and less developed countries alike. The purpose of this thesis is to explore the entrepreneurship phenomenon from an Islamic perspective within the Saudi Arabia context. The thesis specifically seeks to examine the relationship between Islamic values and entrepreneurial activity and to establish whether these values can be more effectively tapped into to raise the profile of Islamic form of entrepreneurship and promote alternatives to development.

The philosophical differences between the Islamic and the prevailing Western world-views on the theoretical as well as the practical aspects of development are fundamental, to the point where they cannot be marginalised or reconciled and integrated within a standardised single development model. Furthermore, the lack of cultural sensitivity on the part of the Western model and its inability to account for variables specific to the Islamic cultural and institutional environment justify the need to search for an alternative Islamic model of entrepreneurship that best serves the ultimate goal of the Muslim nation (*ummah*), that is, realising the state of well-being (*falah*).

Despite the suggestion of modernisation theories of development and the prevalent conventional assumption that Islam is intrinsically anti-modernisation and anti-development, and that the religiously based Saudi culture would be the foremost obstacle in the way of cultivating a dynamic entrepreneurship class in Saudi Arabia, the findings of this study indicate otherwise. There is no evidence of incompatibility between Islamic values and entrepreneurship. Lack of entrepreneurial dynamism in Saudi Arabia by no means can be attributed to adherence to Islamic values and business ethics; rather, it can be linked to the state's failure to assimilate the implication

of entrepreneurship and consequently to integrate Islamic values into its developmental process.

This research indicates that Saudi entrepreneurs embrace positive perceptions and attitudes regarding the role of Islamic values in promoting productivity through entrepreneurship. This positive attitude is independent of both the demographic backgrounds of the entrepreneurs and the physical characteristics of their enterprises. Analysis of case studies of Saudi entrepreneurs revealed inconsistencies between the attitudes and practised behaviours of Saudi entrepreneurs, and the reality of the Saudi entrepreneurship landscape. The personal in-depth interviews with various stakeholders explained this divergence mainly in terms of entrepreneurship policy vacuity and incompatibility between Islamic values and the existing institutional framework, most evident in the financial sector.

The findings of this study further confirm that Islamic entrepreneurship is a concept that is misread by the vast majority of Muslims at individual as well as at state levels. Arguably this misinterpretation has caused, and at the same time is largely caused by, the neglect of policymakers, lack of institutional support and deficiency in educational systems that lacked the focus on entrepreneurship development. The study therefore emphasises the need to rethink the current official approach to entrepreneurship, and highlights the importance of devising entrepreneurship policies that draw from local experiences and cultural values. Building a viable entrepreneurship sector also requires the intervention of the state, most likely through a combination of directive as well as facilitative policies. However, the exact form, scope and nature of government intervention should be mapped in line with the findings of future policy-oriented research.

The main challenge for Islamic (development) remains operational in nature: how can the Islamic entrepreneurship model be transformed into working policies and enabling institutions? Furthermore, how can any Islamic business ethics be operationalised in the context of the contemporary business environment in order to reap the benefits of Islamic entrepreneurship? These basic questions bring about the inevitable question of whether or not the behaviour and the performance of Islamic entrepreneurship can be or should be judged in the absence of a true “Islamic state where the whole realm of socio-economic human behaviour is engineered according to Islam”¹.

¹ See footnote 77, p. 351 of this thesis.

ACKNOWLEDGEMENTS

All praise and thanks are due to The Almighty Allah for His countless and endless blessings, not the least of which has been enabling me to complete this thesis. Peace and blessings be upon His beloved Messenger.

Throughout the course of this research, I was fortunate to have the assistance, co-operation and the support of many individuals and institutions that made the completion of this work possible. At the individual level, I am grateful to Dr. Donovan Storey, my thesis chief supervisor, for his intellectual guidance, positive feedback, and for his unconditional and unfailing support and inspiration; to my thesis co-supervisors: Professor John Overton and Professor Alan Williams, for their incisive comments, constructive suggestions, and constant encouragement.

I wish also to express my profound thanks and appreciation to the many entrepreneurs, research assistants, government officials, and Saudi intellectuals who participated in this study. Without you all, I would have had no data to analyse or findings to report. Special thanks go to my friend, Mohammed Kilani, for devoting his time and energy in following up my visa application with officials at King Saud University (KSU) and various Ministries and government agencies. Without his persistence and affable personality, I truly doubt whether the visa would have been issued. I am also indebted to Annette Barry for employing her English language skills in proofreading the first draft of this thesis, thank you Annette. Annette and her husband Professor Tom Barry are good friends that we have had since we made New Zealand our home in 1994. Many thanks are also due to Karen Stanley for her professional attitude and approach to proofreading the final draft of the thesis.

At the institutional level, thanks are due to the staff of the SMEs Development Centre at the Riyadh Chamber of Commerce for their unreserved support and for providing me with valuable literature and information on the Saudi SMEs sector. The staff of the centre utilised their business, and often personal, relationships to arrange for my personal interviews with Saudi officials. I also thank the faculty and staff of the College

of Administrative Sciences at King Saud University for sponsoring my application to obtain the required visa, for their generous and total support, and for making the resources of the university available to me throughout the duration of my fieldwork.

Finally, no words would be able to convey my true feelings and gratitude to my beloved family; my wife, Kefah, your love, understanding, strength and support made it possible for me to keep going especially when the ride got tough. Thank you for putting up with my (at times) moody attitude. To my children: Hanan, Abdulrahman, Afnan, and the latest addition, Ayah, who is credited with giving me many sleepless nights: You all were, as usual, wonderful despite the stress and the many missed occasions and many school holidays when I should have been with you. At least there is one promise I am keeping Abdul; I am submitting the thesis (almost) on time, and I am not asking for an extension! To my brothers and sister for their love and for always being there, many thanks. Last but not least, my love, admiration and prayers go to my mother, who never failed to ask how my studies were going and provided me with encouragement and a word of wisdom every time we had a chat over the phone. Although you did not have the opportunity to go to school, you are an inspiration in your own right.

May The Almighty Allah accept this humble work, which I sincerely hope will render some benefit to someone, somewhere.

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ACRONYMS/ABBREVIATIONS

AHDR	Arab Human Development Report
ARAMCO	Arabian American Oil Company
AWCR	Arab World Competitiveness Report
BNEA	Bureau of Near Eastern Affairs
bpd	barrels per day. Production of crude oil and petroleum products is frequently measured in barrels per day, often-abbreviated bpd or bd. A barrel is a volume measure of forty-two United States gallons
CCFI	Consulting Centre for Finance and Investments
CIA	Central Intelligence Agency
CSCCI	Council of Saudi Chambers of Commerce and Industry
EDA	Economic Development Administration
EIA	Energy Information Administration
EU	European Union
G-8	The Group of Eight
GATT	General Agreement on Tariff and Trade
GCC	Gulf Cooperation Council
GD	Gulf Disease
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GLOBE	Global Leadership and Organizational Behaviour Effectiveness Research Programme
GNI	Gross National Income
GNP	Gross National Product
GPI	Genuine Progress Index
HPI	Happy Planet Index
IDF	Industrial Development Fund
IDIC	International Development Information Centre
IDB	Islamic Development Bank
IDRC	International Development Research Centre
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Institute of Public Administration
KFUPM	King Fahd University of Petroleum and Minerals
KSU	King Saud University
LDCs	Less Developed Countries
NEF	New Economics Foundation
OECD	Organization for European Co-operation and Development
OIC	Organisation of Islamic Conference
PBUH	"Peace Be Upon Him" (used whenever the name of the Prophet Muhammad (PBUH) is read or heard)
PLS	Profit-and-Loss Sharing
PPP	Purchasing Power Parity
RCCI	Riyadh Chamber of Commerce and Industry
SABIC	Saudi Arabia Basic Industries Corporation

SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SAMBA	Saudi American Bank
SCB	Saudi Credit Bank (<i>Bank Al-Tasliif</i>)
SDR	Special Drawing Rights
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
SR	Saudi Riyal
SRCC	Sajini Research and Consultancy Centre
SRI	Socially Responsible Investment
TEA	Total Entrepreneurship Activity
UN	United Nations
UND	United Nations Development
UNDP	United Nation Development Programme
WEF	World Economic Forum
WTO	World Trade Organisation
WWII	World War II

GLOSSARY OF ISLAMIC/ARABIC TERMS

Allah	The greatest and most inclusive of the names of God. It is an Arabic word of rich and varied meanings, denoting the One True God, the only God who is adored in worship, who creates all that exists, and who has priority over all creation.
Akhlaq	Code of conduct (ethics).
Al-qard al-hassan	A free of profit/interest loan (benevolent loan). It is assumed that individuals seek to acquire loans only if they are in need of them. Therefore, it is a moral duty of lenders to help their brothers by lending them money without any charge. Lenders anticipate greater reward of this act from The Almighty Allah in the hereafter. The loan has to be paid back in full on demand.
Aqidah	Piety, belief, faith or creed. In Islamic terms, it means belief in: Allah as the only true God; Allah's angels; His revealed Books; His messengers; the Day of Judgement and in Fate and the Divine Decree.
Ayah	Verse of the Holy Qur'an.
Bai'	Sale or barter. It is also used in a wider context to include trade and commerce, and various kinds of transactions.
Bank Al-Taslif	Saudi Credit Bank.
Barakah	Literally means "blessing". It is also described as "the greater good" derived from any act.
Duhr	The second of the five daily Prayer services offered (midday prayer).
Falah	Success. Real <i>falah</i> in this worldly life is a precondition for the <i>falah</i> in the <i>hereafter</i> , which is achieved through "enjoining what is right and forbidding what is evil".
Fard	An obligation / a duty that a Muslim has no choice but to carry out or perform.

Fard kifayah	A collective duty upon Muslims. This obligation must be performed by adequate number of Muslims to discharge the rest of its performance.
Hadith	Reports on what the Prophet Muhammad (PBUH), said, what he did, and what he approved of.
Hajj	The performance of pilgrimage to Mecca in Saudi Arabia. It is one of the five pillars of Islam. An adult Muslim is to perform Hajj at least once in his/her life, if means and health allow.
Halal	Something that is lawful and permitted in Islam.
Haram	Something that is harmful and forbidden in Islam.
Ibadah	The fundamental message of Islam is that humans, as God's creatures, should direct their <i>ibadah</i> (worship) to His Almighty in the following three meanings: (1) worship and adoration; (2) obedience and submission; (3) service and subjection.
Imam	Any person who leads a congregational prayer is called <i>imam</i> . Moreover, <i>imam</i> in its highest form refers to the head of the Islamic State.
Iman	Faith and trust in The Almighty Allah.
Infaq	Spending in the way of The Almighty Allah in general and for the needy and poor in particular.
In sha'a Allah	By Allah's willing.
Isha	Obligatory prayer, after sunset and later in the evening
Kafeel	Sponsor; could be a person, a business, an educational institution or a governmental agency that any person wishes to visit or work in the Kingdom of Saudi Arabia must have. The Saudi <i>kafeel</i> applies for the visa and acts as 'guarantor' for the foreign visitor or expatriate.
Khalifah	Steward, vicegerent, successor. <i>Khalifah</i> has two meanings: every Muslim is a <i>khalifah</i> entrusted with earth resources. The other meaning is specific to Muslim rulers after the noble Prophet (PBUH).
Mua'qqeb	A liaison officer who acts as a link between the business entity and the Saudi authorities. He must be a Saudi citizen.

Mudaraba	An agreement made between two parties: one provides the capital for the project (i.e., financial institution) and the other party (entrepreneur) uses his/her entrepreneurial ideas and skills to manage the project. Profits generated from the project are distributed according to a predetermined ratio. Any financial losses accruing are borne by the provider of capital while the entrepreneur loses his/her labour. The provider of capital has no control over the management of the project.
Mujlis Al shoura	Consultative Council/Assembly.
Murabaha	A contract for purchase and resale and allows the customer to make purchases without having to take out a loan and pay interest. The Bank purchases the goods for the customer, and re-sells them to the customer on a deferred basis, adding an agreed profit margin. The customer then pays the sale price for the goods over instalments, effectively obtaining credit without paying interest.
Musharakah	A partnership between two parties (i.e. Islamic financial institution and entrepreneur), both provide capital towards the financing of a project. While profits are shared according to a pre-agreed ratio, losses are shared based on equity participation. Both parties carry out management of the project.
Nisab	The minimum amount of property (wealth) liable to payment of <i>Zakah</i> .
Qur'an	The Islam's Holy Book, believed by Muslims to be the direct word of The Almighty Allah, revealed to the Prophet Muhammad (PBUH).
Riba	The Arabic word for "Usury", which means guaranteed interest. Islam considers interest to be unjust return because it is money gained without due efforts or productive work. Thus, Muslims are explicitly prohibited to neither give nor receive interest.
Rizq	Provision, Sustenance. It is derived from the word " <i>Al-Razzaq</i> " which means the "Provider or Sustainer", one of the ninety-nine attributes of The Almighty Allah.
Saudi Riyal (SR)	Riyal is the basic unit of the Saudi national currency; the riyal is pegged to the US\$ since the mid 1980s at around 3.75 SR/ 1 US\$.
Shari'ah	The Islamic law, based on the teachings of the Holy Qur'an; the <i>hadith</i> ; and the noble <i>Sunnah</i> of the Prophet Muhammad (PBUH).

Sheikh	A designation or a title which is given to an elderly / wise person or to a religious leader in a community.
Shoura	Consultation.
Siddiqeen	Plural of ' <i>Siddiq</i> '. The earnest, honest and truthful.
Sunnah	The reported sayings and deeds that proved beyond any doubt to be that of the Prophet (PBUH) or what he witnessed and approved. This is the second source of Islamic law, next to the Holy Qur'an.
Surah	Chapter. The Holy Qur'an is composed of 114 chapters; each chapter is called a <i>Surah</i> .
Ulama	Plural of ' <i>Alim</i> '. The people of knowledge from amongst the Muslims who act on what they know and do what they say.
Ummah	The Muslim community / nation.
Tawhid	Faith in or affirmation of the unity of God (Oneness of God).
Tuwakol	It implies that one should do nothing and hope for everything by relying on "other power", clearly defying the universal law and commonsense.
Thoub	Traditional Saudi-male dress/wear.
Tuwukkol	Relying on The Almighty Allah after mobilising all resources and taking all possible measures necessary to achieve desired goals.
Zakah / Zakat	<i>Zakah</i> is one of the five pillars of Islam. It literally means purification and increment of one's wealth. All Muslims who possess minimum net worth above their basic needs (<i>Nisab</i>) have to pay <i>Zakah</i> (2.5% of the assets that have been owned over a year). <i>Zakah</i> is also called the alms due or poor due, and it is a major economic means to spread socio-economic justice amongst Muslims.

CHAPTER ONE

THE FOCUS AND THE CONTEXT OF THE RESEARCH

Development does not necessarily mean that one should have more but that one should be more.

Ghosh (2001, p. 138)

Despite the remarkable levels of socio-economic development that Saudi Arabia can claim to have achieved within the past three decades, the Saudi economy largely remains a rentier single resource-based economy. Zahra (1999, p. 38) pointed out that “economic development can neither be achieved nor sustained if it does not promote or encourage human development”, and further explained “economic progress does not always translate into human development”. The failure of the Saudi State to nurture a positive attitude towards work and productivity among its youth and to invest substantially in developing its human resources could be linked to its inability to differentiate between economic development and economic growth. Consequently, the Kingdom of Saudi Arabia is faced with many challenges, among which are: the imbalance between levels of population growth and the ability of the economy to generate sufficient employment opportunities for the rising numbers of Saudi job seekers; unbalanced growth levels between the diverse sectors of the economy; uneven regional development mainly caused by disparities in the distribution of national wealth amongst citizens, and lack of economic diversification and sustainable sources of national income. The Saudi experience is a typical case of a developing country with an abundance of natural resources that has failed to establish a dynamic economic structure capable of expanding the productive base of the national economy through the development of vibrant indigenous entrepreneurship sector.

It is widely accepted that entrepreneurship, regardless of how it is defined, is an empowering instrument and a driving force for economic development and prosperity in developed, developing and less developed countries alike. Entrepreneurship creates jobs, inspires creativity, promotes competitiveness, and in many ways contributes to

the well-being of individuals, communities and societies. Due to cultural variations and incompatibility of values between Western and Islamic societies, this study examines Islamic entrepreneurship as an alternative to the prevailing Western style of entrepreneurship within an Islamic context. It also argues that Islamic entrepreneurship is a viable developmental strategy potentially capable of rendering significant contributions to confront these challenges, and further to advance the well-being of the Muslim nation (*ummah*) at large.

The main purpose of this introductory chapter is to provide the framework and the focus of the study. Thus, it presents an overview of the research problem and the arguments leading to defining the research questions and delineating research objectives. It also briefly discusses the theoretical framework and practical approaches used to justify the methods employed in collecting and analysing necessary data. The chapter concludes with a summary outlining the structure of the thesis.

Background issues

The majority of Islamic countries, including Arab countries, are poor and economically underdeveloped. Applying the United Nations' (UN) criteria or measuring against other international development indicators reveals that these countries could be characterised as developing, less developed or underdeveloped countries. Conventional economic parameters based on Gross Domestic Product (GDP) and Gross National Income (GNI) per capita¹ growth rates for Arab countries are neither reassuring nor promising. Although one could argue that GDP figures are misleading and do not measure real productivity, true economic output or the well-being of nations, the 22 social, economic and environmental components of the newly introduced Genuine Progress Index (GPI)² point towards the same conclusion. The developmental path of the majority of Arab / Islamic countries, including the rich resource countries, is best described by: lack of investment in people, steady decline

¹ The World Bank has recently adopted the new terminology in line with the 1993 System of National Accounts (SNA). The changes in terms are from Gross National Product (GNP) and GNP per capita (old terminology) to Gross National Income (GNI) and GNI per capita.

² According to the GDP terminology, there is a linear correlation between the level of a country's depletion of its natural resources and its economic growth. Depletion of natural resources is interpreted as a sign of well-being and progress. In contrast, GPI, as an alternative to the GDP, accounts for social, environmental and economic health of the country and considers both "the quality and distribution of economic growth". For more on the GPI, visit: www.elements.nb.ca/theme/ecologicalfootprint/anne/gpi.htm

in productivity, shortage in employment opportunities³, lower level of quality education and depletion of non-renewable natural resources (Ahmed, 1984; Al Habtoor, 2001a; Bhalla, 2002; Kuran, 1997; Lacey, 2005; Schwab, 2006).

The disturbing reality is that these countries have witnessed more than two decades of economic failures and development decline; in fact they were politically and economically more affluent in the 1970s and 1980s than they were in 2001 (Bishop, 2001). The *Arab World Competitiveness Report 2002-2003 (AWCR)*, published by the World Economic Forum (WEF), indicated that the political establishments across the Arab countries have failed to effectively involve the private sector in their national economies. This failure, coupled with the failure to diversify the productive base of these economies, impeded development in the majority of Arab countries (Schwab & Cornelius, 2003) and might have caused 'de-development' in others.

Furthermore, *The Arab Human Development Report 2002 (AHDR)* which was commissioned by the United Nations Development Programme (UNDP) and compiled by a group of renowned Arab scholars revealed alarming statistics about the realities of development across Arab countries. The real GDP per capita in the Arab World based on Purchasing Power Parity (PPP) was 21.3 percent of the average GDP per capita of the Organisation for Economic Co-operation and Development (OECD) countries in 1975. By 1998, the real PPP income of the average Arab citizen had fallen to 13.9 percent of that of the average OECD citizen. Egypt, for instance, had the same per capita income as that of South Korea in 1950; the ratio was 1 to 5 in favour of the Asian Tiger in 2002 (AHDR, 2002; Alabbar, 2003; Lopez-Claros & Schwab, 2005). The annual combined GDP of the twenty-two Arab countries in 1999 was \$531.2 billion, less than that of Spain at \$595.5 billion (AHDR, 2002; Al Muquoshi, 2004, p. 23). The total registered patents of nine Arab countries for the twenty years between 1980 and 1999 were 370, while those of South Korea alone were 16,328 for the same period. Arab countries expenditure on research and development (R&D) is less than 15% of the world's average (about 0.4% of their GDP in 1996, compared to 1.26% in 1995 for Cuba, and 2.9% for Japan).

³ "International experts have warned Arab governments that they need to create 55 million jobs over the next decade to curb unemployment rates" (Bibbo, 2006). In an interview with Sabreen, Schwab (2006), the founder and the executive chairman of the WEF, drew attention to the severity of the unemployment problem facing the Middle East and North Africa, and emphasised the role of entrepreneurship in the job creation process. He further pointed out that in excess of 100 million jobs must be created during the upcoming 20 years in order to keep unemployment rates in these countries to a sustainable level.

The economies of most Arab countries are stagnant with low levels of international trade and little capital inflow. The prolonged economic stagnation over the past 30 years, coupled with high rates of population growth, evidently led to a decline in the living standards across the majority of Arab countries (Lacey, 2005). The *Middle East Quarterly* (2002) presented the findings of the AHDR (2002) under the following gloomy but descriptive headings: Mouths to feed; Stagnant growth; Less per capita; Education shortfall; Science and tech backwater; Information isolation; Labour lag; Freedom deficit and Rich and underdeveloped. The report concluded that the region is far richer in natural resources than in terms of development.

The difficulties facing the majority of Arab Muslim countries thus are not limited to the economic sphere, but are extended to encompass their social, political and institutional environments. Reforms, when undertaken, are slow and selective and are usually designed in such a way that not only undermines their effectiveness, but also justifies the agendas of the elite. The AWCR puts the blame solely on Arab governments: regulations, protectionism, state-dominated economies, corruption, poor delivery, oversized public sectors, and outdated educational systems –both in content and in mode of delivery. The political unrest during the past half-century has left its mark on every Arab country; best evidenced by regional wars, border disputes and internal conflicts. The HDR (2002) highlighted the adverse impact of political instability and how it has hindered development efforts and contributed to the economic disarray of the Middle–Eastern Islamic/Arab countries.

Peter Cornelius, Director of WEF's *Global Competitiveness Program* noted that “the region has for too long pursued a one-dimensional growth strategy that is far too reliant on capital accumulation as the single engine for growth” (Cornelius, 2002, p. 3). Capital accumulation should not be an objective by itself; rather it is a means to advance the cause of development. The rich Arab Gulf States are investing their ever-increasing wealth in promoting Western economies (Al Habtoor, 1997). The paradox is that the WEF and other internationally renowned economic bodies encourage these countries to open their economies for foreign investments rather than inspiring them to invest their own wealth in the development of their national economies. Ironically, in most cases, the potential foreign investors are the same countries in which the Arab wealth is being invested.

The accumulated deposits in the Islamic banks in the Gulf States have exceeded US\$ 400 billion in 2005. Interestingly, most of this wealth is re-invested in overseas financial

institutions, as local banks have neither the facilities nor the capabilities to invest such wealth in the region (*Abu Dhabi*, 2005). The irony is that while this national wealth is being invested in foreign economies, financing new business initiatives remains a genuine problem facing the majority of potential local entrepreneurs. It could be argued that investing even a small portion of this wealth at home would make a huge impact on the indigenous economic development formula of the respective countries.

There is a consensus among all nations, regardless of the status of their 'well-being', that entrepreneurship has a vital role to play in the economic development of any given country, and consequently in the question of 'development' in its wider context (Burnett, 2000; Hisrich & Peters, 1998; OECD, 1997; O'Neill, 1993). Entrepreneurship according to Hay, Butt and Kirby (2003, p.132) is "the key to unlock future economic potential" and a source of sustainable economic productivity. Despite this widespread positive perception of entrepreneurial activity, the 'definition', the 'concept', the 'process' and the 'ultimate goal' of 'entrepreneurship', 'economic development', and 'development' remain country-specific issues. They are framed, explained and promoted in different terms and hence pursued from different perspectives, according to each country's own vision of the development phenomenon.

Based on this overwhelmingly affirmative view of entrepreneurial activity, entrepreneurship in this thesis is promoted as a viable diversification strategy that enables the Kingdom of Saudi Arabia to confront the manifold challenges it is facing, and to press ahead with its quest for 'development' in accordance with its own definition of the term. The importance of entrepreneurship to the economic well-being of the Arab / Islamic countries is not in question. However, the suitability of the prevailing Western entrepreneurship model⁴ to the political, cultural, and economic environment of these countries is highly contested. The revolutionary Schumpeterian model of entrepreneurship with its emphasis on innovation and creativity is best suited to the liberal industrialised countries of Western Europe and North America. Likewise, the evolutionary Kirznerian version of entrepreneurship, with its focus on creative imitation and adaptiveness, has played a key role in the development of the East Asian newly industrialised economies (Cheah, 1992; Cheah & Yu, 1996; Yu, 1997; 1999).

⁴ Delanty (2004) drew attention to the prevalent misconception that portrays the West as being a collection of homogeneous nations and cultures, and the Western model as being a uniform model. The term "West" in this thesis refers to the countries of Western Europe, North America, Australia and New Zealand. Equally important is to note that although all Muslims share the same value system and religious beliefs, variations amongst the local cultures of various Islamic countries do exist.

Most development theories, which are largely based on mainstream economies have Western origins, and thus view entrepreneurship purely as an economic activity and assume that the prime motive of the entrepreneur is to maximise personal returns.

Islam has no ill feelings towards the Western perception of entrepreneurship as an economic activity', but strongly argues that, like all other activities, an economic activity has to be based on ethical and moral foundations and be socially acceptable (Al Habtoor, 2001b; Siddiqi, 1979). Islam considers the profit motive to be legitimate and moral as long as it is kept free of interest (*riba*), greed, speculation and exploitation and as long as it is not considered the ultimate goal of the entrepreneur. Materialistic gain, therefore, should be intended for pleasing The Almighty Allah through lawful and righteous use. Thus, entrepreneurship in Islam has a religious dimension alongside its economic dimension. Where Muslim entrepreneurs meet their economic needs, serve their communities and fulfil religious duties they will attain *falah* in this worldly life and be rewarded generously in the hereafter.

Entrepreneurship development, or lack of it in a country, has been explored from different perspectives, namely: the entrepreneurial process that encompasses the entrepreneur and the enterprise, the institutional/environmental, the historical/structural and more recently, the cultural perspective. It is evident that none of these approaches independently is capable of explaining the level and type of entrepreneurial activity; hence, this study integrates these approaches within one comprehensive framework. Although this study employs the cultural approach as the major line of inquiry into the development of Islamic entrepreneurship within the Saudi context, it will in due course establish appropriate points of contact to link the "cultural" approach with the other components of the proposed conceptual model.

Background to the research problem: The Saudi context

Some of the most pressing challenges facing policymakers in the Kingdom of Saudi Arabia and other Arab countries at the present time are: firstly, increasing the participation of their citizens in productive business activities to curb the rising level of unemployment, especially among the youth and university graduates. Secondly, to ensure that generated national income and wealth are distributed more evenly between all citizens with the aim of reducing social disparities amongst diverse segments of their societies. Thirdly, developing sustainable productive sources of national income based

on multidimensional development strategies to diversify the base of their economies as opposed to dependency on a single source of national income or a single-track development strategy. Fourthly, assuming a more active role, as exporters, in the global economy to maximise the economic benefits of their association with the World Trade Organization (WTO) (Goetz, 2003; Looney, 2004a; Raphaeli, 2003; Zineldin, 1998).

Estimates of the unemployment rate among Saudis range from as low as 8% to a high of 40%. However, conservative unofficial sources estimate the figure to be around 20%⁵. Economists estimate that the Saudi market generates approximately 30,000 new jobs annually, while there are more than 100,000 new Saudis seeking employment each year (*Aljazeera.net*, 2001; Baki, 2004). The irony is that while about 20% of the Saudi work force is unemployed, more than 60% of the total jobs in the Kingdom are filled by foreign labour.

At the current growth rate of the population of about 3.5%, it is expected that the Saudi population will double by the year 2020. Hence, more pressure will be exerted on various sectors of the economy, namely: employment, health, education and general infrastructure. Authorities are under no illusion of the severity of these challenges and they realise the urgency to act because the threat of not acting is unpredictable. Al-Sayari, the Governor of the Saudi Arabian Monetary Agency (SAMA), acknowledged "the employment of the Saudi youth is one of the most prominent challenges facing the national economy and the decision makers in the Kingdom"⁶. Mr. Al-Sayari explained the causes of the Saudi unemployment dilemma in terms of the Kingdom's high population growth rate, recruitment of foreign manpower, and the slow pace of tailoring education curricula and training programmes to meet the market demands

Despite its commitment to adopting a strategy of diversification, Saudi Arabia remains highly dependent on oil revenues to run the country and to finance its development

⁵ There is no official Saudi statistical definition of unemployment, or reliable official data on the rate of unemployment, hence estimates of unemployment rate vary considerably from 8%, 12%, 20% to 40%. However, unemployment is broadly defined to be an economic condition marked by the fact that individuals who are able and actively seeking jobs remain unemployed. Unemployment is expressed as a percentage of the total available workforce. Given estimates account for unemployment among Saudi males only, if unemployed women were to be included, these figures would increase drastically. Mike Moore, the Director General of the World Trade Organization (WTO) from 1999 to 2002, estimated that about 95% of Saudi women are unemployed (Moore, 2003).

⁶ Comments made while presenting SAMA's 40th annual report to the late King Fahd in October 2003.

projects, and the Saudi economy remains best characterised as an “oil-based economy” (Kanovsky, 1994; O’Sullivan, 1996 cited in Champion, 2003). The Saudi economic development model has been built upon its oil industry. Saudi Arabia is the home of 26% of the world’s proved oil reserves, and is the largest producer and exporter of petroleum. Although accounts of Saudi reliance on oil revenues vary, most figures cited clearly indicate that oil is still the biggest contributor to the economy, and one of the largest determinants of GDP growth. Oil revenues and oil related industries account for approximately 90% of the total Saudi export intake, up to 70% to 80% of the state revenues and about 40% to 45% of its GDP (EIA, 2005; Habib, 2003; Wynbrandt, 2004)⁷

Being the world’s leading oil exporter and holder of the world’s largest oil reserve, Saudi Arabia – like most other natural resource economies – has fallen victim to the “Dutch Disease” syndrome⁸ and failed to employ the influx of oil revenues to establish a diversified and animated national economy. That is to say, it has failed to nurture, develop and promote an entrepreneurial culture among its citizens. The Saudi government has accepted the inevitability that the economy has to be transformed from being a single commodity economy based on oil crude to a productive economy with multi-diversified sources of income. This intuitive reading was incorporated within the consecutive five-year Saudi national development plans. It is true that in most cases change does not occur in good times, so the actual implementation of these policies did not materialise during the 1970s and 1980s. The new economic realities facing the country and the region have left the Saudis with no option but to act, and have forced the Saudi policymakers to rethink their strategies and approaches towards diversifying the productive base of the Saudi economy.

Diversification through entrepreneurship is seen as a viable alternative strategy. The broad assumption that underlies the vast majority of entrepreneurship literature and the conclusions of many empirical studies indicate that promoting productive entrepreneurship is always beneficial. Entrepreneurship creates employment opportunities and contributes to national economies in terms of innovations and

⁷ Dr. Al Zahrani of the Ministry of Education did not reveal a secret when he told this researcher that one of the most frustrating challenges he faced while doing his research in Saudi Arabia was the lack of timely and reliable statistical data, especially in the socio-economic discipline. “There would be immense variations and in many instances clear contradictions in published data from two different government sources with regard to the same topic”. Scholars who ventured to do research in Saudi Arabia, including this researcher, frequently repeat similar comments

⁸ More discussion on the “Dutch Disease” is presented in Chapter 4.

international competitiveness in the global market. Further, it is regarded as a pre-condition to the success of any export-oriented and/or import substitution diversification strategy (Baumol, 1993; Lee & Peterson, 2000).

As the number of entrepreneurs and level of entrepreneurial activity vary between and within nations, the 'productive contribution' of entrepreneurial activities among these nations varies to a greater or lesser extent depending on the prevailing national reward structure (Baumol, 1990). Hence, the impact of entrepreneurship on economic development varies accordingly (GEM, 2000a). Within the Saudi context, the mission is to establish a structure and build a mechanism that can generate domestically driven economic growth. In other words, the challenge is to develop an effective indigenous entrepreneurship sector that is able to have a presence, and compete, in the global economy.

Conventional theories of economic development advocate that entrepreneurship thrives in environments that allow market forces to work, and for market forces to work, it is necessary that fundamental changes in state policies take place to promote privatisation and limit the dominant role of the state in the economy. This line of reasoning places this study within the boundaries of the neo-liberalism theories of economic development. Neo-liberalism theories view poor economic performance as an outcome of corrupt economic policies practised by the state. Policies such as excessive state intervention, regulations, and an oversized public sector limit the scope of the economic activity, hence hinder the emergence and development of a viable indigenous entrepreneurship within the country.

The call for economic reforms within the Saudi economy as a means of achieving economic development and growth is far from being trouble-free. The attempt to reform the Saudi economy, according to the canons of development theory, requires the transformation of the 'traditional' religiously based Saudi society into a 'modern' secular society. The main characteristics of the 'modern society' as advocated by modernisation and neo-liberal theories are: individualism, secularity, rationale, cultural standardisation and a universal 'Western' value system. In analysing the Saudi cultural values from the perspective of modernisation theories, one concludes that such values would avert reforms and act as impediments in the way of the emergence of the entrepreneurship culture in the Kingdom of Saudi Arabia.

Cultural values of the Islamic countries – represented in this study by the case of Saudi Arabia – are built on deeply rooted religious convictions that govern all daily

activities of Muslims and account for the economic, social, political and legal aspects of their lives. Hence, the call for cultural transformation within this perspective is not a sustainable option and ought not to be on the agenda. Mainstream economic theorists argue that failure to reform implies that traditional societies carry from within their self-destruction and that their economies are doomed.

This unfolding argument leads to a questionable conclusion that development by the means of entrepreneurship in the Islamic world had reached an impasse. At the same time, it underscores the importance of readdressing the 'old/new' debate that divides nations into 'modern' and 'traditional', and the implications of such division for the course of development of traditional societies.

Modernisation, Westernisation and the question of development

Modernisation is widely linked to development in its materialistic manifestations, while Westernisation is associated with the influence of the Western value system on the cultural, family and community values of developing (non-Western) countries. Pfaff (2002, p.1) highlighted the contradictory views of Westernisation: "Westernisation, to Westerners, means liberation ...for people in other societies, Westernisation frequently means destruction, social and moral crises, with individuals cast adrift in a restructured and literally demoralised world". Modernisation theorists define 'modernity' strictly using Western criteria. In addition, the underlying frame of reference for the modernisation theories is the 'Western model' of development as the only model for developing countries to follow. Reflecting on this common understanding imbedded in the Western mentality, Holmstrom (2002) passes on the general Western, but not his own, perception comprising the notation of 'development':

... to develop means to become more like us, meaning those of us who live in rich countries. The way for the poor countries to get rich is to copy our institutions, like the free market; absorb our culture, our work ethics, management etc. (Holmstrom, 2002, p. 36-37).

While Holmstrom (2002) described the common Western view of development, Shrestha (2000) reflected on his "own developmental experience and journey". He realised that his "mind had been colonised" by Western values and developmental thinking throughout his youthful years:

In recent years though, I have come full circle. I am not the passionate subscriber to Western development that I once was. The more I observe what is happening in countries like Nepal, especially the social, political, and economic outcomes of their booming enterprise of development rooted in western materialism, the more I question its value (Shrestha, 2000, pp. 111-112).

There are no indications that the debate on the nature of the relationship between Islam and modernity and the subsequent impact of such a relationship on the course of development is losing its momentum or coming to a near closure. Two opposing schools of thought have attempted to explain the relationship between Islam and modernisation. The first school claims that Islam is a static religion that stands in the way of economic prosperity and innovation and views Muslims' religious values as being barriers to carrying out reforms necessary for the emergence of entrepreneurship (Coulson, 1964; Labohm, 2003; Perkins, 2003; Pipes, 1983).

The subscribers to this school of thought believe that non-Western cultures are incompatible with modernisation and for such societies to develop, they must modernise, and to modernise they must break ties with their traditions and endure a cultural transformation process towards Western modernity. Thus, they equate modernisation with Westernisation, and operate under the assumption that the cultural and moral values and religious beliefs of non-Western societies are on a collision course with those of the West. They further explained that due to the superiority of the Western culture, to that of non-Western, evidenced by its scientific and economic advancement, there is no way for the traditional societies to develop but to go Western.

The problem therefore is not in modernisation itself and whether to modernise or not; it is rather rooted in the insistence by some that Westernisation is a must for modernisation. While Berger (1991) and Lee and Peterson (2000) advocated cultural transformation, Pipes (1983) could not have been more explicit, direct and confrontational when he revealed his views on modernity with reference to Islam. "Islam does not offer an alternative way to modernise ... only when Muslims explicitly accept the Western model will they be in a position to technicalise and then to develop" (Pipes, 1983, pp. 197-198)⁹. In his appraisal of the *Arab Human Development Report 2000-2003*, Labohm (2003) noted that the report "evades the delicate question of the impact of Islam on the sustained absence of an economic take-off". This attitude

⁹ Unsurprisingly, *The Islamic Human Rights Commission* made Daniel Pipes a nominee for their 2004 and 2005 "Islamophobe of the year" awards. Pipes is in the process of creating two organizations with an anti-Islamist attitude: the Anti-Islamist Institute (All) and the Centre for Islamic Pluralism (Lobe, 2005).

conforms to the general Western perception that Islam and development enjoy a paradoxical relationship.

Among the early advocates for cultural transformation and equating modernisation with Westernisation is Lerner (1958). In his publicised study of the modernisation of the small Turkish village of Balgat, Lerner failed to distinguish between modernisation and Westernisation. He portrayed the tension between the gloom of the past and the hope of the future: on the one hand were the past, the backwardness and status quo, represented in the personality of 'The Chief'. On the other hand, there were his sons who represented the dynamism, the promising future and the dream of a better tomorrow. The Chief's sons have recognised, seized the opportunity, and abandoned long time traditions. They are now the new shopkeepers...they are the entrepreneurs. It is the contrast between tradition and modernity (Schech & Haggis, 2002), in which modernity has prevailed. Once the modernisation process has started, radical rather than gradual cultural transformation of the traditional society has occurred.

The impact of cultural transformation on the social fabric of 'Balgat', on the villagers' values and on their sense of belonging was not the issue; hence, it was deemed immaterial and of no relevance to Lerner's investigation. Modernisation was at work in Balgat, declared Lerner, hence the research was complete and what follows is to be accepted as part of the process. Therefore, what Lerner is trying to say is that cultures will converge and the convergence will eventually be towards modern Western values. That is because, according to this line of reasoning, one cannot separate Western modernisation (the form) from the value system (the content) that produced Western material modernity

Pfaff (2002) questioned what makes the West believe that they are in a position to decide not only what suits the West, but also to establish that Islamic values are "unsuitable for the Muslims themselves". He concluded, "in short, they are to become us". However, are Muslims willing to "give up their moral identity"? Thus, the real issue becomes whether Muslims do really want to become "us".

It is the incompatibility of values between Islamic society and the modern West. The power and material dynamism of the West seem inseparable from a value system that demands that Muslims give up their moral identity (Pfaff, 2002, p.1).

A second school of thought builds its argument on a very different logic and argues that Islam not only endorses, but also promotes, modernisation and progress. It further

sees in Islam a modern and a developmental religion that has led global modernisation for many centuries while Europe was in the midst of the Dark Ages. The British social anthropologist, Ernest Gellner, refuted equating modernity with “Westernity”. He further maintained that there is no conflict or tension between Islam and modernity even where modernity is defined within the Western frame of reference. On the contrary, he argued that “Islam of the three Western monotheisms the one closest to modernity” (Gellner, 1981, p. 7). Meuleman (2002, p. 4) rejected the widely spread notion that the relationship between Islam and modernity is on a collision course. He further averred that with some objectivity, one has to acknowledge the fact that the Muslim civilization once was the main source of universal “scientific and intellectual” advances. Hooker (2003) disputed the Western account regarding the inevitability of cultural transformation as a pre-condition for development and argued, “Cultural development can proceed in many directions, not only the one that the Western mind takes to be self-evident” (Hooker, 2003, p. 287). In his study *Modernity and Disenchantment of Life: Muslim-Christian Contrast*, Woodward concluded that there is no contradiction between being modern and being a good Muslim. “While in the West modernism and religion appear to be locked in an eternal struggle, in Indonesia a person can be both profoundly modern and profoundly Muslim” (Woodward, 2002, p. 113).

Tim Behrend believed that “Islam is becoming an ideology and a force that offers an alternative modernity. It offers alternative world to one dominated by the US, and its economic interests with its multi-national corporations”. He further explained that “Islam offers a disciplined, technology friendly, proud, non-tribal, and non-local, international identity that stands opposed to the “rape of the world” by multi-national corporations and interests that serve them” (Behrend, cited in Ponniah, 2005, p. 15).

A major theme that highlighted the work of Eisenstadt (1978; 2003) was the idea of “multiple modernity” and his emphasis that modernisation is not necessarily synonymous with Westernisation or Americanisation. In debating the inevitability of ‘modernisation’, Apter (1965) drew a clear distinction between the “indigenous” and the “Western” types of modernity. He further concluded that all nations would inevitably change either willingly or in response to outside pressure. All nations will become more modern by creating their own form of modernity (Watts, 1995), and the nature of their modernity would reflect their own cultural, environmental and historical profiles. Ziauddin Sardar rejected the implications of modernisation theories that traditional societies are static and argued that “on the contrary, traditional cultures are dynamic entities, they are constantly renewing themselves and changing, but they change

according to their own logic and grammar” (Sardar, 1997, p. 44). External forces as well, on many occasions, interrupt the natural flow of the modernisation process and in many instances manipulate its outcome. “Modernisation” therefore is inevitable but when strictly defined in Western terms “is not” inevitable, concluded Apter (1965). This is a view supported by Huntington (2002), who strongly believed that Westernisation is not a pre-condition for modernisation:

Modernization, in short, does not necessarily mean Westernization. Non-Western societies can modernize and have modernized without abandoning their own cultures and adopting wholesale Western values, institutions and practices (Huntington, 2002, p. 29).

Even Pipes (1983) did not sense anything in Islam as a faith or a tradition that prevents Muslims from being modern. “Islam and modernisation do not clash ... modernisation requires no one political ideology or set of institutions” (Pipes, 1983, cited in Huntington, 2003, pp. 77-78). Nonetheless, he reaffirmed his belief that Westernisation must be achieved in order for modernity to occur, by claiming the incompatibility between Islam and modernity in relation to some economic aspects such as the prohibition of interest and the role of women in the economy. While Pipes considered the Islamic stand on interest as an obstacle to economic development, many other intellectuals have embraced the Islamic financial system and its potential role in promoting entrepreneurship and in delivering just and equitable economic development (Presley & Sessions, 1994; Sadeq, 1991:1992; Ziauddin, 1994; Zineldin, 1990). A more detailed discussion on Islamic banking as an alternative to conventional banking is presented in Chapter 3.

As the conflict between traditionalism and modernism is causing tension between different cultures, it is also causing an intense and sometimes fierce debate within Islamic societies. Muslims are still searching for ways to cope with modernity and trying to comprehend what it entails to be a Muslim in the global era. The tension is evidenced by the failure of Muslim countries to formulate a common perception of such crucial issues in order to devise a consistent approach to effectively manage their implications. Dr. Mahathir Mohammed, the former Prime Minister of Malaysia, cynically described this state of chaos, and commented that whenever a Muslim nation attempts to embark on the path of development, it is usually accused by some Muslim groups of deviating from Islam (Mahathir, 2002), as if Islam stands in the way of development and prosperity. He further criticized the attitudes of the majority of today’s “political *ulama*” for limiting their understanding of knowledge to religious knowledge, and

interpreting such knowledge in a way that suits their interests and supports their political agenda.

Cultural universality and diversity in cultures

The rapid expansion of the communist movement beyond the boundaries of the former Soviet Empire, and the desire of the United States to assert its global influence and counter this expansion were, in part, behind the emergence and rise of modernisation theories in the mid-1940s. Therefore, the disintegration of the Soviet Union in the late 1980s has marked an end of an era for some and “The end of History” for others. To Fukuyama (1992), it was “The end of History”; the Western liberal ways of governance and free markets have prevailed. Therefore, there would be only one universal culture, and that is the Western culture. In contrast, Segesvary (2004) stopped short of announcing the demise of the Western “universalistic modernity” to declare that the world-view which promotes the universality and the superiority of the Western modernity is dated and facing gradual but unavoidable collapse –a view shared by even the strongest advocates of cultural universality.

Fukuyama (1992) assumed that the desire for economic modernisation is a natural aspiration shared by all. Such an assumption seems to be reasonable and fair. However, what is contested is the precondition he attached to modernity. To achieve modernity, individuals and societies have to embrace the Western model as the only model for development, to divorce themselves from their own traditional cultures and to adapt to the Western value system. Fukuyama believes that cultural convergence is a must and the path of convergence is in favour of the Western culture (Fukuyama, 1995). The lack of sensitivity of the “cultural standardisation” concept to the value systems of other societies did not raise its profile. On the contrary, it added to the controversy surrounding the concept and drew eminent intellectuals to the debate.

Harvard University scholar, Samuel Huntington (1993; 2003), has rejected Fukuyama’s (1992) thesis and the implicit suggestions of Lerner (1958) on cultural universality. Huntington observed that the cultural divide between nations is widening. He pinned down the dividing elements causing cultural differences and signalled “ethnicity and religion” as the most two influential elements. While the conventional wisdom implies that globalisation with its call for a “borderless” globe works towards cultural unification, Huntington has disputed the suggestion that globalisation will produce a universal

culture. Instead, he argues that globalisation is confirming cultural diversity by bringing cultural differences to the surface. Huntington went to the extreme and hypothesised that because of such cultural differences, the clash between cultures is inevitable. He further explained the causes of the world's major conflicts in terms of religious differences and claimed that the clash will be "culturally motivated". Huntington argued that the incompatibility between the Western and the Islamic cultures is too wide to reconcile and the friction between the two cultures is too sensitive to overcome. Hence, he concluded his work by what came to be known as the "the clash of civilisations" thesis, in which he predicted that the clash between the Western and the Islamic civilisations is a reality.

This radical interpretation of the nature of the conflict has prompted a sharp response from Edward Said. In his response, "the clash of ignorance" as opposed to "the clash of civilisations", Said (2001) categorically rejected Huntington's thesis: its assumptions, its methodology and, more importantly, its implications. He pointed out that to acknowledge cultural differences is a step forward that must be mobilised and channelled towards the acceptance and the appreciation of such differences. The portrayal of the Islamic and the Western civilisations as fixed entities that are at odds is a clear denial and a sign of ignorance about these two great civilisations, commented Said (2001). He further argued that it would be incomprehensible to explain the tension between "The Christian West" and "The Muslim East" in religious terms, and that is simply due to the fact that both religions draw from the same source.

Hunter (1998) has carried out an exploratory analysis of the relationship between Islam and the West and the "likelihood of a civilizational clash" between them. It is interesting to note that Hunter has approached the relations between Islam and the West at a macro level that is, relationships between countries. To her, key factors that govern the relationships between Muslim countries and Western countries are not based on cultural differences. Rather, they are subject to the same combination of variables that underline the nature of relations between any two countries. Just "like other interstate relations", they will have their highs and lows and "will remain a combination of conflict and cooperation" (Hunter, 1998, p. 170). Hunter gave no definite answer to the grand question of "the future of Islam and the West: clash of civilisations or peaceful coexistence?" However, in her conclusion, she played down any negative implications due to cultural differences between 'The West' and 'Islam', and in so doing, she did not lend any support to Huntington's thesis.

Goonatilake (1992) has emphasised the inevitability of the re-emergence of the world's major civilisations: Muslim, Chinese and Indian. The strong presence of such great civilisations enforces the first part of Huntington's (1993) thesis of cultural plurality as opposed to the single culture superiority, but Sardar (1997) argued that such diversity does not necessarily lead to clashes between civilisations. By employing Huntington's own analysis and conclusions Sardar pointed out that it is the West who unjustifiably fears such a clash; because it is the West who has to compromise its stand regarding the exportation of its value system as the only doctrine for development and progress. The alternative is to "embrace the emergence of true diversity and plurality, not as a loss of the West's own definitional power but as an opportunity for a new kind of recovery and expression of its better self" (Sardar, 1997, pp. 52-53).

At a recent gathering of 1,300 international business and political leaders at the Dead Sea for the World Economic Forum 2005, many sensible voices were raised promoting tolerance and harmony among cultures and calling for an open dialogue between civilizations. The majority of participants shared the thoughts that civilizations should meet, have an open dialogue and even forge alliances between one another in order for the human race to live in peace and prosperity. Civilisations build upon the achievements and the experiences of one another, they do not fight but they cooperate. They do not compete, but they complement and when they do compete, they do so for the good of humanity.

Responses to modernisation and Westernisation

Responses of non-Western societies to modernisation and Westernisation have varied considerably; from total rejection of both to total acceptance of both and to combinations of what is in between (Farhang, 1988, p. 65; Huntington, 2003, pp. 72-78). The response of Muslim societies to modernisation and Westernisation at both the state and the individual levels was neither cohesive nor consistent. Muslim societies and various groups within each society had differing attitudes towards the "modernisation" issue, and each responded according to its own religious convictions and construal and in line with its own political agendas.

At one end are those who unreservedly reject both modernisation and Westernisation based on the assumption that for any 'non-Western' country to embrace Western modernity will eventually result in that country's being a Western colony. Muslims who

adopted such view have developed two arguments and consequently two differing approaches as how to respond to Western modernity: the first argument explicates that Muslims are not willing to sacrifice their cultural values, or compromise their own identity to embrace modernisation for economic gain. To them, being labelled “backward” is more gracious than participating in their “self-destruction” under the banner of modernisation and development (Jameelah, 1998). They feel that their culture and their values are being disgraced and threatened, so they tend to react negatively and look inward. They avoid getting in contact with Western modernity because they believe that such avoidance is the best assurance of not falling under its influence. This negative attitude towards Western modernity can also be viewed, in part, as an expression of dissatisfaction with the Western eco-politics and their exclusive policies and discriminatory attitudes towards Muslims. Some Muslims believe that they are being deliberately marginalised, excluded and have no control over their own resources (Falk, 1997). In brief, they feel that they are being re-colonised, a feeling that was shared and expressed by many Saudi entrepreneurs throughout the fieldwork.

Pipes (1983, p. 349) believed that complete rejection of modernisation as well as Westernisation in this modern age is a difficult pursuit. He further suggested that total rejection is to be found only on a smaller scale within remote communities or among “the very most extreme fundamentalists”. Huntington (2003), duly concluded that total rejection is by no means “a viable option” in the global era, and reiterated Pipe’s (1983) prediction that the inevitable end of rejectionist policies will be sooner rather than later.

The second argument is also based on the same perception of Western modernity and its “destructive impact” on Muslims’ values and beliefs and on other cultures as well. However, it offers an alternative to “the modernist paradigm” (Davutoglu, cited in Falk, 1997, p. 14). Unlike the passive response and the feeling of isolation and vulnerability impeded within the first approach, the advocates of this view believe that Muslims have an ethical responsibility as well the means to salvage humanity (including the West) from the ills of the Western modernity (Falk, 1997).

At the other end of the spectrum were a few Muslim countries that embraced both modernisation and Westernisation. They did so under the assumption that Westernisation is a precondition for modernisation and development, thus, they have implicitly accepted the inferiority of their own cultures and questioned the soundness of their value systems and consequently, they gave in to an agonizing and demeaning

cultural transformation process. Turkey and, to some extent, Iran (prior to the Islamic revolution in 1979) are the only two Muslim countries that embarked on this developmental path. The de-Islamisation process of Turkey which started soon after World War I might have succeeded in adopting state policies of secularisation, but such policies, as Yavuz (2003, p. 57) argued are, “not able to touch the grassroots levels of informal networks”, enforcing the argument that policies are most likely to have greater impact on formal rather than informal institutions.

The ‘uncompromising modernisation’ which advocates accepting modernisation while rejecting Westernisation is a response based on the hypothesis that practical separation between modernisation (the form / technique) and Westernisation (the content / spirit) is possible and modernisation without Westernisation is attainable. This form of response to modernisation and Westernisation is by far the most preferred approach among non-Western nations. China and Japan, for example, who for a long time strongly rejected both modernisation and Westernisation, have eventually, abandoned their stand of total rejection in favour of accepting modernisation but on their own terms (Huntington, 2003). Saudi Arabia and other oil-rich Gulf States have also embraced this view in their response to the question of modernity.

Why the economies of the Muslim Middle-Eastern countries are so weak despite their wealth of natural resources, while other economies are prosperous despite their lack of such resources is a puzzling question. The Asian model presents a simple, but convincing answer. East Asian countries, including the Muslim country of Malaysia, did not ditch their value systems in the midst of their economic transformation. On the contrary, they successfully capitalised on such cultural, ethical and religious values to advance their developmental strategies. Policymakers have built their development models with special focus on the particularities of their own cultures. The Japanese experience with modernisation is another sensible and a practical example from which Muslim societies can benefit. Japan has exploited its “cultural traits” and mobilised its value system, which is centred on the ‘emperor’ and the ‘family’, to hasten its modernisation process (Hooker, 2003, p. 40).

The culturally based approach to development, complemented with enabling institutions and a constructive reward system, made it possible for East Asia to quickly embrace modernisation through entrepreneurship (Cantori, 1997). The argument that these examples were specific points in history does not undermine their validity or diminish their viability. Muslim countries can learn greatly from such rich experiences,

most notably from their own history, in terms of the viability of integrating their national cultural values within their broad development strategies.

Incompatibility of values and alternative entrepreneurships

Much of the behavioural research that has examined the link between national cultures and entrepreneurship was based on Hofstede's (1980; 1991) conceptualisation of national culture; subsequently his cultural dimensions¹⁰ have been used to measure and explain levels of entrepreneurial activity. Entrepreneurship literature within the Western context suggests that entrepreneurial activity flourishes where values such as individualism, rationality, risk-taking, wealth generation, self-interest, autonomy, achievement and self-reliance and long-term orientation are prevalent. However, the assumption that such values are universal is unsubstantiated and unwarranted (Kikooma, 2002; Thomas & Mueller, 1998). As cultures differ, their entrepreneurship orientations differ accordingly

Although there is a surge in entrepreneurship research, Thomas and Mueller (1998) drew attention to the paucity of entrepreneurship research in non-American/Western context and noted that the majority of this research is being conducted using Western standards, parameters and methodologies even when the research is carried out in non-Western environments. They further warned non-Western nations against relying on "prescriptions" hailed in the Western entrepreneurship literature as remedies for their quest for economic development and growth. Lingelbach, De La Viña and Asel (2005) highlighted the immense lack of research specially designed to promote entrepreneurship in developing countries. They further emphasised the need for such research to be indigenous so as to mirror the realities of its environment and describe how entrepreneurship is conceived and carried out in respective countries.

The transferability of Western-based research and the attempts to implement Western theories and practices of development in non-Western environments are not trouble free or straightforward applications, and might prove to be counter productive (Russell, 1997). The difficulty is more evident where differences in value systems between countries do exist and have a predominant impact on other social, economic and legal systems (Kiggundu, Jorgenson & Hafsi, 1983). For instance, central to the modernisation theories is the spirit of individualism, which is linked to strong

¹⁰ Hofstede's dimensions are discussed in Chapter 2

entrepreneurial orientation within the Western context, but this is not compatible with the Asian values that emphasise family ties. Furthermore, Muslims view the over-emphasis on individualism and its association with free market principles as a threat to their family and community values and to the very basics of their socio-economic structure. Therefore, it seems inappropriate to use individualism as a standard measure of entrepreneurial orientation in Asian or Islamic contexts. The same argument could be built regarding other entrepreneurship dimensions: rationality, risk-taking, power distance and masculinity within different cultural contexts.

The inconveniences of applying these instruments to non-Western cultures were caused by cultural insensitivity and the failure of such instruments to account for non-Western value systems. The apparent scarcity in research methodology addressing entrepreneurship in non-Western cultures prompted several scholars to argue for the need to explore and develop new, independent, and culturally sensitive models of indigenous entrepreneurial attitude (Hayton, George, & Zahra, 2002; Lindsay, 2005).

Hofstede's (1991) analysis of the cultural dimensions of the Arabic speaking countries including Saudi Arabia revealed that these countries were collectivist, masculine, high in power distance, strong in uncertainty avoidance and have a preference to short-term orientation. Judging the Saudi Islamic culture by Hofstede's cultural dimensions unsurprisingly indicates that the Saudi culture is anti-entrepreneurial. This expected outcome could be explained by the fact that the essence of Hofstede's dimensions and Weberian principles are embedded in the spirit of modernisation theories, which are highly contested by the Islamic worldview.

This unfolding argument leads to the core of the thesis. Western conventional wisdom as evidenced by modernisation theories of development, explicitly calls on countries faced with low levels of economic development and growth to undertake major transformation of their cultures towards modernity. Yet, is there an alternative for countries that do not see in cultural transformation an option? Consequently, is there a need for different culturally based models of entrepreneurship, such as an Asian model, African model, Islamic model or Latin American model, as an alternative to the Western model?

Literature points out that the US leads the world in entrepreneurship in part due to its individualistic orientation where internal locus of control is prevalent and individual initiative is encouraged. What distinguishes entrepreneurial societies from the rest is

their acceptance of failure as part of the learning process and as a step towards success coupled with the positive attitude which holds that rewards of succeeding far outweigh the risk of failing (Ross, 2000). The Western emphasis on key cultural dimensions for entrepreneurship promotion, especially 'individualism' and 'risk taking' have been challenged: Japan is "a group-oriented culture" and its society by no means is "an individualistic society", as the emphases are on organisational belonging (institutions, corporations, government agencies) rather than individual achievement (Ross, 2000; Mueller & Thomas, 2001). The family-centred Chinese entrepreneurship and the rewarding experience of the East Asian countries have proved that prosperity could be achieved through customised entrepreneurship while preserving national collectivist values and without going 'Western'.

Research question and research objectives

The point of departure in this study is that entrepreneurship is more than a means to generate employment and maximise economic returns; it is rather a developmental alternative with great potential to contribute to the well-being of Saudi Arabia. This study accepts that Saudi cultural values are not always compatible with the Western model of entrepreneurship and argues that cultural transformation to achieve such compatibility is not a viable option. Thus, it would be pointless to spend too much time in the field pondering whether Islam is or is not modernising —considering that the definition of the term 'modernisation' is contentious and means different things to different people. Instead, the leading research question focuses on the relationship between Saudi cultural values and religious beliefs and its entrepreneurial activity; can these values and beliefs be more effectively tapped into to advance the cause of Islamic entrepreneurship and accordingly promote more successful development?

Along these lines, the endeavour in this study is to explore the impact of the religiously based Saudi culture on the development of entrepreneurship in Saudi Arabia. Such an understanding is important whilst searching for recipes to stimulate the country's entrepreneurial potential. The overall objective is to explore an entrepreneurship-based model that is sensitive to the country's Islamic values and cultural foundations, and to examine the implication of such a model for the question of development in its wider context. Specifically, this study seeks to achieve the following set of objectives:

- To explore the entrepreneurial phenomenon from an Islamic perspective in an attempt to establish a systematic understanding of the concept of Islamic entrepreneurship;
- To survey the attitudes and perceptions of Saudi entrepreneurs towards the principles of Western and Islamic entrepreneurship;
- To assess the impact of Saudi cultural values on entrepreneurship development in Saudi Arabia;
- To explore what role, if any, Islamic values play in entrepreneurship in Saudi Arabia, by assessing the compatibility of the approaches and practices of Saudi entrepreneurs against their attitudes towards business activities;
- To investigate the level of entrepreneurship awareness among Saudi policymakers and intellectuals and to assess their commitment to fostering Islamic entrepreneurship;
- To explore the reality of the Saudi entrepreneurship landscape and examine the role and the compatibility of state policies and formal institutions in promoting entrepreneurship in general and Islamic entrepreneurship in particular;
- To reflect on the opportunities and limitations of Islamic entrepreneurship in view of the Saudi entrepreneurial experience, and
- To reflect on the implications of Islamic entrepreneurship for development theory and development studies in general, both in practical and abstract terms; what contributions can this study extend to the post-development debate and to the question of 'alternatives'?

A critical review of available relevant literature concludes that the topic of Islamic entrepreneurship is not only underrepresented in the literature but also largely overlooked by researchers. Although this thesis examines Islamic entrepreneurship within the Saudi context, it is important to note that the serious gaps in the theoretical as well as practical aspects of Islamic entrepreneurship are prevalent in the majority of Arab/Islamic countries (see Chapters 2 and 3). The absence of credible research on the role of Islamic entrepreneurship in development means that much of the limited available writings are debatable because they are subject to scholars' bias and interpretations. This study, therefore, attempts to narrow this gap and contribute to the existing body of knowledge pertaining to Islamic entrepreneurship and Islamic development by presenting empirical evidence from the field.

Most behavioural studies that have attempted to establish the relationship between national culture and entrepreneurship used Hofstede's (1980; 1991) dimensions of national culture (aggregate measures of entrepreneurship). However, the validity and the relevance of this methodological approach in non-Western countries, especially Islamic countries, are highly contested. The need to consider "alternative measures of cultures and entrepreneurship" was emphasised by George and Zahra (2002), and is warranted against the backdrop of the cultural diversity debate. Among the measures that have been utilised to measure the contribution of entrepreneurship were self-employment and innovation. In this study, however, the investigations were conducted into the relationship between the Saudi Islamic-based culture and entrepreneurship based on the concept of "Human well-being" as an alternative measure of entrepreneurship. Ultimately, this study aims at establishing such a relationship through the edifice of an Islamic entrepreneurship-based 'well-being' model as an alternative to the Western entrepreneurship-based 'development' model.

Theoretical framework

The theoretical framework for this study is embedded in a wide range of scholarly disciplines, namely: entrepreneurship theory (Schumpeter, 1934; Kirzner, 1973; Gartner, 1988; 1990), modernisation theories of development (Alexander, 1994; Apter, 1987; Harrison, 1988; Rist, 1997; Zapf, 2003), alternative theories of development (Brohman, 1996; Chambers, 1997; Haq, 1995; Stohr & Taylor, 1981), post-development theory (Alvares, 1992; Escobar, 1988; 1992; 1995; Rahnama, 1997; Sachs, 1992; Seabrook, 1993), institutional theory (North, 1990; Toye, 1995); and the concept of human well-being based on the Islamic principle of The Oneness and Unity of God (*tawhid*) (Al-Sadr, 1982, Chapra, 1993; 2000; Sardar, 1997; Siddiqi, 1979).

The general theory of entrepreneurship defines entrepreneurship as a process by which individuals or societies identify / discover opportunities and turn them into business entities, primarily to create wealth and economic value through the mobilisation of diverse resources. The development of an effective entrepreneurship sector also depends on a variety of intangible, as well as tangible, factors. Therefore, modernisation theories of development, on the one hand, are employed in this study to explain the role of intangible factors such as the prevailing value system, the reward structure and the general attitude towards the concept of entrepreneurship. On the other hand, institutional theory provides a relevant and reliable conceptual framework

with which to explore the influence of both the formal and informal environmental/institutional factors (political, legal, economic, social and cultural) on entrepreneurship development.

Most mainstream development theories have defined development purely in materialistic terms while they have ignored its spiritual dimension. They have viewed development to be a quantitative paradigm, thus gave prominence to serving self-interest, maximising wealth and promoting more consumption. 'Development', according to the modernisation theories, was reduced to 'economic development' and the two terms were used interchangeably. Furthermore, 'economic development' was largely accepted as economic growth, measured by quantifiable conventional economic parameters such as GDP and per capita income. This simplistic account of development, which identifies human well-being by meaningless and largely misleading numbers and figures, did not constitute an acceptable point of entry or a point of reference to building developmental models from an Islamic perspective. Development was also rejected by post-development theory, which pronounced development to be "a ruin in the intellectual landscape" (Sachs, 1992, p. 1). The irony is that while post-development theory strongly advocated alternatives to development, it has failed to offer any.

Despite the apparent grounded link between spirituality and development in various cultures, the majority of development scholars and theorists have neglected the role of spirituality in development (Ver Beek, 2002). Islam contests the one-dimensional version of development, and rejects its implications. Alternatively, development in Islam is expressed qualitatively in religious terms, and is defined with the concept of human well-being (*falah*). Human well-being is an ongoing two-dimensional (spiritual and socio-economical) process. Islam recognises the importance of the socio-economic dimension of development as an outcome of attaining spiritual well-being. The International Development Research Centre IDRC (1995) promoted spirituality in development and reiterated that in the absence of the spiritual dimension from the development model, rapid economic growth might have been achieved but at the expenses of social justice. Easterlin (1995) conducted thirty surveys in nineteen developed and developing countries, and concluded that rich countries were not necessarily happier than poor countries.

According to the UK-based New Economic Foundation (NEF), the tiny Island of Vanuatu has topped the list of the Happy Planet Index (HPI)¹¹ as the happiest country on earth, while Saudi Arabia ranked 89th and the US ranked 150th in the 178-nation survey. The findings of the report revealed different reading into the concept of human well-being and the order of world wealth; countries that have more (utilisation of resources) are not necessarily happier or able to provide and support better quality of life for their citizens than those of the less fortunate countries.

Methodological approach

In this study, I combined both quantitative and qualitative methods to collect primary and secondary data utilising multiple sources of evidence. Such a combination of methodologies to study the same phenomenon is called *triangulation*.

The methodological approach I used to collect the data and organise the research consisted of the multistage use of two methods. The first involved a sample survey amongst Saudi entrepreneurs in the city of Riyadh. Respondents who agreed to further participate in the research were invited to one-hour face-to-face semi-structured, in-depth interviews. The choice of the two-pronged approach was based on the argument that mixing research methodologies would have a complementary effect on gathered data by capitalising on the strength of each method, that is, combining the advantages of having both descriptive and cross-sectional data provided by the surveys, and the richness of information obtained from the interviews. In addition to surveying and interviewing Saudi entrepreneurs, I interviewed a number of Saudi officials and intellectuals with special interest in Islamic development and entrepreneurship, to acquire a holistic perspective of the Saudi entrepreneurship environment.

Collected quantitative data were analysed using the statistical software package SPSS and the results are displayed as frequency distributions and percentages in the form of tables in Chapters 6 and 8 as well as in Appendix 6. Qualitatively, six case studies were developed to capture the richness of data gathered by interviewing Saudi entrepreneurs. The results of interviewing Saudi officials and intellectuals are

¹¹ The Happy Planet Index (HPI) is an innovative new index that aims at measuring quality of life against environmental efficiency. The complete HPI can be viewed at: <http://www.happyplanetindex.org/>

presented in a variety of tables and boxes. Detailed discussions of research methods and fieldwork experiences are the focus of Chapter 5.

Thesis structure

This thesis is organised in ten chapters, including this introductory chapter, as follows: Chapter 2 aims at providing a deeper understanding of the conceptual issues pertaining to the general theory of entrepreneurship. In this chapter, I attempt to create the general framework for the study by critically reviewing relevant literature on entrepreneurship definitions, concepts, process, theories and approaches used to explain entrepreneurship development or lack of it. I argue that despite the importance of culture to the entrepreneurial process, other factors such as state policies and institutions are equally important. The second main section of the chapter emphasises the positive link between entrepreneurship, manifested by the creation of small businesses, and economic development. I conclude the chapter by presenting a broad conceptual entrepreneurship model that incorporates the prevailing key entrepreneurship ingredients. Along with chapter three, this chapter establishes the theoretical framework for the study.

In Chapter 3, I venture to establish the Islamic perspective of the entrepreneurial phenomenon. I start by presenting the ongoing debate between two contrasting schools of thought regarding Islam and modernity and argue that Islam is an entrepreneurial religion. The inevitable question of whether there is a need to develop an Islamic-based entrepreneurship model and on what grounds will be asked. The chapter concludes by demonstrating that the cultural diversity, incompatibility of values and the different readings of development justify the need for a home-grown, culturally sensitive entrepreneurship model that accounts for variables specific to the Saudi Islamic environment. The general model presented in Chapter 2, therefore, will be revisited, modified and expanded accordingly in order to reflect its emerging role.

Chapter 4 features the socio-economic transformation of Saudi Arabia within the past thirty years. In this chapter, I present a summary account of the challenges facing the country and the state's efforts to deal with them, mainly through the consecutive five-year development plans, and more recently through structural adjustment reforms. I re-emphasise the need for Saudi Arabia to embark on a multi-track development strategy to minimise its dependency on oil rents and to diversify the productive base of its

national economy. Consequently, I argue that entrepreneurship has great potential to render valuable contributions towards easing many of the acute socio-economic problems impeding the Saudi quest for sustainable development. The chapter concludes with a brief discussion on the impact of adopted strategies and reforms on the Saudi entrepreneurship sector and on the question of whether or not Islam was present in the Saudi development equation.

Chapter 5 is dedicated to the research methodology and the fieldwork experiences. In the first part of this chapter, I will justify my selection of the research site, population, data collection techniques and methods of data analysis. In the second part, I will reflect on my experiences in being in the field; the adjustments I had to make to the (planned) research methodology in order to adapt to the facts on the ground and to pursue a line of enquiry that accounts for emerging evidence. Just before concluding the chapter, I will present my account of the challenges most likely to face scholars wishing to undertake research in Saudi Arabia. This chapter is the departure point for Chapters 6, 7, and 8, where collected data will be analysed and the findings will be discussed and presented in a range of tables, boxes and case studies.

In Chapter 6, I survey the attitudes of Saudi entrepreneurs to both Western and Islamic principles in their businesses. Topics such as Modernisation and Westernisation, the role of Islam in entrepreneurship development, entrepreneurship in the Saudi culture, and the role of Islamic financing and Islamic business ethics in entrepreneurship development are covered. The chapter concludes with a profile summarising the attitudes and the perceptions of Saudi entrepreneurs towards the entrepreneurial activity.

Six case studies are developed and presented in Chapter 7 based on in-depth semi-structured face-to-face interviews with Saudi entrepreneurs. The purpose is to generate qualitative data that were deemed to be crucial –but which could not be obtained by means of survey questionnaires; sought data are needed to complement, validate and to better explain data featured in the previous chapter, as well as to explore the linearity between stated attitudes of the Saudi entrepreneurs and their approaches to the business activity. Interviews also present entrepreneurs with the opportunity to explain their viewpoints and justify their responses to the survey questionnaire. Although all cases were structured along the lines of the four approaches to examining entrepreneurship development – or lack of it – as outlined in Chapter 2, each case study remains distinct and highlights the significance of a certain set of issues.

Chapter 8 is set to venture into the realities of the Saudi entrepreneurship sector; therefore, I expanded the scope of the research to include in-depth interviews with Saudi officials and Saudi intellectuals. The role of state policies, institutions, educational system and other influential external factors – such as the influx of expatriate labour prompted by the influx of oil rents – in developing the Saudi entrepreneurship sector are examined in order to have a better understanding of the prevailing type and level of the Saudi entrepreneurial activity.

The overall aim of Chapter 9 is to present a broad discussion of the main themes that have emerged in the last three chapters. Thus, it revisits the conceptual model in order to confront the inevitable question of whether Islamic entrepreneurship has become a practiced reality or is still merely a theoretical premise. In the light of this analysis, the opportunities and the limitations of Islamic entrepreneurship will be assessed.

Chapter 10 brings the thesis to its conclusion. It presents an overall assessment of the key research findings along with their implications in line with the defined research objectives. The chapter also offers suggestions and recommendations for further research opportunities, and concludes with a brief discussion about the contribution that this study renders to the discourse of development theory and the implications for development practice.

CHAPTER TWO

ENTREPRENEURSHIP AND DEVELOPMENT

Confronted with rising concerns about unemployment, jobs, growth and international competitiveness in global markets, policy makers have responded to this new evidence with a new mandate to promote the creation of new businesses, i.e., entrepreneurship¹².

Audretsch, Thurik, Verheul and Wennekers (2002, p. 2)

While this quotation mainly addresses the importance of entrepreneurship within the context of Western industrialised nations, one can strongly argue that its relevance to developing and less developed countries is equally valid. A host of scholars and practitioners alike have emphasised the importance of developing a viable entrepreneurship sector to the economies of developing countries (Beaver, 2002; Bennis, 2001; Frese, 2000; Gray et al., 1996; Nelson, 1987; Morris, Jones, & Nel, 1997).

The purpose of this chapter is to critically review selected entrepreneurship literature on the definitions, theories, perspectives and approaches to entrepreneurship development and the role of the entrepreneurial activity in economic development. Since entrepreneurship manifests itself in enterprise creation, an attempt will be made to establish a proper link between entrepreneurship and the small business sector¹³ whenever deemed appropriate. The aim is to establish a general understanding of the basic ingredients comprising the prevailing (Western) form of entrepreneurship and then to argue that the Western model is not necessarily the only or the appropriate model for every nation to follow.

¹² The term entrepreneurship is widely linked to the small business sector. However, Casson (2003) argued that confining entrepreneurship to small businesses is a myth. Entrepreneurship accounts for large firms as well as for small ones. A possible explanation for this perception is that the term entrepreneurship is largely associated with the creation of new business which, in most cases, starts small but do not have to stay small.

¹³ The terms small businesses, small firms, small enterprises, business start-ups, and SMEs are being used interchangeably to represent the same business entity (the manifestation of entrepreneurship).

Along with Chapter 3, this chapter aims at developing the literature review further in order to place this study within its contextual theoretical framework, and to direct its focus towards addressing the research questions and objectives. Specifically, the literature review seeks firstly to question the validity and the authority of applying Western criteria while researching non-Western culture and secondly, not only to challenge, but also to counter the claim that Islamic values are impediments to economic development and entrepreneurship.

This chapter is organised into three sections. The first section cites some definitions of the term 'entrepreneur' and reviews main entrepreneurship theories in development. It emphasises the positive relationship between entrepreneurship and development and briefly discusses the contributions that entrepreneurs render to the well-being of their societies. The second section examines the different approaches used by scholars to explain entrepreneurship development, or lack of it, in different cultures: the individual, the environmental/institutional, the structural/historical and the cultural approach. The third section aims at transforming the acquired understanding of entrepreneurship development process into a general entrepreneurship-based development model. The chapter concludes with a point of departure leading to the next chapter, which broadens the literature review to explore entrepreneurship from an Islamic perspective.

DEFINITIONS AND THEORIES OF ENTREPRENEURSHIP

Who is an entrepreneur and what makes an entrepreneur an entrepreneur? Are entrepreneurs created or born? Are they 'one and the same' or are there as many entrepreneurs as there are enterprises? Are entrepreneurship conditions parallel across cultures or are they diverse according to each culture's interpretation and practice of development? What can be done to advance the cause of entrepreneurship in a given country?

Some researchers have used the term 'entrepreneur' loosely and suggested that anyone who owns/runs a business is an entrepreneur and literally anyone is a potential entrepreneur (Mises, 1966). Morris (1991, p. 31) assumed that individuals are born entrepreneurs, and argued that their entrepreneurial tendencies would be greatly enhanced or obstructed, depending on their immediate culture and the educational process that they will be exposed to at later stages. At the other extreme are those who have portrayed the entrepreneur as possessing certain behavioural characteristics that

rarely found in a single individual (Hornaday, 1982; Timmons, 1994) and estimated that only 10% - 15% of the population have the potential to be entrepreneurs. However, Bolton and Thompson (2000) believed that the real number of entrepreneurs is more likely to be around 1% of the population. Some believe that entrepreneurs are born, and entrepreneurship is a personality trait (Sudikoff, 1994), while others argue that there are just as many self-made entrepreneurs (Goodman, 1994; Lichtenstein & Lyons, 2001, p. 7). Nonetheless, the majority agree that there is much that can be done to promote entrepreneurship (Hatten & Ruhland, 1995; Lichtenstein & Lyons, 2001; Scarborough & Zimmerer, 1996).

Entrepreneurship is widely recognised as being an economic activity and entrepreneurs are identified by their role in the creation of new business ventures. The notion of entrepreneurship has been recently extended to account for all sorts of entrepreneurial endeavours such as academic, athletic, cultural, social and political activities. However, the entrepreneur in this study is the business entrepreneur, and entrepreneurship is the process of starting new business undertakings.

The question of whether to categorise the self-employed without employees as working class or as 'entrepreneurs in-the-making' who are inclined to make a living and render a service to the community is worth asking. Self-employment and entrepreneurship are often used synonymously. While OECD (2001a, p. 23) defined entrepreneurship as being self-employment and considered "anyone who works for him- or herself" to be an entrepreneur, in another publication, OECD defined the concept of entrepreneurship in terms of risk taking, innovativeness and creativity (OECD, 2001b, p. 89).

Some scholars have considered motivational and functional differences between self-employment and entrepreneurship too significant to overlook (Dodd & Anderson, 2000). They argued that self-employed and entrepreneurs differ in their business strategies, cognitive orientation, personality, background and behavioural preference. Motivations and lifestyle aspiration to start a business or to take the path of self-employment remain the decisive factors that distinguish entrepreneurs from small business owners (Carland, Hoy, Boulton, & Carland, 1984; 1988). Woo, Cooper and Dunkelberg (1991) suggested that the motives or the goals for going into self-employment could form a valid base for categorising entrepreneurs. Those who were forced into self-employment due to their having no alternative are not to be grouped with the 'dream catchers'; those individuals who have the vision, the drive, and take the risk to pursue a business opportunity and mobilise needed resources to create an

enterprise for expansion and growth. Therefore, it is essential to distinguish between self-employed without employees, self-employed with employees (small business owners) and entrepreneurs when it comes to drawing up targeted economic policies.

Definitions of 'entrepreneur'

The word 'entrepreneur' is derived from the French verb 'entreprendre', and the German word 'unternehmen', both of which translate to 'undertake'. Hébert and Link (1998) traced the history of the term 'entrepreneur' and the development of its several meanings. It first appeared in the writings of Richard Cantillon in 1730 where he used the term to describe the risk associated with a business decision due to uncertainty. Say (1816) defined the entrepreneur as being an "agent who unites all means of production" and applies new knowledge and expertise to add value to the original product or idea. This view expands the definition of the entrepreneur to include the possession of managerial skills (Stevenson & Jarillo, 1990).

A host of leading writers has influenced the modern interpretation of the term entrepreneur and contributed to the ongoing debate on what does it entail to be an entrepreneur. Hébert and Link (1989) classified the leading economic theories in entrepreneurship into three schools of thought. The Chicago school defined entrepreneurship as being the bearing of uncertainty (Knight (1921)); the German school, with Schumpeter (1934) as its prominent figure, associated entrepreneurship with the carrying out of new combinations and the Austrian school that emphasised the role of entrepreneur in spotting and exploiting opportunities by reading in between the lines and seeing things that others do not. Entrepreneur always lacks complete information and perfect knowledge, hence he/she must be alert and quick to adapt to market dynamics (Kirzner, 1973).

Penrose (1959) argued that managerial activities should be distinguished from entrepreneurial activities, thus initiating the debate as to how entrepreneurs and small business owners differ. She also emphasised the significance of identifying and exploiting opportunistic ideas for expansion of small enterprises and considered such quality to be a key characteristic of entrepreneurship. Leibenstein (1968; 1978) described the entrepreneur as one who acquires all resources necessary to produce and market a product that answers a market deficiency. Leibenstein identified two types of entrepreneurs; the everyday entrepreneur who manages the daily operation of

the business and the “gap fillers” and “input completers” entrepreneurs who spot market deficiencies, discover economic opportunities, mobilise, and coordinate needed resources to capitalise on existing opportunities. Table 2.1 below presents the most prevalent definitions of the term “entrepreneur / entrepreneurship” organised in a chronological order.

Table 2.1 Definition of entrepreneur / entrepreneurship

Author	Definition
Richard Cantillon (1730)	Entrepreneurship is defined as self-employment of any sort. Entrepreneurs buy at certain prices in the present and sell at uncertain prices in the future. The entrepreneur is a bearer of uncertainty.
Jean Baptiste Say (1816)	The entrepreneur is the agent "who unites all means of production and who finds in the value of the products...the reestablishment of the entire capital he employs, and the value of the wages, the interest, and rent which he pays, as well as profits belonging to himself."
Frank Knight (1921)	Entrepreneurs attempt to predict and act upon change within markets. Knight emphasizes the entrepreneur's role in bearing the uncertainty of market dynamics. Entrepreneurs are required to perform such fundamental managerial functions as direction and control.
Joseph Schumpeter (1934)	The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. The carrying out of new combinations can take several forms; 1) the introduction of a new good or quality thereof, 2) the introduction of a new method of production, 3) the opening of a new market, 4) the conquest of a new source of supply of new materials or parts, 5) the carrying out of the new organization of any industry.
Penrose (1959)	Entrepreneurial activity involves identifying opportunities within the economic system. Managerial capacities are different from entrepreneurial capacities.
Harvey Leibenstein (1968; 1979)	The entrepreneur fills market deficiencies through input-completing activities. Entrepreneurship involves "activities necessary to create or carry on an enterprise where not all markets are well established or clearly defined and/or in which relevant parts of the production function are not completely known.
Israel Kirzner (1973; 1979)	The entrepreneur recognizes and acts upon market opportunities. The entrepreneur is essentially an arbitrageur. In contrast to Schumpeter's viewpoint, the entrepreneur moves the market toward equilibrium.
Gartner (1988; 1990)	Entrepreneurship is the creation of new organizations.

Source: Adopted (with minor changes) from: Hobday & Perini (2005, p. 5).

Casson (1982) critically reviewed the leading economic theories of entrepreneurship and discussed how these theories can be placed in a logical sequence: the X-efficiency theory of Leibenstein; the market process theory of Hayek and Kirzner; the risk-bearing theory of Knight and the innovation theory of Schumpeter. Casson concluded,

Although there are a number of differences between the theories on specific aspects of entrepreneurship, on the whole their similarities are more significant than their differences. Each theory is valuable because it emphasizes some particular aspect of entrepreneurship (Casson, 1982, p. 364).

These theories are to be viewed as complementary rather than contradictory, both to each other and to the theory of entrepreneurship in general. Casson added his own definition to the term and defined the entrepreneur as being "a person who specializes in making decisions about how to use scarce resources" (Casson, 1982, p. 23).

Long (1983, p. 55) organised the most frequently recurring themes emerging from these various definitions of entrepreneurship in three themes: "1) uncertainty and risk; 2) complementary managerial competence; and 3) creative opportunism" and concluded that these themes "have been interwoven in various combinations and permutations in virtually all theories of entrepreneurship". Probing various theories and definitions of entrepreneurship, one can develop a broad set of entrepreneurial attributes that an entrepreneur is most likely to be identified with one or more, including: an entrepreneur is an innovator, creative imitator, arbitrageur, risk-taker, risk-manager, organiser, and coordinator. S/he is an opportunity exploiter, 'gap-filler' and resource mobiliser.

More recently, Bygrave (1993), Gartner (1985; 1988), Gartner and Starr (1993), Katz and Gartner (1988), Low and MacMillan (1988), and Meeks and Meyer, (2001) defined entrepreneurship as "the creation of new organizations". In his *Delphi* study, Gartner (1990) identified the expectation of return by the entrepreneur(s) to be another component of entrepreneurship and explained that rewards are not necessarily always expressed in financial terms. Carton, Hofer and Meeks (1998) synthesised these concepts and proposed the following definition: Entrepreneurship is "the pursuit of a discontinuous opportunity involving the creation of an organization (or sub-organization) with the expectation of value creation to the participants". Similarly, GEM (2000b, p. 8) considered "any attempt at new business or new venture creation" to be an entrepreneurial activity.

Brockhaus' (1987) own research cast doubt on the validity of general risk-taking propensity as an entrepreneurial characteristic. Furthermore Brockhaus referred to five studies where failure to distinguish between the risk-taking propensity of entrepreneurs from that of the general population did occur. These findings constituted a sharp departure and "a major deviation from the widely held understanding that entrepreneurs are moderate risk-takers" (Brockhaus, 1987, p.3).

The concept of an entrepreneur as a person with a new idea or product to exploit also appears suspect. Brockhaus writes "In my own research, I found that as many as 60 percent of entrepreneurs decide to start a business before they know what type of business they want to undertake" (Brockhaus, 1987, p. 4). Hence, he made the point that many entrepreneurs are not developers of new products. The findings of Brockhaus' studies led him to assume a comparatively broad definition of an entrepreneur "anyone who starts a business is an entrepreneur".

Definitions of entrepreneurs have increasingly focused on opportunity as a key element in the entrepreneurship process. The ability to perceive and exploit opportunities is best illustrated by the account of two individuals who despite having identical information and access to the same resources, and despite being subjected to the same circumstances had contrasting readings into the same phenomenon.

Bata shoe purportedly sent two salesmen to Africa to open new territories. The first salesman went down the west coast and reported back to the head office that it was pointless for him to be there since no one wore shoes. The second salesman covered the east coast and made the same observation. He concluded however that this was an excellent territory for him; since no one wore shoes, everyone was a potential customer (cited in Lenko, 1995, p. 20).

Dees (1998) explained that according to Peter Drucker, entrepreneurs do not necessarily cause change, although they often do, but they recognise and exploit the opportunities caused by change. Dees further noted that Drucker did not consider starting a business to be "neither necessary nor sufficient for entrepreneurship", and quoted Drucker that "not every new small business is entrepreneurial or represents entrepreneurship (Dees, 1998, p. 2). Schoonhoven and Romanelli (2001) stressed the point that opportunity recognition is not the missing link in the entrepreneurship concept. They further argued their case by maintaining that entrepreneurship is a process that involves mobilising resources and actively creating market space before, during and after the formation of the firm. This process is a collective effort where the entrepreneur plays the pivotal role in making things happen, while society as a whole is

engaged in the process in one way or another. Opportunity recognition is only the first step. Although essential, new firms do not emerge only as an outcome of having entrepreneurially distinctive individuals, nor do they present themselves as an answer whenever an opportunity is identified. They further argued that the key question should be “What is entrepreneurship”? Rather than “Who is an entrepreneur” or “When will entrepreneurship occur”? (Schoonhoven & Romanelli, 2001, pp. 384-390).

In the absence of a generally accepted definition of the term ‘entrepreneur’, Gartner (1988) proposed that each researcher should clearly state what is meant by the term. Adopted definitions should be based on the objectives and on the immediate environment of the particular research. Therefore, in this study the entrepreneur is defined as *an individual who identifies/discovers a business opportunity, mobilizes needed resources and independently starts a business regardless of the motive being opportunity- or necessity-driven. The founder owner maintains a strong presence and is actively involved in the strategic planning as well as the daily operation of the business.* Entrepreneurship thus is defined as *the process by which ideas and opportunities are identified / discovered, pursued and transformed into business enterprises through the mobilisation of necessary resources.*

Entrepreneurship theories in economic development

The Economic Development Administration (EDA) of the US Department of Commerce established five primary criteria as the bases for differentiating between the various theories of economic development. These were: the distinct classification or the central theme used in building the theory (basic categories). How does the theory define and perceive development (definition of development)? How key relationships and assumptions underlie the logic of the theory are defined and integrated (essential dynamic). How competent is the theory in explaining economic development (strengths and weakness)? And finally, how practical is the theory when it is put into practice (application)?

As with theories in every other field, theories of economic development vary in their basic categories, philosophy and assumptions. They also differ in their explanations of the development process and hence their attitude and approach to development differs accordingly. Traditional development theories have failed to explain economic development especially in the context of developing and less developed countries

(LDCs). Their failure could be attributed in part to the following: Firstly, their neglect of cultural and social structure in the economic analysis. At their best, conventional economic theories assumed that cultures and social structures are uniform across countries and nations (Adjibolosoo, 1993). Secondly, neoclassical economics failed to account for non-economic aspects of development and only accepted and acknowledged merely mathematically based development models, prompting Baumol (1968) to regard neoclassical theory as being a theory that has no room for the entrepreneur.

A major criticism of these theories was driven by their assumption of profit maximisation and rational human conduct and by their static analysis. Working under such assumptions and restrictions implies the removal of the entrepreneur from the development model (Baumol, 1968) and shrinking the role of entrepreneurship “to a trivial activity” (Leibenstein, 1978, p. 9). Although entrepreneurship was excluded from the grand theories of development, entrepreneurship proved its relevance and importance as the only development theory that emphasises the role of people in economic development and personalised the market process. Yu (1997, p. 8) argued that explaining economic development in a country requires a dynamic theory that is centred on human agency—a theory of entrepreneurship.

Among the entrepreneurship theories discussed earlier, two theories stand out and are recognised as being most applicable to understanding the role of entrepreneurship in the economic development of various economies, namely; the revolutionary Schumpeterian and the evolutionary Kirznerian theories of entrepreneurship.

In 1911, at the age of 28, Professor Schumpeter wrote his well-known “theory of economic development” in which he outlined his theory of “creative destruction”. Schumpeter (1934) argued that growth occurs because of competition. Competition tends to drive profits down. Declining profits inspire entrepreneurs, who are motivated by profit maximisation, to be innovative through finding new combination(s) in order to stay profitable and competitive; hence competition takes place through innovation rather than “price mechanism”. Emerging new waves of innovation will result in the destruction of existing and established enterprises and/or “combinations” and the emergence of new ones.

The carrying out of new combinations can take several forms: the introduction of a new commodity, the introduction of a new method of production (new technology), the

opening of a new market, and the utilisation of a new source of supply of raw materials and/or parts and the carrying out of new (business) organisation of any industry. Schumpeter's definition also emphasizes the combination of resources and the importance of the 'new' element in any new business undertaking. Therefore, he did not consider the managers of already established businesses to be entrepreneurs. Schumpeter believed that both managers and entrepreneurs experience risk, and he held that the challenge facing entrepreneurs is to find and use new ideas. Schumpeter's theory was criticised for not going beyond explaining the venture creation to address the managerial function of the entrepreneur once the new business was established, that is, the role of the entrepreneur in running the business.

The process of "destruction and creation" is an ongoing process, where the entrepreneur plays the pivotal role in the process. By introducing new technology only for it to become outmoded within a short period and replaced by a newer version is an example where entrepreneurs employ innovation to cause creative destruction. Through the continuous destruction and creation and through successes and failures, the entrepreneur ensures that the business cycle is kept in motion. This groundbreaking line of reasoning reflected a radical departure from the principles of Adam Smith who advocated, "Market stability" through the "invisible hands of the market".

A central theme of the Schumpeterian entrepreneurship is innovation, based on opportunity discovery. Literature often characterises the Schumpeter theory of entrepreneurship as being a model with revolutionary impact. Yu (1997) suggests that this mode of entrepreneurship is not viable for developing economies. It is best suited for dynamic well-developed capitalist economies such as the economies of the US, Canada and Western Europe.

The second theory is linked to the Austrian school of economy and best associated with Kirzner. A central theme of the Austrian school of economy is the element of "uncertainty". All actions of human beings have the element of uncertainty because they are based on imperfect information and incomplete knowledge. In that sense, all human actions carry within them entrepreneurial activities. What distinguish the entrepreneur are rationality, consistency and eagerness to make a profit. As an alert person who discovers unrealised opportunities, the entrepreneur takes action to meet the expected needs and desires of the market, hence s/he bears more risk than does the normal individual (Mises, 1966). Kirzner (1985) explained that in the absence of

“perfect knowledge”, entrepreneurs rely on their own judgement and their response to the opportunity will be based on “wise” assessment of the prevailing situation.

Although Kirzner has accepted Mises’s interpretation that “the market is a process”, he felt that the challenge was to define what is meant by “process”¹⁴. Expanding on the work of his teacher and other pioneers of the Austrian school of economy, Kirzner concluded that the market is “a process of entrepreneurial alertness”. The entrepreneur is an alert person who identifies opportunities; predicts and anticipates consumers’ future desires and demands and mobilises resources to create a business venture that satisfies such demands.

In economic development, too, the entrepreneur is to be seen as responding to opportunities rather than creating them; as capturing profit opportunities rather than generating them...without entrepreneurship, without alertness to the new possibility, the long-term benefits may remain untapped (Kirzner, 1973, p. 74).

Kirzner did not consider innovation to be a condition for entrepreneurship. Unlike the Schumpeterian theory of entrepreneurship, which calls for fundamental changes to an existing system, the Kirznerian theory does not cause major disturbance to the system, nor does it require the originality of the idea or the opportunity. Rather, it is achieved through the “creative imitation and / or adaptation” of already existing innovations. In this context, the theory can be viewed as having an evolutionary rather than a revolutionary impact since it does not seek to change the existing system.

The characteristics of the market process theory suggested that the applicability and viability of the Kirznerian theory of entrepreneurship is to be manifested where developing, and some developed, countries are aspiring to achieve higher levels of economic development and growth. This assessment is based on the view that entrepreneurs in the developing countries are hardly considered true innovators. They usually imitate the products and adapt the production process originated in the highly developed economies. In his analysis of the role of entrepreneurship in the economic development of Hong Kong, Yu (1997) credited Hong Kong’s economic success to its implementation of the Kirzner imitative mode of entrepreneurship. Other newly industrialised countries (latecomers) such as Japan, Singapore and Taiwan have also

¹⁴ The influence of Professor Mises on the thinking of his student Kirzner at New York University was profound. Kirzner admitted that his work over 42 years, since his first encounter with Mises in 1945, was centred on the opening statement of Mises’s seminar in which he identified the market to be “a process” (cited in Ebeling, 2001, p. 1).

successfully applied the Kirznerian theory of entrepreneurship to their economic development.

Baumol (1990) proposed a revolutionary set of hypotheses that addressed the entrepreneurship phenomenon from a new perspective. Contrary to the common practice, Baumol (1990) did not attempt to establish a correlation or a relationship between the level of entrepreneurial activity and economic development and growth. He rearranged the priorities by focusing on the type rather than on the supply level of the entrepreneurial activity, and argued that the prevailing reward structure of the economy would determine the type of its entrepreneurial activity. He further contested the assumption that entrepreneurship is always “productive”. Entrepreneurship can be “unproductive” and even “destructive” depending on the structure of the payoffs in the economy. Baumol (1990) explained the variations in the type of entrepreneurial activity by changes in the incentive system of the economy over time.

The state directly or indirectly creates a rewards structure for different economic activities at different points in time. These incentives (payoffs) affect the nature and the direction of the entrepreneurial activity. The lack of productive entrepreneurial activity within the Saudi economy can be partially explained within these terms. The oil boom of the 1970s has created a situation where the majority of the Saudis were driven, if not inspired, to work in the public sector. They were driven by the generous incentives and rewarding employment packages offered by the public sector. This situation has created an oversized and unproductive public sector and at the same time has hindered the emergence of a genuine productive entrepreneurial activity within the Saudi economy. Hence, the state should bear the responsibility of adjusting this imbalance by creating a reward structure that favours productive entrepreneurship.

Entrepreneurial activity could be innovative but unproductive and also it could be economically viable but destructive when directed towards immoral, socially unacceptable or harmful avenues. Islam, for instance, holds drug trafficking, alcohol production and promotion, prostitution and gambling unethical and destructive (entrepreneurial) activities, hence they are declared unlawful and forbidden, despite the fact that they might be economically viable.

Entrepreneurship in developing countries

While economic growth represents a common theme for much of the theory and research addressing the contributions of entrepreneurship to Western economies, the attention in developing countries is largely focused on the potential role that entrepreneurship could play in the economic development of these countries. It has been argued that development is both a condition for and an outcome of growth, and while it is possible for countries to achieve economic growth through development, development cannot be achieved simply by means of economic growth.

The distinction between economic development and economic growth is usually explained in terms of quantitative and qualitative change within the economy (Hirschman, 1977; Morris, 1979; Sen, 1984; Streeten, 1981; 1983; Vaughan & Bearse, 1981). Economic growth, on the one hand, is a 'quantitative' change in the magnitude of the economy, where variables such as investment, output, consumption GDP and (GNI) per capita serve as quantitative indicators of economic growth. On the other hand, economic development is a 'qualitative' transformation that entails "fundamental changes in the structure of the economy" towards productivity and just distribution of produced wealth (Gillis et al., 1996, p. 8). Burnett (2000) argued that these changes and transformations are engineered and carried out by entrepreneurs and concluded that for development to occur and be sustained in a country, that country must have a dynamic and vibrant entrepreneurial sector. The role of entrepreneurs as initiators and performers of macro-economic changes was also endorsed by Hornaday (1990) and Stanworth and Gray (1991).

Small businesses, the tangible manifestation of entrepreneurship, are considered to be in a better position than larger firms to assume a more expedient role in the economic development, especially within the economies of developing countries. Small businesses do exist in larger numbers and they are in every sector of the economy, and operate in every community. Hence, they are best suited to assuming the role of economic development agents through their equitable distribution of a nation's wealth among its population. The International Labour Organization (ILO) Kenya Report (1972) described small enterprises as "... a sector of thriving economic activity which has the potential for dynamic, evolutionary growth" (cited in Schmitz, 1982, p. 9). Likewise, Reid (1997, p. 3) considered the vibrant small business sector to be "the life-blood of any economy with a significant market mediated sector".

While the entrepreneurial phenomenon and the role of entrepreneurship in the economy have been widely studied in developed countries, it seems that entrepreneurship research in developing and less developed countries is still largely underrepresented. Reynolds et al. (2004) reported that while there are about 18 million entrepreneurs in the US, there are over 200 million in China and India alone. However, by reviewing one of the most popular books on entrepreneurship research, Bhide (2000) found no mention of India while China was cited only on two pages. This irony prompted Lingelbach, de La Viña and Asel (2005, p. 7) to claim “entrepreneurship in developing countries is the most understudied important global economic phenomenon today”.

Much of the available entrepreneurship literature in developing countries’ context is focused on the attributes and the potential contributions of entrepreneurship to the socio-economic well-being of these countries. However, the real challenge for the vast majority of developing countries remains how to transform such opportunities into economic realities. The similarities between mainstream theories of development and classical theories of entrepreneurship are striking; they both have an egocentric focus and both assume the universality and the superiority of the Western Model, with little or no regard to the many profound cultural, environmental, technological and structural differences between the first and the third worlds, thus they failed to render real contribution to the developmental aspirations of the people in developing countries.

Despite being a universal phenomenon, entrepreneurship remains a country-specific experience that must be promoted accordingly. Scholars and development agents suggested specific approaches to promoting entrepreneurship in developing countries such as: the legalisation of the informal sector, the adoption of new technologies through pragmatic technology transfer programmes, and by exploiting the many opportunities embedded within the educational systems to cultivate entrepreneurship cultures and to create viable enterprises.

Restricting the definitions of entrepreneurship to the views of Schumpeter and other classical schools of entrepreneurship signals the denial of the contributions of millions of (entrepreneurs) in developing and less developed countries. Informal sector in developing countries is an important source of employment and contributes significantly towards GDP. The work of Morris, Jones and Nel (1997) on the tavern industry within South African townships did not only reject the controversy surrounding the role of informal sector in economic development, but strongly argued that economic

development in developing countries will not take place in the absence of a growing informal sector. They further called upon governments to extend their supportive policies to include growth-oriented enterprises operating in the informal sector.

The integration of the informal sector into the development process was also endorsed by De Soto (2000). In his much-publicised book *The Mystery of Capital*, De Soto completely rejected the explanation offered by the culturalists that entrepreneurship development and economic success are culturally dependent. He argued that adopting and implementing a transparent legal structure of property and property rights would lead to economic success in developing countries; the legalisation of the huge 'informal sector' and giving the poor titles to their homes and businesses would enable them to establish contacts with financial institutions to raise capital to start new businesses and expand existing ones.

Lado and Vozikis (1997) argued that the socio-economic development in developing countries largely depends on the adaptability of individual countries and their ability to integrate imported technology with local resources. The role of the indigenous entrepreneur therefore would be to combine foreign technology with local resources to produce needed products and services. Gassol (2004) emphasised the role of education in creating "university-founded enterprises" by linking research and industry. Thus, he proposed a bottom-up university entrepreneurship model to promote entrepreneurship in Latin America, and more specifically in Venezuela. Evidently, countries are urged to adopt appropriate approaches to promote their own forms of entrepreneurship based on their own circumstances and experiences.

As this discussion highlights the uniqueness of each country's entrepreneurial experience, it also underscores that future research, aiming at promoting entrepreneurship in developing countries, must focus on areas with important policy implications. The argument is that building successful indigenous business models involves the cooperation and the joint efforts of researchers, policymakers and development specialists.

The contributions of entrepreneurship and small firms

The global interest in entrepreneurship and small-scale enterprises began in the early 1970s with the publication of three influential reports and studies: the Committee of Inquiry on small firms – *Bolton Report* (1971) in Britain, the *Wiltshire Report* (1971) in

Australia and *Small is Beautiful* by Schumacher (1973). The *Bolton Report* (1971, p. 344) concluded, "If small firms did not exist it would be necessary to invent them". Since then, many studies have been published describing and analysing the essence of the entrepreneurship phenomenon and its manifestation in the form of the creation of new firms. Research focused mainly on the contribution of entrepreneurship to economic growth, the motives of entrepreneurs to start their businesses and the barriers to entrepreneurship development (Curran & Burrows, 1988; Hakim, 1989; ILO, 1972; Storey & Johnson, 1987; Storey, Johnson & Johnson, 1987; Westall, & Cowling, 1999).

Literature is not short of listings describing benefits and contributions of entrepreneurship to the economic development of developing countries (Beaver, 2002; Bennis, 2001; Frese, 2000; Kendrick, 1998; Massey, 2005; Nelson, 1987): small firms create jobs and generate employment opportunities (Birch, 1979-a; 1979-b; 1981; 1987). Small firms also provide training for the unskilled, upgrading the skills of the semi-skilled and sharpening the skills of the skilled workers, thus contributing to the process of building up a human capital to lay the foundations of future industrial expansion (Brown, Hayton, Sandy, & Brown, 1976). SMEs provide a mechanism for implementing a more equitable income distribution, which is the core of economic development. Small firms are also regarded as 'seedbeds' for the development of local and national entrepreneurs. Small firms can be viewed as having a complementary rather than a contradictory function to larger national firms, and at the same time they can minimise, if not eliminate, the dependency on large firms that are often in foreign hands and/or based on imported technology.

SMEs are also seen as an alternative development strategy to the concept of a large factory model (Bennet & McCoshan, 1993); basic attributes of small firms such as competitiveness, flexibility, dynamism, sensitivity and being responsive to market demand have played to their advantage and contributed to their growth and development. The promotion of small enterprises and the stimulation of entrepreneurial activity are identified as a primary mechanism to achieve healthy regional development through the creation of new employment and income generating opportunities. SMEs exploit the potential of the indigenous sector as a development tool. The owners of SMEs usually come from within the community and they are an integral part of their communities, they depend largely on their personal networking for capital and social support to start their businesses, and they depend even more on their localities to market their products. The personal connection between the business

founder and the community is so binding that the fear of relocating the business almost does not exist, on the contrary it is expected that the entrepreneur will take a leading part in the development of the community.

Developing entrepreneurship in a country also helps to make economic activities more indigenous and so contribute to preserving and safeguarding the national identity. Thus, a thriving entrepreneurship sector is seen as a sign of autonomy and a symbol for economic independence, particularly in developing countries (Bolton, 1971; Harper, 1984, p. 11).

Entrepreneurship and the employment challenge

The ability of entrepreneurship, manifested by small firms, to generate employment opportunities and to spread these opportunities more evenly in different regions of the country are among the most emphasised contributions that small businesses render to the economy. McKenzie (1986) noted that:

In the high-unemployment economy of Quebec, the Beauce region is a pleasing anomaly. With absolutely no natural advantages, local entrepreneurs have created so many jobs that the nation's biggest problem is labor shortages McKenzie, (1986, p. 44).

Unemployment is a growing global problem that affects developed, developing and countries in economic transition alike. Countries across continents are increasingly faced with the challenge of finding employment opportunities for the increasing numbers of job market seekers. The magnitude of the problem could be better appreciated in light of the limited capacity of wage labour and the already oversized public sectors in many countries. Some argue that "it is not administrators or politicians who create economic growth or employment, but entrepreneurs" (Sweeney, 1991, p. 376), and foresee that the key for solving the unemployment problem lies in promoting self-employment and stimulating more entrepreneurship. Others emphasise the role of formal education in preparing a capable and productive workforce and call for more training that matches the requirements of the labour market.

Rising numbers of job seekers and the failure of the Saudi economy to respond caused the unemployment rate among Saudis to reach alarming levels. With (9%-30%) of the total Saudi male labour force out of work, unemployment is seen as one of the main challenges that could undermine the authority of the Saudi establishment. While some

countries succeeded in creating new jobs by devising freer labour market policies and reforming their tax structures, others opted to reduce their unemployment rates at the cost of lower wages. However, the trend in Saudi Arabia has been to absorb the new work force into the public sector. In addition to the obvious negative effect of inflating the public sector there is a limit to the intake capacity of this sector.

The role of the small business sector in employment generation is still the subject of many debates and research undertakings¹⁵. However, studies into the relationship between employment and SMEs could be classified as two types: cross-sectional surveys and longitudinal surveys. In his pioneer study, Birch (1979a) examined employment changes in 5.6 million business establishments in the USA between 1969 and 1975. He demonstrated that firms employing fewer than 20 people created around 66% of the new jobs in USA and about 82% of net employment growth came from firms with fewer than 100 employees. He also concluded that approximately 50% of gross new jobs were generated from new firms. Birch carried out further studies to demonstrate the vital role that small firms play in generating employment opportunities (Birch, 1979b; 1981; 1987).

The findings of Birch's seminal work, that more jobs are being created by small businesses, constituted what came to be known as "the small business job creation hypothesis". The revelation of Birch's findings caused a revolution that challenged convictions long held by mainstream economists and politicians alike that large corporations are the main providers of employment opportunities. The hypothesis was questioned on its methodological background and its implications were not accepted at face value by a segment of the research community (Kirchhoff & Greene, 1995). Nevertheless, the theory still represents a strong argument for the crucial role that small firms play in creating employment opportunities in all parts of the world. Gudgin, Brunskill and Fothergill (1979), upon analysing detailed time series data in the UK, concluded that new firms provide significant job opportunities only in the long term.

¹⁵ Several important issues were brought into the debate regarding small firms' contribution to job creation, such as; do small firms create jobs (Reynolds, Miller & Makai, 1995; Reynolds, Storey & Westhead, 1994; Evans & Leighton, 1990; Hamilton, 1989; Audretsch & Fritsch, 1994; Storey & Johnson, 1987; Storey, Johnson & Johnson, 1987; Audretsch, Thurik, Van Stel, & Carree, 2006)? What firms create these jobs (Harrison, 1994)? Do small firms create net new jobs or do they simply take jobs away from existing firms (Hull & Hjern, 1987)? What is the quality of jobs being created by small firms (Barrett, 2003; 2004)? Is self-employment a sign of economic prosperity or is it a symptom of the severity of the unemployment disease (Hakim, 1988; Acs, Audretsch & Evans, 1992)? Bögenhold, Fachinger, and Leicht (2001, p. 89) concluded, "Increasing rate of self-employment indicates that there is a problem, rather than self-employment actually being the answer to current problems in the labour market".

Rothwell and Zegveld (1982) summarised the results of relevant studies in the USA, UK and Canada and concluded that governments' attention to small firms as a vehicle for employment generation has some justification. Parallel to this conclusion, they warned against raising the expectations of massive job opportunities in the short to medium term by creating more small firms.

There is a general perception that small firms are major contributors to job creation. The positive link between small firms and employment would be exceptionally significant in the context of developing countries where the vast majority of these countries have labour-intensive markets. A study that was carried out in Zambia concluded that small businesses create jobs and provide income for vast majority of the population (Parker, 1996). It remains a fact that each new business start-up is most likely to remove at least one name from the unemployment queue. Therefore, the role of small firms, even those with no growth orientation, is not to be discounted as a source of output and employment.

ENTREPRENEURSHIP DEVELOPMENT: PERSPECTIVES AND APPROACHES

“Hong Kong people are entrepreneurial magicians; they had created a great industrial city on a bare rock in the South China Sea; show them another rock – in Scotland, in Australia – and they could do it again” (King, 1990, p. 116). These remarks raise many questions as to what makes Hong Kong people so entrepreneurial. Is it their history? Is it their distinct character and genetic makeup? Is it their cultural values and beliefs? Alternatively, is it their ability to adopt and implement entrepreneurial policies and complement such policies with supportive institutions?

Scholars have studied the construct and the development of entrepreneurship from different perspectives and employed a variety of theoretical frameworks in their studies. A comprehensive review of relevant literature highlights four distinct, but not necessarily mutually exclusive, approaches that are frequently used as the basis for the majority of relevant studies: the individual 'entrepreneur' approach, the structural / historical approach, the environmental / institutional approach, and most recently the cultural approach.

It is widely acknowledged that entrepreneurship is an interdisciplinary discipline that spans the fields of economics, sociology, and psychology and organisation theory.

While this study employs the cultural approach as the major line of inquiry into the development of Islamic entrepreneurship within the Saudi context, it also aims at demonstrating the complementary relationship between the various approaches to entrepreneurship by integrating them into one comprehensive framework. In due course, I will establish appropriate points of contact and link the 'cultural' approach with the other components of the proposed entrepreneurship-based development model.

Scholars and policymakers attempting to explain and stimulate entrepreneurship development in different countries are increasingly embracing an institutional and a cultural-centred analysis. Understanding the institutional and cultural realities of entrepreneurship in a country enables policymakers to map appropriate policies aiming at creating a friendly environment for entrepreneurship development, and establishing the proper mechanism for effective intervention should the need arise.

The individual perspective

Social scientists, including mainstream economists, have approached the entrepreneurial phenomenon from an individualistic perspective and sought to understand and to explain the entrepreneurship occurrence by focusing on 'the person of the entrepreneur', each according to the basic principles of his/her own discipline. In their attempt to identify who is an entrepreneur, scholars examined the traits, the behaviours and the functions of the entrepreneur. Their aim was to construct a portrait of the typical entrepreneur based on his/her personal characteristics in order to predict future entrepreneurs. Understandably, economists were unwavering in their pursuit to establish that entrepreneurship originated from the science of economics alone (Filion, 1997). Cantillon and Say, usually regarded as the pioneers of the field, defined the entrepreneur in economic terms and viewed economic development as a result of venture creation.

While economists have associated entrepreneurship with creativity and innovation, behaviourists (psychologists, sociologists and other human behaviour specialists) paid considerable attention to the traits and characteristics that make a person act entrepreneurially. Behaviourists dominated the field of entrepreneurship until the mid-1980s. There were many indications in published literature to suggest that in order to identify entrepreneurs from non-entrepreneurs; one should examine the characteristics

of an individual to see whether they are consistent with the common set of characteristics as proposed by various research findings (Lau & Chan, 1994).

Social scientists applied various theoretical and methodological approaches to identify the characteristics of the entrepreneur. The most common three approaches were the traits approach, the demographic approach and the behavioural approach. Firstly, the traits approach: the 1970s and 1980s witnessed a surge in quantitative and qualitative research that attempted to define entrepreneurs in terms of their personal characteristics (Filion, 1997). Timmons (1994) reviewed more than 50 studies on the general characteristics of entrepreneurs and listed the following six characteristics as common to the majority of these studies: (1) commitment and resolve; (2) ability to lead and to manage; (3) opportunity keenness; (4) tolerance of risk and uncertainty; (5) creativity and adaptation and (6) high motivation to achieve. While Kao (1991) identified eleven common characteristics shared by entrepreneurs, the review of relevant literature and various research sources by Hornaday (1982) produced a list of forty-two characteristics most likely to be identified with entrepreneurs. Kuratko and Hodgetts (2001, p. 28) supported Gartner's (1988) conclusions that the characteristics attributed to entrepreneurs are so diverse and rightly argued that "no one profile can represent today's entrepreneur".

While the trait approach was credited for being able to identify those who are not entrepreneurs; it was wide open for criticism for not being able to predict future entrepreneurs. The contribution of this approach to policymakers and other parties concerned with providing assistance in enterprise development was questioned. Policymakers aim at identifying 'would-be entrepreneurs' in advance rather than identifying their characteristics in retrospect (Beaver, 2002).

Secondly, the demographic approach attempts to use demographic information to establish a profile of the typical entrepreneur. This approach assumes that people with similar backgrounds possess similar underlying characteristics. As a result, it is possible to predict entrepreneurs in an unknown population if some demographic characteristics are found to be common among them. This is a questionable assumption since the issue of characteristic inheritance is yet to be proved. Human capital variables such as family background, age and gender, education attainment, previous work experience and socio-economic status are the basic elements for studies focusing on the demographic approach (Brockhaus, 1982; Hisrich, 1988; Gasse, 1985). Lenko, (1995, p. 18) reported, "one study even went so far to consider

whether entrepreneurs were left-handed or right-handed". The idea that entrepreneurs' behaviour could be predicted based on their demographic characteristics did not appeal to Robinson, Stimpson, Huefner and Hunt (1991). They criticized the static nature of this approach and duly drew attention to the fact that entrepreneurs react to specific circumstances, not to a given set of demographic characteristics.

Filion (1997, p. 5) found that various research findings on the definition of the entrepreneur were inconsistent and researchers produced "highly variable and often contradictory results". Two important conclusions can be drawn from the literature: firstly, it was not possible to establish a scientific psychological profile of the entrepreneur or to develop a consensus of the entrepreneurship phenomenon prompting Bull and Willard (1993) to proclaim that there was no "typical" entrepreneur. Secondly, there was no conclusive evidence to establish a causal relationship between the traits and characteristics and the behaviour of entrepreneurs (Carton, Hofer, & Meeks, 1998). To overcome the limitations of these two approaches in predicting entrepreneurial behaviour satisfactorily, a more behavioural-oriented approach was suggested (Lau & Chan, 1994). Understanding the entrepreneurial behaviour requires a more direct and an in-depth examination of the activities undertaken by entrepreneurs. The focus, therefore, should be on what the entrepreneur does, rather than on whom the entrepreneur is (Gartner, 1988).

Since the early 1990s, little substantial research has focused on the individuality of the entrepreneur (Carland, Carland, & Steward, 2000). The reason for the scarcity of such research, to a large degree, has to do with the shift of focus from entrepreneur to entrepreneurial activity as advocated by Bygrave and Hofer (1991). By focusing on the nature and characteristics of the entrepreneurial process, entrepreneurs are identified by their participation in the process rather than by a unique set of characteristics they might possess. To Bygrave and Hofer (1991) the entrepreneurial process involves all functions/activities and actions associated with the perceiving of opportunities and the creation of organisations to pursue them. However, the entrepreneurial process does not end with the creation of the business venture. The life cycle of the process consists of stages that include the: birth, survival, growth, success and the decline of the firm.

Mainstream economists were determined not to accept or include non-quantifiable variables in their entrepreneurship model. Further, they viewed entrepreneurship to be purely a function of economic activity with no social content, and profit maximisation as the prime motive of the entrepreneur. Hence, they presented their interpretation of the

entrepreneurial phenomenon by the following simple model: $Y = f(x)$, where matrix x represents only economic variables such as utility, profit, wealth...

The inability or the unwillingness of neoclassical economists to incorporate aspects other than economic in their entrepreneurship model led to the emergence of an alternative thought of the entrepreneurial activity based on the "sociology of the enterprise". Entrepreneurship is seen as a socio-economic activity that comprises social, cultural, and economic dimensions. While appreciating the essential role of the entrepreneur and the implication of rational motivations for entrepreneurship, this model emphasised that a host of interrelated sets of variables individually and collectively influence the level and the type of the entrepreneurial activity. The model specification is: $y = f(x, z, w)$ where: matrix x stands for economic variables; matrix z represents non-economic variables; and matrix w signifies interaction terms between x (economic variables) and z (non-economic variables)¹⁶.

The structural / historical perspective

Understanding the current political economy and the developmental status of a country cannot be achieved without understanding its historical background. The structural approach, which is based on "Marxist theories of capitalist transformation", focuses on the broader political economy of the country within its historical context. Particularly, it investigates the role of colonialism and neo-colonialism in shaping and explaining entrepreneurship and development, or lack, of it in a given country. Unlike the environmental and cultural approaches, the structural approach deals with external factors imposed on certain nations by (foreign) powers that have resulted in disturbing the natural flow of their development process.

This approach to studying entrepreneurship is best explained by the dependency theory of development: the (exploitative) relationship between the centre (the coloniser/ex-coloniser) that is, the developed economy and the periphery (the colony/ex-colony) that is, the underdeveloped economy. The structural approach was employed in conjunction with the cultural approach to explain entrepreneurship development, or lack of it, in many countries in Africa, Latin America, and Asia and more noticeably in India and East and Pacific Asia.

¹⁶ For more on this model, please see Zafirovski (1999).

The colonial era has left its impact on many nations, and ensured long-term association between both colonised countries and the colonising powers. The British and the Japanese colonisation of India and Korea respectively are considered fitting examples where colonisation played a positive role in fostering certain entrepreneurship qualities. Cumings (1987) argued that the Japanese colonial system in Korea and Taiwan paved the way for their future rapid and sustainable industrialisation. On the contrary, one can argue that the legacy of the British and French colonisation of the majority of Arab Muslim countries post World War I and well into the 60s and the 70s of the twentieth century was of a different nature. The direct and more recently indirect colonisation of these countries has added to their social, political and economic predicaments (Ayubi, 1993), and inevitably had negative impact on their development endeavours.

The fact that Saudi Arabia has never been subjected to foreign military occupation or direct exploitation of its natural resources, as dictated by conventional colonisation, does not necessarily mean that the Kingdom has always maintained total control over its resources. Since the oil discovery in the 1930s and leading to the 1973 oil crisis, Saudi Arabia, willingly or reluctantly, was subjected to a dependency type of relationship with Western powers, namely the United States; the US virtually had great control over the Saudi's most valuable source of national income, oil. It could be argued that such an unbalanced type of relationship impeded the accumulation of capital needed for the creation of national industries and hindered the development of a vibrant indigenous entrepreneurship sector in the Kingdom. Western powers also practised a policy of exclusion¹⁷ by which many countries in the developing world, including Saudi Arabia, were denied access to high technology; export opportunities and foreign investments with, or without, justifications and under various pretexts.

The environmental perspective: Policies and institutions

The Institutionalists benefited from the institutional theory and were inclined to explain entrepreneurship development in terms of the level of (legal, social, economic and political) institutional support and incentives extended to the entrepreneur and the enterprise. This perspective for analysing entrepreneurship development is best explained and comprehended by the neo-liberal approach, which assumes that privatisation and market forces are the dominant players in the economy. It further

¹⁷ Exclusion policy pursued by the Western powers encompasses more than the economic dimension to include political as well as social exclusion.

envisages that the role of the state would be kept to a minimum that is, to create a friendly and a welcoming environment for entrepreneurship to develop and thrive.

There is growing recognition and acceptance of the proposition that entrepreneurship profoundly affects the economic development and growth of all countries regardless of their developmental status. Contemporary definitions of entrepreneurship place special emphasis on linking entrepreneurship and development by means of creating new enterprises (Gartner, 1988; Low & MacMillan, 1988). Small and Medium Enterprises (SMEs) are the physical manifestations of the efforts and hard work of the entrepreneurs, supported by a complex system consisting of a set of interacting variables, working in harmony to ensure the success of the venture creation. Small firms are largely perceived to be the means by which entrepreneurs deliver needed dynamism to the economy.

The focus on small businesses at the national level is evidenced by the many government policies aiming at creating a vital entrepreneurial sector where small businesses can grow and thrive. The cause of entrepreneurship and SMEs is further advanced to the point where it was an election issue in some developed countries such as the United States in 2000 and New Zealand in 2002.

While the individual approach attributes the entrepreneurial success to the traits or the behaviours of the individual entrepreneurs, the environmental approach recognises the role of the entrepreneur, but within a macro view of the entrepreneurial process. The environmental approach refers to the framework conditions within which economic activities take place, and tends to explain entrepreneurship development from a neo-liberal perspective. The argument is that entrepreneurship success largely depends on the prevailing economic, social, legal and political forces combined and supported by functional institutions. In this capacity, a friendly climate and an enabling environment can create opportunities; otherwise, the environment will be regarded as an impediment to entrepreneurship development and promotion. Two public policy alternatives could be constructed regarding the likely role of the state in developing policies to stimulate entrepreneurship and small business: the 'hands-off' approach and the 'interventionist' approach.

The hands-off or *laissez-faire* approach appeals to those who view any interference by the state in the entrepreneurial process to be a disruption to natural entrepreneurial process (a firm's birth, survival, growth and decline). This approach is based on the

neoclassical 'wisdom', which assumes that market forces are situated to correct any deviation, and views failure as being a part of the process. While the hands-off approach might present the opportunity to function in a well-developed free market economy, it lacks the conditions and the infrastructure necessary for its functionality in developing economies and in the majority of developed economies.

The role of the state in entrepreneurship development in developing economies is the subject of an ongoing debate. The debate is mainly fixed on two forms of government interventions: functional (facilitative) interventions aiming at improving the functioning of markets, hence their effect would be felt through the entire economy; and selective (directive) interventions that target certain sectors and/or firms (Wint, 1998; Yu, 1997). The advocates of this approach (the invisible hands of the market) argue that government should not be specifically involved in promoting entrepreneurship or giving preferential treatment to entrepreneurs. The state has a facilitative role to play, with the aim of state intervention being limited to creating the right general conditions and encouraging a productive economic environment for competition and enterprise development (Gotlieb, 1993/1994; Peterson, 1988; Wint, 1998). Investment in education and in infrastructure, sustaining economic stability at the national level, fewer regulations, a stable currency exchange rate, competitive tax structure, low inflation and low interest rates are seen as fertile grounds for indirect government involvement in entrepreneurship development and the creation of new firms.

The advocates of government intervention rejected the assumptions and implications of neoclassical orthodoxy and argued that neither do 'we' live in a neoclassical world nor do 'we' possess perfect market knowledge (Wint, 1998). The many experiences of developing countries, in particular, are not short of evidence documenting market failures. Lall (1995) suggested that selective intervention by the state might be required to correct such market failures.

Those who championed the role of entrepreneurship and small businesses were firm in their call on governments to assume a more active and direct role in creating a vibrant entrepreneurship sector. They believed that the state should embark on selective interventionist policies that favour, protect, promote and support the small business sector. Financial aid, incentives, credit, counselling, training and research are some areas where direct government assistance could be extended to SMEs. Lichtenstein and Lyons (2001) questioned the effectiveness of giving priority to financial and technical assistance, and strongly believed that the priority of support

programmes should be focused on developing viable enterprises by giving preference to the development of a steady supply of quality entrepreneurs. Lichtenstein and Lyons (2001, p. 5) based their attitude on a sound conviction that “entrepreneurs do not start businesses because services are available; services are demanded and used as a result of the existence of entrepreneurs”.

The call for a shift from SME policy to entrepreneurship policy is gaining momentum. The argument used to justify such an attitude draws attention to the fact that the entrepreneur starts the business and it is the entrepreneur, not the enterprise, which runs, develops and expands the business (Boter, Hjalmarsson, & Lundstrom, 1997). Thus, state efforts must be focused on producing enterprising individuals through various awareness programmes that motivate and stimulate individuals to consider entrepreneurship, and secondly by focusing on entrepreneurship capacity building to equip potential entrepreneurs with the necessary training and appropriate skills for success.

Still, many development planners and policymakers, especially in developing countries, do not differentiate between policies aimed at supporting SMEs and policies designed for entrepreneurship promotion. In fact, many do not distinguish between small businesses and entrepreneurship and use the terms interchangeably. Lundström and Stevenson (2001) compared the differences between the two policy approaches with respect to various dimensions and presented their findings in the following table.

Table 2.2 A comparison of features of small business versus entrepreneurship policy

Feature	Small business policy	Entrepreneurship policy
Objective	Firm growth, productivity	Motivate more new entrepreneurs
Target	Existing firms Business (entities)	Nascent entrepreneurs/new business starters Individuals (people)
Targeting	'Pick winners' (i.e., growth sectors, firms)	General population/subsets (i.e., women, youth)
Client group	Easy to identify 'existing'	Difficult to identify 'nascent'
Levers	Direct financial incentives (tax-credits, loan, guarantees)	Non-financial, business support (networks, education, counselling)
Focus	Favourable business environment (i.e., tax regime, reduce red tape)	Entrepreneurial culture/climate (i.e., promote entrepreneurship)
Delivery system	Well established	Lots of new players (need orientation)
Approach	Generally passive	Pro-active outreach
Results orientation	More immediate (Results in less than 4 yrs)	More long-term (Results can take longer)
Consultation	SME associations	Forums do not generally exist

Source: Lundström and Stevenson (2001, p. 44).

The campaigners for government intervention in favour of new business start-ups justify their attitude by arguing that while new small businesses render indispensable socio-economic contributions to society, they are faced with many barriers that larger firms do not encounter (Bannock & Peacock, 1989).

The countries of South East Asia employed both functional and selective interventions to boost their entrepreneurial activities. The government of Hong Kong adopted the functional intervention approach to create a conducive environment for its entrepreneurs. Alternatively, other East Asian countries applied selective intervention to enhance the competitiveness of their economies. Lall (1995) pointed out that economic theory does not regard either policy as superior to the other. Furthermore, there is no suggestion that a combination of both policies cannot co-exist and function effectively within a given economy. The challenge is to apply each intervention policy at the appropriate time and place to serve defined objective. Wint (1998) suggested

that the focus of the public policy should not be defined in terms of functional versus selective intervention; rather policies should be tailored to address the nature of the problem under consideration.

The cultural perspective

Sabri (2004, p. 124) pointed out that a host of management scholars (Gannon, 1994; Handy, 1991; Hickson & Pugh, 1995; Hofstede, 1980; Pheysey, 1993; Tayeb, 1988) concluded, "There is no culture free theory of management". Likewise, Eade (2002), Harrison and Huntington (2000) and Lavoie and Chamlee-Wright (2000) emphasised the link between culture and development and cautioned that "any development process must be embedded in local culture, or development will not take place", and further argued "de-development often occurs in the absence of cultural sensitivity" (Verhelst & Tyndale, 2002, p. 11).

Cross-cultural entrepreneurship studies have established the existence of an unyielding bond between culture and entrepreneurship and that entrepreneurship is deeply rooted in a nation's social context. They maintained that entrepreneurial activity cannot be divorced from its cultural background, and that every culture produces its own brand of entrepreneurship. Thus, it could be argued that variations in the level of entrepreneurial activities between countries have a social dimension and could be explained, among other factors, by cultural differences (McGrath, MacMillan, Yang, & Tsai, 1992; Reynolds, 1992; Reynolds, Storey, & Westhead, 1994; Shapero & Sokol, 1982). Entrepreneurship literature and cultural studies lend support to the view that some cultures value entrepreneurial activity more than others do. While entrepreneurs are highly regarded in some societies, they are poorly perceived in others (Shapero, 1984; Ward, 1987). McGrath, MacMillan and Scheinberg (1992) investigated the relationship between culture, values and entrepreneurship by comparing samples of American and Chinese entrepreneurs and non-entrepreneurs. Their findings suggested that culture has profound influence on entrepreneurial values and attitudes; American culture was prevalent among the American and Chinese entrepreneurs, while the attitudes and values of non-entrepreneurs both Americans and Chinese were closely associated with their respective cultures.

Researchers are increasingly utilising cultural factors in their efforts to explain entrepreneurship development in different parts of the world. However, the majority of relevant studies were conducted by Western scholars or from Western perspective and

employed modernisation theories of development in their analysis. Modernisation theories divide societies into "modern" developmental and entrepreneurial societies and "traditional" anti-development and anti-entrepreneurship societies. Thus, they claim that the low level of entrepreneurial activities in developing countries, at least in part, is due to their cultural values, which prevent their traditional governments from restructuring and carrying out necessary reforms.

The environmental approach to entrepreneurship development explains the variations in the level of entrepreneurial activity across cultures by the level of institutional support and incentives extended to the development of entrepreneurship in specific countries. However, the cultural approach explicates such variations by differences in the cultural dimensions (Hofstede, 1980), and value systems among nations. The entrepreneurs are the product of their cultures, and cultures do vary, hence, the level and the type of entrepreneurial activity vary accordingly. Lee and Peterson (2000) rightly argued for the need to study entrepreneurship from a cultural perspective.

The cultural setting for entrepreneurial research is somehow problematic since "culture is one of the two or three most complicated words in the English dictionary and has a complex and controversial histories" (Williams, 1983, p. 87). In 1952, Kroeber and Kluckhohn cited about 400 authors and from their work, they identified 164 definitions of culture and then added their own (Kroeber & Kluckhohn, 1963). Table 2.2 builds on the work of Bocock (1992) to define the term within different contexts.

Table 2.3 The meaning of "culture" within different contexts

No.	Context	Definition
1.	Physical cultivation	Cultivating land, crops, animals
2.	Intellectual cultivation	Cultivation of mind, arts, civilization
3.	Process	Process of social development
4.	Social science	Meanings, values, ways of life
5.	Interaction	Practices which produce meanings

Source: derived from Bocock (1992, p. 234)

Although the term culture is a common word that is frequently used in our daily exchanges in different capacities, it is not possible to come up with a single and

accurate definition capable of reflecting the diversity of contexts within which it is being used. Among the many existing definitions of culture, Hofstede's (1991, p.5) definition has received much attention as a pre-eminent definition. Culture is "the collective programming of the minds, which distinguishes the members of one group or category of people from another". While the work of Hofstede indicate that he used the term 'group' at a macro level to represent a 'country', George and Zahra (2002) believed that the term could symbolize "a nation, a region, or an organisation", and thus they defined culture to be "the enduring set of values of a nation, a region, or an organisation" (George & Zahra, 2002, p. 5).

Benefiting from the rich body of available definitions, this study broadly defines culture to be *a distinctive set of values, mores, symbols and beliefs, shared, accepted, and practised as rightful and moral by the members of a certain society. These shared standards are spread amongst the members of the society and passed on (not genetically) to future generations.* External factors such as political, economic and ideological beliefs could influence culture. Since this thesis seeks to explore the relationship between national culture and entrepreneurship from an Islamic perspective, it is crucial to redefine the term 'culture' to reflect the strong and exceptional association between Islam as the main preference for the Saudi culture and entrepreneurship development. Islamic-based culture is largely built on religious fundamentals that are deeply rooted in Muslims' convictions. Accordingly, it would be reasonable to assume that the cultural values of an Islamic society largely reflect that society's religious beliefs. This special relationship between 'the religion' and 'the culture' makes it imperative to explore the association between Islam and entrepreneurship.

Earlier discussions broadly defined entrepreneurship to be the process by which ideas are conceived and turned into opportunities, and/or how opportunities are recognized / uncovered and transformed into wealth creation mechanism by means of the creation of new business ventures. The Islamic dimension imposes certain stipulations on the 'opportunity', the 'process' and the end goal of the entrepreneurial process; opportunity has to have a moral and ethical basis, and the means by which opportunities are pursued and resources are mobilised must conform to the *halal* concept, which Islam sanctions as lawful and permissible. Moreover, the ultimate goal of the entrepreneurial activity, as is the case for all other human activities, must be intended to pleasing The Almighty Allah.

Explaining what makes countries differ in their entrepreneurship endowment will have theoretical as well as practical implications for the course of entrepreneurship development, and subsequently on its contribution to the well-being of the nation. The influence of national culture on entrepreneurship development has attracted the interest of academics and researchers for a considerable time. However, little attention has been paid to the practical implications of such a relationship on the policymaking process towards entrepreneurship development (OECD, 1998).

Culturalists versus Institutionalists

Reynolds, Bygrave, Autio, Cox, and Hay (2002) reported that while less than 3 percent of Japanese and Russian adults were involved in entrepreneurial activities in 2002, more than 18 percent of Indians and Thais adults were actively involved in entrepreneurship in the same year. What makes a country, with all its wealth and natural resources, struggle to realise a sustainable level of economic development, while another country, despite being less well endowed with natural resources, achieves remarkable economic success (Lavoie & Chamlee-Wright 2000)? Is it merely due to well-constructed and professionally implemented sets of economic policies and institutional reforms? Alternatively, is it because of intrinsic differences in the attitudes towards 'doing business' of each society and the cultural value system that profiles such attitudes? A question that is often asked: why despite their wealth of natural resources, many developing countries "are still unable to make sustained human-centred development happen to them? ... Countries such as Nigeria, Kenya, Ghana, Zimbabwe, Saudi Arabia, Kuwait, ... Philippines, Mexico, ... and many others have all tried to develop but failed, regardless of the availability of their significant material resources" (Adjibolosoo, 1998, pp. 5-6).

In their attempt to answer these questions Berger and Hsiao (1988, p. 9) developed their argument based on 'cultural' versus 'institutional' hypothesis. The culturally based hypothesis considers each culture entrepreneurial in its own way and argues for cultural affirmation as opposed to cultural transformation. Entrepreneurship policies should be drafted and institutions should be designed to complement the existing national culture and the prevailing value system of the country. In its quest to modernise and to match the technological superiority of the West, Japan for instance sought the help of the West. Soon after the "Meiji Restoration" of 1868, Japan dispatched a large high-ranking delegation to Europe and the United States with a clear mission and defined objective; to search for a base development model that best

fits the Japanese specifics (Teruji, 1998), and flexible enough to be tailored to function along with the traditional Japanese values. The model of the emerging young Germany was chosen over the American model. Halloran (2002) explains that the Japanese delegation was open-minded:

They looked to the West for ... just about everything else – except religion... The Japanese modernized by taking things from the West, swallowing some, “Japanizing” much and rejecting what did not fit. Japan became a modern nation without losing its cultural soul (Halloran, 2002, pp. 2-3).

The remarkable success of the Japanese market economy as evidenced by the economic prosperity it has achieved, particularly throughout the second half of the 20th century, did not take place in isolation from its own cultural values (Ahmed, 2003; Hooker, 2003, p. 40). Halloran (2002) accordingly saw in the Japanese experience wisdom worth consideration by Muslim nations aspiring to modernisation and development.

The ‘institutionally based’ hypothesis, on the other hand, gave precedence to market forces and advocated that cultural values must conform to market forces in order for economic development to occur. Cultural transformation towards modernity is seen not only as a viable option, but also as a ‘must’ in order to move up the socio-economic ladder. Strong arguments were presented by the faithful of each school of thought emphasising their own perspective and discrediting the other’s.

The trouble with these explanations is that they tend to point to a single underlying cause for entrepreneurship development/underdevelopment, thus running the risk of oversimplifying the phenomenon under investigation and framing the resolution within an “either” / “or” context. Lavoie and Chamlee-Wright (2000) argued that Berger and Hsiao have missed the point, and the debate should not have been framed in the context of “for” and “against”. They argued that neither high cultural advantages, nor supportive policies and efficient institutions alone would lead to more entrepreneurship and economic success. Adopted policies towards entrepreneurship development must have specific-cultural context because each nation creates its unique set of entrepreneurial patterns (Jin, 2000), depending on its cultural, institutional, historical as well as other environmental factors.

Parallel to Ricardo's theory of “comparative product advantage” of a country, the “comparative cultural advantage” hypothesis suggested that each society is endowed

with unique cultural resources. This cultural richness plays a central role in shaping market development. Hooker (2003, p. 39) believed that “every culture should have its own distinctive way of generating wealth, even its own kind of wealth”. The unique features imbedded in each culture and how these unique qualities facilitate or inhibit entrepreneurship commands more systematic consideration. Knowing the elements that contribute most to the economic well-being of a society helps that society in realising its potentials and optimising the return on its resources (Lavoie & Chamlee-Wright, 2000).

The inconsistency between some cultures and their immediate environments (economic, social, and political/legal conditions) leads to variation in the level of entrepreneurship activities among nations. This explains why overseas Chinese entrepreneurs out-performed their counterparts in their homeland for so long. It also provides an explanation for the basic, but crucial question: why it took the East Asian economies so long to take off and become a driving force in development despite the fact that the Asian values could be traced back for many centuries. Jin (2000, p. 1) provides a reasoned explanation by reiterating, “Cultural values need an arena to demonstrate their power” that is, a supportive and an enabling business environment.

To what extent do cultural values and religious beliefs influence the entrepreneurial drive of a nation? Two different but complementary bodies of scholarly literature are to be referenced and consulted in order to place this study within its proper context. The first is based on the Weberian thesis, which assumes that specific religions promote and others inhibit entrepreneurship (Weber, 1976). The second body of literature, based on Hofstede's (1980; 1991; 1997; 2001) cultural dimensions, tends to explain variation in levels of entrepreneurial activity between countries by variations in their cultural backgrounds.

The Weberian debate and Hofstede's dimensions

The influence of religious convictions on entrepreneurship development is linked to the pioneer work of Max Weber, where his work emphasized the causal relationship that exists between religion and economic prosperity. In his famous study *The Protestant Ethic and Spirit of Capitalism*, Weber argued that the interrelation between capitalist development and profit seeking was the prime motivation among early ‘European entrepreneurs’ (Weber, 1976). He further argued that while certain religions encourage rational business thinking and endorse the pursuit for economic gain, others simply do

not. Protestantism played a key role in developing a positive attitude towards capitalist entrepreneurship by encouraging entrepreneurial culture that emphasises individualism, rationality, achievement, and self-reliance. Catholicism, Hispanic heritage and Islamic traditions, in contrast had a negative impact on entrepreneurship because they lacked such attributes, concluded Weber (1976).

Tawney (1926) had a different reading into the relationship between Protestantism and the success of capitalism. Contrary to Weber's conclusions, Tawney argued that linking England's economic prosperity in the sixteenth century with the Protestantism is a flawed argument. He further explained that the success of capitalism was achieved only after the separation between religion and business transactions has occurred.

It is widely accepted that Weber's thesis of the *Protestant Work Ethic* neither described an enduring condition, nor did it make the claim that Confucian values, or for that matter Islamic ethics, would always be an obstacle in the way of economic development and prosperity. Weber explained that the failure of Islam to develop rational capitalism was primary caused by its socio-political environment rather than by religious ethics and convictions. Dodd and Seaman (1998), and Noland (2003) pointed out that Weber's thesis attracted serious criticism on several accounts, and was challenged at theoretical and empirical levels. Noland further argued that it is almost certain that no one nowadays is willing to accept Weber's thesis without serious questioning.

Hofstede (1980) carried out a landmark study based on surveys conducted in 1968 and 1972 on IBM employees in 54 countries regarding their attitudes to their employment conditions. His study paved the way for researchers to take a closer look at the relationship between national culture and the level of national wealth. By comparing values between and across countries, Hofstede (1980) identified four cultural dimensions where he considered meaningful differences between countries are most likely to be found: individualism/collectivism, power distance (acceptance and expectations that people with more power behave differently from others), masculinity / femininity (strict separation of gender) and uncertainty avoidance (degree of risk acceptance)¹⁸. Hofstede (1991) integrated a fifth dimension into his system – Confucian dynamism that refers to future orientation (with both long-term and short-term focus). Hofstede did not explore the relationship between culture and

¹⁸ Hofstede (1991) clearly distinguished between uncertainty avoidance and risk aversion; risk levels can be quantified while uncertainties cannot.

entrepreneurship in particular, but his cultural dimensions have become the basis and the criteria for most future research addressing the relationship between national culture and entrepreneurship.

According to Hofstede's analysis, individualistic and high masculinity cultures embrace achievement and emphasise recognition and rewards, and in such a climate performance and growth take priority and precedence. The uncertainty avoidance dimension directs cultural attitudes towards taking risk. Since entrepreneurs are perceived to be high achievers and growth oriented, they are more likely to pursue new opportunities and engage in more calculated risky business adventures in their quest to realise their full potential and maximise the return on their investments. Researchers, in most cases, have conducted their research under the assumption that entrepreneurship is encouraged and promoted mainly by cultures that exhibit Weberian ethics and fit the Hofstede model.

Mueller and Thomas (2001) carried out an exploratory study across nine countries to test their hypotheses about the relationship between two of Hofstede's cultural dimensions (individualistic/collectivistic and high-risk taking culture), and psychological traits associated with entrepreneurial potential (internal locus of control and innovativeness). The results of their study confirmed that some cultures are more entrepreneurial than others. The study found that internal locus of control is more likely to be nurtured and flourish in individualistic cultures rather than in collectivistic cultures and innovative orientation is more prevalent in low uncertainty avoidance cultures. Furthermore, there was also support for the hypothesis that innovativeness and internal locus of control when combined, as a measure of entrepreneurial orientation, is more likely to exist in highly individualistic and low uncertainty avoidance cultures.

Zhuplev, Kon'kov and Kiesner (1998) conducted a survey among small business owners in both the United States and Russia. The findings indicated that three out of the five main differences between the entrepreneurial economy of the US and the economy of Russia, best described as an economy in transition, could be explained by cultural differences. The other two differences were attributed to shortcomings in the business infrastructure and an unstable business environment in Russia compared with well-established and stable free economy in the US.

Do entrepreneurs and non-entrepreneurs hold a similar set of values across cultures?
McGrath, MacMillan, and Scheinberg (1992) surveyed a sample of entrepreneurs and

non-entrepreneurs in nine countries to identify the cultural values that distinguish entrepreneurs from the non-entrepreneurs. Their findings showed that entrepreneurs across a range of cultures scored higher in power-distance, individualism and masculinity, and lower in uncertainty avoidance.

Recent studies also attest to the momentous relationship that exists between culture and entrepreneurship (Morris & Schindehutte, 2005; GEM, consecutive reports). The Global Leadership and Organizational Behaviour Effectiveness Research Program (GLOBE) sought to investigate the influence of culture on entrepreneurship in four African countries (Zambia, Zimbabwe, South Africa and Namibia). In addition to Hofstede's (1991) culture dimensions, the GLOBE study sought participants' views of pro-entrepreneurial values that their cultures have as well as the values they believe that their cultures should have. The GLOBE study confirmed that cultural differences do influence entrepreneurship development in various societies and underlined the importance of integrating cultural aspects in the entrepreneurship policymaking process (cited in Frese, 2000, pp. 6-11).

Lee and Peterson (2000) confirmed the findings and the implications pointed out by other scholars; the cultural foundations of a nation have a profound impact on its ability to produce a steady supply of entrepreneurs and subsequently entrepreneurial firms. Reynolds (1992) linked entrepreneurship to culture and suggested that entrepreneurship is deeply rooted in a nation's cultural and social structure. The relatively new but promising body of literature addressing the relationship between culture and entrepreneurship suggest that culture has a profound influence on all factors that affect entrepreneurial success, such as individual's values, motives, aspirations and needs.

On the other hand, there was another view on the relationship between culture and entrepreneurship. The advocates of this view pointed out that prior to the 1970s and while Asian countries were technologically and economically backward relative to Europe and North America, many Western scholars attributed this backwardness to the "development-inhibiting" and "anti-entrepreneurial" cultures of Asia. The wide-spread thinking at the time was that the East Asian culture and religious beliefs namely, "Confucian" were obstacles in the way of development and growth, hence Asian culture was held responsible for East Asian underdevelopment. Conversely, since the Asian economies started their outstanding performance, there was a tendency to reinterpret their cultures as being somehow "developmental" and "pro-entrepreneurial". Thus, how

can this orthodoxy be explained and how can one establish possible causal relations between culture and entrepreneurial success (Ropke, 2001)?

Billing (1994) cynically criticised culturally based explanations of economic development/ underdevelopment, and pointed out that while Max Weber has argued that Confucianism was anti-enterprise, much of the recent literature credit Confucianism for the economic prosperity of the South East Asian countries. Modern writers and scholars are being accused of embarking on a post hoc approach in their reasoning to explain economic and material success. The role of culture in economic development is pre-determined and often is manipulated to serve pre-conceived ideas and desired conclusions. The very same list of cultural values and dimensions is considered by some to be conducive to entrepreneurship and development in a specific country at a certain point in time, and by others as inhibiting forces at different times (Billing, 1994). The underdevelopment of the East Asian nations and stagnation of their economies for hundreds of years was largely blamed on their "Confucian Ethic" (Weber, 1864-1920). Strangely enough, the recent East Asian unprecedented economic success is being largely attributed to the same set of values that were deemed to be the cause of their economic failure (Hofstede, 1991; Nanaka & Tukeuchi, 1995; Wei-Ming, 1984).

The existence of a relationship between Confucius' teachings and recent economic growth had been suggested before but it had never been proven... The nature of the values involved, ..., makes it very likely that these values were the cause and economic growth was the effect, the link between the two being formed by East Asian entrepreneurship (Hofstede, 1991, p. 167).

Jin (2000) contributed to the debate by emphasising that every culture has its strengths and comparative advantage and for such cultural values to function properly there must exist an enabling business environment. This explains why overseas Chinese are out-performing their counterparts in their homeland. It also provides an explanation to the basic, but crucial question: why it took the East Asian economies so long to take off and become a driving force in development despite the fact that the Asian values could be traced back many centuries. Jin (2000, p. 1) provided a reasoned explanation by reiterating, "Cultural values need an arena to demonstrate their power", a view shared by Hooker (2003, p.56), "It is not a question of whether "Asian values" or "Western values" are better; it is a question of whether those values are properly matched to production and finance". Once compatibility and harmony between the culture and its business environment are achieved, success follows.

Africa, Latin America and Philippines have been portrayed in the literature as possessing anti-entrepreneurial cultures. Ironically, in the 1960s Philippine was tipped to be the first Southern Asian country to take off towards development, a prediction that did not materialise. Billing (1994) wondered what would happen in the eventuality that the Philippine economy begins to show remarkable economic performance. Will the Philippine culture have to be rewritten or at least reinterpreted to reflect the new reality? Goody (2003) instigated the same argument while questioning Lewis's (2002) claim that Islam has got it wrong and wondered "what about the period before say 1400 when Islam had it right", and asked "if China takes over economic leadership from the USA later this century...is one going to argue that Buddhism or even Communism held the key" (Goody, 2003, p. 64)?

Billing (1994) warned against the danger of grouping societies into "pro" and "anti" entrepreneurship to the point where one starts to think that entrepreneurship is a sufficient condition for development. By so doing, we are alienating these cultures, which at the time of analysis do not seem to possess the entrepreneurial (qualities and attributes) and excluding them from the development game. However, Billing's objection to the framework of analysis and the manipulation of the relationship between culture and entrepreneurship did not prevent him from accepting the fact that national culture and entrepreneurial ethos do link. While not disputing entirely the role of culture in the entrepreneurial activity, some questioned the overemphasis of such a role (Levie, 2004), and suggested that the role of institutions in entrepreneurial activity is more dominant than the role of culture (Tan, 2002).

THE EMERGENCE OF THE MODEL

Dana (1999) investigated entrepreneurship in fourteen Pacific Asian countries and presented his findings in one volume. In the introduction, he assembled a reference list of relevant existing entrepreneurship research in various parts of the world¹⁹. He concluded, "There is no one best approach to entrepreneurship. Rather, different nations adopt policy models, which are relevant to their respective history and culture" (Dana, 1999, p.8). The above discussions clearly indicate that entrepreneurship is an interdisciplinary socio-economic activity and further demonstrate the complexity and

¹⁹ The list was reproduced by the researcher to account for some additional research and is included in (Appendix 5).

the interdependency of the many components that must work together in harmony in order for entrepreneurship to occur and thrive. Discussions also underscore the necessity to devise a general entrepreneurship model that systematises and oversees the integration and the proper functioning of the diverse elements of its components.

Scholars and researchers generally adopt one of the following two approaches when faced with the task of building models in the social science discipline. The first approach is a theory-oriented approach based on exploring relevant literature and consulting existing research in the field to map the boundaries of the desired model. This soft approach to model building as indicated in Table 2.4 is intended to generate “debate and insight about the real world”. The second approach (hard approach) is based on the argument that models are true “representation of the real world” (Table 2.1), and their construction should be based on observations and experiences rather than on theory and assumptions. The role of theory would be to explain the behaviour of the variables that make up the model. Kaldor (1961, p. 177) stated that any model “should be capable of explaining the characteristic features of the economic process” as they are seen in reality. Should inconsistencies between established theory and observed reality be detected, then appropriate abstractions (assumptions) chosen by observing the reality should be employed to explain such deviation.

Table 2.4 Hard versus soft approaches to model building

Item	Hard approaches	Soft approaches
Model definition	A representation of the real world	A way of generating debate and insight about the real world
Problem definition	Clear and single dimensional (single objective)	Ambiguous and multi-dimensional (multiple objectives)
People and organizations	Not taken into account	Are integral parts of the model
Data	Quantitative	Qualitative
Goal	Solution and optimisation	Insight and learning
Outcome	Product or recommendation	Progress through group learning

Source: Pidd (1996, p. 121 cited in Maani & Cavana, 2000, p. 21)

The researcher recognised that the building of an Islamic entrepreneurship model would be a multi-stage process. The first stage starts with rigorous analysis of existing theory to bring about the basic ingredients necessary to build a general conceptual model to guide the research process through its various stages (Figure 2. 1). The second stage would be to expand the domain of the model to account for elements that are deemed specific and exclusive to Islamic entrepreneurship (Chapter 3). The third phase involves the collection of unedited primary data from various stakeholders in the field regarding the Saudi entrepreneurial process and Saudi entrepreneurship environment (Chapters 6, 7 & 8). The model will be revisited (Chapter 9), and the outcome of data analysis in terms of attitudes, approaches, institutions and external factors that influence Saudi entrepreneurship development will be compared against the theoretical model. The findings will validate, filter, or refute the conceptual model. In either case, the cause of Islamic entrepreneurship will be somehow served, and through a steady collaboration between the research community, decision-making centres and other influential institutions, an enhanced version of the model will eventually emerge.

The proposed conceptual model (Figure 2.1) was constructed with the view that entrepreneurship development is an ongoing and a holistic process that entails the existence of harmonious relationships and positive interaction between the potential entrepreneur, the cultural setting, the institutional environment for the entrepreneurial activity and other external factors that could influence the entrepreneurial process. These factors collectively shape the process of entrepreneurship development in any given society. The model illustrates the assimilation and the complementary relationships between the four major approaches to entrepreneurship development.

The basic components of the model are: 1) the individual entrepreneur; 2) the national culture that produces the entrepreneur; 3) the institutional environment where the entrepreneurial activity takes place; 4) external variables that are potentially capable of influencing both formal and informal institutions and consequently influencing the entrepreneurial process; 5) the distinguished role of education as a cultural factor and an intervention tool; and 6) the crucial role of policy in the entrepreneurial process.

The general conceptual model considers the entrepreneur as being "the essence of entrepreneurship" (Bygrave & Hofer, 1991), thus it accounts for the many definitions of the term 'entrepreneurship' and the functions that the individual entrepreneur assumes throughout the entrepreneurial process (before, during and after the creation of the

business entity). The entrepreneur is an opportunity discoverer and an innovator (Schumpeter, 1934), an alert and opportunity exploiter (Kirzner, 1979), a risk bearer and risk manager (Knight, 1921) and gap-filler and resource mobiliser (Leibenstein, 1968). The model suggests that developing a vibrant entrepreneurship sector in a country is an ongoing process that begins by developing an adequate supply of quality entrepreneurs who are willing and able to mobilise needed resources in order to transform business ideas/opportunities into business entities. It is entrepreneurs who create enterprises and neither the entrepreneur nor the enterprise lives in a vacuum. The effective interaction between the person of the entrepreneur and the socio-economic environment of his/hers entrepreneurial activity is a crucial factor that largely determines the success or the failure of the business venture.

Secondly, the model recognises that entrepreneurs are the product of their cultures, thus it places special emphasis on the role of national culture through its informal institutions (values, beliefs, rituals and attitudes) in promoting entrepreneurship and cultivating enterprising culture among diverse segments of society. How do people perceive entrepreneurship and how do they regard entrepreneurs would have a direct impact on the decisions of the potential entrepreneurs of whether to pursue or to abandon their entrepreneurial aspirations. However, being the product of their cultures does not entail the passive acceptance of superficial cultural limitations that might exist within the culture, nor should it prevent entrepreneurs from acting as agents of change in the same cultural environment.

Thirdly, even an entrepreneurial culture needs a friendly business climate and an enabling environment (institutional framework) in order for it "to demonstrate its power" (Jin, 2000). It is extremely important that compatibility between the formal institutional structure and cultural attributes be maintained; otherwise the feasibility of the whole process will be questioned.

Fourthly, the model also accounts for external forces that could influence the formal and informal institutional setting of the entrepreneurial process, and consequently may enhance or obstruct the pace, the level and the quality of the entrepreneurial activity. External factors such as imposed ideological beliefs (communism in the ex-Soviet Union), the discovery of natural resources in (Saudi Arabia), colonisation of (India), and subjecting the country to sudden waves of immigrants and / or expatriates could affect the cultural as well as institutional balance of the country and subsequently affect the spirit, the nature and level of entrepreneurial activity in that country.

Fifthly, the model acknowledges the distinctive and crucial role of education (as a cultural trait and policy instrument) throughout the entire entrepreneurial process. The crucial role of education in enterprise building is not limited to spreading information, providing training and sharpening skills. Education can create awareness, motivate and stimulate individuals to consider entrepreneurship as a worthy career option. It is also an effective means by which cultural values regarding entrepreneurship are nurtured, developed and expressed.

Finally, the role of policy in entrepreneurship cannot be overemphasised. The nature and the target of state intervention in the entrepreneurial process could mark the difference between the success and the failure of the entrepreneurial activity at individual as well as national levels. Inputs to policies targeting entrepreneurship development as indicated by the model draw from both the indigenous cultural values and the nation's prevailing institutional structure, as well as from the educational system. For policies to be feasible and effective, they must reflect a harmonious relationship between culture with its informal institutions at one end and environment with all its formal institutions at the other end. Hence, they must be drawn from a specific cultural context. The final outcome of the positive interaction between these factors would be the emergence of productive indigenous entrepreneurship sector.

Researchers and scholars had their preferences and priorities and in most cases, they applied these approaches as if they were mutually exclusive. Hence, they usually fail to integrate more than one approach in their analysis. Although each approach signifies its own distinct insights, the real contribution can be demonstrated when all components are pieced together. The proposed model places special emphasis on its totality by seeking to establish relationship between the various approaches to entrepreneurship development. The integration of the various approaches would be achieved through formal and informal channels and institutions such as the educational system and the policymaking process. Chapter 3 carries this discussion further to explore entrepreneurship from an Islamic perspective, thus it expands the model to account for elements specific to the Islamic view of entrepreneurship and to establish the role of entrepreneurship in realising the ultimate goal of Islamic development.

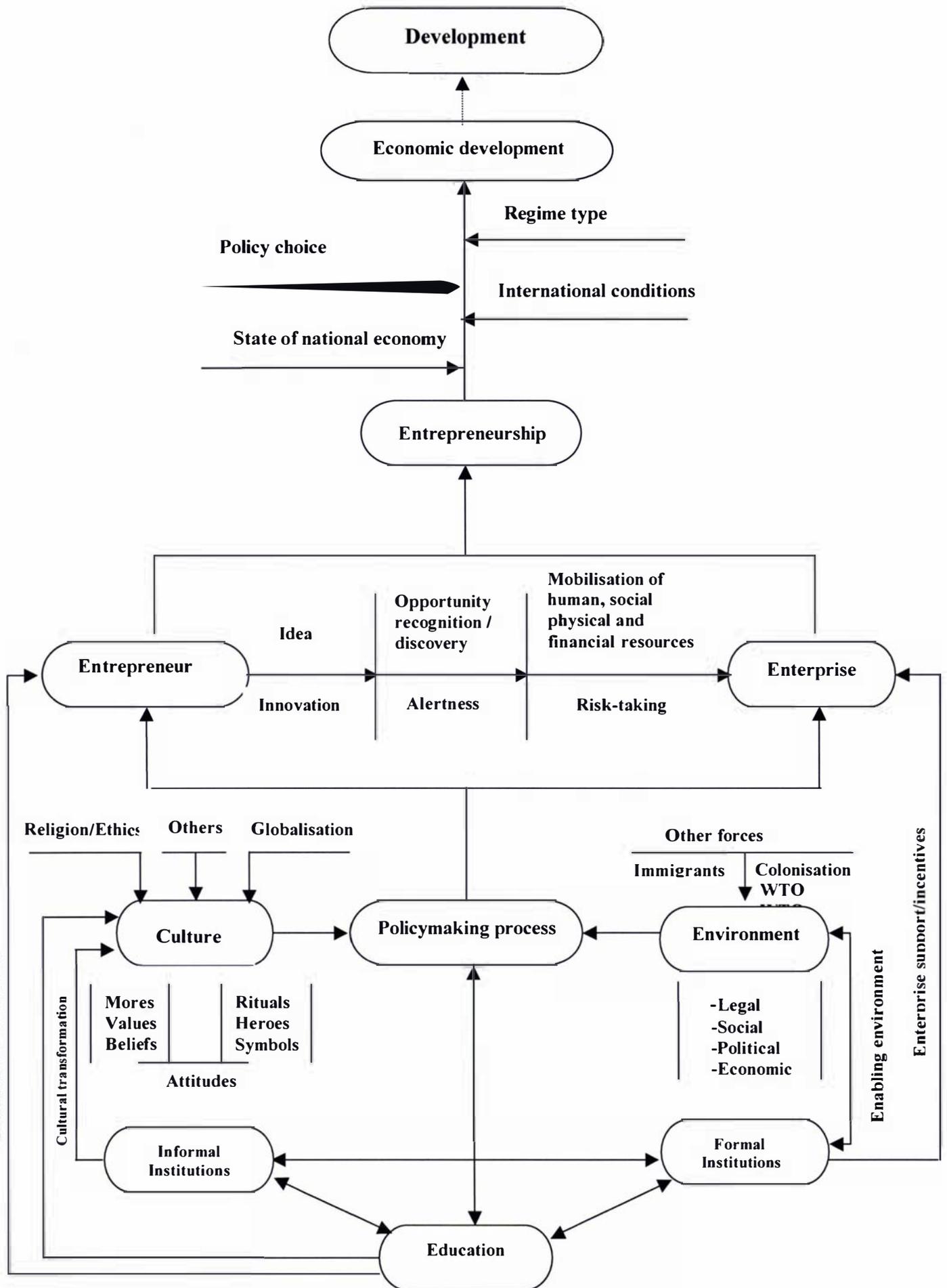


Figure 2.1 A general entrepreneurship-based development model

CONCLUSION

This chapter presented a comprehensive set of definitions of the term “entrepreneur” from different perspectives. It also organised the range of approaches employed by scholars in studying the development of the entrepreneurship phenomenon in various countries into four approaches: individual, structural/historical, institutional and cultural approaches and paid special attention to the cultural approach without discounting the other approaches. The critical review of the various definitions, theories and approaches to entrepreneurship produced the basic ingredients used in the development of the conceptual general model of entrepreneurship. Furthermore, this chapter has emphasised the crucial role of entrepreneurship in development and argued that among the range of development theories, entrepreneurship theory is the only theory that considers the relevance of the human factor in the development process.

Attitudes towards the entrepreneurial activity and the perceived role of the entrepreneur have changed over the years. Up to the early 1970s, entrepreneurship was best associated with job creation and crucial support for the socio-economic well-being of a country, such as social and political stabilising power. This attitude towards entrepreneurship has changed considerably during the past three decades. Entrepreneurship is currently seen as an engine for economic development and growth, wealth creation, innovation and competitiveness. A recent report released by the GEM confirmed the existence of a positive relationship between levels of economic growth and national level of entrepreneurial activity (Reynolds et al. 2002).

Discussions in this chapter stressed that entrepreneurship is a universal phenomenon, which is not exclusive to any particular culture, social order, religious conviction or distinctive eco-political system. It is rather a country-specific experience that is expressed, promoted and pursued uniquely around the globe in line with each country’s own historical, cultural and environmental peculiarities. Entrepreneurship, therefore, does not necessarily have to be linked to ‘The Protestant Ethics’, nor does it have to be secluded from Islamic ethical values and Islam’s emphasis on spirituality and common good to develop and flourish. Entrepreneurship functions under free market policies of the “modern” USA and it thrives under the state-controlled economies and authoritarian political systems of various South East Asian countries. Therefore, “It has been a huge mistake to link entrepreneurship directly with the

ideology of free markets and economic liberalisation”, believed Ray (2004, p. 70), and further explained that “the rationale for entrepreneurship is not laissez faire capitalism but self-reliance”.

The arguments presented thus far in the first two chapters have emphasised the positive relationship between entrepreneurship and development and underlined the need for developing indigenous alternative entrepreneurship models to guide entrepreneurship development in non-Western cultures. Consequently, the next chapter ventures to examine entrepreneurship, as a ‘developmental instrument’, and ‘a well-being concept’ from an Islamic perspective. The Islamic criticism of the Western (general) model of development is not confined to challenging the Western view of cultural dimensions conducive to entrepreneurship development, but it also questions both the morality and the developmental role of the one-dimensional model of Western entrepreneurship.

CHAPTER THREE

ENTREPRENEURSHIP AND DEVELOPMENT: AN ISLAMIC PERSPECTIVE

And shake towards thyself the trunk of the Palm-tree: It will let fall fresh ripe dates upon thee.

The Holy Qur'an (19, 25)

A neglected aspect of the literature in the field research on Islamic development is an inclusive inquiry into entrepreneurship from an Islamic perspective; an inquiry that ventures to explore the attitudes, the views and the approaches of Muslim entrepreneurs towards the entrepreneurial activity and the role of Islamic entrepreneurship in the broader question of 'development'. This chapter, therefore, attempts to explore the Islamic perspective of the entrepreneurial activity. The first section briefly reviews major studies available on Islamic entrepreneurship along with an overview of the Islamic world-view of development. The second section investigates entrepreneurship from an Islamic perspective and discusses the justifications for the development of an Islamic model of entrepreneurship. The final section focuses on the distinctiveness of Islamic entrepreneurship and duly incorporates such Islamic-specific attributes into the proposed Islamic model of entrepreneurship.

The prediction that secularism would prevail and the role of religion in public life would diminish has proven to be unfounded. Such prophecy was based on the hypothesis that the backwardness of religions would not enable them to hold their own in the face of modernisation, materialism and technological innovation and such religions would eventually disintegrate and vanish. Contrary to all expectations, there is a resurgence and an uprising of religious feeling across nations (Shanker, 1997; Iannaccone, 1998), and especially so in Islamic countries. World religions, and more notably Islam, are re-establishing their presence on more solid grounds. Therefore, instead of celebrating the universality of secularism as an outcome of modernisation, Voll (2001) announced the "end of secularism". Thus, it is imperative not to veto religion from the

developmental equation, or discount its role in our daily activities, especially our economic behaviour.

Seymour (2003) pointed out that the relationship between religion and entrepreneurship has not been investigated in “adequate depth” and he further underlined the importance and the need for such studies to be carried out. Amongst the few researchers who ventured to explore the relationship between entrepreneurship and religion were Dodd and Seaman (1998). Their line of inquiry into the relationship between religion and entrepreneurship within the UK context was carried at three levels: firstly, the relationship between society, religion and entrepreneurship (the attitude of religion regarding the creation of new firms); secondly, the relationship between individual faith, religion, and entrepreneurship (the decision and the motive to become an entrepreneur, entrepreneur’s conduct and work ethics, and entrepreneurs network); and finally, the relationship between theory, religion and entrepreneurship (the envisaged role of religion in entrepreneurship development). Dodd and Seaman concluded that the relationship between religion and entrepreneurship is “complex and interdependent”. Furthermore, the findings of their study pointed out that the low level of religiosity amongst the surveyed British entrepreneurs was comparable with level of religiosity among the non-entrepreneurial surveyed samples.

Four broad views on the nature of the relationship between religion, development and entrepreneurship can be drawn from the literature (Dodd & Seaman, 1998; Wilber & Jameson, 1980). Without the risk of oversimplification, the first view suggests that religions, especially Islam, are developmental in nature –each in its own way. This is because the ultimate goal of all religions is to make of humankind better human beings, not by “having more” but by “being more”. All religions require, thus expect, their adherents to act and behave ethically and morally at all times especially when carrying out business activities (Baydoun, Mamman & Mohmand, 1999; Sherman, 1997). Gutiérrez (1973) acknowledged the developmental role of religion and linked development to liberation.

The second view advocates that religions, especially Islam, are “outdated, unnecessary and divisive” (Perkins, 2003, p. 6; Sutcliffe, 1975) and are obstacles to development and progress. These views tend to oversimplify the arguments and present them in the broader term of “either/or” thus they are inclined to generalise the role of religion in development. Goody (2003) adopted a more balanced view of the relationship between religion and development and noted that religions have dual effect on development.

Nonetheless, he (implicitly) endorsed the view that considers religion as being more of an impediment to rather than an instrument for development and progress. Goody argued that religion limits individuals' ability to think freely and restricts the scope of their inquiry. "It is possible that the very absence of a world religion, with the various restrictions that implies, was in part responsible for the enormous expansion of intellectual horizons in Greek thought" (Goody, 2003, p. 67).

The third view maintains that religion and its spiritual manifestations are personal matters and calls for strict separation between religion and other human activity –above all, economic activity (Lewis, 2002). This view with its secular orientation advocates the exclusion of religion from the affairs of the state, because religion and business do not mix. Vast majority of Western countries have officially adopted this view on the role of religion in the private and public lives of individuals, and integrated it within their constitutions.

The fourth view, as discussed in the previous chapter, builds upon Weber's thesis and suggests that some religions are pro- and others are anti-development and entrepreneurship. The Weberian thesis constituted the theme of the majority of studies and intellectual forums debating the role of religion in development. A religion can be the focal point of conflict and obstruction to entrepreneurship development or it can play a constructive role in embracing and advancing entrepreneurial activities. The level of support or hindrance that religion extends to entrepreneurial activity within a specific culture is debatable.

Literature concedes that methodological tools to test causality and measure the impact of cultural values (religion) upon entrepreneurship are still beyond our reach (Dodd & Seaman, 1998). However, religion's view of entrepreneurship in certain culture could unveil some intuitive explanations as to the cultural attitudes towards entrepreneurial activities within that culture, especially if it was a religiously based culture.

ISLAM AND DEVELOPMENT

Relevant research

Theory building on Islamic entrepreneurship is still in its early stages. The available literature on the subject is very limited in its breadth and depth, and dedicated field-research is almost negligible. Noland (2003) attempted to test the “prevalent” hypothesis that Islam is an impediment to development and an obstruction to growth. He investigated the impact of religious attitudes on national economic performance using data from three multi-ethnic societies with large Muslim populations: India, Malaysia, and Ghana. Analyses were carried out at a single country level and the results were contrasted among the three countries and across religious divide within each country. The findings of the study categorically rejected the claims that Islam is hostile to growth “either at the cross-country or within-country level”. “Islam does not appear to be a drag on growth or an anchor on development as alleged”, concluded Noland, “if anything the opposite appears to be true” (Noland, 2003, pp. 27-28).

Basu and Altinay (2001) investigated the interaction between culture and entrepreneurship in London’s immigrant businesses. The study included entrepreneurs from six different immigrant ethnic minorities in London: Indian, East African Asian, Pakistani, Bangladeshi, Turkish Cypriot and Turkish. The findings of the study did not support Weber’s hypotheses regarding the relationship between Islam and entrepreneurship and also found that against the expectations, Muslim entrepreneurs use conventional financing to start up businesses (Basu & Altinay, 2001). Furthermore, the findings of the study suggested that some cultural aspects, namely “family traditions” might have a greater role in entrepreneurship development than religious convictions. These unexpected findings prompted the researchers to call for further entrepreneurship research to be undertaken in diverse religious milieus.

Beg (1990) referred to a study of “Engineering Enterprises of Kolhapur (Maharashtra)”, in India, where entrepreneurial activities among seven ethnic Indian groups were examined. The findings of the study as indicated in (Table 3.1) placed Muslim entrepreneurs at the top of the list in every category except “marketing”. Muslim entrepreneurs displayed excellence in various entrepreneurial activities, above all in organisation set-up, personal management and entrepreneur creation.

Table 3.1 Merit points achieved on the account of entrepreneurial activities among seven ethnic Indian groups

Caste	Organization set-up	Personal management	Production management	Entrepreneurial economic success index	Marketing	Entrepreneur creation	Aggregate merit point	Remarks
Brahmins	10	5	31	5	8	3	62	4
Marathas	6	10	28	3	3	2	52	6
Other Hindus	8	10	23	4	5	5	55	5
Jains	5	9	39	1	7	4	65	2
Muslims	11	14	39	6	3	6	79	1
Christians	2	10	23	2	7	1	45	7
Others	2	14	37	2	3	6	64	3

Source: Bhanushali (1979, p. 227 cited in Beg, 1990, p. 105).

Four significant studies have attempted to explore the relationship between Islamic-based culture and entrepreneurship in various Islamic countries. The first study by Lerner (1958) highlighted the tension between traditional values and the drive for change in the Muslim Middle Eastern country of Turkey. The second attempt, a study conducted by Geertz (1963), examined the relationship between entrepreneurship and the cultural background of two Indonesian villages. More recently, Sloane (1999) also took an anthropological approach to study Malay Muslim entrepreneurs. The fourth attempt which was carried out by Olsen (1988) to analyse the impact of Islam on the development of Egypt and Saudi Arabia failed to establish a link between Islam and the economic development of Saudi Arabia. Noticeably, three of these studies were carried out in Muslim but not Arab countries, and they all were conducted by Western scholars.

The modernisation of Turkey

Soon after World War I and the disintegration of the Ottoman Empire, Mustafa Kamal Atatürk wanted to create a new Turkey by forcing modernisation through Westernisation onto the country. In the process, he forced the country to abandon its long-lived traditions, heritage and values. He even rejected the Islamic past of Turkey because he believed that Islam and Modernisation do not co-exist. However, despite the deliberate destruction of the Turkish Islamic culture, the imposition of the Western way of life and the sustained formal policies of secularisation and de-Islamisation, the

ordinary Turks did not abandon their religion and, on the contrary, it appears that Islam in Turkey is as healthy as it is in other Muslim countries, concluded Introvigne (2005).

Daniel Lerner, an American sociologist, studied the modernisation of a small forgotten Turkish village called 'Balgat'. Although Balgat is only 20 minutes' drive from Ankara, it took Lerner more than two hours to reach Balgat in 1950 because there were no proper roads leading to the village. There, he interviewed the Chief; a content Muslim who is happy with his status, resents change, and cherishes his traditional values. Also in Balgat Lerner met the ambitious village grocer who was the symbol of dynamism and modern values. He imagined, dreamed, and fantasised. The grocer belonged to the future whilst the chief was the product of the past.

Four years later (in 1954), when he revisited Balgat, which by that time had become part of a larger Ankara, he found that the grocer had died, and contrary to what one might have expected, both of the Chief's sons had become shopkeepers (entrepreneurs!). Four short years had transformed the village and modernised the villagers. He found new and modern grocery shops, bus services, electricity and –more importantly– the praise of the villagers for the dead grocer “he was the cleverest of us all...he was a prophet” (Lerner, 1958, p. 41). To his delight and satisfaction, Lerner ended his second visit to Balgat on a happy note ... the villagers had recognised and accepted modernisation as their newly found path to development, and modernisation had prevailed. Lerner's argument is that traditional values (village Chief) and modern values (his sons) are on a collision course. Modernisation resembles the future and the promise of a better tomorrow; it has the power to stop tradition from being passed to new generations. After hearing from one of the villagers what he was burning to hear, Lerner declared that his mission was a complete success, so he called off the research. Among the shortfalls of Lerner's work is his failure to present analytical ground for his interpretation, and to convince the reader that the tension between tradition and modernity can simply be explained by depicting the lives of “The Chief and The Grocer”.

Turkey is a living example of a nation in a midst of identity crises; as of today and after decades of 'Westernisation', Turkey (as a nation) is neither accepted by the West nor (as a state) is able to reclaim its Islamic distinctiveness. This other side to modernisation is what Lerner (1958) has failed to address in his study of the village of Balgat. Equally important, the study did not address the impact of development on the

natives of Balgat; their cultural values and ways of life, their social well-being and their sense of belonging.

Peddlers and princes

Another significant anthropological fieldwork was carried out by Geertz, (1963) in East Asia to study the impact of cultural background on entrepreneurship development in two Indonesian towns. Both towns, Modjoknto in Eastern central Java in 1952-1954 and Tabanan in Southwest Bali in 1957-1958 were in the midst of transition from traditional to modern economies. They had moved from traditionalism to the point of no return, but neither had attained full modernisation. Whilst the Muslim Javanese entrepreneurs (Peddlers) were the product of the traditional market economy (bazaar), the Balinese entrepreneurs (Princes) were the descendants of 'noble families' with social status.

Once again, the contrast was between modernity and reforms represented by the Balinese entrepreneurs and the religiously based traditionalist Javanese Muslims entrepreneurs. Just like the Grocer and the Chief, the two towns shared common traditions; they shared the same history, belonged to the same 'national polity' and functioned within the same economy, but they differed in their social structure and cultural background. When both communities were subjected to an economic situation, they both responded. Geertz's mission was to investigate whether the development of entrepreneurship in each community was influenced by the prevailing economic conditions or whether it was socially/culturally dependent. Geertz (1963) found that "Islam" had played a passive role in entrepreneurial development of the two Indonesian communities. It did not encourage nor did it hinder the emergence or the level of entrepreneurship in either community (modern and traditional).

This conclusion suggested that the supply of indigenous entrepreneurs, within the Indonesian context, was institutional rather than culture dependent. Supportive policies and functional institutions are more likely to have a greater impact on the level of entrepreneurial activity than are the social and cultural differences. Unlike the implications of Lerner's (1958) study, the conclusion of this study implies that entrepreneurship and subsequently development could be achieved even in traditional societies without the need for cultural transformation.

The Malay entrepreneurs

Sloane (1999) embarked on a comprehensive anthropological investigation on the interrelations between Islam, modernity and entrepreneurship among the Malays. Over eighteen months (1993 to 1995), Sloane carried out in-depth anthropological research of the Malay culture in the process of basic transformation into Modernity. The study suggested that Islam played an active role in the development of the Malay entrepreneurs. Malay entrepreneurs have justified being entrepreneurs by being devoted Muslims. Entrepreneurship is seen by Muslim Malays as a valid choice: to earn *halal* income and to help fellow Muslims. Hence, entrepreneurship is religiously correct and encouraged.

The cases of Egypt and Saudi Arabia

Olsen (1988) attempted to explore the relationship between Islam and development in Egypt and Saudi Arabia. His analysis produced no credible evidence to suggest that Islam had any influence on the economic development of Saudi Arabia. He further pointed out that while Saudi Arabia confirms its aim of maintaining its Islamic values, the country has failed to incorporate Islam in its development plans. "It seems impossible to demonstrate the impact of Islam on the economic development process of the country" concluded Olsen (1988, p. 136).

"Royal entrepreneurship" is an account of the royal Saudi family's involvement in the private sector of Saudi economic activities. Sabri's (2001) work did not attempt to analyse or explain the nature or the level of the Saudi entrepreneurial activity from any perspective. Further, the study did not discuss the possible connection between the Saudi Islamic culture and its level of entrepreneurship. Sabri argued that entrepreneurship in its Schumpeterian or Kirznian forms does not exist in Saudi Arabia. The oil wealth has turned Saudi Arabia into a "rentier state"²⁰ and transformed its economy to a rentier economy under which the rentier activities take place" (Sabri, 2001, p. 17), with little or no genuine entrepreneurial activities.

It has been argued that the few Western scholars who have shown interest in the subject have brought with them much larger problems. In most instances, they carried

²⁰ More on the rentier state will be presented in Chapter 4. However, for more comprehensive discussions on the theory of the "rentier state", see Beblawi (1987), Mahdavy (1970), and Yates (1996).

preconceived ideas and predetermined attitudes, which prevented them from being impartial in their research undertakings.

Claims and counterclaims

Western scholars, politicians and Western media have largely espoused the views of modernisation theories that a negative relationship between Islam and development exists, and sought to explain the lack of development in Muslim countries by focusing their criticism on the religion itself²¹. They view Islam as an anti developmental and counterproductive religion and claim that Islam is the major cause behind the lack of economic development in many Muslim countries. They contend that Muslims are intrinsically incapable and their value system is incompatible with modernisation, which is regarded as a 'must' stipulation for economic development. Muslims, because of Islam, simply do not have what it takes to be modern. Critics of Islam have compiled a long list of what they claim to be the shortfalls of Islam and its inability to modernise and create prosperous economies. Muslims, on the other hand, have listed pages and pages of Islamic past achievements and the invaluable contributions of Muslims particularly to Western civilisation in all facets of science, mathematics, economics and literature. Muslims' contributions to the universal knowledge have extended beyond protecting the work of classical Greece and Rome. They have preserved, translated, enhanced and added their own work to augment this body of knowledge.²²

Arab astronomers were accurately measuring the circumference of the earth at a time when Europeans thought the world flat. They developed algebra, trigonometry and logarithms, and it was the Arabs who gave us our present numerals (Brett, 1972, p. 43).

Many Western scholars have recognized and, on different occasions, appreciated Muslims' contributions to the development of the West and the enrichment of the world's civilisations. "An important task for Western Europeans, as we move into the era of the one world, is ... to acknowledge fully our debt to the Arab and Islamic world" (Watt, 1972, p. 84). However, Muslim as well as Western commentators have rightly pointed out that this was centuries ago (Saleem, 2005), and the last noteworthy contribution made by Muslims was in the year 1406 (Lacey, 2005). Muslim intellectuals

²¹ See (Appendix 7)

²² A detailed account of contributions made by Arab Islamic civilisation is posted on the Arab League website: www.arableagueonline.org/

have argued that they were not trying to live on the vestiges of their historical triumph and find justification for their current failures. They have used their history and previous achievements as proof of the dynamism and progressive nature of Islam and to refute claims that Islam is incapable of modernisation. The fact that such vital achievements were realised and sustained within the same religion over many centuries is on its own a credible testimony to the expediency of Islam. They further argued that Islam, as a religion and a value system, supported by a profound institutional structure, is compatible with modernisation; Muslims have both the potential and the moral drive to modernise, but according to their own vision of modernisation.

Amongst the many claims that the critics of Islam frequently raise about the (obstructive) role of Islam in development are: firstly, Islam is static and backward religion that “stood for unchangeability” (Kuran, 1997, p. 49). The fundamental conflict between the traditionalism of Islam and the modernity of the West is evidenced by the incapability of Islam to modernise and its resistance to any moves in that direction (Lewis, 2002; Ott, 2002). Traditional Islamic values therefore constitute barriers to carrying out reforms necessary for the emergence of entrepreneurship and the development of viable economies in these countries (Coulson, 1964; Labohm, 2003; Pipes, 1983).

Secondly, Islamic economics is largely irrelevant to present economic challenges. Kuran (2004a) argued that the rationale of Islamic economics is best understood in cultural rather than economic terms. The true intent of Islamic economics is to protect and preserve Muslims' identity in the face of globalisation of cultures, and is not to create wealth and promote economic prosperity amongst Muslims. Pipes (1983) and Perkins (2003) censured Islamic financial system and argued that the prohibition of interest negatively affects the proper functioning of free markets and increases the cost and inefficiency of business transactions²³

Thirdly, the failure of Islam to motivate Muslims to be high achievers translates into less productivity and lack of development. Muslims in general are low in achievement motivation, causing the level of their entrepreneurial spirit and activity to be low as well (McClelland, 1961; Sutcliffe, 1975). Some Qur'anic verses and traditions of the Prophet (PBUH) de-motivate and in some instances discourage Muslims from aspiring to be

²³ Based on their analysis of the World Value Survey data 2000, Guiso, Sapienza and Zingales (2002) concluded that Muslim traditions appear to be the most anti-market.

wealthy. Islamic orthodoxy, they claim, portrays wealth accumulation as a sign of too much love and attachment to this worldly life, and overplays the harmful consequences that the quest for material gain might bring about (Perkins, 2003, p. 6; Zapalska, Brozik & Shuklian, 2005).

Fourthly, the emphasis of Islam on the hereafter and the paramount importance it devotes to preparing Muslims for the next life at the expense of their happiness in this worldly life discourages and works against the entrepreneurship spirit (Tessler, 2002). The low regard Islam has for materialism and its marginal concern with material gain in the current life lead to laxity and denial of welfare and communal prosperity. Furthermore, the strict guidelines imposed by Islam on the means of wealth creation and wealth distribution definitely entail negative implications for entrepreneurship development in Muslim countries (Perkins, 2003).

Fifthly, Living up to Islamic standards and abiding by its ethics and morals limit the business opportunities available to entrepreneurs. Moreover, the demand of physical religious duties such as the daily prayers, the fasting during the month of *Ramadan* and performing pilgrimages decreases productivity since it leaves the entrepreneur with less time to practice entrepreneurship (Perkins, 2003).

Sixthly, the substance and the approach of Islamic education largely limit creativity and innovation and hinder the emergence of open-minded citizens who are motivated and equipped to exploit their utmost potentials (Kuran, 1997; Kamguian, 2000). Finally, development in Islamic countries is hindered by inefficient and ambiguous legal infrastructure – which is based on dated Islamic laws such as inheritance laws; property rights and the execution of contracts – coupled with the visible absence of supportive institutions in the vast majority of Islamic countries (Kuran, 2004b).

Islamic world-view of development

The Islamic world-view of development is best understood and appreciated in the context of cultural diversity, and where a definition of the term 'development' or what it entails remains relative, and to some extent, controversial. While economic orthodoxy views development purely from a quantitative perspective, current literature on development gives more weight to the human factor and defines development in terms of the choices that individuals can make to improve the quality of their lives.

Development to, Nobel Prize (1998) winner, Amartya Sen is "... a process of expanding the real freedom that people enjoy" (Sen, 1999, p. 3). Moreover, development is being increasingly linked to attitudes, preferences, values and ethical judgement.

Development is above all else a question of human values and attitudes, goals self defined by societies, and criteria for determining what are tolerable costs to be borne, and by whom, in the course of change. These are far more important than modeling optimal resource allocations, upgrading skills, or rationalising of administrative procedures (Goulet, 2000, p. 6).

The focus of development (well-being) in Islam is on human development, which is the ultimate outcome of attaining spiritual as well as socio-economic well-being (Ahmad, 1984). Like Watts (1995) who questioned the legitimacy and the implications of the term 'development', Sardar (1997, p. 51) rejected 'development' as a concept and practice and argued that "development can never have any meaning for Muslim societies", and can never be Islamised. He further explained that majority of Muslim elites, "both traditional and modern", have exploited development in the name of Islam to justify and to legitimise their regimes and to carry out their diverse agendas.

The Islamic alternative to development is well-being (*falah*) in this life and in the hereafter. The unity of God (*tawhid*), which is based on the concept of the Oneness of God and the Unity of His Creation, constitutes the spirit of the Islamic faith. All human beings are equal in every aspect of their creation. Islam does not tolerate discrimination against any group or individuals based on race, sex, skin colour, wealth, class, power or national origin in any shape or form. Thus, the diversity amongst human beings is a natural right that is not to be interpreted or explained in term of supremacy or dominance. The relationship between believers is best characterised by brotherhood; "the Believers are but a single Brotherhood" (Qur'an, 49, 10)²⁴. The Prophet (PBUH) spread this culture of love, brotherhood and unity amongst his companions. "You will not enter paradise until you believe, and you will not believe until you love one another" (Muslim)²⁵. The Prophet (PBUH) explained the nature of this love by reiterating "none of you is of complete *iman* until he loves for his brother what he loves for himself (al-

²⁴ Cited Qur'anic verses are referenced according to the chapter's (*surah*) number followed by the verse's (*ayah*) number. Thus the reference (Qur'an, 2, 143), for instance, refers to Verse 143 of Chapter 2.

²⁵ The cited Prophetic traditions are referenced by including the name(s) of the Muslim scholar(s) who narrated the Hadith, (in brackets, separated by ;) right after each Hadith.

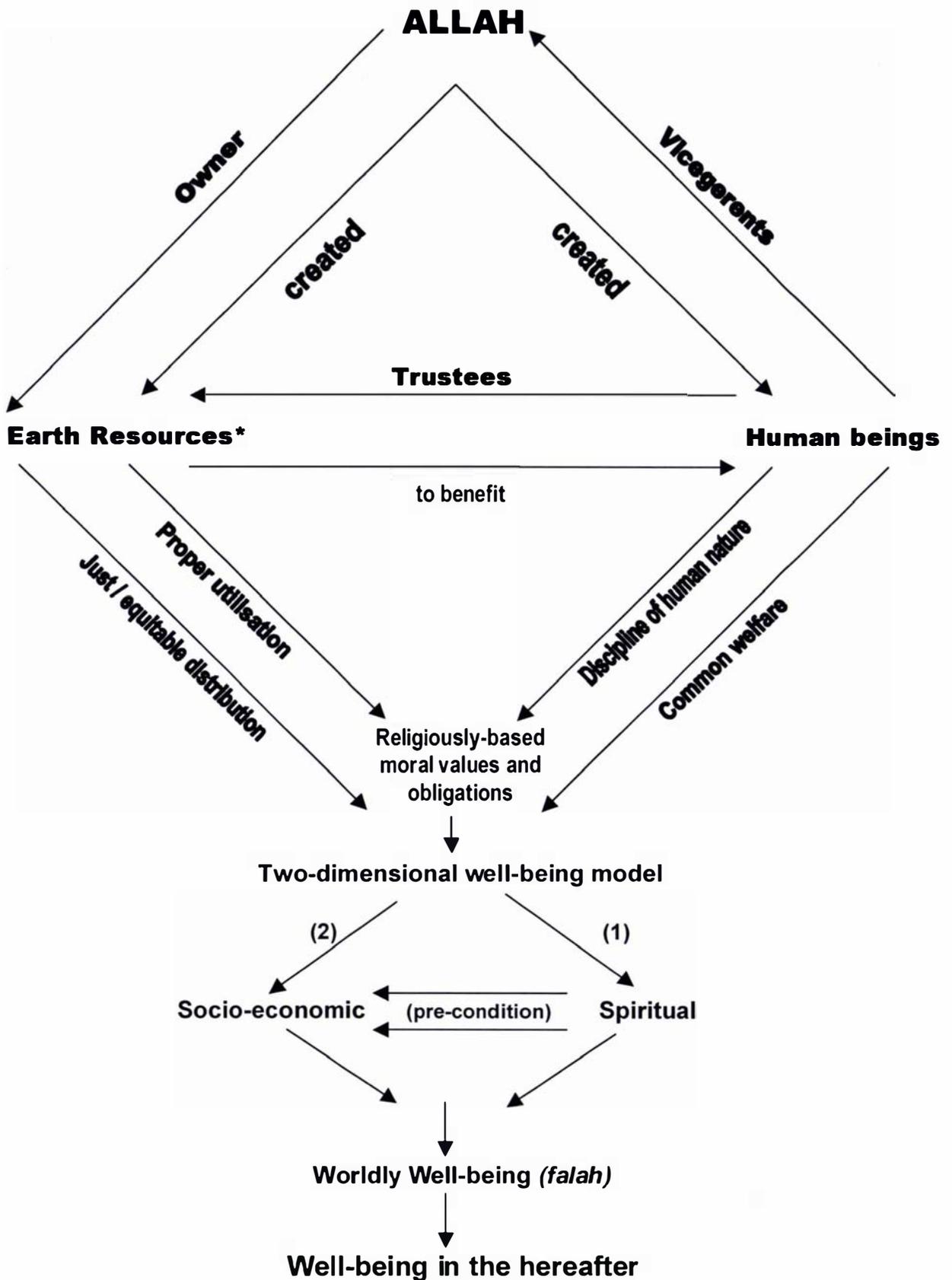
Bukhari; Muslim). Ansari (1977, p. 371) noted, "The concept of brotherhood of believers is outright the concept of a classless society". Superiority between individuals is established solely by piety, "Verily, the most honoured of you in the sight of Allah is (he who is) the most righteous of you" (Qur'an, 49, 13). The Prophet (PBUH) also passed on the same message in his Last Sermon:

An Arab has no superiority over a non-Arab nor a non-Arab has any superiority over an Arab; also a white has no superiority over black nor a black has any superiority over white except by piety and good action. Indeed the best amongst you is the one with best character. Learn that every Muslim is a brother to every Muslim and that the Muslims constitute one brotherhood. (Excerpt from the Prophet's (PBUH) Last Sermon as in al-Baihaqi and al-Bazzaz).

Humans must appreciate that God is the Creator, thus the Ultimate Owner, the Rightful Governor and the Sustainer of the earth and its inhabitants and resources; therefore they must act and conduct themselves within the frame of this understanding (Figure 3. 1). God has created mankind for a sole purpose and that purpose is worshipping The Almighty. "I have only created Jinns and men, that they may worship Me" (Qur'an, 51, 56). The act of worship (*ibadah*) manifests itself in the deeds and the actions of individuals while performing their daily activities. Islam considers work to be *ibadah* that generates reward for the Muslim when performed in accordance with the Islamic guidelines and code of ethics. Working in order to support one's self and to attend to family needs is work for the sake of The Almighty Allah, thus it is *ibadah*. Entrepreneurship, being the preferred source of income at individual as well as national levels, is given special status in Islam, thus it is *ibadah*.

Human beings are God's servants and are His trustees of the earth and its resources and they are to be held accountable and will be asked on the Day of Judgment how they honoured this trust; thus, trust is neither to be misused nor abused "O you who believe! Betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you" (Qur'an, 8, 27). People should have equal access to opportunity in their pursuit of earning *halal* income and their quest to realise socio-economic justice. The socio-economic well-being of all is affected by how scarce resources are being utilized and distributed amongst all. It is important that "God-given resources" are properly employed to provide all human beings with an honest and respectable life without waste, extravagance and ostentation.

Figure 3.1 Human well-being: An Islamic world-view



* Allocation and distribution of scarce (finite) resources amongst (infinite) population.

Islam, for instance, considers the practice of destroying surplus produce to create artificial shortage of certain goods, so the prices may not drop below certain levels, as being evil deeds. Such immoral practices (the destruction of the Brazilian coffee and the American oranges and bananas) take place while millions across the continents are starving. Thus, the Muslim considers caring for the environment and ensuring the sustainability of the earth's precious resources to be a religious duty, while others' concern for the environment is most likely to be seen as an economic or human necessity –that can be exploited if the conditions allow. "Do no mischief on the earth, after it hath been set in order, but call on Him with fear and longing [in your hearts]: for the mercy of Allah is [always] near to those who do good" (Qur'an, 7, 56).

God created the universe and urged man to extend his potentials and strive to realise and benefit from its countless endowments. He also entrusted man with the earth and gave him temporary and conditional right to rule over it and benefit from its resources.

Who hath forbidden the beautiful (gifts) of Allah, which He hath produced for His servants, and the things clean and pure, (which He had provided) for sustenance? Say: they are, in the life of this world, for those who believe, [and] purely for them in the day of judgement. Thus do We explain the Signs in detail for those who understand (Qur'an, 7, 32).

Unlike much Western emphasis on material well-being, Islam gives priority to spiritual well-being and argues that material well being shall be achieved in the form of socio-economic justice as an outcome of fulfilling spiritual needs and obligations. The aim of the Muslim is to realise a "good and righteous life", where the economic dimension is only one part of it. A good and moral life in this world is seen as a step forward to *falah* in the hereafter. Humans live on this earth temporarily and the ultimate destination is the "hereafter", but Islam's concern for their well-being in this worldly life and in the hereafter is inseparable. Human well-being in the hereafter totally depends on the deeds and actions of humans in this worldly life, which in turn is linked to the well-being of others. This righteous goal would be achieved by sincere devotion in following God's commands and fulfilling obligations to others.

ENTREPRENEURSHIP: AN ISLAMIC PERSPECTIVE

In this section I briefly discuss the attitude of Islam towards entrepreneurial activity and examine the Islamic mechanism for entrepreneurship development and promotion.

Is there a need for an Islamic entrepreneurship model?

It is neither the intention nor the objective of this study to carry out a comparative analysis between the Islamic and Western views of entrepreneurship and development or to claim the superiority of one system over the other. The aim is rather to gain a better understanding of both systems' basic views of development and entrepreneurship in order to determine whether or not major variations between the two perspectives exist and if they do, then whether or not such differences are deemed to be too fundamental to reconcile. Subsequently, does such a divergence in views warrant the development of an Islamic entrepreneurship model that could account for issues with specific relevance to Islamic entrepreneurship but not be attended to in the Western model? The following discussion would therefore be limited in its scope to its application to the Islamic view of entrepreneurship as a viable developmental strategy.

Chapra (2000) initiated a similar debate and asked whether there was a real need to have "Islamic economics" given the wide spread of highly developed conventional economics. He argued that having Islamic economics would be justified only if the conventional economics (variables, mechanism and method of analysis) fail to accommodate the vision of Islam of the proper allocation and distribution of scarce resources. Muslim scholars such as Siddiqi (1978), Alam (1965) and Kahf (1978) identified the disparity between the logic underpinning the Western economics and the essence of the Islamic value system and moral code of conduct. They argued that Western economics is not the best fit for Muslims because it neither attends to their economic concerns nor acknowledges the particularities of their religiously based culture. Therefore, they stressed the need for the development and application of Islamic economics that would facilitate the realisation of an Islamic world-view.

The same logic could apply in the context of entrepreneurship model building. Is it necessary to have an Islamic entrepreneurship model in the presence of the widely acknowledged Western account of development and entrepreneurship? The construction of a new model would be justified only if such a model would answer unanswered questions and account for elements that the existing model fails to embody. Thus, the anticipated model would add theoretical as well as practical worth to the common cause of Islamic entrepreneurship.

Earlier discussions have established that the concept of so-called 'development' is not a universal one, and the objectives of development are neither cohesive amongst

nations nor comparable across cultures. Therefore, entrepreneurship, economic development and development in its wider context should be defined and practised in such a way that best serves the ultimate goal of each particular society. The discussions also highlighted the differences between Western and Islamic world-views of development and consequently entrepreneurship. Figures 3.1, 3.2 and 3.3 reveal that these differences are fundamental and bringing them together would be impractical²⁶.

The Western concept of development, as discussed earlier, is mainly linked to economic development, which is measured purely by quantifiable economic/socio-economic indicators based on maximising wealth accumulation and consumption. Hence, the model assumes that 'entrepreneurship' is a universal activity with a universal mission –to promote economic growth and development. The Western entrepreneur is largely seen as a "money making machine" (Kao, Kao, & Kao, 2002, p. 169-173) and the driving force behind economic growth. This interpretation of development and the perceived role of the entrepreneur, although unquestioned in the Western culture, do not correspond with the Islamic vision of 'development' nor do they symbolise the mission of the Muslim entrepreneur as a vicegerent of God on this earth.

Islam upholds the view that economic progress, though important to the well-being of humankind, cannot lead on its own to social justice and sustainable development. Human needs have deep religious/spiritual roots that must be accounted for and incorporated in the development process. The aim of 'Islamic development' therefore is to achieve a state of 'human well-being' based on spiritual/humanitarian and socio-economic foundations, as a stage towards the ultimate destination, well-being in the hereafter.

The philosophical differences between the Islamic and Western worldviews of the universe and the relationships between man and his Creator, his environment and other human beings are fundamental. A comprehensive inquiry into the disposition of both worldviews regarding the concept of 'development' reveals that in addition to differences in their core philosophies, they also differ in their focus, goals, approaches,

²⁶ These irreconcilable differences are best articulated in a letter written by an anonymous critic and was addressed to the Saudi Ambassador in Washington DC, in the wake of September 11 attacks. The writer drew parallelism between the US economic vitality and the religious vitality of Muslims, and openly stated, "in a sense, a market economy is our secular religion" (Anonymous, 2002).

applications and mechanisms. It could be strongly argued that these differences are so real that they cannot be overlooked, marginalised or narrowed, nor can they be reconciled and integrated within a standardized single development model. Such differences therefore do not only justify, but also necessitate the building of an alternative Islamic model of entrepreneurship that works towards the realisation and fulfilment of the Islamic vision of 'well-being'.

Towards an Islamic entrepreneurship model

A religion with a positive attitude to work and productivity is most likely to contribute positively towards the creation of new quality business entities and the fostering of a friendly entrepreneurship environment. It is anticipated that such a constructive attitude will produce fruitful results when complemented with a comprehensive framework and matched by political will and commitment from the state.

Islamic attitude towards entrepreneurial activity

The suggestion that religion has a key role to play in shaping the mode and the level of entrepreneurial activity in a given society is gaining widespread acknowledgment and recognition. The link between religion and economic activity in the wider context was explored and demonstrated by the work of (Dodd & Seaman, 1998; Guiso, Sapienza & Zingales, 2004; Hirschman, 1983; Sood & Nasu, 1995; Wienen, 1997).

Among the basic rights that all individuals are entitled to, and should enjoy, is access to income. Chapra (1985) explained that socio-economic justice, based on the theory of "social equilibrium", implies that people are entitled to have equal opportunity and does not entail that they should be equal in poverty or in richness. Earning lawful (*halal*) living is tenable through engagement in productive activities, namely: employment (working for others) and being self-employed and employing others (undertaking entrepreneurial activity). Although Islam endorses working for others for fixed salary, it encourages and stimulates Muslims to embark on entrepreneurship as the preferred option to earning *halal* income.

Beg (1979) noted that Islam does not only motivate Muslims to be entrepreneurs, but in fact, it makes it obligatory on them to work hard and gain *halal* earnings beyond their immediate needs in order to care for the community and the Muslim *ummah* at large. Earning *halal* income through entrepreneurship and helping others to earn a living

sparing the public wealth from being exploited by a few and discourages them from being dependent on the state. Public wealth belongs to the Muslim *ummah*, so it should be utilised in projects that serve the common need and the common interest of society.

Sadeq (1997) pointed out that entrepreneurship in Islam is highly regarded, and forcefully argued that Islam provides not only the incentives but also the conducive framework for economic and entrepreneurship development. His argument is based on the interpretation of the *Qur'anic* verse "And when prayer is over, disperse in the world and search for the bounty of Allah" (Qur'an, 62, 10), and on the many traditions of the Prophet Muhammad (PBUH). Others have cited "It is He Who made the earth manageable for you, so traverse ye through its tracts and enjoy of the sustenance which He furnishes: but unto Him is the resurrection (Qur'an, 15, 67). Searching and steering through the earth's tracts goes beyond simply finding employment opportunities or even engaging in basic entrepreneurial activities. The search implies the exploration of the unknown in order to discover new horizons and uncover new opportunities for the benefit of humankind. Such active search involves taking risks and requires innovative thinking and to Sadeq (1993), that is "entrepreneurship".

The Holy *Qur'an* and the traditions of the Prophet Muhammad (PBUH) explicitly praise entrepreneurship and commend moral entrepreneurial activity; "But Allah hath permitted trade (*bai*) and forbidden usury (*riba*)" (Qur'an, 2, 275). The economic transaction of buying and selling for profit (*bai*) implies the existence of the entrepreneur. It is narrated that the Prophet Muhammad (PBUH) said, "A faithful and trustworthy businessperson will be resurrected at the Day of Judgement with the prophets, the truthful, and the martyrs" (Ibn Majah; al-Tirmithi). Furthermore, the Prophet Muhammad (PBUH) and many of his close companions were trustworthy and successful entrepreneurs. He explicitly emphasised the importance of entrepreneurship and encouraged Muslims to actively participate in business activity. Nu'aym Ibn Abd Al-Rahman narrated that the Prophet (PBUH) said, "Nine-tenths of the sustenance (*rizq*) is derived from trade (business ventures)". The second Muslim *khalifah*, Omer bin Al-khattab (May Allah be pleased with him) also was a trader, and he used to say "nothing is more beloved to me than to earn my living through my own hard work and efforts".

The concept of collective obligation (*fard kifayah*) in Islam is based on the ability of society to meet its minimum and basic needs from a specified activity or meet national challenges and obligations. An appropriate share of the Muslim population should undertake entrepreneurial activities by their own choice and according to their own

initiative to ensure the continuity of the nation's economic viability. Failure to achieve such a level of performance means that the Islamic government has to step in and assume its legal and moral obligation to compensate for any shortfall of the private sector.

Perkins (2003) analysed the role of Islam in the process of "wealth creation", and confirmed Weber's conclusions: "There is no doubt that Islam is an economic hindrance and barrier to prosperity and fulfilment of human ambition, potential and welfare" (Perkins, 2003, pp. 5-6). However, the claims that Islam has the propensity to deter development (Weber, 1963) and that Muslims in general are low in achievement (McClelland, 1961) have been conceptually challenged even by Western intellectuals. A number of Western thinkers, in addition to Muslim scholars, have acknowledged the progressive nature of Islam and recognised its positive attitude towards prosperity and the desirability of engaging in productive business activity. While Sullivan (2004) acknowledged that Islam is "a religion of knowledge", Wiene (1997, p. 42) stated that "Islamic tradition has always included a positive approach to economic activity" and noted that the Prophet Muhammad (PBUH) was "a merchant before his prophetic mission". Amongst the many scholars who have recognised Muslims' vital contributions to the world's civilizations is Hooker (2003). He argued that:

One can write volumes on the contributions of medieval Islam to Western science and letters... There is every reason to assume that Islam can provide the foundation for a tolerant and prosperous culture today, as it has done in the past. It will not be a clone of the Western culture, however (Hooker 2003, pp. 286-287).

Robert H. Pelletreau did not only acknowledge these contributions but also appreciated the value system that led to their manifestation.

Muslim scholars preserved classical learning during the Dark Ages and made vital contributions at the dawn of the Renaissance in the areas of science, astronomy, mathematics, commerce, law, history and medicine. And today, we see in the traditional values of Islam -- including respect for knowledge, for justice, for good works, for private entrepreneurship and honest profit, and compassion for the poor (Pelletreau, 1996)²⁷.

Zapalska, Brozik, and Shuklian (2005) stated that Islam generally has a positive attitude to entrepreneurship and the rights of ownership. Wilson (2006) acknowledged the

²⁷ Pelletreau, R. H. (1996). Assistant Secretary of State, Robert Pelletreau while addressing the Council on Foreign Relations, New York on Muslim politics of the Middle East. May 8, 1996. Retrieved July 12, 2003, from: www.myspy.us/.../111011A/http/dosfan.lib.uic.edu/.

uniqueness of the Islamic code of business ethics and the positive contributions that 'trust' can render to the economic activity in the form of cost effectiveness and organisation competence.

The motives and the incentives

What motivates someone to start a business is an important issue. The personal motives of entrepreneurs for starting their businesses are considered important indicators that explain the status and the direction of entrepreneurship in a country. The ability of the entrepreneurs to orchestrate and lead the economic transformation and to carry out needed fundamental changes in the cultural, social and economic structure of the country depends much on the entrepreneurial motives of new business founders when starting their businesses. Motives also act as guiding instruments for policymakers, when weighing their options and allocating their resources, by identifying and targeting entrepreneurs who are most likely to develop growth-oriented businesses and generate new job opportunities.

People start their own businesses for various reasons: to earn more money, an opportunity to be creative, to build a social position and increase status, to be independent, to have greater control over one's work, to have a comfortable lifestyle and the need for a job or fear of unemployment. Researchers have categorised startup motives into a number of distinct groups: economic and lifestyle reasons, creativity of small firms, social aspects of being self-employed and small businesses as a mean of employment.

Categorisation based on the concept of 'push' / 'pull' analysis has gained acceptance by the research community and is widely circulated in the literature (Dean, Meyer, & DeCastro, 1993; Granger et al., 1995). Central to the conventional economic theory is the theme that individuals start their own businesses based on an affirmative choice and "attracted by the opportunity or the 'pull' of perceived profit" (Storey, 1982, p. 110). Unemployment or the threat of it (Sage, 1993) and career dissatisfaction (Brockhaus & Dixon, 1986) are considered "push factors" since they tend to push individuals towards self-employment as the best or the only available alternative to their current situation.

Islam endorses entrepreneurship regardless of its being opportunity or necessity driven as long as it stands on moral and ethical grounds and confirms with the Islamic code of conduct. Stimulating entrepreneurship in Western societies is mainly driven by the

prospect of material rewards. Islam has nothing against Muslims seeking profit through the creation of, or the engagement in, business ventures. The only condition that must be preserved is the realisation that every business undertaking is a form of *ibadah* intended firstly to please The Almighty Allah. Accordingly, business activities are meant to strengthen the Muslims' faith (*iman*) by committing them to the remembrance of Allah and attending to His religious duties. "By men whom neither traffic nor merchandise can divert from the remembrance of Allah, nor from regular prayer, nor from the practice of regular charity" (Qur'an, 24, 37).

The moral dimension of Islamic entrepreneurship is evidenced by the high standards and the strict guidelines set by Islam to regulate profit accumulation by prohibiting dishonesty, greed, exploitation and monopoly. The Prophet (PBUH) explained that anyone who stockpiles commodities anticipating an increase in prices with the intention of making an unlawful profit is a sinner. Islam aspires to create high quality Muslim entrepreneurs and productive Islamic entrepreneurship. Thus, Muslim entrepreneurs are permitted and encouraged to be involved only in morally accepted and socially desirable productive business activities. Activities that involve alcohol, drugs, usury, prostitution, gambling, and highly speculative business behaviour are strictly prohibited, despite the possibility of their economic viability.

Other very important motives associated with Islamic entrepreneurship – but mainly absent from Western entrepreneurship literature – are religious and altruistic motives. It is strongly argued that Islam considers entrepreneurship as being *fard kifayah* on the Muslim *ummah*: it is a form of worship that brings Muslims closer to fulfilling their religious duties and completing their faith (*iman*). Moreover, entrepreneurship in Islam is a means by which the Muslim entrepreneurs extend help to their Muslim brothers and participate in the development of the Muslim nation. Hence, entrepreneurship is viewed from a larger perspective and the entrepreneur assumes an altruistic role that goes beyond satisfying his/her immediate needs and personal interest. Thus, the "pursuit of self interest" (Smith, 1776) and self-centred wealth creation (Say, 1816; Schumpeter, 1934) are not the primary motives behind Islamic entrepreneurial activity. Altruistic motives override personal considerations and self-interest shall be realised as a natural outcome of advancing the society's common welfare.

Entrepreneurship in Islam is also seen as a means of thanking The Almighty Allah for His countless blessings and a way to help others:

But seek, with the (wealth) which God has bestowed on thee, the Home of the Hereafter. Nor forget thy portion in this World: but do thou good, as God has been good to thee, and seek not (Occasions for) mischief in the land: For God loves not those who do mischief (Qur'an, 28, 77).

Numerous Qur'anic verses and Prophet traditions urge Muslims to give generously in order to promote the spirit of cooperation and spread socio-economic justice among Muslims. One can argue that starting new businesses with the intention of helping others through the creation of employment opportunities can be considered as a form of giving or spending in the way of The Almighty Allah. Such action warrants the Muslim entrepreneur rewards in the hereafter as well the satisfaction and potentially high return on his/her investment in this life. In fact, the positive implications of helping fellow Muslims to earn halal income far exceed the benefits of giving in a charitable manner.

While the Western system employs material incentives to motivate individuals to undertake entrepreneurial activities, Islam mainly uses moral incentives without failing to account for the material stimulus. Sheikh Odeh (2004) pointed out that although the Muslim entrepreneur is mostly motivated by the divine incentive system, Islam is the only religion and/or a system that offers such an incentive while accepting and endorsing all other conventional motives. Muslims are expected to strive with all their physical, financial, moral and intellectual resources to seek the good pleasure of The Almighty Allah. By doing so, Muslims are actually advancing their own cause in this worldly life and in the hereafter. Earning *halal* income and realising profit through entrepreneurial activities would enable Muslim entrepreneurs to fulfil *ibadat* of a "financial nature" such as giving *Zakah* and charity while meeting their own and their extended families' needs; for which they will be rewarded generously in the hereafter.

A crucial issue that must be accounted for in the process of constructing any developmental model is ensuring compatibility and integration between its various elements; most notably its cultural and institutional components. Regardless of how entrepreneurial the Islamic culture is, it still needs an accommodating environment and supporting institutions in order for it to demonstrate its will.

The role of Islamic financing in entrepreneurship development

Although each country is faced with an exclusive set of obstacles that hamper the development of its entrepreneurship sector, and despite the uniqueness of the

problems facing individual entrepreneurs in their quest to establish their businesses, there are certain difficulties shared by the vast majority of entrepreneurs. Entry into business is often hindered by the lack of financial resources, government regulations, and social attitudes that often discourage risk-taking (Sage, 1993). However, the procurement of capital to start a business is widely recognized to be a major obstacle in the way of most potential entrepreneurs irrespective of their whereabouts. The validity of this statement is not limited to a particular culture or confined to a certain landscape, although it is more pertinent in the context of developing countries.

Cooperation between (potential) entrepreneurs and conventional lending financial institutions in Islamic countries is usually held back on the following grounds: Firstly, commercial lending institutions are reluctant to extend their credit to (potential) entrepreneurs. This reluctance is largely attributed to the high risk (high failure rate) and high administrative costs of lending to small firms where the size of the loan is often too small to be economically viable. However, lack of understanding of the nature and the dynamics of SMEs, coupled with lack of qualified credit banks' personnel when appraising feasibility studies and evaluating and monitoring small business loans are believed to be the real reasons behind such reluctance.

Some of the conditions imposed by lending institutions such as requesting prior business records showing profitability to guarantee the repayment of the loan are hard to fulfil, especially by new and potential entrepreneurs who do not have established credit or prior success records (credit history). Commercial banks are also hesitant to take a risk in financing innovations since new products lack an account of historical success and the guarantee of future performance and acceptance by the markets remains to be proven (lack of reliable information). To protect their investment and ensure the security of the loan, banks require entrepreneurs to come up with substantial collateral, in most cases, to a value exceeding the value of the loan. The inability of the entrepreneur to meet the tough conditions set by commercial banks means that he/she cannot count on the conventional banking system to secure needed start-up capital. This leaves the entrepreneur with the difficult task of trying to find another financing alternative – where excessive interest is often charged – or to abandon the dream of becoming an entrepreneur.

Even if the potential entrepreneur was able to satisfy the requirements of the lending institution and prove his/her eligibility for the loan, the entrepreneur will then be held

accountable to repay the pre-determined interest charges in addition to the borrowed principal. The high cost of raising capital needed to undertake the business venture imposes a heavy debt burden on the entrepreneur. The extra cost of finance places the entrepreneur in a detrimental position from the start, hence increasing the odds against the success of his/her business venture. Furthermore, the commitment to repay the loan and the associated interest is inescapable and is irrespective of the future yield of the business activity. Should the venture prove to be a success and the rate of return higher than the ongoing interest rate, fixed arrangements would not then be fair to the lender. On the other hand, if the business activity turns sour and ends up a failure, the entrepreneur is left to his/her fate, while the lender unfairly recovers. This practice is deemed unfair and unjust hence it is explicitly prohibited in Islam.

Secondly, the majority of potential Muslim entrepreneurs do not wish to deal with conventional banks on religious grounds. They consider commercial banks to be unethical institutions that widen the divide between the wealthy and the needy through their immoral interest (*riba*)-based financial practices. Scholars surveying this topic frequently overlook this factor despite its significance and immense implications. Thirdly, a sizable portion of Muslim entrepreneurs would prefer sharing rather than bearing the risk associated with new business undertakings

From debt-based to equity-based banking system

Presley and Sessions (1994, p. 585) cogently pointed out that although the current interest in Islamic economics is relatively recent, Islamic economics is not a new paradigm. In fact, the roots of Islamic economics can be traced to the time of the revelation of the Holy Qur'an, some fourteen centuries ago.

The following discussion on the Islamic financial system is limited in its depth and scale to the potential role that Islamic banking is capable of commanding in the development and promotion of a productive Islamic entrepreneurship sector. Islamic *Shariah* is the set of rules that governs the economic, social, political and cultural aspects of Islamic societies. Qur'an and *Sunnah* are the main sources of *Shariah*. The philosophical thinking underlying the principles of the Islamic financial system is the implementation of a financial system (wealth accumulation and wealth distribution) that is fair, just and unbiased towards the rich minority at the expense of the poor majority. The ultimate aim is to spread socio-economic justice amongst Muslims throughout the Islamic world. Iqbal (1997) pointed out that although Islamic banking is a core component of the

Islamic financial system, it is a common fallacy to identify the Islamic financial system exclusively with Islamic banking and to define the economy as a whole only on the basis of being an “interest free” economy.

...Describing the Islamic financial system simply as “interest- free” does not provide a true picture of the system as a whole. Undoubtedly prohibiting the receipt of and payment of interest is the nucleus of the system, but it is supported by other principles of Islamic doctrine advocating risk sharing, individuals’ rights, property rights and the sanctity of contracts. Similarly, the Islamic financial system is not limited to banking but covers capital formation, capital markets, and all types of financial intermediation (Iqbal, 1997, p.1).

The prohibition of interest (*riba*) in Islamic economics has received much attention. Many Western scholars have suggested that the prohibition of interest is anti-capitalist and an obstacle to the proper functioning of a modern economy and a limiting – if not an impeding – factor to economic development and growth. On the other hand, others have argued that there is no moral or economic justification for charging or receiving interest. Charging interest, they argue is counterproductive and adds to the burdens of the entrepreneur and an interest-based economy is by no mean an economy that aspires to provide socio-economic justice.

Ahmad (1996) explored the possible relationship between the prohibition of interest and economic development and concluded that: Firstly, money generated from “rent-seeking activity” such as charging interest creates new but artificial capital which is by no means the life-blood of the markets. Ahmad (1996, p. 4) pointed out “The essence of the market is entrepreneurship” and explained that “trade, not banking is the primary function of markets”.

Secondly, the partnership arrangements between the financier and the entrepreneur eliminate the negative effect of banning interest, if any, on the markets. *Mudarabah* and *musharakah* are two Islamic financial instruments used as alternatives to the interest-based arrangements employed by conventional banking. *Mudarabah* and *musharakah* operate under the concept of ‘rate of return’ where the financier and the entrepreneur share the risk, hence they also share the profit/loss generated by the investment according to an agreed upon ratio. This is in contrast to the fixed pre-determined ‘interest rate’ to be paid by the entrepreneur in addition to the borrowed principal regardless of the outcome of the business undertaking.

Thirdly, Islam prohibits paying or receiving any predetermined fixed rate of return on borrowed/lent money. Charging interest (*riba*) tends to drive the poor into more poverty and create more wealth for the wealthy without doing work or sharing the risk involved in every business undertaking. *Riba* further creates wealth without actually being the outcome of productive economic activity or as the result of an increase in commodity supply. Islam therefore considers all interest-based financial arrangements to be unfair, unjust and morally unjustifiable and all money generated by such transactions to be unearned money, thus declares *riba* unlawful. Interestingly, all major religions (Judaism, Christianity and Islam) and other ethical systems such as Buddhism and Hinduism were united in denouncing interest as unethical and immoral practice.

Robertson (1990; 1998) and Vogel and Hayes (1998) stressed the need for an interest free economy. Chapra, (1985) and more recently Mills and Presley (1999) and Warburton (1999, pp. 224-225) argued that an equity-based economy tends to outperform an economy that relies heavily on credit. Moore (1997) concluded his study on Islamic finance by suggesting that the move towards equity-based financing is set to be a global phenomenon²⁸. Wiene (1997) pointed out that debt-based financing runs the risk of forcing future generations to pay heavily to service current public borrowings. Alternatively, equity-based Islamic financing limits Muslim governments' borrowings to available resources hence freeing future generations from the debt burden²⁹. The magnitude of the problems facing many developing countries in Africa and Asia under the rules of debt-based economies is enormous. It was reported during the G8 summit 2005 that servicing Africa's debt is consuming all its GDP³⁰. The ratio of total debt to gross domestic product for many countries is rising rapidly; the external debts of five Arab countries in 1989 for instance exceeded by far their GDP: Mauritania 178.8%, Egypt 162.3%, Somalia 159 %, Jordan 152%, and Syria 141.7 % (Jiyad, 1995).

Key Islamic financial themes conducive to entrepreneurship development

The individual who possesses financial resources is confronted with the question of how to safeguard his/her money while remaining faithful to the principles of Islamic financing. Figure 3.2 below outlines key themes of the Islamic financial system that

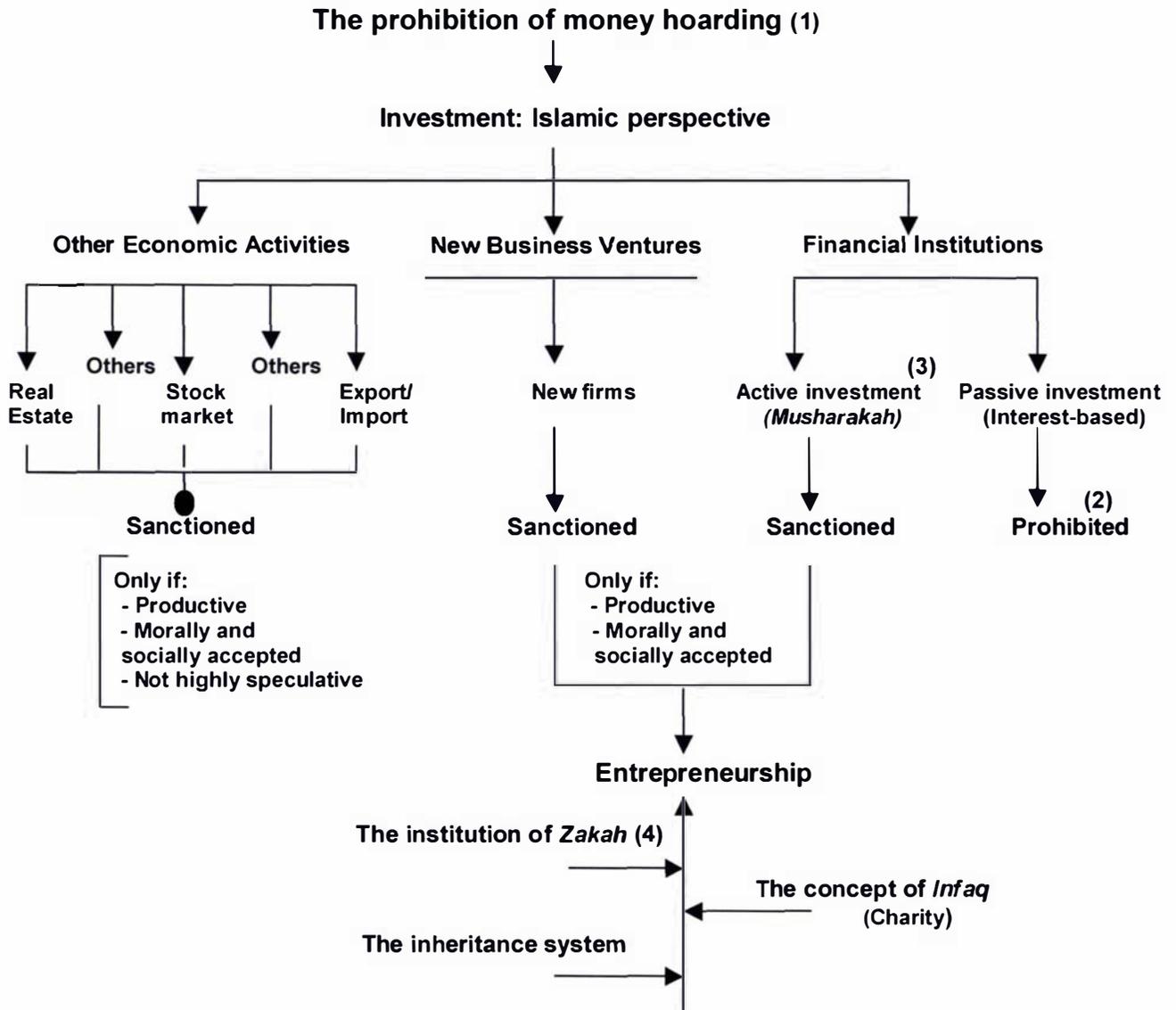
²⁸ For a more comprehensive account of the role of interest-free economy in development, see Anwar (1987) and Khan (1985).

²⁹ For more on the debt burden on future generations, see (*Democratic Staff*, 2004; Ferguson, 1964; Holcombe, Jackson & Zardkoohi, 1981; Labonte & Makinen, 2003).

³⁰ G8 "The Group of Eight" refers to the industrialised countries of The USA, Canada, Japan, France, UK, Italy, Germany, and Russia.

reflect the entrepreneurial and the developmental nature of Islam and its commitment to preserve the spiritual as well as the socio-economic well-being of humankind.

Figure 3.2 Key Islamic financial themes conducive to entrepreneurship development



Islam forbids money hoarding because hoarding money means preventing it from achieving its intended objectives and negates its function as a viable tool for development. Hoarding money is also prohibited on the ground that it obstructs the Muslim *ummah* from realising socio-economic justice among its members, “those who hoard up gold and silver and do not spend it in the way of Allah, give them the tidings of a painful punishment” (Qur’an, 9, 43). The logical alternative to hoarding is investing and investment could be realised through a choice of opportunities.

Money can be passively invested in commercial banks to earn fixed interest. This form of investment is deemed unlawful, hence condemned and prohibited in Islam. Investments could also take the form of investing in the stock market, real estate, and import/export and in many other alternatives. This line of investments involves productive as well as unproductive or even destructive business activities. Islam sanctions only productive business activities, which abide by the rules of the Islamic *shariah* and preserve Islamic values.

The Islamic alternative to hoarding is spending in the way of Allah that is, investing in business activities that are moral, productive and socially desirable. The Muslim investor therefore is encouraged to start a business of his/her own or enter into a partnership agreement with a potential entrepreneur to create a new business entity. It is important to appreciate that not every individual Muslim with extra money to invest possesses the qualities, the traits and the personality to be an entrepreneur. Thus, the comprehensibility of the Islamic financial system accommodates such situations by allowing the investor to have a share in the business venture through a partnership arrangement with the potential entrepreneur who does not have the financial resources to start his/her business. This concept of partnership is best understood within the Islamic financial arrangements of *musharakah* and *mudarabah* (direct partnership with the entrepreneur or through an Islamic financial institution). Such an arrangement ensures that the potential entrepreneur will not start the business disadvantaged with a heavy interest burden added to the initial borrowing which has to be repaid regardless of the outcome of the business venture.

While capitalism considers money to be capital, Islam argues that capital is the portion of wealth that is used in productive work. Money is a measure of value and a means of exchange, and it is not a commodity for speculation. Thus it remains potential capital until it is invested in productive economic activity together with other means of production (land, labour and entrepreneurship). Accordingly, Islamic banking plays a crucial role in economic development by transforming money into capital through the act and the process of entrepreneurship. Both Islamic and classical economics consider capital to be a factor of production along with land, labour and entrepreneurship, but they differ in their view of profit generated by capital as an outcome of the production process. While classical economics accept interest as capital's share of income, Islamic economics defines capital's share of income in terms

of profit/loss generated by capital through the act of partnership that is, profit loss sharing (PLS) between the financier and the entrepreneur.

Table 3.2 illustrates the differences and the points of agreement between Islamic and classical economics regarding the entitlements of each of the four factors of production from return generated by entrepreneurial activity.

Table 3.2 Factors of production

Factors of production		Entitlements/ remuneration	
		Classical economics	Islamic economics
Human related	Entrepreneurship	Share of profit (PLS)	Share of profit (PLS)
	Labour	Wages	Wages
Material related	Land	Share of profit	Fixed fee/compensation
	Capital	Interest	Share of profit (PLS)

It is evident that both economic systems have a common view regarding the factors associated with human resources, labour and entrepreneurship, while they differ on the factors linked to physical and financial resources that is land and capital.

Islamic banking and entrepreneurship

Islamic banking through the *mudarabah* and *musharakah* instruments is preferentially situated to play a positive role in advancing the cause of Islamic entrepreneurship, where financial capital is combined with human capital to create new business entities. Islamic banking provides current and potential entrepreneurs with needed *halal* capital to start/expand their businesses. It also provides them with protection against risk and uncertainty by spreading the risk between the entrepreneur and the investor through partnership arrangements. The expertise of the bank team under *musharakah* will encourage entrepreneurs to engage in a more innovative and original business undertakings. Quality entrepreneurship would also be promoted; as entrepreneurs compete to take advantage of available financial capital, financial suppliers will have the opportunity to evaluate entrepreneurs' proposals and business plans, and to enter into partnership contracts where prospects seem promising.

The most common Islamic models of finance are *al-qard al-hassan* (benevolent or good loan), *murabaha* (cost plus financing), *mudarabah* (silent partnership) and *musharakah* (partnership financing). *Al-qard al-hassan* is an interest-free loan to be repaid at the amount of borrowed principal. This form of Islamic financing does not bear interest and does not forge a business relation between the lender and the borrower. It is most likely to take place where the lender and the borrower enjoy a form of personal relationship. *Mudarabah* and particularly *musharakah* are the two types of Islamic financial instruments that are highly significant to entrepreneurship since they have defined risk boundaries and strict PLS rules.

Mudarabah (silent partnership): This is a contract between two parties: the financial institution (bank) and the entrepreneur. The bank acts in the capacity of being the financier by providing needed capital and the entrepreneur devotes his/her ideas, skills, expertise and time to invest the money in a productive and socially accepted *halal* business venture. The agreement is based on the principles of PLS; profit when realised is shared by both parties according to pre-negotiated ratios. In the case of incurring a loss, the bank bears the entire financial burden and loses all the invested money, whereas the entrepreneur's loss is limited to his/her invested time and effort. Various research evidences have demonstrated that banks were very cautious in their responses to potential entrepreneurs and on many occasions were not keen on being part of such financial arrangements. Under *mudarabah*, the entrepreneur assumes total management of the business, rendering the financial institution a passive partner with little or no real authority to influence the process of the business venture. The bank usually has to rely on faith, trust, and a sound confidence in the entrepreneur who is expected to abide by Islamic business ethics. In addition, the bank insists on the entrepreneur's having a convincing argument for the economic feasibility of the proposed business undertaking.

Musharakah (partnership financing): *Musharakah* in the Arabic language means "partnership". *Musharakah* as well as *mudarabah* are two PLS-based financial instruments that conform entirely to Islamic financial principles. *Musharakah* is an identical *mudarabah* contract between the entrepreneur and the financial institution, except where the entrepreneur contributes to the starting capital in addition to his/her physical and mental contributions towards the business venture.

Thus, the two instruments differ in the sense that *musharakah* gives both the entrepreneur and the bank the opportunity to share the finances (assets or working capital) as well as the management of the business. Consequently, the entrepreneur

will be exposed to capital loss. Under the *musharakah* arrangements, the bank has a say in the operation of the business and profit is shared according to pre-determined proportions such as (the partners' percentage contribution to the start-up capital after deducting the entrepreneur's management fees). Losses are also borne accordingly in line with the partners' proportion of capital contribution. Anwar (1987, p. 24) pointed out that as Muslim entrepreneurs in an interest-free economy do their utmost to maximise their returns, they end up also maximising the earnings of their partners –through the Islamic financial institutions. This mutually beneficial relationship promotes a true spirit of cooperation and partnership between the entrepreneur and his/her wider community (the local investors), and consequently advances the cause of entrepreneurship in development through the participation of the common man and woman.

Another positive implication of the partnership between the Islamic financial institutions and potential entrepreneurs will be manifested in the quality of the emerging enterprises. Being under moral obligations to protect the interest of their shareholders and depositors, Islamic banks will be obliged to implement cautious but practical measures when weighing their investment options, thus entering into partnership agreements with the most promising business offers.

Of these two arrangements, *musharakah* is the option preferred by the banks because it exposes the entrepreneur to the real risk of losing a portion of his/her investment hence motivates him/her to exert that extra effort and be more cautious. *Musharakah* arrangements also provide the financial institution with the opportunity to be an active participant in the entrepreneurial activity and to oversee the operation of the business.

The Islamic model of entrepreneurship does not incorporate taxes into its structure. Instead, the fourth pillar of Islam, *Zakah* "purification", requires all Muslims, including entrepreneurs, to pay annually a pre-determined percentage (2.5%) on their wealth (including any idle wealth) exceeding *nisab* in order for the 'Islamic State' to ensure the proper and just redistribution of *Zakah* fund amongst the needy. It is left to the goodwill of the individual Muslim to decide on how much *Zakah* to pay without the meddling of the state. Fulfilling its responsibility of overseeing the overall well-being of all its citizens, especially the underprivileged, does not make of the Islamic State a welfare state. Therefore, the nature and the function of *Zakah* are by no means to be linked to, or interpreted in welfare terminology. *Zakah* is an effective empowering instrument and the *Zakah* funds should be employed to achieve the ultimate goal of realising socio-economic justice.

The role of *Zakah* as a developmental tool is reflected in three distinct groups of Muslims: the givers, the recipients and the Muslim *ummah* at large. First, by attending to their obligations towards *Zakah*, Muslims are fulfilling one of Islam's five pillars; hence, it is an act of *ibadah*. Muslims also regard the payment of *Zakah* as a purification of their wealth that eventually will result in the growth of their capital instead of leading to its decrease. The Prophet Muhammad (PBUH) said, "*Sadaqa* [*zakah* or charity] does not reduce property" (Muslim). Stressing the wisdom behind the act of *Zakah*, Sardar (1997) points out that "The idea of growth through giving (purification)" is unique to Islam. "Increasing one's wealth by actually subtracting from it and giving away a portion of it" is beyond the comprehension of the Western mentality, commented Sardar (1997, p. 50). More importantly, Muslims have much higher spiritual satisfaction in paying *Zakah* due to their expectations of reaping the promised much treasured rewards in the hereafter.

Disadvantaged groups and marginalised poor individuals have incontestable rights to the *Zakah* funds. The implications of this entitlement go beyond providing the needy with the basics to meet their immediate needs. Rather, it is an opportunity to cultivate in them the spirit of entrepreneurship and productivity, through financial assistance and training, so they might start a business of their own.

Zakah is also a means to realise a just redistribution of wealth by taking (a specific portion) from the rich and giving it to the needy. When a citizen in a non-Islamic country pays high taxes, s/he does not expect rewards beyond better state services. Muslims, on the other hand, individually determine the due amount of *Zakah* and they pay it willingly. They do so because of their conviction that by paying *Zakah* they are contributing to the establishment of Islamic socio-economic justice through a more just distribution of the nation's wealth. Furthermore, *Zakah* nurtures the spirit of unity, cooperation and mutual respect, rather than jealousy and resentment, between the members of society thus paving the way to the emergence of a more productive and cohesive society.

Islam deploras the act of keeping the money idle or invested in passive bank deposits (Metwally, 1986). Muslim scholars unanimously agree that idle money in excess of the *nisab* still falls within the definition and under the jurisdiction of money hoarding even if the Muslim has paid the due *Zakah* on such idle wealth (Ibrahim, 1994). The idea is to encourage Muslims to spend the accumulated wealth in the cause of The Almighty Allah by investing it in a productive and useful manner. One can strongly argue that

commanding *Zakah* on any idle wealth could be interpreted as a conspicuous call for Muslims to engage their wealth in productive business activities, and also as a penalty imposed for averting such wealth from contributing to the well-being of the Muslim *ummah* (through the act of entrepreneurship).

A sound conclusion that can be drawn from this discussion is that Islam is explicitly motivating and even pushing Muslims towards productive economic activities, and that is to say, towards the creation of new business entities –towards entrepreneurship.

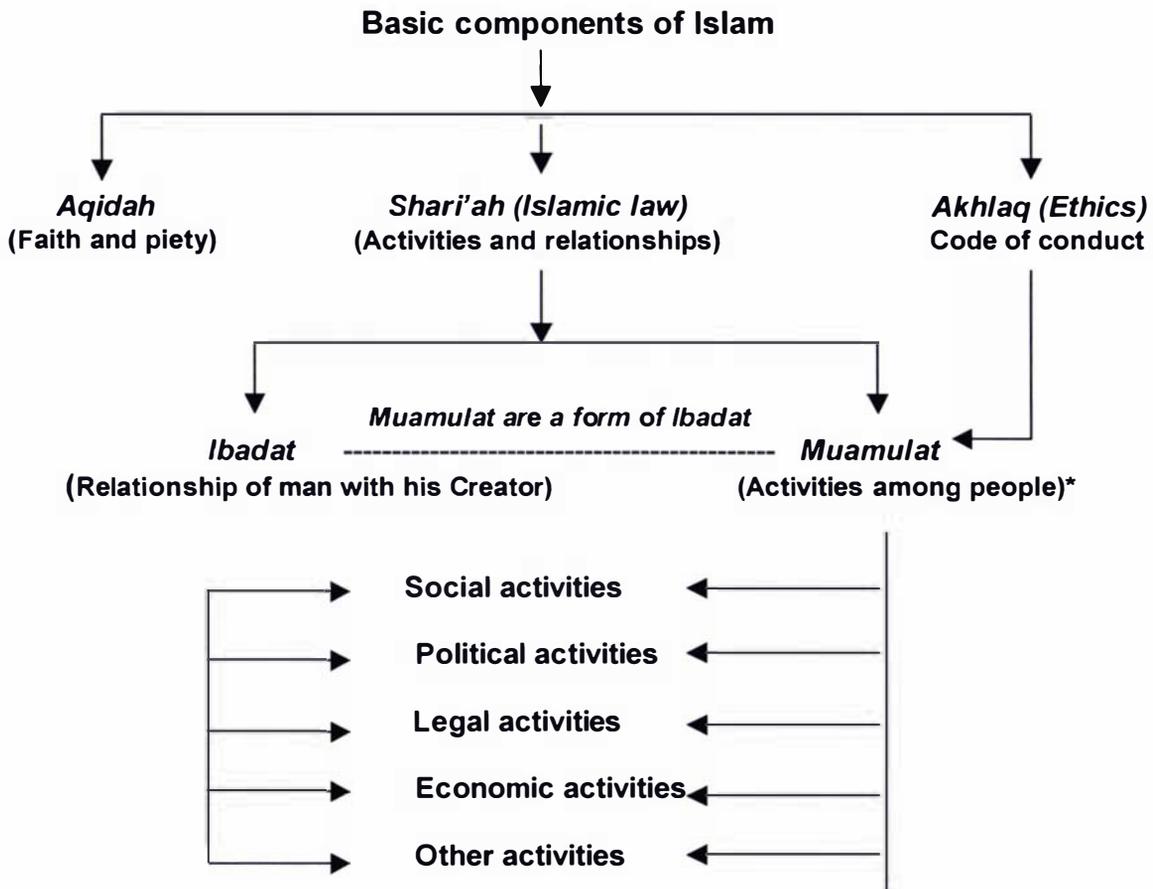
The sanctity of contracts

The contract is a legally binding document that must be upheld by all contractors. “Ye who believe! Fulfil all obligations” (Qur’an, 5, 1). Ali (1983) commented that the scope of the term ‘obligation’ is extended to include the divine obligations of man towards his Creator as well as the mutual social and business obligations of man towards his fellow man. As Figure 3.3 indicates, *Shari’ah*, which is the main source of Islamic law, regulates man’s relationship with his Creator through (*ibadat*) and his relationship with other humans through (*muamalat*) in the form of contracts. Muslims are obliged to sincerely and truly worship The Almighty Allah, thus fulfil their religious obligations, and are also expected to display ethical behaviour when dealing with others, thus fulfil their promise to their neighbours, and by doing so, they are actually fulfilling a religious duty.

Islam preserves the sanctity of contracts and thus compels believers to fulfil all their promises, agreements and engagements: “and fulfil (every) (engagement); for every (engagement) will be enquired into (on the Day of Reckoning)” (Qur’an, 17, 34). Furthermore, Islam commands Muslims to be sincere and straightforward in all their dealings with every one: “Verily, this is My Way leading straight, way of Truth, Justice, Sincerity and Straightforwardness: follow it, follow not other paths” (Qur’an, 6, 153). More relevant to this study is the business relationship between parties. A contract should fully specify the quality, quantity and the price of the goods involved in the business transaction. The concerned parties should have clear and comprehensive understanding of the timing, terms and conditions of the contract and the obligation of each party. “Who ever is making such contracts let it be in a well defined measure and well defined price and well defined time table” (Muslim; Bukhari). Sincerity and honesty dictate that all relevant information that might make a difference while deciding whether or not to proceed with a business transaction / undertaking must be disclosed. It is

reported that the Prophet (PBUH) said “If anyone sells a defective article without drawing attention to it, he will remain under Allah’s anger” (Ibn Majah).³¹

Figure 3.3 The unity of *muamalat* and *ibadat* in Islam



* Islam also structured the relationship of humankind with Allah’s other creatures such as animals and nature.

Property rights

The rights of the individuals (men and women) to property ownership have been explicitly sanctioned and are overtly sacred by the Islamic law “and do not eat up your property among yourselves, for vanities” (Qur’an, 2,188); “to men is allotted what they earn and to women what they earn” (Qur’an, 4, 32). Zapalska, Brozik and Shuklian (2005) link the importance of property ownership in a society to its impact on the socio-

³¹ For more comprehensive discussions on the topic, see Sarker (1999).

economic development of that society by means of resource allocation and income distribution.

The concepts of property rights and private ownership are based on the wider concept of the Oneness of God (*tawhid*). Islam acknowledges that the love for private ownership is a shared natural propensity among humans, thus it recognises such a tendency and protects the rights of private ownership as long as:

- It is understood that humans are God's servants who are entrusted with His wealth "it is He Who hath made you (His) agents, heirs, inheritors, of the earth" (Qur'an 6, 165).
- Wealth is lawfully (*halal*) gained with the intention to spend it in the way of The Almighty Allah.
- Wealth is not being hoarded and prevented from being invested, developed and used freely for the good of people "and there are those who bury (hoard up) gold and silver and spend it not in the way of Allah: announce unto them a most grievous punishment" (Qur'an, 9, 34).
- Wealth is not concentrated in the hands of the wealthy minority "so that wealth not be circulated amongst the wealthy among you" (Qur'an, 59, 7). The institution of *Zakah* and the concept of inheritance based on the division of property among inheritors and permitting donation of one-third of the inheritance for the benefit of the non-inheritors are designed to counter the tendency for the concentration of wealth.
- Wealth is not used in promoting harmful activities or invested in *haram* (forbidden) business practices involving alcohol, drugs and prostitution.

Potential entrepreneurs would be encouraged to start new businesses in an environment where they feel that their investments are safe and protected by law. The Islamic legal system provides such assurance by instituting reverence for, and protection of, private ownership and by making it an obligation on Muslims to adhere to their contracts.

ISLAMIC ENTREPRENEURSHIP

The Muslim entrepreneur and the Islamic enterprise

While the Western entrepreneur is driven towards entrepreneurship mainly by self-interest and the desire for individual profit, the Muslim entrepreneur starts a business with the intention of pleasing The Almighty Allah. Literature on Islamic entrepreneurship emphasises that the aim of the Muslim entrepreneur is neither directed to, nor dictated by, personal desire to maximise material gains for one's own splendours. Muslim entrepreneurs are motivated to earn wealth for their own reasonable and moderate consumption and to spend in the way of The Almighty Allah by helping the needy and contributing to the well-being of the *ummah* at large. "Make not thy hand tied to the neck, nor stretch it forth to its utmost reach, so that thou become blameworthy and destitute" (Qur'an, 17, 29). Thus, in addition to being an economic necessity, wealth is seen as an avenue generating ongoing rewards for the Muslim entrepreneur.

The Muslim entrepreneur supposedly starts his/her business with the ultimate aim of pleasing The Almighty Allah. Siddiqi (1979, pp. 141 & 151) defined the aims of the Muslim entrepreneur in terms of realising (satisfactory) *halal* profits and rendering social services to the wider community. Entrepreneurs are the true ambassadors of their countries to the world at large. This thought gains more merit in the globalisation era, where borders are being torn down and entrepreneurs have no choice but to be active actors in the global market should they wish for their businesses to survive and thrive. Through their deeds and actions, Muslim entrepreneurs are in an advantageous position to represent Islam and "spread the word of Allah". I was reminded time and again while I was conducting my research in the field that early Muslims spread the religion of Islam throughout Asia by being true Muslim traders and businessmen. Early Muslim entrepreneurs understood, lived and enacted Islamic entrepreneurship; hence, they fulfilled the two broad aims of entrepreneurship: Islam reached new territories and Muslim entrepreneurs were successful in building prosperous economies. Saudi entrepreneurs were eager and excited about conveying this message. Equally important is the potential role of the Muslim entrepreneur in promoting Islam among Muslims as well as among non-Muslims by truly practising Islam and being a concerned member of the community.

The Muslim entrepreneur therefore is a just business player who is involved only in *halal* productive and socially desirable business activities. S/he does not misrepresent products, mislead consumers or conceal defects. S/he is a socially responsible individual whom is fair to his/her customers as well as to his/her vendors. S/he is sensitive to the well-being of his/her environment and is accountable for the sustainability of its natural resources for the sake of the welfare of future generations. Muslim entrepreneurs are never selfish; s/he does not deceive, cheat, hoard or accept interest. Therefore, s/he is expected to constantly display high standards of ethical behaviour while carrying out his/her productive *halal* entrepreneurial activity. Qualities such as honesty, truthfulness, straightforwardness, adherence to contracts and keeping up trusts and promises are integral part of their character. These attributes are not the outcome of a visionary business policy or foresighted business strategy; rather, they are obligations that faithful Muslims have no choice but to adopt and abide by.

An Islamic entrepreneurship model

During the second half of the twentieth century, the majority of Arab Muslim countries have embarked on a variety of approaches and tried different modernisation and development models, except the Islamic model, in their pursuit to realise development. Muslim countries have tried all sorts of 'isms'; some countries have embraced nationalism, others have adopted one form or another of socialism whereas the majority have pursued a broader policy aimed at accommodating 'Westernism' while attempting to contain its cultural impact. All three distant approaches to development were doomed and proved big failures. Decades of reliance on imported models of development obviously did not bring economic prosperity nor did it result in the institution of social order in a single Arab/Muslim country (Mahdi, 1990).

Understandably, Muslims are returning in force to Islam for answers to contemporary issues that directly affect their everyday well-being. Mahdi (1990) drew attention to the immense lack of intellectual work by Muslim scholars in the field of social science. He presented a strong and well-argued case for the urgent need for Muslim scholars and social scientists to focus their attention and to seriously get involved in the important issue of Islamic model building in economic and other social sciences. Chapra (2000), on the other hand, explained the lack of serious work in the Islamic social science discipline by the attitudes of (some) Muslim political establishments. He was very

critical of their obstructive role and their disinclination to promote true Islamic developmental models:

Some of the governments in Muslim countries consider the resurgence of Islam, with its unmistakable call for political accountability and socio-economic justice, to be a threat to their survival. They are, therefore, reluctant to render any moral or material support for the development of Islamic social sciences (Chapra, 2000, p. 2).

Nehru (cited in Myrdal 1968, p. 57) noted that one “can’t get hold of a modern tool and have an ancient mind. It won’t work”. Being an eternal and a universal religion, Islam has to be modern at all times, it has to be adaptable to the requirements of time and place without contradicting or compromising its fundamental principles. Islam has provided the broad guidelines and the boundaries, which Muslims can work within, and in most cases left the details for future Muslim generations to employ according to their existing circumstances (Al-Sadr, 1982). The Holy Qur’an and the Noble *Sunnah* clearly identify what is *halal* and what is *haram*, and differentiate between lawful productive and unlawful unproductive business activities. Therefore, every socio-economic model is acceptable in Islam as long as it subscribes to the concept “unity of God” and abides by the basic Islamic principles namely: *halal* financing, ethical business practices and the common welfare of the Muslim *ummah*. Any system that comprises these Islamic principles is legitimate and acceptable. Each Muslim country is entitled and encouraged to embark on a developmental path that blends with its particular customs and environmental conditions, but within the general guidelines of the Islamic world-view.

The proposed Islamic model of entrepreneurship (Figure 3.4) builds on the conceptual general Western model developed in Chapter 2, as both models share many features and assumptions. The construction of the model is consistent with the general approach developed and pursued in this thesis: to studying entrepreneurship development, or lack of it, in various cultural contexts. Yet the proposed Islamic model highlights the differences between the two perspectives and accounts for the particularities of the Islamic view of development and entrepreneurship.

The two models differ in their definitions of development, views of the relationship between religion and culture and the role of religion in development, hence they differ in their attitudes and approaches towards cultural transformation and values affirmation. While the Western model calls for cultural transformation towards the

Western style of institutional framework as a remedy to lack of entrepreneurship within a country, the Islamic model promotes the affirmation of religious values and requires formal institutions to be a true reflection of Islamic value system. Thus, it calls for institutional transformation towards Islamic values. Other major differences include differing attitudes towards risk-taking and risk sharing where it relates to financing the entrepreneurial activity. The incompatibility of institutions, the one-dimensional Western model of development versus the two-dimensional Islamic model of well-being, morality in business and the mechanism adopted to safeguard the social interest and preserve personal well-being are also major differences that justify the construction of an Islamic model of entrepreneurship. Chapra (2000) argued that the concept of the hereafter should be at the heart of any Islamic model. The fear of God's punishment and the hope for His mercy constitute an effective motivational force for individuals to act morally for their own interest and to safeguard the interest of the larger community and the interest of Muslim *ummah* at large.

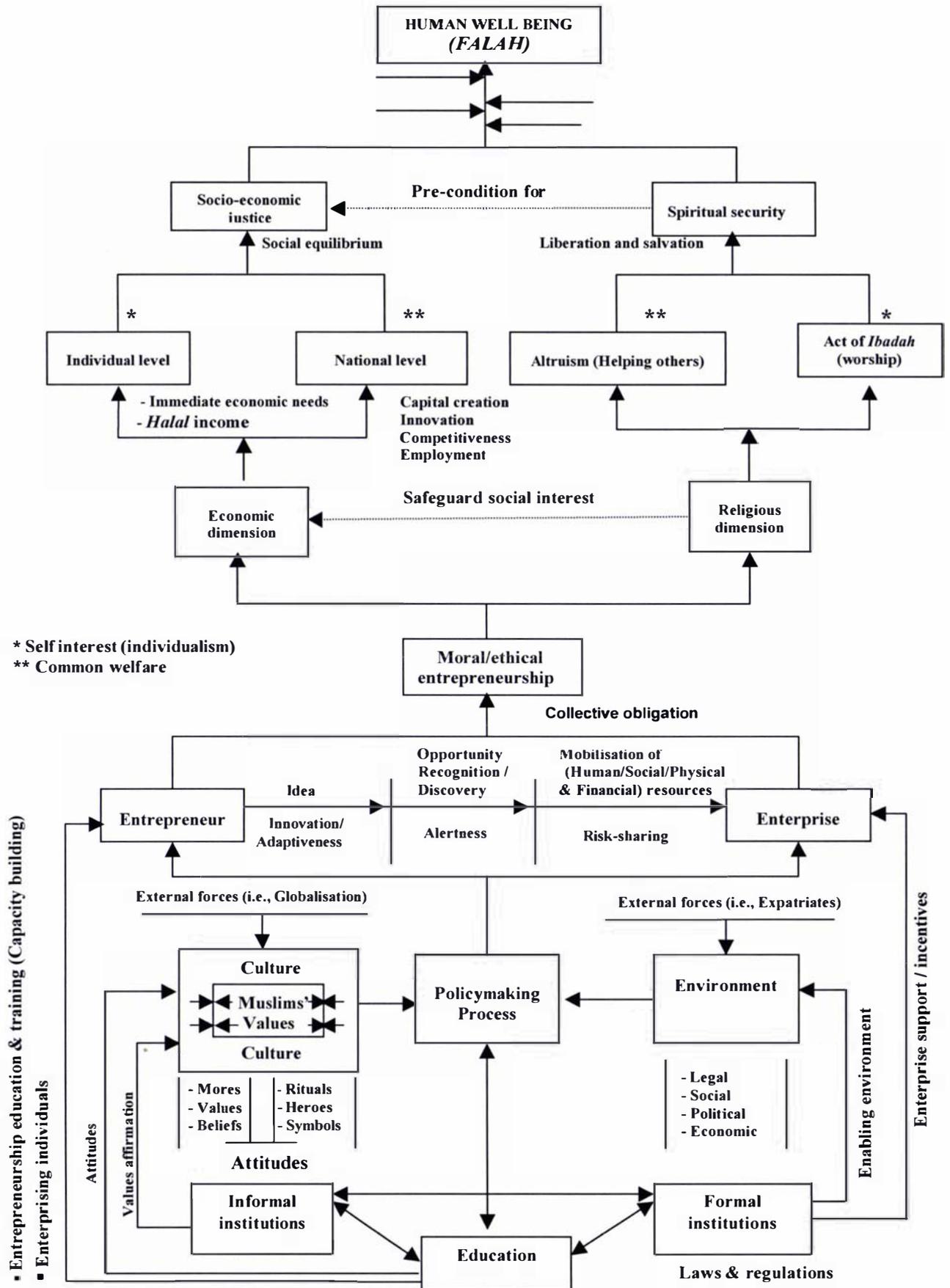


Figure 3.4 An Islamic entrepreneurship model

CONCLUSIONS

This chapter has explored and critically examined Islamic forms of economic development and entrepreneurship. It started by briefly reviewing the differing views on the nature of the relationship between religion and development. It highlighted the Islamic perspective of development and the role of entrepreneurship as a developmental tool in realizing the ultimate goal of development, according to each society's own definition and convictions. The Western conceptualisation of development does not differentiate between economic development and development in its wider context, since the overriding objective of the Western model is the creation of material wealth. This is in contrast to the Islamic holistic view of development as a two dimensional process that accounts for both material and spiritual needs. The discussion further concluded that such differences between the two incompatible perspectives are too real to be overlooked or reconciled, thus justified the call for building an Islamic model of entrepreneurship.

It has been demonstrated throughout this chapter that Islam goes beyond displaying positive attitude and passive encouragement to profoundly attaching a religious significance to the entrepreneurial activity. Islam considers the entrepreneurial activity to be *fard kifayah* on the Muslim *ummah* intended for pleasing The Almighty Allah, and to contribute to the spiritual as well as to the socio-economic well-being of Muslims. Such a dynamic attitude entails that Islam puts in place an enabling framework to create a supportive environment where entrepreneurship can develop and flourish. The basic ingredients for an Islamic entrepreneurship model have emerged as an outcome to the critical review of relevant literature. The field research and subsequent analysis of collected data shall validate/contradict or necessitate modification to the basic assumptions underlying the construction of the model and the integration between its various components. Therefore, the model will be revisited in Chapter 9 to assess its compatibility with the Saudi realities.

It is important to appreciate that the discussions presented thus far on Islamic entrepreneurship are in the realm of theoretical debate, and the proposed model reflects the outlook, rather than the reality of Islamic entrepreneurship in the Kingdom of Saudi Arabia (the site of the fieldwork). Attitudes and practices of Saudi entrepreneurs and the landscape of Islamic entrepreneurship in Saudi Arabia will be thoroughly discussed in Chapters 6, 7 and 8 based on findings from the field.

Furthermore, possible limitations and drawbacks of Islamic entrepreneurship, as manifested in the Saudi case, will be considered in Chapter 9.

It is imperative at this stage of the research cycle to introduce the research site to the research process. The next chapter on Saudi Arabia, therefore, links the theoretical framework established in the first three chapters with the methodological approach as presented in Chapter 5 in order to set the study up for its practical phase –the fieldwork. As Chapter 4 probes key issues of the Saudi development process, it seeks to establish what role that Islamic values, discussed in Chapter 3, have played in the midst of the rapid transformation of the Saudi nomadic culture and indigenous entrepreneurship. Furthermore, it attempts to explore the relationship between these values and the contemporary Saudi economic development activities.

CHAPTER FOUR

SAUDI ECONOMIC DEVELOPMENT: ENTREPRENEURSHIP AS A VIABLE DIVERSIFICATION STRATEGY

No body can develop a country but its own population. Development is in the mind, not in the goods.

Hofstede (2001, p. 437)

Countries are like individuals; they tend to keep the status quo in good times and scramble for change when the tide turns on them.

Kao, Kao, and Kao (2000, p. 201)

All in all, I wish we had discovered water.

Sheik Ahmed Zaki Yamani, a former Saudi oil minister (cited in Ross, 1999, p. 297)

In addition to its religious status, strategic location, massive oil and natural gas reserves and unique structure of governance, the magnitude and the speed of the socio-economic transformation and the challenges that accompanied such swift conversion make Saudi Arabia a distinctive and a fascinating case study in development (Al-Farsy 1980). The arguments underpinning the significance of each of these features are still as valid today as they were to Al-Farsy twenty-five years ago. The 1973-1974 oil crises and the 1991 Gulf war have demonstrated the unwavering economic as well as the strategic global significance of Saudi Arabia, home to 26% of the world's total oil reserves. Likewise, one could argue that the unquestionable importance of the Kingdom and the region, at times, might have played against regional stability and development, evidenced by the many wars and conflicts that the region has witnessed. Furthermore, it has been strongly suggested that oil rents have played a counter productive role at the national level by fostering welfare and rentier mentality amongst Saudis, thereby limited their entrepreneurial inspirations and prevented the country from developing a productive and sustainable source of national income (Auty, 2001; Field, 2000).

This chapter narrows the scope of the study from the wider Islamic context to the context of Saudi Arabia. In so doing, it seeks to critically review some of the existing literature relevant to Saudi Arabia's quest for development in order to build the argument for the viability of entrepreneurship to the Saudi development process. The chapter is divided into three main sections. The first section presents a brief overview of the country's history, economy and political structure. It proceeds to review some milestones in recent Saudi development endeavours, particularly its dependency on oil rents for financing its consecutive five-year development plans, and the challenges that accompanied such transformation. The second section endorses the conventional proposition that advocates diversification as a means for economic prosperity. It further argues that entrepreneurship is a viable diversification strategy with the potential of expanding the productive base of the Saudi economy and implementing more balanced and equitable development in the country. The third section attempts to capture some of the recent Saudi economic and political reforms deemed crucial for economic development and necessary for the country to benefit from its affiliation with the WTO³². This section, furthermore, questions whether entrepreneurship in general and Islamic entrepreneurship in particular was accounted for in the Saudi reform package. Along with the three preceding chapters, this chapter serves as groundwork for the upcoming chapters where the study will be advanced to its empirical stages.

SAUDI ARABIA: THE DEVELOPMENT OF MODERN STATE AND CONTEMPORARY CHALLENGES

Following the capturing of Riyadh in 1902 and the restoration of the hub of the emirate of the central region of the Arabian Peninsula, Abd al-Aziz Ibn al-Saud embarked on a thirty-year struggle to unify the widespread land of Arabia, which was an open landscape for the various contesting tribes and brawling clans. On September 18, 1932 Ibn Saud declared the "unification"³³ of the "Arabian Kingdom" and proclaimed the new

³² Negotiations between Saudi Arabia and WTO General Council on the terms of the country's membership to the WTO were formally concluded on 11 November 2005. Saudi Arabia became a full WTO Member on 11 December 2005 –proclaiming a successful closure to more than one decade of negotiations. In fact, Saudi Arabia started negotiating its accession to the General Agreement on Tariff and Trade (GATT) and then to the WTO in 1993.

³³ Based on Chaudhry's (1997, pp. 48-50) analysis, Champion (2003, p. 83) disputed the accuracy and the legitimacy of using the term "unification" of the "non-existent state of Saudi Arabia" since the new entity began to take on the shape of an actual 'state' in 1950.

name of the emerging state to be “The Kingdom of Saudi Arabia”³⁴, thus confirming King Abd al-Aziz Ibn al-Saud as the founder of the modern Saudi state, as known today.

The country and the people

Saudi Arabia is located at the heart of the Middle East, occupying more than 75% of the Arabian Peninsula. In addition to the Arabian Gulf³⁵ in the east and the Red Sea in the west, the Kingdom shares borders with Jordan, Iraq and Kuwait in the north, and United Arab Emirates, Oman and Yemen in the south. Saudi Arabia has a total area of about 2,240,000 sq. km., approximately one-fourth to one-fifth of the size of the landmass of the United States and two thirds of the size of Western Europe.

Figure 4.1 Map of the Kingdom of Saudi Arabia



Source: The World Fact Book (2001)

³⁴ Interestingly, Saudi Arabia is the only country in the world that carries the name of its ruling family, and identifies its citizens as “Saudis” which plainly means “followers or belonging to al-Saud” –a symbol of domination and control.

³⁵ There is a disagreement among different countries regarding the naming of the “Gulf” due to the dispute between Arab countries and Iran over the issue; literature in many instances refers to it as “the Persian Gulf”, and at other instances as “the Arabian Gulf”.

The climate of the country can generally be described as harsh: it is aired with high extremes of temperature in the interior and hot but humid along the eastern and western coasts. About 1.75% of the total area of Saudi Arabia is arable and 1% forest and woodland. The country lacks water resources: it has no perennial rivers, lakes or any other permanent water supplies. Most regions of the Kingdom have an average rainfall of less than 100 mm/year. The dearth of water endowment compelled the Saudi government to install the world's largest seawater desalination facilities at the Red Sea in order to provide its citizens with clean water. The extended coastlines of the country proved to be indispensable for trade and shipping, especially for oil exporting activities.

The emergence of new employment opportunities in towns created by the oil boom, coupled with the higher standard of living in urban areas prompted many Saudis to migrate to towns. It is estimated that 70% - 80% of Saudis live in the Kingdom's three major cities, Riyadh, Jeddah and Dammam (Murphy, 2003; Sedgwick, 2001). As the unplanned internal migration led to a rapid urbanisation, it also disturbed the demographic balance of the country and resulted in uneven economic development among its regions.

The *CIA World Fact book* estimates the population of Saudi Arabia to be about 26.5 million as of July 2005, including 6.5 million resident expatriates and their families – giving the non-Saudi to Saudi population a ratio of 1:4 (The World Factbook, 2005). About 56% of the Saudi population was under the age of 20, and 65% aged under 25 in 2000 (Moore, 2003). More than 90% of the population of Saudi Arabia is ethnically Arab, and virtually all Saudis are Muslims. The non-Arab Saudis are mostly traders who entered the kingdom as pilgrims and resided along the western coast, and soon after established themselves as successful entrepreneurs. At the current annual population growth rate of about 3.5% coupled with lower infant mortality and longer life expectancy, Saudi Arabia could look forward to doubling its population every twenty years. This exceptional growth rate is putting more pressure on the social and physical infrastructures as well as other resources and, is therefore, underscoring the need for extra measures to be taken to create much needed employment opportunities. New jobs have to be created in the private sector since the public sector is already saturated and its capacity to absorb even a portion of the influx of job seekers is limited.

Saudi Arabia has an absolute monarchy type of government, where 'the right' of the sons and grandsons of King Abd al-Aziz Ibn al-Saud to the throne is unquestionable. The King is the supreme ruler of the country and the Crown Prince is his deputy and

successor to the throne. The King also serves as the Prime Minister aided by “two” senior members of the ruling family as his first and second Deputies³⁶. Power sharing and post filling have always been achieved through consensus and understanding within the ruling family. This conservative approach has so far led to a smooth transfer of power between the sons of Ibn al-Saud. The latest orderly transition of the throne to King Abdullah, as successor to the late King Fahd in August 2005 despite the doubts and concerns of the many, demonstrates the understanding within the ruling family that their unity holds the key to their survival and power.

The King remains the ultimate authority in the state; he retains the power to appoint and discharge members of both the Council of Ministers and the Consultative Council. He also has the power to dissolve either Council and/or change its composition at any point in time. The sensitive posts within the council of ministers, such as Defence, Interior and Foreign Affairs, are always kept in the hands of senior family members. While it is normal for the composition of the Council of Ministers to change every four years, these ministerial portfolios are not subject to such change. Administratively, the country is divided into 13 administrative provinces where a Saudi prince governs each province.

The Saudi government sought to claim its authority nationwide through huge spending on social programmes, security planning and defence build-up. The Kingdom also sought to establish its eco-political influence regionally and internationally through its membership and affiliation with a host of regional and international organisations, and through generous inclusive aid programmes –made possible by the massive oil revenues. Saudi Arabia is an active member of the Gulf Cooperation Council (GCC), the Arab League, the Organization of Islamic Conference (OIC), the United Nations (UN), and is the most influential member of the Organization of Petroleum Exporting Countries (OPEC) and of the Islamic Development Bank (IDB) and many others. Saudi Arabia has established mutually positive trading relationships with virtually all countries, with the US and Japan being the front runner trading partners, followed by the Republic of Korea, the UK, Singapore and Germany.

³⁶ Currently, Prince Sultan is serving in the capacity of first deputy while the second deputy post is still to be filled. Some critics have suggested that the hesitation in naming the second deputy is a sign of disunity amongst senior members of the ruling family and predicted more trouble for the monarchy in the years ahead.

Article one of the royal decree dated March 1, 1992 reaffirmed that the Kingdom of Saudi Arabia is a sovereign Arab Islamic State; Islam is the religion of the state, the Holy *Qur'an* and noble *Sunnah* are the source of its constitution, Arabic is the official language of the country and Riyadh is its political capital. Despite this proclamation, many still question the Kingdom's real commitment to the just implementation of the constitution amongst all. Moreover, Saudi Arabia has long been the subject of sharp criticism regarding its political intolerance: the country has no political parties or independent legislative body.

Saudi socio-economic transformation before 1970

Before its transformation into a major oil-based economy in the early 1950s, Saudi Arabia had a primitive and fragmented economy that struggled to meet the basic needs for survival. The state exploited its status as the custodian of the two Holy Mosques to boost its national income from *hajj* revenues. Due to the great variations in its climate, natural endowments and massive geographical landscape, the country was divided into four diverse geographic as well as economic key regions; the central region (Najd), the Western region (Hijaz), the Southern region (Asir), and the Eastern region (Al-Hasa). Each region relied on its own endowments and employed its resources in order to maintain its existence; at the heartland of the country is the central region (Najd), known for the harshness of its climate and the scarcity of natural resources. Yet, it houses the Kingdom's political as well as the commercial capital –the city of Riyadh. The people of Najd were formerly nomadic people who wandered through the province searching for water and pasture in order to raise their animals, which were their main source of sustenance.

Along the Red Sea coast peacefully rests the Western region, where the busy port of Jeddah plays, as it has historically played, a crucial role in the commercial life of the Kingdom. Muslim pilgrims from all corners of the world gather in Mecca to perform their religious rituals and they commercially exploit the occasion and create a vibrant business atmosphere. Many of the pilgrims who have resided in the Kingdom were business-minded individuals. They built some of the most successful and thriving family businesses and made valuable contributions to the well-being of the Saudi economy. The major oil industries in the Western region of the Kingdom are located in *Yanbu*. However, it is the two holiest cities of Mecca and Medina that always gave the Western

region, as well as the whole country, its distinctiveness and unparalleled importance to Muslims all over the world.

At the other end of the country is the Eastern region along the Gulf Coast where the country's wealth and power lies. The Eastern province holds massive oil reserves, and is the home of the world's largest oil companies, the Saudi Oil Company (ARAMCO), and has one of the world's largest oil exporting ports, *Ras Tanura*. Fishing and related sea-based activities were the main sources of income for the majority of its population prior to the oil era.

Farming constituted the main source of income for the people of the southern region, which has relatively good levels of annual rainfall. The availability of water and the eye-catching landscape later prompted the Saudi authorities to invest in this mountainous and fertile region of the Kingdom by focusing on developing the agriculture and tourism sectors. A fifth geographic region of the Kingdom, that has no economic value, is the world's largest expanse of unbroken sand, known as Al-Rub'al Khali, which literally means, "the Empty Quarter"³⁷.

The country's intake from oil revenues increased more than five times between the years 1950 and 1955 (SAMA, 1998). However, the pace of development activities and the spending patterns were not in line with the significant increase in revenues and the immediate needs of a country "on the make". Niblock (1982, p. 95-96) commented that the manner by which Saudis had dealt with the increase in oil revenues in the 1950s reflected the behaviour of an emerging state that lacked structure, maturity and vision. The Saudi economy (outside the sphere of ARAMCO) remained simple and undeveloped through the 1960s and early 1970s despite the discovery of oil in commercial quantities long before that. Saudi economy depended on subsistence farming around the oasis and relied on animal husbandry, basic crafts, and traditional basic industries. According to Birks and Sinclair (1982), almost one-half of the working Saudi labour force in 1970 was engaged in the ailing 'primitive' agriculture sector.

³⁷ The Empty Quarter, located in the southern part of the kingdom is "an immense sand body approximately 750 miles long with a maximum width of nearly 400 miles. It covers an area of about 250,000 square miles, nearly the size of Texas, and is the largest continuous body of sand in the world" (Al-Farsy, 1980, p. 203).

The Saudi economic model and contemporary challenges

Over the past three decades, Saudi Arabia has undergone a phenomenal transformation described by some as 'unprecedented' and by others as 'fascinating' in the history of development; both in terms of its massive enormity and overwhelming speed. Unlike the ongoing attempts to uncover the secrets of the 'East Asian miracle', the rapid economic development in Saudi Arabia and other Gulf States could be explained by the sudden influx of oil revenues that played into the hands of the state. The massive oil rents have served the elites directly by using such wealth to strengthen their hold on power, and indirectly through investing proportion of it in development projects and in bringing about extensive and fundamental improvements to the lives of their citizens thus deserving their loyalty. The Saudi developmental programme set priorities in keeping with the dynamic changes and the many internal and external challenges facing the country, thereby shaping the face of the 'new Kingdom'.

Within the past 35 years, the oil prices increased from less than \$1.00/ barrel in 1970, \$1.56 in 1973, \$10.0 in 1974, \$30.0 in 1982 to above \$70.0 in 2006³⁸. The Saudi oil production also increased from about 3.0 million barrels/day in the early 1970s to about 10 million barrels/day in the 1980s to settle between 9 to 10 million barrels/day. The huge oil revenues made it possible for Saudi Arabia to be transformed from a largely nomadic culture and one of the least developed countries on earth to a highly organized and fast developing country with a modern physical infrastructure. The late King Faisal best described the speed of such transformation when he noted that Saudis went from riding camels to driving Cadillacs, all in one generation. He further warned that irresponsible spending could see Saudis riding camels once again.

Saudi Arabia has built its economic development model upon its oil industry. The Saudi government rightfully invested large sums of money in the development of the country's much-needed physical infrastructure. Oil money also brought great social and economic changes to the Kingdom and enabled the state to instigate a range of social policies along with appropriate programmes with the aim of advancing the standards of living for its citizens. These include subsidised utilities, farming and food supplies, free or low-cost health care, and free education for all, complemented with a 'no tax' policy

³⁸ Saudi ARAMCO Dimensions (Summer, 2004) highlighted the extremely cheap cost of Saudi oil exploration and extraction at US\$0.50/b. compared with world average of US\$4.0 –US\$5.0, and US and Gulf of Mexico at US\$14.50/b.

on individual income or corporate profit³⁹. Quantitatively, the outcome of such policies as shown in Table 4.1 was remarkable.

Table 4.1 Achievements of the 5-year development plans: Facts and figures*

Socio-economic indicator	1970	2001
Health:		
Hospitals	74	322
Beds	9039 = (1.5 /1000)	46345 = (2.2 /1000)**
Doctors	1172 = (0.2/1000)	31399 = (1.5/1000)
Nurses	3261= (0.55/1000)	66772 = (3.2/1000)
Average life expectancy (male and female)	≈ 50 years	71 years
Infant mortality rate	118/1000	19/1000
Water distillation:		
Daily production capacity (gallon)	5.1 million	641.44 million
Education:		
Male literacy		84.7% (in 2003)
Female literacy		70.8% (in 2003)
Number of enrolled students	547,000	4,900,000
Number of boys' schools	2772 = (0.46/1000)	11918 = (0.57/1000)***
Number of girls' schools	511 = (0.085/1000)	12029 = (0.57/1000)
Number of teachers	23,100 = (3.85/1000)	368,300 = (17.54/1000)
Number of high school graduates	2808	189,800 (in 2000)
Number of higher education graduates	808	44,445
Transportation:		
Paved highways network	8,000 km.	46,900 km
Rural roads network	3,500 km.	111,800 km
Travellers via railways	117,000	790,000
Travellers using Saudi Airlines	600,000	13,900,000
Arrivals	800,000	15,000,000
Departures	800,000	14,900,000
Airports		26 (3 International)
Seaports (industrial and commercial)		8
<i>Continues next page ...</i>		

³⁹ Saudi owned (registered) businesses and businesses owned by citizens of the GCC States are exempt from taxes, while all other foreign registered firms operating in the Kingdom are liable to be taxed.

Communications:		
Telephone lines capacity	76,600	4,600,000
Telephones in service	29,400	3,200,000
Mobile phones	160,000 (in 1995)	2,500,000
Internally exchanged postal items	19.1 million	277.8 million
Incoming postal items	20.5 million	296.7 million
Outgoing postal items	13.3 million	181.6 million
Industry:		
Invested capital (productive sectors)	170 million SR.	40.34 billion SR.
Invested capital (petrochemical industries)	17 million SR.	3188 million SR.
Invested capital in the oil industry	31 million SR.	1857 million SR.
Factories:		
-Total number of factories	199	3418
- Invested capital	2.8 billion SR.	240.1 billion SR.
-Total number of employees	14,000	319,000
Agriculture:		
Total invested capital	66.2 million SR.	6,826.6 million SR.
GDP (Agriculture)	5510 million SR.	36.1 billion SR.

Source: Ministry of Planning (2002). Kingdom of Saudi Arabia: achievements of the development plans 1970-2002 (in Arabic), Riyadh: Ministry of Planning Press

* Figures are to be viewed only as an indication of the general trend.

** Working under the assumption that the total population (including expatriates) was 6 million in 1970 and 21 million in 2001.

*** The total number of girls' schools as well as the ratio of girls' school/1000 citizen have increased significantly and exceeded those of the boys'.

Despite the enormous accomplishments achieved by the Saudi economy and the many attempts to diversify the economic base of the country, oil continues to be the driving force and the largest contributor to the economy, and a key determinant of the GDP growth; oil revenues generate approximately 90% - 95% of export earnings, 70% - 80% of total state revenues and 35%-45% of the Saudi GDP. The 2004 figures show that, based on the adjusted current daily production, it is estimated that the 260 billion barrels of proven Saudi oil reserve would last approximately 75 years (Niblock, 2006)⁴⁰. Mr. Ali Naimi, the Saudi Petroleum Minister, was more conservative in his estimates and confirmed "Saudi Arabia's oil reserves are real" and assured the sceptics that there would be "no shortage of oil for the next fifty years" (cited in Darley, 2004).

On the face of it, it seems that the economic well-being of Saudi Arabia is secure for the foreseeable future. So, why bother to explore other sources of income and search

⁴⁰ In addition to the proven oil reserves, it is estimated that Saudi Arabia has 100 billion "possible" and 240 billion 'contingent' barrels of oil (Niblock, 2006).

for alternative development strategies? To place the issue within its proper context, it is important to acknowledge that the many difficulties facing the Kingdom of Saudi Arabia at the development frontier compel the country to broaden the base of its economy, in order to cope with the looming challenges:

Saudi Arabia has one of the world's highest population growth rates, estimated at 3.5%. Approximately two-thirds of its population are under the age of 25, and the population is set to double by the year 2025. The scale and implications of this trend are best appreciated when viewed in conjunction with the alarming unemployment figures amongst the Saudi workforce, officially estimated at 8% -15%. The most recent official data on unemployment amongst Saudis are believed to be the 1992 estimate, which put the rate at 13.4%. Unofficial conservative estimates suggest that the true figure is much higher and ranges between 15% and 30% (EIA, 2002; Looney, 2004a), among which is a growing number of university graduates. The unemployment rate among new graduates below the age of 25 is disturbing at 27 % for men and 33% for women (Looney, 2004a)⁴¹.

The excessive dependency on the state driven by the oil rent distributive system risks the creation of a static and unproductive society. The sharp increase in the Saudi population and the improved rates of life expectancy, coupled with the volatility of oil revenues, suggest that the current rate of dependency on the state cannot be sustained. Furthermore, the attitude that a steady income is guaranteed hence there is no need to explore opportunities is most likely to have detrimental implications for the country's level of productivity and its quest for development.

The instability and the volatility of the oil market; the fluctuation in global demand and elasticity in prices have resulted in huge variations in the forecasted as well as in the actual revenues –underscoring the vulnerability of the national economy. Saudi oil production took a sharp drop from 9.8 million barrels/day in 1981 to 3.2 million barrels/day in 1985 to rebound to an excess of 8 million b/d in 2000. Prices fell sharply from about US\$ 34/b in 1981 to less than US\$ 14/b in 1986 to touch a record high of more than US\$ 75/b in mid-2006. Revenue fluctuated accordingly, from a high of more

⁴¹ Male unemployment figures supplied by the Ministry of Planning and the Central Department of Statistics for the years (2000-2004) were (6.54%, 6.82%, 7.57%, 8.2%, and 8.5%) and forecasted to reach 8.8% for the year 2005. Regardless of their accuracy, these figures show an upward trend in the rate of the unemployed Saudi male population. Unemployment rates amongst Saudi females are not available, but are expected to be much higher than those of their male counterparts.

than US\$100 billion in 1981 to a low of less than US\$ 20 billion in 1986 (Niblock, 2006, p.70; Sabri, 2001, p. 31; World Bank, 1998), bouncing back to above US\$ 70 billion in the year 2000, US\$163 billion in 2005, and according to the Saudi American Bank's (SAMBA) estimations will reach "an all-time record" of US\$ 203 billion in 2006 (Arab News, 2006). This uncertainty in the oil market renders long-term development planning a difficult pursuit and undoubtedly holds back the implementation of various development projects. The burgeoning of the Saudi population along with poor productivity and the sharp fluctuation in oil revenue resulted in a decline in the Saudi annual real per capita income GNP from peak at US\$ 11,730 in 1981 to about US\$ 6,300 at the end of 1988 and was estimated at US\$ 13,800 for the year 2006 (The World Fact book, 2006).

The upward movement in oil prices is bad news for the producers as is the downward movement. Higher oil prices provoke consumers to explore other territories in search of new oil reserves outside OPEC and at the same time induce them to utilise the resource more efficiently. It also motivates importers to develop alternative sources of energy and new methods based on advanced new technology, especially for the automobile industry. The hike in oil prices drove many fuel companies to transform themselves into energy companies utilising multiple sources of energy instead of relying completely on oil. Saudis are reminded that coal was abandoned, not because it was in a short supply, but due to the availability of better and more efficient alternatives. The same warning was echoed by the former Saudi oil minister between the years 1962 and 1986, Sheik Ahmed Yamani, who predicted in an interview with Gyles Brandreth from *The Telegraph* that the oil era will come to an end much sooner than we anticipate:

Thirty years from now, there will be a huge amount of oil - and no buyers. Oil will be left in the ground. The Stone Age came to an end, not because we had a lack of stones, and the oil age will come to an end not because we have a lack of oil (Yamani 2000 cited in Fagan, 2000).

The soaring oil prices forced President George W. Bush to devote a great deal of his 2006 annual *State of the Union* address to the importance of finding an alternative to oil. He committed his administration to embark on an aggressive research programme aimed at improving technologies that would make the alternative fuel ethanol practical and competitive. His message was that America ought to break its addiction to oil in order to make its "dependence on Middle Eastern oil a thing of the past". Among the campaigners for higher energy costs is the former World Trade Organization Director-

General, Mike Moore. He believes that higher oil prices would be the best contribution that oil produces can deliver to “save the world”; higher oil prices of about US\$100 a barrel would force scientists and high-tech companies to join efforts to intensify the search for alternative fuel (Moore, 2006, p. B5).

Oil is a non-renewable natural resource and the risk of its depletion at some point in the future, despite all optimistic figures about global oil reserves, is real. There are growing concerns inside and outside the oil industry that since the peak of world oil discovery in the 1960s, oil is being consumed at a level that far exceeds the rate of new findings. Youngquist (1999) pointed out that while the world is burning 26 billion barrels of oil every year, the annual new oil discoveries do not exceed six billion barrels. Furthermore, it is expected that energy consumption will rise about 50% over the next 20 years mainly due to strong demand driven by the rapid industrialisation of China and India and steady demand from other developing countries, especially in Asia.

The benefits that Saudi Arabia can expect to gain from joining the WTO are likely to be minimal, given that the current level of Saudi external trade of non-oil exports is only 5%. Therefore, it is argued that in order for Saudi Arabia to benefit from the opportunities made available by being a member of the WTO, it must diversify its economic base and increase its non-oil exports.

Despite being part of a politically volatile and economically stagnant region, Saudi Arabia has always portrayed itself as a safe, secure and prosperous country. This self-proclaimed perception has lately been challenged, and the relative internal stability no longer can be taken for granted. Furthermore, there are clear indications suggesting that the US is pursuing a low-key policy aiming at marginalising the role and the influence of Saudi Arabia. In the wake of the American invasion of Iraq, Saudi Arabia is no longer the indispensable American ‘ally’ in the Middle East, nor the irreplaceable source of its crude oil. This new reality of shifting alliances and prioritisation of interest by the US in the region obliges Saudi Arabia to be more self-reliant and less dependent on oil revenues, and to base its economic strength on productivity and entrepreneurship. History has shown that the survival and prosperity of countries and their ability to overcome both internal and external challenges depends solely on their efficient mobilisation of their own human as well as economic resources -a useful lesson for Saudi Arabia to learn and to absorb (Al Zahrani, 2003).

The allocation and the distributive mechanism of the oil rents created an uneven and imbalanced development, regional disparities, and Social exclusion within the Saudi socio-economic landscape. This outcome undoubtedly raises the genuine question of how this social injustice prevail in a country that prides and brands itself as being a true Islamic state where Muslims turn their faces and hearts to Mecca five times everyday. How poverty and lack of development exist in many regions of a country that is endowed with such massive wealth. The inequality of distribution and the divide between the *have* and the *have not* is highly visible. One does not have to go far beyond the new glitzy suburbs of Riyadh to witness poverty, as did King, then Crown Prince, Abdullah when he visited some of the Riyadh's poorest neighbourhoods in November 2002.

Analysts and critics largely explain this inconsistency by the nature of the Saudi tribal system, where power and privileges are guaranteed only for those who belong or are well connected to the ruling family (Ahmed, 2004). They further charge that the state is deliberately encouraging, if not pursuing, this policy to assert its authority and use status and material incentives to 'buy' the loyalty of prominent national figures and potential critics, especially in the religious establishment. Sabri, (2001, p. 29) and Niblock (2006, p. 72) highlighted the impact of corruption and the intense involvement of members of the ruling family in exploiting the private sector. Saudi princes have exercised their unquestionable power and employed their privileges as insiders to dominate the private sector and to amount massive personal gains at the expense of the ordinary citizen. It is evident that Islamic values with its utmost emphasis on quality and social justice did not translate into tangible realities in the Saudi developmental experience.

The reliance on revenues from a single mineral resource is as risky as relying on foreign aid; both oil rents and donors' handouts are erratic since unpredictable variables and various stakeholders play a major role in determining their value and return. Furthermore, relying on unproductive sources of income creates an unproductive, anti-entrepreneurship future generation that lacks achievement motivation, commitment, the will to work and the urge to take risks. Countries are like individuals...they can inherit wealth, thus be rich, and at the same time remain unproductive. Therefore, it is important that individuals as well as nations duly earn their income by being autonomous and productive.

As discussed in the introductory chapter, Saudi Arabia, along with other Arab Gulf oil rich states, has relied for long time on "capital accumulation" as the main strategy for growth (Bisat, El-Erian & Helbling, 1997). The wisdom of pursuing such an approach was questioned by AWCR (2002). To place the issue of capital accumulation within the Saudi context, it is important to note that capital accumulation encompasses physical (monetary) as well as human dimensions. The intense Saudi emphasis on the physical component of capital accumulation was not complemented by a comparable investment in human capital. A quick read into the phenomenal performance of the East Asian economies, for instance, reveals that, although important, capital accumulation on its own was neither a sufficient nor a critical factor in the success of the "Asian miracle" (Nelson & Pack, 1999).

In addition to the substantial Arab Gulf States' official foreign investments, it is believed that \$1.4 trillion of Arab Gulf States' private money, of which about \$680 billion is Saudi private wealth, is invested in the US and other Western economies and financial institutions (Alabbar, 2003; Sullivan, 2004). The Saudi Monetary Fund's monthly statistical bulletin revealed that 62.3% of total Saudi bank deposits in November 2002 were re-deposited in foreign banks.

The Saudi capital accumulation approach is flawed on many accounts and carries more than one damaging implication; firstly, it fails on moral as well as on economic grounds by failing to give priority to investing in the local economy, thus depriving the country of numerous employment opportunities and a reliable source of national income. Secondly, in addition to the opportunity cost of not investing in the local economy, it is most likely that investing in the Western economies would result in investing in (some) un-Islamic (*haram*) business activities. Thirdly, another downfall in the Saudi capital accumulation approach is that Saudis have invested much of their accumulated wealth in Western economies where there is always the risk of total or partial loss of invested capital should the political climate between the two respective countries change drastically. The Saudi government has neither total control nor timely access to its massive investments abroad. The freezing of the Iranian assets in the US in the wake of the Islamic Revolution and the fall of the Shah in 1979 should raise the alarm within Saudi decision-making circles (Auty, 2001; Birks & Sinclair, 1982; Waqidi, 2004).

Most importantly, while capital accumulation might contribute to economic growth by raising the level of national income, it certainly fails to increase the level of national

output; hence it makes no real contribution towards meaningful economic development. The evidence suggests that the Saudi state failed to employ an adequate proportion of its massive oil revenues to boost the country's overall productive capacity.

TOWARDS A MULTIDIMENSIONAL DEVELOPMENT STRATEGY AND THE NEED FOR DIVERSIFICATION

The foregoing discussion emphasised the need for diversifying the base of the Saudi economy and expanding its productive outputs. Saudi politicians, economists, development practitioners and business agents alike, on the one hand, appreciate the good things that oil wealth has brought. On the other hand, they are fully aware of the impending harm to the socio-economic well-being of the country should it prolong its reliance on this natural resource. Diversifying the productive base of the economy and reducing reliance on oil revenues have been stated goals for the Saudi government since embracing its first five-year development plan in 1970. However, the real attention to diversification was emphasised in the fourth development plan (1985-1990), as a measure to counter the downfall in oil revenues and economic slow down. However, it was the sixth development plan (1995-2000) that officially recognised the crucial role of the private sector in economic development.

The five-year development plans

Since 1970, Saudi Arabia has embarked on a succession of five-year development plans to steer its developmental ambitions and to manage and direct its rapidly expanding economy. Broad goals and specific objectives were assigned to each plan with the overall aim of transforming the undeveloped Saudi economy into a modern industrial-based economy without compromising the religious and the moral values of the Kingdom.

Long (1997, pp. 85-86) described the Saudi five-year development plans as being "a combination of wish lists and statements of intent" rather than detailed sets of procedures and instructions designed to achieve specific outcomes by certain dates and within allocated budgets. Table 4.2 presents a brief summary of the priority list for the first eight consecutive five-year development plans (1970-2010).

Table 4.2 A brief summary of Saudi successive 5-year development plans

Plan	Budget (Billion US\$)	Emphasis
1st Plan 1970 - 1975	9.2*	- The development of the country's physical infrastructure; roads and highways, seaports and airports, power plants and power generations, water, sewerage, desalination, and telecommunication systems.
2nd Plan 1975 - 1980	149 (budgeted) Over 200 (actual)	- More emphasis on physical infrastructure - Social and economic infrastructure - Building up the agricultural and industrial (petrochemicals) sectors
3rd Plan 1980 - 1985	238**	- Health and education - Social services - Focus on producing sector (Oil-based industrialisation); petrochemicals, fertiliser, steel and refined oil products.
4th Plan 1985 - 1990	140	- Health and education - Economic efficiency and productivity - The importance of the private enterprise
5th Plan 1990 - 1995	Just over 100	- Consolidation of the country's defences and security - Emphasis on regional development - Addressing the high rate of unemployment among Saudis and the need to create employment opportunities for Saudis by reducing the number of foreign workers through (Saudisation) ⁴²
6th Plan 1995 - 2000	225 (budgeted) 258 (actual)	- Diversification of base economic activity (mainly through industry and agriculture) - Strengthening the role of the private sector - Rationalisation of government spending - Saudisation of the labour force
7th Plan 2000 - 2005		- More on economic diversification - Greater role for the private sector - Set a target of creating in excess of 850,000 new jobs for Saudis.
8th Plan 2005-2010		- Higher education and training (Establishing seven new universities and 50 'colleges of technology' - More privatisation of state-owned corporations - Increasing women's participation in development

* The sharp increase in oil prices in late 1973 enabled the Saudi government to increase the budget to \$21 billion, more than double the value of the initial budget.

** The government had to scale the budget down to \$180 billion due to earlier over-optimistic anticipated oil revenues.

⁴² Saudisation is the process of replacing foreign labour with Saudi nationals.

The first two five-year plans covering the 1970s understandably gave priority to establishing a reliable contemporary physical infrastructure to set the stage for economic development to occur. The focus, therefore, was on projects involving transportation, utilities and communications. Although the first two plans did not exclude health and education from their domain, it was the third plan (1980–1985) that placed special emphasis on a wide range of social services.

The 'global' oil glut of the mid-1980s was the wake-up call that prompted Saudi planners and decision makers to realise the need to diversify their economic inputs in order to overcome total dependency on oil revenues. The fourth plan (1985-1990) reflected this emerging reality, thus emphasised productivity, economic efficiency, and paid special attention to the role of the private sector in development. The fifth plan (1990-1995) sought to solve the Saudi unemployment predicament by replacing foreign workers with Saudi nationals. A strategy, as will be demonstrated in upcoming discussions, which has a long history of failures. The plan also placed special emphasis on regional development and on providing more efficient public and social services. The sixth plan (1995-2000) continued to emphasise the importance of diversifying economic activity, especially in the private sector, and the reduction in state administrative costs. The plan also sought to continue with the Saudisation of the labour force.

The seventh five-year development plan (2000-2005) highlighted the vital role of the private sector in the economy and the importance of developing a skilled labour force to assume a permanent role in the development of the country. The plan also affirmed the state's resolve to reduce the country's reliance on oil and oil-related industries and to diversify the limited sources of the GDP and fiscal revenues. The goals of the eighth five-year development plan (2005-2010) were to develop and extend the goals of the previous five-year plan, especially with regard to economic diversification. They also emphasised the importance of privatisation, human resource development, and the role of women in economic and social development.

Once again, the question of Islamic values and their role in development present itself with force. Did Islamic work ethics make any difference in promoting the Islamic perspective of development of Saudi Arabia? More precisely, were Islamic values incorporated within the state's vision of development? A closer examination of the five-year development plans exposes their lack of emphasis on the practical role that Islam is set to play to in the development process. As these plans have failed to assign even

a minor role for Islam in development, they consequently have failed to establish Islamic institutions necessary for Islamic “development”.

Nehme (1994, p. 632) examined the Saudi development plans and concluded “Saudi Arabia has been able to reconcile the competing capitalist and Islamic value systems by promoting economic growth in the name of Islam”. The reconciliation approach is usually justified by the state’s alertness not to disturb the delicate balance between the “traditionalists” and the “modernizers”. The conclusion of Nehme therefore endorses the argument that Saudi development is not an Islamic-based development, and that Islamic values were marginalised in the process. Islam was used by the state when it is deemed convenient to achieve certain outcomes. This indistinct approach, which is neither an Islamic nor a Western, is evidently at the core of the Saudi development predicament.

Diversification through industrialization

While the neoclassical theories operate under the banner of “the invisible hands of the market”, other schools of thought promote “the visible hands of the state” through the pursuit of vigorous industrial policies as the main driving force of economic growth. The strong involvement of the Saudi state in the economy is demonstrated thus far by 8 successive 5-year development plans covering the period 1970 - 2010. Governments have a wide range of policy options to consider while attempting to expand and stimulate their economies, such as selective protectionism from foreign competition (South East Asia), and undervalued currency (China), while others sought to extend specific support for targeted industries.

Unlike capital accumulation, development through industrialisation enables the country to retain a considerable degree of control over its national assets while locally engaging its people in productive business activities. Evidence confirms the broad assumption that “open economies” outperform “closed economies”. However, the question of whether export-led growth strategies are superior to import substitution strategies is still debatable (Krueger 1965, cited in León, 1998; Lal, 1997; Wade, 1990). Framing the question in terms of either/or seems unreasonable; alternatively, Saudi planners endeavoured to strike a balance that profits from the strength of both strategies.

Saudi Arabia has effectively implemented Ricardo's theory of comparative advantage by focusing on oil-related industries. It capitalised on the richness of its oil and gas endowments and the very economical extraction cost of these natural resources to pursue an aggressive export-oriented, oil-based industrialisation strategy. Major Saudi industries, including the production of crude oil, petroleum refining, basic petrochemicals, cement, construction, fertiliser and plastics, are either completely owned by the state, or the state has a vested interest in them. By 1995, the global share of the Saudi petrochemical industry exceeded 5% drawing intense complaints to the WTO from competing European firms. They strongly argued that the subsidised price of oil/gas used in these industries was too low to enable other firms to be competitive (Auty, 2001, p. 203).

Despite the relative success of the Saudi petrochemicals industry in capturing a share in the international market, its impact on the local economy and employment dynamics is still minimal. The oil-based industry is generally a capital-intensive rather than a labour-intensive industry, thus its capacity to ease the Saudi unemployment dilemma by absorbing new job seekers into its ranks is extremely limited (El Mallakh, 1982; Looney, 2004a; U S Library of Congress, 1992). The US Library of Congress (1992) reported that the Saudi oil industry in the early 1990s required less than 2% of the total labour force. Therefore, the capital-intensive approach, which suited the Kingdom in the 1970s due to its small population at the time, might be impractical in the 21st century, considering the high population growth rate and the rising unemployment figures among Saudis.

Parallel to the oil-based export oriented industrial strategy; the government took various measures and offered generous incentives to involve Saudi nationals in non-hydrocarbon industrial activities to create import-substitution industries to meet local demand. The government established industrial cities, distributed numerous land titles and extended industrial allowances as well as easy loans in its effort to encourage the private sector to invest in domestic industries. However, as Dr. Al-Kathiri – in a personal interview with the researcher – noted, the Saudi industrialisation efforts lacked transparency and long-term strategic planning and warned that it is unacceptable for the Kingdom to carry on without having industrial strategy (Fieldworks, 2004).

Large state firms dominate the Saudi economy. These firms include the oil firm Saudi ARAMCO, Saudi Arabian Basic Industries Corporation (SABIC), Saudi Telecommunications Company (STC), the Saudi Electricity Company (SEC), the Saline

Water Conversion Corporation (SWCC) and the Saudi Airlines (Saudia). The size and the quality of the majority of industries owned and operated by the Saudi private sector are not to the standards that enable them to effectively compete in the international market either on quality or on price grounds. By excluding oil and the oil industry, Saudi Arabia will virtually have little viable export power to compete and gain a foothold in the global market.

The relatively small Saudi market, the overvalued local currency and the lifting of government subsidies in order to comply with free trade requirements would certainly leave Saudi firms internationally uncompetitive and locally unprotected. Such limitations also render scale-economies and mass production as an impractical developmental option for Saudi Arabia. Unfortunately, the relatively easy access to finance, made available by the Saudi government to potential industrial initiatives in the 1970s and early 1980s, was not extended to include new businesses in other sectors of the economy. Another obstacle in the way of Saudi quest for industrialisation has been that the financial rewards in real estate and agency representation are many times higher than in manufacturing.

León (1998) contested the validity of the perceived role of the state in advancing economic development through vigorous industrialisation activities. He further argued that even the proponents of the state-led industrialisation policies conceded that such policies are neither sufficient nor pre-conditions for economic development. The long held perception that the industrial estate is a symbol of importance and national pride is being challenged. Indonesia, for instance, sought to combine its oil wealth with its massive workforce to pursue ambitious manufacturing policies in order to create a viable export-led industrial sector. The effects of such policies on the overall economic development of the country fell short of expectations, since the emphasis on industrialisation was not matched by the same dedication to investing in other sectors of the economy. The Indonesian experience is a living example that demonstrates the need for more than capital and labour to develop a viable export-oriented industrial sector: most notably, it requires the availability of a functional and supportive institutional framework. Furthermore, the Indonesian experience underscores the importance of diversifying the base of the national economy by investing "in as many productive areas of the economy and in as many geographic locations as possible" in order to improve overall productivity and achieve even and balanced regional development (*Pacific Economic Report, 1998, p. 13*).

The agriculture sector as a diversification strategy

The harsh Saudi climate coupled with scarcity of water resources and the fact that less than 2% of the total land area is arable did not prevent or discourage the Saudi government from targeting the agricultural sector. Saudi Arabia pursued a daring strategy aimed at promoting the agricultural sector as part of its diversification strategy to expand the productive structure of its oil-based economy. The state relied on latest farming technology such as the use of pivot irrigation systems and the introduction of greenhouses to overcome the climatic and environmental challenges. The state also provided farmers with generous incentives and subsidies to encourage them to increase their output. The results were impressive in certain areas, where the country achieved self-sufficiency in many products and was able to export some others, most notably wheat, flowers, dates, dairy products and seafood.

While the Kingdom “takes pride” in its agricultural achievements, particularly in its wheat production, Vassiliev (2000, p. 456) pointed out that the cost of growing wheat locally would be 5 to 6 times higher than its imported price.

Wheat is grown at eight times world prices and then subsidised for exports. To that extent, U. S. Secretary of Agriculture Block once called the Saudi wheat program “crazy” (Saudi Wheat, 1995, p. 4).

Subsidising the wheat industry also met with criticism and objection from the WTO and was deemed anti-competitive (Economist, 1997). The relevance of the WTO factor would be largely felt, especially in the agricultural sector in the future, considering that the Kingdom has gained full membership of the World Trade Organization in late 2005. Furthermore, subsidies in most cases missed their intended targets and largely benefited wealthy individuals and big businesses rather than the deserving small farmers (US Library of Congress, 1992).

Presley (1984) questioned the capacity of the agriculture sector to provide Saudis with employment opportunities and noted that Saudis tended to move away from agriculture attracted by higher wages and better working conditions in other sectors of the economy. In fact, the global trend indicates that employment in agriculture is declining while employment in the service and the industrial sectors is on the rise.

While acknowledging the many challenges facing the Saudi agriculture sector, Abu Nayyan, the president of the Agriculture Committee at the Council of Saudi Chambers, rejected the suggestion that the agricultural sector was a burden on the national economy (Alanzi, 2004, p. 39). He further pointed out that the agriculture sector contributes about 9% of the country's GDP and plays a positive role in rural development. However, what Mr. Abu Nayyan failed to address was the cost involved to facilitate the achievement of these results. Whether or not the benefits of promoting an agricultural programme could justify the cost of depleting underground water reserves, the cost to the national budget and the cost to the environment instigate little, if any, debate among the experts. Saudi Arabia succeeded in "the creation of a farming sector that appears to be technologically sophisticated but economically very inefficient" (Saudi Wheat, 1995, p. 4). The challenges facing the Saudi agriculture sector are real and they suggest that it would be impractical to rely on the agricultural sector as a key diversification strategy. It would be more cost effective, in many cases, to import agricultural produce than grow them locally.

Diversification through entrepreneurship: Religion and oil

Saudi Arabia is best identified by its religious status as the spiritual destination for Muslims all over the world and secondly by having more than one-quarter of the global oil reserves. Thus, any developmental strategy for Saudi Arabia that does not adequately account for these two basic characteristics would be unrealistic and incomplete. Discussions in Chapter 2 highlighted the positive correlation between entrepreneurship and economic development. Likewise, a major theme of this chapter is that diversification through entrepreneurship would be a viable alternative to transform the Saudi economy to a state where it can cope with contemporary challenges.

The creation of an indigenous productive entrepreneurship sector is most likely to make positive contribution towards each of the debated challenges facing the economic development of the Kingdom. Entrepreneurship has been globally promoted as an effective cure for the new/old unemployment challenge, through the creation of new business entities. Small businesses can be found in every sector of the economy and in every region of the country, thus they have the potential to limit the negative implications of the imbalanced development caused by huge oil revenues. The wealth created through local entrepreneurship is likely to stay in the country and change

hands among its people in a more equitable manner. Consequently, it renders a vital contribution to the economic development of the country.

As entrepreneurship is universally valued for the many contributions it renders to the economic well-being of societies, discussions in Chapter 3 indicated that Islam is an entrepreneurial religion and entrepreneurship in Islam comprises more than the economic dimension. Discussions also highlighted the potential positive contributions of entrepreneurship to the well-being of the Muslim *ummah*; mainly in terms of realising socio-economic justice, and as a means for generating rewards in this worldly life and in the hereafter. Therefore it is imperative to examine the role of Islamic entrepreneurship in the development of Saudi Arabia.

On the other hand, the debate as to whether oil is a blessing or a curse is still far from being settled. Theoretically, it can be argued that oil revenues presented Saudis with an abundance of entrepreneurial opportunities. However, like any other natural resource, the resource in itself is not the issue. The issue becomes who controls the resource and how the resource and its revenues are managed and employed for the common good of society. Thus, natural resource abundance is good news and bad news for respective countries. The self-evident economic advantages that natural resources have brought to different countries cannot be underestimated. Likewise, some have questioned the value of the economic returns against the many intangible trade-offs and sacrifices associated with oil-based development, such as dependency, internal migration, social alienation, uneven regional development, and the drop off in entrepreneurial stamina and concluded, "the oil benefits may have been a liability rather than an asset" (Hofstede, 1997, p.172).

Even the economic benefits of the oil rents were played-down by Sullivan (2004) who pointed out that the 'oil consuming' rather than the 'oil-producing' countries have achieved higher growth rates and produced more jobs for their citizens. He further explained that Arab oil countries have failed to achieve and sustain growth. Instead, their productivity growth rates during the past twenty years, on the average, were negative.

What differentiates the course of development in Saudi Arabia from that of the majority of other developing countries is that Saudi Arabia was able to instigate its developmental process relying on its own immense wealth, rather than depending on crippling loans and demeaning handouts (Al-Farsy, 1980; Yorke, 1980). Development

assistance is usually a highly political issue because aid rarely comes unconditional and without hidden agendas that undermine the quality of its outcome. Furthermore, Saudi Arabia did not have to accommodate the World Bank's demands nor did it have to report to the International Monetary Fund (IMF). Massive oil revenues also enabled the Kingdom to have 'reasonable' control over its development plans and to abridge the lingering process of saving and capital build-up necessary for economic development (Shihab, 2001). Thus, Saudi Arabia escaped Rostow's development cycles and confirmed that there is no best approach to development: development is a country-specific experience.

The Saudi development process, however, was far from being trouble free. In contrast to the financial problems that usually face a typical developing country, Saudi Arabia was endowed with resource abundance that frequently played against the development of an indigenous productive economy in the Kingdom. The prospects created by the oil boom in the 1970s presented alert Saudis with a wealth of entrepreneurial opportunities as well as with the opportunity to affirm themselves as traditionally recognised -capable merchants and traders. At the same time, oil wealth largely played against the development of entrepreneurial qualities amongst a large proportion of potential Saudi entrepreneurs, thus hindering the emergence of new quality enterprises.

Vassiliev (2000) noted that the new business environment created by the oil boom enabled Saudis to act as agents for the many foreign companies that sought representation in the Kingdom. Being a local agent for a foreign company is a line of business that is socially acceptable and economically profitable and compatible with the personal ambitions and capabilities of the majority of Saudis. The state's open trade policy has encouraged many Saudis to engage in commercial activities, mainly in the importation and the redistribution of certain types of commodities. Such business activities lack innovation and creativity. The imported goods/services were often promoted for domestic consumption with little or no adaptation to the local market. Others have sought to participate in the rewarding and less demanding real estate business, especially in the 1970s and 1980s, a far better alternative than mobilising the resources and confronting the many challenges associated with starting new, meaningful enterprises (Allen, 1998; Fieldwork, 2004).

In view of that, the oil boom of the 1970s did not only reinforce the traditional attitude held by the majority of Saudis who favoured quick returns in the short run over

investing in the long-term capital build-up, but also created the right conditions for such an attitude to become visible. This short-term focused approach undoubtedly played against the development of a credible entrepreneurial sector in Saudi Arabia.

The exportation of oil in commercial quantities played into the hands of the state, which had total control over the collection and distribution of its revenues. The ruling establishment largely relied on oil revenues to finance its consecutive five-year development plans and furthermore to 'procure' the commitment of the ordinary citizen, the more influential parties and special interest groups. The manipulation of oil revenue enabled the royal family to exercise its influence, maintain its control over society, and cope with socio-political pressures. Pryce-Jones (2002) eloquently described this attitude and accurately stated "money for them [Royal family] is a tool for buying friends and buying off enemies". The Saudi establishment relied on two important avenues to legitimise its authority and 'buy its way'. Firstly, it was 'able' to sideline the powerful and influential *ulama* (religious establishment) whenever it failed to win their support and blessings. Secondly, it used economic means to seduce the Saudi public in an attempt to win its loyalty.

The Saudi monarchs employed direct and indirect means to extend their dominance and to affirm their control over the country and its people. They distributed direct handouts, mainly to the tribal leaders and other influential groups and indirectly influenced the public by embarking on a widespread subsidy programme that covered a wide range of goods and services such as utilities, fuels, food supplies, free education, semi-free health care, agricultural incentives, extending interest-free loans, and the building of a modern infrastructure. The stated purpose of the subsidy programme was interdisciplinary: to ensure more even distribution of national income, and to create a supportive environment for development

One could genuinely question these stated motives and further ask how Islamic such programmes are. Firstly, although it is the responsibility of the Islamic state to provide the minimum acceptable means of substance to all its citizens, the Islamic state – as discussed in Chapter 3 – is by no means a social welfare state; it is rather an empowering state where individuals are not only encouraged, but also liable for providing for their own living by seeking *halal* earnings. Islamic history is rich with examples where self-employment is encouraged and preferred over asking others or living off state welfare. "It is better for one of you to take his rope, bring a load of firewood on his back and sell it, than asking others for charity" (al-Bukhari). The

Prophet (PBUH) also taught Muslims that “*Sadaqa* (zakah or charity) may not be given to a rich man, or to one who has strength and is sound in limb” (Tirmithi; Abu Dawud; Darimi; Ahmad; Ibn Majah). Secondly, loans often missed their targets and their purpose and were used mainly for personal consumption rather than to start new enterprises. Thus instead of promoting productivity, they encouraged the prevailing consumption culture.

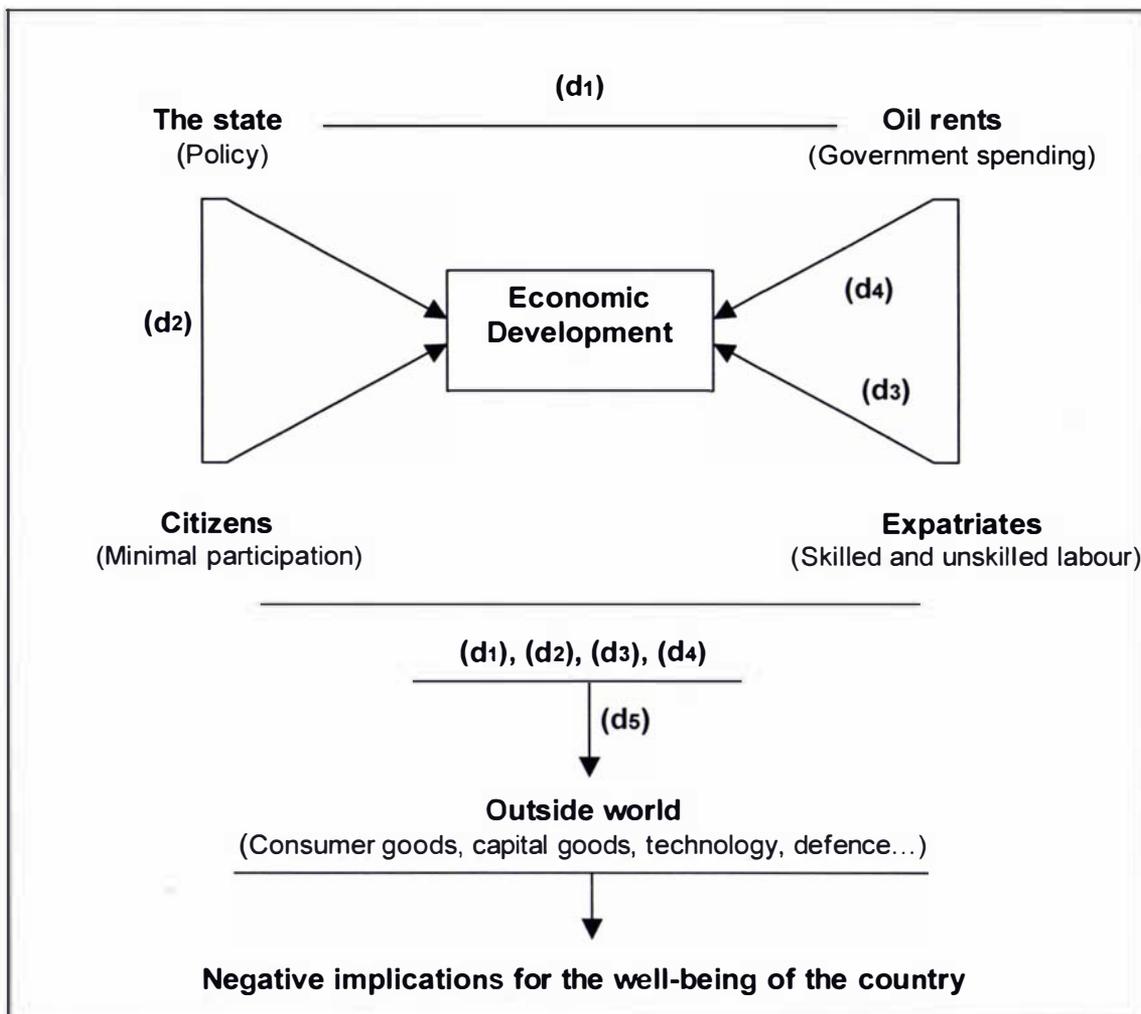
Saudi Arabia is often portrayed as being a “rentier state” and its economy of being a “rentier economy”. The *Free Encyclopedia* identifies rentier states as “those states which derive all or a substantial portion of their national revenues from the rent of indigenous resources to external clients”. The literature further describe rentier state as being a resource-rich state without possessing the capacity of the industrialised state, thus it heavily depends on exporting its raw materials, and relies on foreign labour. Consequently, it fails to diversify the productive base of its economy due to its failure to establish a structure that can generate indigenous growth based on the skills and the expertise of its people.

Yates (1996) pointed out that rentier economy leads to rentier mentality and argued that rentier mentality has “profound consequences for productivity”, such as:

Contracts are given as an expression of gratitude rather than as a reflection of economic rationale; civil servants see their principal duty as being available in their offices during working hours; businessmen abandon industry and enter into real-estate speculation or other special situations associated with a booming oil sector; the best and brightest abandon business and seek out lucrative government employment; manual labor and other work considered demeaning by the rentier is farmed out to foreign workers, whose remittances flood out of the rentier economy; and so on. In extreme cases income is derived simply from citizenship (Yates, 1996, p. 22).

It is evident that the attributes of the rentier economy are prevalent in the structure of the Saudi economy and subsequently the symptoms of rentier mentality are manifested in the rentier attitude displayed by large segments of the Saudi society. Massive oil rents have also reshaped the socio-economic structure of the conservative Kingdom of Saudi Arabia. As Figure 4.2 below shows, oil rents created a string of internal and external interdependencies between the state, the citizens, the economy, the expatriates, and the outside world.

Figure 4.2 Oil and development: Internal and external interdependencies*



* (d) denotes dependency

Dependency on oil rents and the “Dutch Disease”

The adverse relationship between the abundance of natural resources in a country and development is explained by what came to be known as the “Dutch Disease” syndrome (Ebrahim-zadah, 2003; Gylfason, Herbertsson & Zoega, 1999; Heeks, 1998). The term first emerged to explain the relationship between Holland’s natural gas discoveries in the late 1950s and early 1960s and the decline of its industrial competitiveness. The high volume export of natural resources resulted in overvalued exchange rates. Overvalued local currencies were an obstacle standing in the way of developing a genuine manufacturing sector able to compete as export-oriented in the international market and/or as import-substitution in the domestic market. Wasteful consumption,

rent seeking and other unproductive activities that hinder economic development, are symptoms associated with that behaviour of resource-rich countries. Governments of mineral economies tend to spend generated revenues open-handedly in the domestic economy. The pace of disproportionate domestic spending of oil revenues extends the effect of the “Dutch Disease” and establishes an unsustainable mode of consumption, specially “when oil revenues level-off or decline” (Auty & Kiiski, 2001, p. 32). The fluctuations in international demand for oil and the subsequent price volatility raise the uncertainty of the projected revenues, which in turn hinders planning efforts and negatively influences economic development and growth.

Auty and Kiiski (2001, p. 32) argued that rational economic thinking requires governments of mineral economies faced with declining revenues to undertake decisive measures such as deliberate depreciation of the real exchange rate of the local currency in order to “stabilize the economy and restore growth”. They further noted that the deliberate depreciation of the real exchange rate to compensate for the falling revenues is an “unpopular” approach and is likely to draw “strong political opposition”. It is not surprising that this conclusion held true in the case of Saudi Arabia. Saudi Arabia relied on borrowings and on its national savings to offset the dipping oil revenues and to meet its enormous financial obligations that resulted from the 1991 Gulf war. It is evident that neither planned nor market-driven depreciation of the local currency, as a stabilising measure, is an idea that appeals to the Saudi authorities. On the contrary, Saudi authorities sought to strengthen or at least to stabilise the buying power of its national currency.

The sharp fall in oil prices in the mid-1980s resulted in a considerable reduction in the Saudi oil revenues thus causing the Saudi Riyal (SR) to lose much of its strength. The reaction of the Saudi policymakers in the second half of 1986 to the depreciating riyal was to (fix) the riyal exchange rate against the US\$ at a high of 3.745 SR per US\$, ending more than a decade of the riyal value being determined by the Special Drawing Rights’ (SDR) basket of currencies. Auty (2001) criticised the Saudi Arabia Monetary Agency’s (SAMA) approach to stabilising the value of the SR by pegging it to the US\$. He further argued that some depreciation of the riyal value would have been more appropriate to control excessive consumption and boost the competitive edge of national industries. Currency depreciation would also discourage foreign labour from competing against Saudi nationals in the private sector because the real value of their intake and, accordingly, their savings will decline. Saudi authorities undoubtedly meditated the pros of pegging the riyal to the US\$ against letting market forces

determine its value. Apparently, the volatility in oil prices reinforced their conviction that stability and a shield against external shocks were what the economy needed.

The long-term dependency on oil revenues and oil-related industries consequently hindered the emergence of an innovative entrepreneurship class and the formation of a viable local SME sector able to render a real contribution to the Saudi development process. Although most natural resource-rich countries have failed to manage their vast revenues and so diversify their economies, some other countries namely, Norway was successful in employing its oil revenues to transform its economy and to build a "knowledge-based society". The ability of Norway to overcome the "Dutch Disease" and to efficiently manage its oil wealth was explained by having sound institutions that were supported by uncorrupted governments willing to control their spending and keen to save for the future (Partridge, 1999).

Dependency on the state and the "Gulf Disease"

Gylfason (2001) summarised the areas wherein abundance of natural resources tend to slow economic growth: the "Dutch Disease" and foreign capital; rent seeking and social capital; education and human capital and saving, investment and physical capital. While it could be argued that each of these areas of concern is relevant to the Saudi case, Saudi Arabia has developed a new distinctive symptom: a state of dependency on the state.

The oil boom of the early 1970s caught the Arab Gulf States off-guard and unprepared to cope efficiently with the new reality of sudden enormous wealth. The implications of the oil wealth were far-reaching and they touched all aspects of the daily life of the ordinary citizen in the Arab Gulf States. Consequently, cultural values and social attitudes towards a wide range of issues were affected. Most relevant to this study are the attitudes towards work in general and entrepreneurship in particular.

While the (global) economic crisis of 1973 is largely linked to the sharp increase in the oil prices, a handful of countries supposedly celebrated the unexpected influx of oil revenues, most notably the Kingdom of Saudi Arabia. However, it was not all-good news for the Kingdom; Fareed Zakaria, editor of *Newsweek International*, accurately stated while describing the effects of oil wealth on the consumption patterns of the citizens of the Arab Gulf States "If poverty has produced its dysfunctions, wealth has produced its own dysfunction as well" (cited in Bishop, 2001, p. 1).

Auty (2001, p. 205) argued that the state has contributed to the Saudi growth collapse of the mid-1980s by playing the role of "Santa Claus". The paternalistic and protective role that the Saudi government played rendered even large investments in education and other social programmes ineffective. The majority of mainstream Saudis became dependent on the state for employment, healthcare, education and subsidised basic commodities and utilities to the point where they cannot cope without state support. Moreover, the vitality of the economy and, consequently, the demand for labour and the flow of many products and services are largely determined by the magnitude of government domestic spending.

A large segment of the Saudi population held high expectations of the state. In fact, they became heavily dependent on the state, hence lost the urge or the need to exploit their full potential. The government, understandably, was inspired to reward its citizens and it was keen to respond to their economic needs. Such welfare arrangements have played a crucial role in shaping unfavourable attitudes towards entrepreneurship and employment. Furthermore, the attractive benefits and the job security offered by the public sector in the 1970s and early 1980s created a tendency among Saudis to seek employment in the public sector as a first priority. Other than that, they looked for employment in the private sector, especially within the big corporations with links to the oil industry. In-fact dependency on the state rendered a large segment of the Saudi population unwilling to even consider employment beyond the public sector, or alternatively to start a business of their own.

This trend is not a new inclination specific to Saudi Arabia. Speaking of the Singaporean entrepreneurship experience, Dana (1999, p. 150) pointed out that the benefits of being employed by multinational corporations and the "huge opportunity cost" associated with starting a business discouraged many Singaporeans from becoming entrepreneurs.

It is obvious that these arrangements had pushed the contemplation of becoming an entrepreneur down the priority ladder among the Saudi population. Oil wealth has created a job/employment culture; instead of considering employment in the private sector to be a provisional measure to gain experience in order to start an independent business, employment in the public sector became an end goal for many. The economic and social environment created by the oil boom and the orientation towards securing employment within the public sector, have limited the natural entrepreneurial drive of many Saudis and hindered their capacity to create wealth and jobs through entrepreneurship. Such an outcome is what Baumol (1990) describes as "unproductive"

or even "destructive" behaviour. The strong tendencies for employment in the public sector and the frosty attitudes towards entrepreneurial activity incited by the oil wealth are the visible symptoms of what the researcher dubs "Gulf Disease" syndrome.

As the "Dutch Disease" was an obstacle in the way of establishing a vibrant industrial sector in many rich-resource countries including Saudi Arabia, the "Gulf Disease", on the other hand, played against the development of a viable entrepreneurship class in Saudi Arabia. The state assumed a fatherly role and acted as a trustee and dispenser of collected revenue through welfare arrangements thus diminishing the need for Saudis to take risk and to start their own businesses. The prevailing reward structure, therefore, promoted employment in the public sector and created a negative feeling toward work in general and entrepreneurship in particular. A recent study indicated that 35% of Saudi families do not wish for their children to seek employment in the private sector (Al Muqbili, 2004). Moreover, the study found that 56% of Saudi job seekers have higher preference for employment in the public sector, even if the pay and other benefits are incompatible with those offered by the private sector.

The dependency on the state cannot be completely understood or explained without explicit reference to the political exclusion of the Saudi citizen from the decision-making process in the country. Saudi citizens are expected to accept decisions made on their behalf by an authority they had no say in bringing to power. The manipulation of oil revenues enabled the state to enforce its political will over its population and consequently extended the scope of political dependency on the state to include the economy and other aspects of daily life activities.

In a free democracy, the elected government collects taxes from its citizens and redistributes them in the form of 'public services', thus the individual holds the state accountable and the state is under an obligation to explain and justify its spending – whereas the main function of the Saudi state was to collect oil rents and redistributes a portion of them among its citizens in the form of subsidies and social services. Such policies have asserted the state's control over its people and increased their dependency on its goodwill, thus, diminishing their ability to question its economic as well as political behaviour. In fact there was, up until recent times, a large segment of the Saudis who believed that all national wealth belongs to al-Saud and whatever the state gives to its citizens would be out of the kindness of the ruling family.

Dependency on foreign labour (expatriates)

Saudi Arabia was faced with a real shortage in both the skilled and unskilled indigenous workforce during the 1973 oil boom. The scarcity of keen and capable Saudi individuals in the 1970s and early 1980s forced the Kingdom to rely heavily on foreign labour and knowledge to carry out its development plans. The Saudi dependency on foreign labour for development contradicts Hofstede's (2001, p. 437) conventional wisdom where he rightly stated, "Nobody can develop a country but its own population". The shortage in qualified Saudis before the oil boom of 1973 could be explained by the then 'underdeveloped' status of the Kingdom, particularly in the areas of capacity building and human resource development.

The sudden influx of oil rents prompted Saudi authorities to undertake a range of tangible development initiatives despite the country's lack of qualified stock of human capital. Birks and Sinclair (1982) argued that such hasty spending could be viewed, in part, as a response to the intense international demands for the Kingdom to "recycle" its "oil rents".

Despite the overall encouraging progress achieved by Saudi Arabia during the past three to four decades, the country's dependency on expatriates remained undiminished. It appears that Saudis have developed a culture of dependency on foreign labour as evidenced by the fact that about 20% of Saudis are unemployed while foreign labour dominates the Saudi private sector. This inconsistency underlines the need to examine the problem of the human capital from a qualitative rather than a quantitative perspective. The physical infrastructure of a country can be achieved subject to the availability of needed resources, while human development, which is a condition for economic development, is an ongoing lengthy process that spans the life of more than one generation.

Auty (2001, p. 204) attributed the lack of Saudi participation in development to a dysfunctional education system that fails to prepare young Saudis to deal adequately with a dynamic global business environment. He noted that while Saudi Arabia spent more than 10% of its GDP on education during the 1980s and continues to spend generously⁴³, the attention was, and still is, focused on the supply side of the equation. Quantitatively, Saudi Arabia is making enormous progress in terms of literacy, numbers

⁴³ Malaysia, for instance, allocates in excess of 20% of the state budget for education.

of educational institutions, numbers of enrolled students and numbers of graduates. However, on the demand side, these achievements did not succeed in creating a qualified, motivated and committed Saudi labour force that is able to participate effectively in the development process and compete in the global market. The problem thus can be defined in terms of the quality of and the approach to, education on offer rather than on its physical infrastructure or other external variables.

While Auty (2001) expressed genuine concerns over the role of education in development, Birks and Sinclair (1982a) linked the shortfall of Saudis' participation in development to their traditional attitude towards manual work. Such a gloomy attitude was strengthened by the prevailing incentive system in the midst of the oil boom and accompanied the majority of Saudis up to recent times, right through economic prosperity as well as economic adversity.

The unemployment challenge turned into a major concern once it became obvious that the public sector was no longer capable of absorbing new job seekers. Birks and Sinclair (1982, p. 205) stated that market forces "have continued to work strongly against full participation of nationals in the modern sector". This trend is most likely to continue as long as Saudis are unwilling to transform their attitudes towards the value of work and productivity. The view of Birks and Sinclair (1982, p. 208) that expatriates remain a crucial determinant of the well-being of the Saudi economy is still as valid as it was in 1982. The private sector is driven by profit maximisation, and development will always be dependent on a positive attitude towards work and on productive and cost effective labour that is, foreign labour –a view shared by many Saudi entrepreneurs I interviewed (Fieldwork, 2004).

Small firms, which make up the vast majority of businesses in the Saudi private sector, are in no position to employ Saudis. My own experience as an ex-expatriate in Saudi Arabia as well as my fieldwork in the Kingdom confirms (Dudley's (2004) suggestion that employing Saudis in the private sector is mostly an unwelcome pursuit by Saudi business owners. "Employing Saudis", to use the exact words of a Saudi entrepreneur I interviewed, "means more expenses and less productivity for the firm, higher salaries and fewer working hours for the employee and definitely more responsibilities and troubles for the employer". Another entrepreneur commented, "a new Saudi graduate would not accept less than SR5,000 a month, while an experienced Indian or Pakistani would settle for SR2,000. Moreover, the Indian speaks English, works diligently and abides by company rules".

High dependency on the outside world

The failure of the state to re-channel oil wealth to establish a mechanism capable of generating a domestically driven productive economy led to greater dependency on the outside world for much of the Saudis' daily necessities. The true oil curse thus encompasses more than the Dutch Disease syndrome and could be defined in terms of the collective implications of the above-discussed interdependencies on the socio-economic well-being of the country. State policies and the distributive system of the oil rents have created a society of consumers who have little to offer and much to acquire in terms of output and productivity. This disparity fostered the dependency culture among Saudis as individuals and collectively as a country and negated the essence of development, which aims at invigorating societies and ridding them of the burden of all forms of dependency (Fergany, 1984).

CONTEMPORARY SAUDI ARABIA AND THE QUEST FOR SUSTAINABLE DEVELOPMENT

Regime type and economic development

While a high level of economic development and growth is being achieved in some democracies, it has failed in many others. Some claim that there is a link between the form of government and economic performance and argue that economic development is more likely to succeed under the rules of democracy (Friedman, 1962). Others argue that a specific relationship between regimes and development is far from being established (Lal & Myint, 1996; Przeworski, 1992, p. 52).

Lal and Myint (1996) studied the economic performance of 25 developing countries over 30 years yet; they were not able to claim the existence of a direct link between the type of government and economic performance. Przeworski (1992) reviewed a set of 20 relevant studies and found that authoritarianism was credited for economic efficiency and development in eight cases, and eight other cases attributed economic development to their democratic type of regimes. No difference was observed in the other four cases. Hence, the only prudent conclusion he was able to reach based on available evidence was that a certain "regime type" per se is neither sufficient nor a condition for achieving development. The same "authoritarian" type of regime that played a positive role in the development of South East Asia proved to be a failure in the

economic development of Latin America between the mid-1960s and mid-1980s. León (1998) analysed the economic performance of four Latin American authoritarian regimes: Brazil (1964-1985), Chile (1973-1990), Uruguay (1974-1984) and Argentina (1976-1983). The outcome was at best disappointing. Authoritarian regimes also did not make positive contributions to the development of other Asian countries, namely, Philippines, Viet Nam and Myanmar (León, 1998).

Arab authoritarian regimes across the Middle East are another existing example of the economic failures during the 1980s and onwards (WEF, 2000). The “striking similarities and dissimilarities” between East Asia and the Middle East were highlighted by Cantori (1997); in 1960s, both regions had comparable per capita figures. However, despite the huge wealth generated by the oil revenues, the Middle Eastern economic performance still lagged far behind the Asian economic performance. The dissimilarities between the two authoritative regimes are most palpable in the efficiency and the transparency of their public sectors, and in the attitudes of their people towards work and productivity. In his defence of the Singaporean approach to development, Singapore's first Prime Minister Mr. Lee Kuan Yew argued the need to maintain discipline as an alternative to democracy. “I do not believe that democracy necessarily leads to development ... I believe that what a country needs to develop is discipline more than democracy (*The Economist*, August 27, 1994, p. 15).

Saudi Arabia did not develop an Eastern “discipline”, nor did it adopt Western “democracy”, or genuinely practise an Islamic “consultation” form of governance. Instead, Saudi Arabia has developed the symptoms of a welfare and bureaucratic state with a ‘fat’ public sector, which hinders the development of a dynamic entrepreneurship class. Al Sho’ala (1995, p.10) underscored the scale of the GCC citizens’ dependence on the state for employment and pointed out that about 25% of all working nationals were “employed in a Government institution”. Entrepreneurship and economic development surely do not thrive under bureaucratic rules and welfare arrangements. Bureaucracy and corruption will avert development activities and result in lost productivity and the waste of public wealth without any meaningful return. Furthermore, it is extremely unlikely that development will take place in a country without the right attitude, the real commitment, and high motivations of its people to be productive through the exploration and exploitation of all opportunities. In a recorded lecture entitled “Work and Development”, the Islamic scholar, Amr Khaled, quoted some disturbing figures from studies showing that the average productive time for an Arab worker (including Saudis) does not exceed 17 minutes per day. Therefore, the

challenges confronting the Saudi pursuit for development are enormous and real. The due attention of the state to front to these challenges, therefore, is not simply an option; it is *the option*. There is a real need to scale back the welfare state and place more emphasis on efficiency and transparency in government activities –a step forward towards creating a favourable environment that encourages potential entrepreneurs and provides better incentives for the creation of new enterprises.

The role of the state in the economy

While the type of government might have little impact on the course of development and the emergence of a vibrant entrepreneurship sector, state policies undoubtedly have a much greater role to play in shaping the path of economic development in any given country. The role of the state in the economy has evolved over the years and witnessed a string of changes; the state was hailed as champion of development in the aftermath of World War II and well into the 1970s (Healy & Robinson, 1994). The same “state” was charged with being a major cause for stagnation and an “obstacle to development” in the 1980s (Jackson, 2002).

The active role of the state in the economies of the newly independent countries was justified by the lack of basic active institutions, the absence of market dynamism and the much-needed infrastructure, not to mention the shortage in the stock of human and physical capitals. Governments’ positive contributions are evidenced by the essential public goods and services they offer such as education, health and, infrastructure. Moreover, by the creation of legal systems that define, guarantee and protect the property rights of all market stakeholders. By assuming such responsibilities, Kormendi (1983) argued that governments are developmental in the sense that they provide the basic ingredients for private investment and growth.

Economic policies and the role of the state in the economy were also greatly influenced by Keynesian thinking after WWII. The core of Keynesian theory is that a government’s intervention is needed to stabilise a national economy in both good and bad economic times, by running budget surpluses and budget deficits respectively. In contrast, classical economic theory operated under the assumption that perfect knowledge and perfect market equilibrium do exist. It advocated a free market, external openness and outward (export) orientation as key elements to economic success. The discourse of the neoclassical theory is that economies should be purely market driven and economic efficiency could be achieved, in most cases, without state intervention. The

role of the state is limited to creating a stable macroeconomic environment and “getting the prices right”. Setting realistic interest and exchange rates, ensuring price mobility and guarding the market’s competitiveness are means by which the state can stress its role and contribution to the economic development process. However, should inefficiencies in the market arise, the state shall intervene only to deal with such inefficiencies and to correct market failures.

The argument that “markets are efficient on their own” was challenged, and the validity of the assumption that when states intervene they do so efficiently was questioned by the public choice theory (Buchanan & Tullock 1962; Karlsson & Karlsson, 2002)⁴⁴. Public choice theory raises the possibility of government failure and argues that governments can and often do fail; hence, it tends to deny the effectiveness of state intervention even when market inefficiencies are evident.

The Saudi state has a long history of firm control over the economy – the institutions, the natural resources and means of production and distribution. By affirming its control over the oil industry and by implementing a top-down policy approach to development, the state was assured of having a free hand over the economy and unqualified authority over the people, denying them the right to question its economic as well as political behaviour. This account of intense state involvement in the economy partially explains the parallel association between the level of economic activity and the scale of government spending and the state fiscal policies.

The state in the Arab countries has continued to assume a central role in national economies since independence until today. While it might be true that the Middle Eastern state-centred economic systems gave the state ‘the right’ to intervene under various pretexts, Jiyad (1995) argued that the state domination over the economy is neither atypical to the Arab countries nor is a “regional invention”.

Reforms and structural adjustments

Saudi planners and policymakers realised at the early stages of the Saudi development process that the economy did not have the fundamentals or the infrastructure necessary to promote and sustain indigenous development. The modest numbers of

⁴⁴ For more on the public choice theory, see (Atkinson, 1987; Romer 1988; Mueller 1989).

business start-ups are mainly traditional and lack real entrepreneurial resilience, namely innovativeness and competitiveness. However, Saudi planners were convinced that it was imperative to diversify the base of the economy by establishing a structure that could generate domestically driven economic development and gradually reduces reliance on oil rents. The conventional question thus becomes whether Saudi Arabia, the presumably iconic Islamic state, would capitalise on its Islamic principles and integrate them into the development process or would it compromise its Islamic identity in order for it to come to terms with the modern world. Alternatively, can Saudi Arabia embark on meaningful reforms while preserving its Islamic values and traditional culture in a rapidly changing world? The stated aim of the successive Saudi five-year development plans was to maintain and to preserve Islamic values throughout the course of its economic transformation. Yet, neither the development plans nor any other official policies referred to the intended role of Islam in development or elaborated on the nature of such a role, if it existed.

The stated positive intentions of Saudi planners and policymakers concerning economic diversification were met with only modest attempts to transform such intentions into working policies by carrying out needed reforms and creating a supportive environment for diversification. Promoting entrepreneurship and stimulating an entrepreneurial spirit in Saudi Arabia require establishing a strong vibrant private sector, which accordingly requires the state to undertake major political reforms and broader economic restructuring.

Literature often debates the attitudes of Saudis towards modernisation and development and divides Saudis into a growing minority of reformists who preach change and development and a declining majority of conservatives who oppose change and reject modernisation –as in 'Westernisation'. Saudi entrepreneurs, Saudi graduates from Western educational institutions and Saudi technocrats along with progressive members of the Saudi ruling family are the driving force behind reforms and modernisation. In his study of the 'royal entrepreneurship in Saudi Arabia', Sabri (2001) found that the ruling family is deeply involved in the economic activity of the country. It directly or indirectly owns a substantial share in the private sector and it has the means to influence the course of its evolution.

The fundamentalists or traditionalists, on the other hand, who for a long time have constituted the majority of the Saudi public, questioned the motives of modernisation and rejected its implications. It has been suggested that negative attitudes towards

reforms were mainly prevalent among uneducated Saudis and the spread of education would play a key role in changing such attitudes. Although this appraisal has some merit, it does not signify the complete reality. Some highly educated Saudis are hesitant to endorse foreign modernisation, as it does not conform to the Islamic principles of socio-economic justice. In fact, they are strong advocates for eco-political reforms given that such reforms are real and are intended for more than pure economic considerations.

Political reforms

A large segment of Saudi intellectuals, reformists and activists from diverse backgrounds have constantly questioned the legitimacy of the unqualified power invested in al-Saud. They duly demanded a broader involvement by mainstream Saudis in the Kingdom's political process in order to have a more inclusive and more representative governing body. The Saudi ruling family was well aware of the intensity of such demands, and thus was no longer able to ignore them. In 1993, and in an unprecedented move, the late King Fahd announced the establishment of The Consultative Council/assembly or *Majlis Al-Shoura*. The council was mainly intended to enable its members to share their opinions and extend their advice to the King on crucial issues and major challenges facing the Kingdom.

The make-up of the first Council instated by King Fahd in December 1993, consisted of a speaker and 60 members exclusively appointed by the King himself for a four-year term. The membership was increased thereafter to 90 in 1997, 120 in 2001 and to 150 in 2005. Although the intended role for the council was purely advisory, there have been some suggestions that the council would move past its advisory role and be given executive power to instigate legislation and reassess various policies.

Saudi authorities portray the Consultative Council to be a key establishment that fulfils a religious duty by putting into practice a basic Islamic governance institutional framework –consultation "*shoura*", in order to advance the Kingdom's development process, "... Who (conduct) their affairs by mutual consultation" (Qur'an, 42, 38). Others have questioned the real value of the council, given that its appointed members are not allowed to debate or even to inspect the annual budget (Bradley, 2005), thus they ridiculed such a move and considered it a public relation exercise intended to silence the many Saudi as well as non-Saudi critics. Furthermore, they accused the Saudi ruling family of exploiting religion to justify and legitimise its authority.

The political reforms were fragmented, partial and at a very slow pace. Riyadh municipal elections in February 2005, the first election in the country's history, were limited to selecting half the city council seats, while the state appoints the other half. Participation in the elections for both voters and candidates was restricted to male citizens over 25 years of age (excluding approximately 80% of the population). Another constraint, which undermined the outcome of the elections, was the inability of candidates to pass on their messages and defend their agendas due to restrictions imposed on political campaigning and debating. Riyadh elections were followed by similar elections in other regions of the Kingdom. The importance of this, modest but long overdue, initiative lies in the prospect of implementing more democratic measures to ensure more participation of Saudis in running their own affairs, otherwise such elections are deemed empty and worthless.

A Saudi intellectual I interviewed emphasised the close link between economic prosperity and political reforms and how the majority of Saudis are unaware of their basic political rights.

Neither the state nor the educational system define and/or inform citizens of their constitutional rights, and political education among Saudis is nil at its best. The attitude of Islam towards individualism, personal initiatives, property ownership and sanctity of human rights are foremost political concepts, yet are paramount to economic development (Intellect-05, 2004).

Areas of Saudi economic reforms

The improvised policies and reactionary initiatives frequently undertaken by the policymakers in the wake of the oil boom proved to be inefficient, especially at the time of economic hardships in the mid-1980s. The Saudi growth collapse forced Saudi authorities to question the expediency of their ad hoc policies and to rethink the practicality of their approach to economic development and growth. The uncertainties in the international oil market and the economic setbacks of the 1980s and 1997-1998 left Saudi officials convinced of the need to embark on a major structural adjustment programme aiming at diversifying the economy and enhancing its efficiency and performance.

While King Fahd initiated the political reforms in the early 1990s, King Abdullah – then the Crown Prince – started the economic reforms in 1999 despite internal and external criticism from both extremes. The conservatives sought to slow the pace of reforms

because they viewed a rapid change to be a threat to their cultural identity. The reformists, on the other hand, complained that the tardy reforms lacked the true spirit of change and innovation and that they were limited in their scope and were slow to be implemented. They further voiced their concern that reforms would evaporate or be abandoned at the time of economic prosperity that is, an increase in oil revenues.

The Saudi economic reform package included two sets of reform measures designed to address long-term structural as well as short-term fiscal reforms.

Economic structural adjustment

The Saudi Structural Adjustment programme was initiated by the Saudi government without intervention from, but encouraged by, the two Bretton Woods Institutions: the IMF and the World Bank. The primary aim of the proposed changes was to address the fundamental deficiencies in the Saudi economy and consequently to correct the imbalance in the macroeconomic conditions of the national economy through the adoption and the implementation of various correcting measures such as:

- Reducing the overstated role of the state in the economy;
- Reforming the highly inefficient Saudi public sector;
- Expanding the private sector and enhancing its marginalised role through the privatisation process and the reduction of the dominant role of State Owned Enterprises (SOEs);
- Adapting to open trade policies and relaxing the state control over trade policies and procedures, and
- Reforming the tax system and liberalising the investment rules.

Box 4.1 below shows that structural economic reforms in Saudi Arabia are proceeding simultaneously in three separate but complementary and interrelated areas. Areas of reforms include the enactment of new laws and the reforming of existing laws; the establishment of new institutions (economic bodies and organisations) and the restructuring of existing but inefficient ones; and finally the undertaking of initiatives and programmes in accordance with the newly drafted and/or updated laws and making use of the newly introduced institutional reforms.

Box 4.1 Areas of Saudi economic reforms /structural adjustments*

1) Legal system reforms: included the drafting of new laws and revising existing laws

New laws:

- Foreign Investment Act of April 2000⁴⁵
- Telecommunication Law of May 2000
- Real Estate Law of July 2000 allowing foreigners to own real estate in the kingdom
- The Income Tax Law of April 2003 for non-Saudis and GCC companies and individuals
- **Privatisation strategy of June 2002**
- Capital Market Law of June 2003
- The Cooperative Insurance Companies Law of July 2003
- The Corporate Tax Law of January 2004
- Financial Market Law
- Stock Market Law allowing foreign investors to participate in the Saudi stock market

Updated laws:

Labour Law, Employment Law

New laws in the making:

Company Law, Agency law, and Sponsorship Law, Mining Law, Competition Law, Trademark and Intellectual Property law

2) Institutional reforms: are designed to promote economic development through the creation of new economic institutions and the restructuring of existing economic organisations

New institutions:

- The supreme Economic Council in August 1999
- Saudi Arabian -Saudi General -Investment Authority in April 2000
- Saudi Telecommunication and Information Technology Authority in 2000
- Capital Market Authority in June 2003

Restructuring of existing state agencies such as water, electricity, labour, trade and industry

Continues next page ...

⁴⁵ The April 2000 Foreign Investment Act has transformed the Saudi economy into one of the most open and permissive economies in the region. However, whether the investment law has positively affected the productive base (entrepreneurship) of the Saudi economy remains highly debatable.

3) Initiative and programmes: aimed at opening new investment opportunities and facilitating existing opportunities for national as well as international investors

National investors:

- Gradual privatisation of some state-owned businesses such as:
 - The sale of 70% of the state owned insurance company in 2003
 - The sale of 30% of state telecommunication company
- Stock exchange
- Increase the efficiency of local financial institutions
- The establishment of industrial zones
- The establishment of financial markets

Foreign investors

- The opening of the gas sector for foreign investors in 2004
- Developing the financial sector to attract foreign investments
- The reduction in income tax rate for non-Saudi companies from 45% to 20%
- The signing of trade agreements with the European Union
- The starting of the compliance process with WTO⁴⁶ requirements such as reducing subsidies, taxing national corporations, adopting a new foreign investment code and updating commercial laws. Saudi Arabia joined the WTO in December 2005

* Partial listing of the main components of the Saudi adjustment programmes, including new and existing laws, institutions and initiatives: compiled by the researcher using various literature and government announcements.

Higher oil returns coupled with low interest rates enabled the Kingdom to proceed with the reforms without inflecting any economic hardships or scaling back on the services it provides for its citizens (Dudley, 2003). The IMF has endorsed and praised the Saudi structural reforms and monetary policy. It further urged Saudi authorities to maintain and extend the scale of the reforms in order to cope with the pressing employment challenge facing the country (MEED, 2005).

Fiscal reforms

The objective of the second type of Saudi economic reforms was to address issues of a monetary nature such as stabilising imbalances in inflation and the balance of payment. The IMF commended Saudi authorities for using corrective measures such as scaling down the budgets on different occasions and introducing taxes on “selected consumer goods” (MEED, 2003), and encouraged them to do more. However, Saudi authorities were reluctant to employ other, more radical, stabilising measures such as floating the Saudi riyal and imposing income tax. Imposing taxes on individuals’ income

⁴⁶ Joining the WTO as a developing country would give Saudi Arabia a grace period of up to 10 years to adapt relevant legislation and comply with WTO’s trading practices.

is a very sensitive and risky business that is hard to justify and promote amongst Saudis. A move towards income taxation would be viewed as a radical departure from the welfare arrangements, which were in place until recently, to new arrangements whereby the state shares with its citizens their income. Such perceptions would be highly damaging to the ruling family –considering the income tax free environment in the neighbouring GCC countries. Al Sho'ala (1995, pp. 10-11) highlighted the implications of introducing taxes for the eco-political systems of the GCC states. He rightly argued that the GCC regimes would need “an additional source of authority and legitimacy” that is, “democratic institutions” to be able to undertake and implement such legislation without instigating an aggressive public outcry.

Saudi privatisation and entrepreneurship

The proportion of the Saudi private sector to the overall economic base is relatively small. Oil and oil-related exports, which are owned and run by the state make up about 90% - 95% of total Saudi export earnings and contribute to about 80% of total revenues. A key objective of the Saudi economic reforms was to promote an active role for the private sector and to expand such a role in the various areas of the national economy by creating a friendly environment that encourages both domestic and foreign investments. Privatisation was seen as an invaluable instrument for achieving such an outcome.

Although previous development plans have aimed at expanding and diversifying the country's sources of income, it was the sixth development plan (1995-2000) that emphasised the importance of pursuing such a strategy and taking practical steps towards privatisation and economic liberalisation. More recently, a report, prepared by the Saudi-based Consulting Centre for Finance and Investments CCFI (2004, p. 11), concluded that privatisation in Saudi Arabia was an economic necessity. The report listed two compelling factors that should incite the state to embark on the path of privatisation: the corrupt bureaucratic Saudi public sector which is marked by a lack of transparency and poor performance in virtually every government department, and the availability of large sums of cash in the hands of Saudis wishing to invest in the local economy.

Privatisation is a key theme behind the majority of economic reforms regardless of them being self-initiated or introduced and sponsored by the World Bank and/or IMF, and is mainly concerned with the role of the state in the economy. Privatisation more

precisely seeks to redefine the relationship between the state and the private sector: What role should the state assume in the economy? Would State Owned Enterprises (SOEs) perform more efficiently under the ownership and management of the private sector? The purpose of privatisation, therefore, is to correct the public sector inefficiencies by reducing the role of the state in the economy and transferring the ownership of SOEs with all due responsibilities to the private sector. The thesis underlying the widespread privatisation phenomenon is that the private sector, through market competition, would be more efficient and cost effective in providing quality services and making better use of national resources. It simply argues that some activities, which are usually performed by the state, are best carried out by the private sector so as to achieve economic efficiency.

Saudi policymakers insisted that privatisation in Saudi Arabia has been an integral component of its economic tradition since the early beginnings of the country. They justified the strong involvement of the state in the economy during past decades by the inability of the private sector to assume the overwhelming responsibilities due to its lack of resources and technical expertise. However, as the private sector grew stronger and bigger, it started the push to reclaim its imperative role in the economy. This coincided with a growing confidence of the state in the private sector hence, it decided on a gradual move to privatise some sectors of the economy.

The objectives of the privatisation strategy as outlined by the Saudi Secretary General of the Supreme Economic Council were “to improve the efficiency of the national economy, to enlarge the ownership of the productive assets by Saudi citizens and to encourage domestic and foreign capital to invest locally”⁴⁷. The overriding goals of implementing such strategy, argued the Secretary General, were to boost employment opportunities for Saudis and to provide them with decent services “in a timely and cost-efficient manner”.

This thesis has promoted entrepreneurship as being a viable diversification strategy to expand the productive base of the Saudi economy; therefore discussions on privatisation as an instrument of reform would be kept within this perspective. What is the likely impact of adopted reforms on the Saudi entrepreneurship sector? Does

⁴⁷ The Saudi Secretary General of the Supreme Economic Council, Abdulrahman Al Tuwaijri while addressing a business gathering in the UAE in April 2005.

privatisation encourage more Saudis to embark on the path of entrepreneurship? Does it create more jobs for Saudis?

Confining the concept of privatisation to the sale of public and state owned enterprises or transferring ownership to the private sector, despite being the most tangible manifestation of privatisation, would not promote entrepreneurship nor would it enhance the employment portfolio of the country. It could be strongly argued that transferring the ownership of SOEs to the private sector would not lead to an increase in Saudi employment figures if such a transfer is not complemented with other measures to promote entrepreneurship and the creation of new enterprises. The Saudi economic activities and public enterprises subject to privatisation are major employers of Saudi nationals. Transferring the ownership of these enterprises to the private sector surely would increase the number of citizens owning a larger share in the economy but, most certainly, it would result in many Saudis losing their jobs and limit future employment opportunities for more Saudis. Presumably, the private sector operates according to the "profit maximisation" theory; hence it would not provide a safe haven for unproductive labour –as is the case in the public sector. Therefore, one could argue that privatisation as marketed would have an adverse impact on paid employment and at the same time would not advance the cause of self-employment in Saudi Arabia.

The argument is not against privatisation and opening the markets for the public participation in the economy. It is rather a warning against the danger of considering "privatisation as an aim of the economic transformation process" instead of being "an instrument to make the economy more efficient through private initiative [entrepreneurship] and real ownership" (Szabó, 1997). Privatisation has been recognised as a dynamic force for overcoming economic and social deficiencies of state owned enterprises. The criticism is focused on the shortfall in reform policies and initiatives that failed to take a more inclusive perspective. Despite the justified emphasis on the importance of reviving the private sector, reforms failed to promote the development of a vibrant entrepreneurship sector and to acknowledge the potential role that new firms could play in advancing the economic development of the country, namely in the area of job creation. Stimulating and encouraging the private sector to increase its involvement in the economy by starting new businesses and expanding existing ones should have been an integral part of the Saudi reform package.

CONCLUSION

This chapter was devoted to presenting a brief overview of the 'modern' Kingdom of Saudi Arabia and to drawing attention to the significant, but neglected, role that entrepreneurship could play in the development of the country. The main theme of this chapter celebrates entrepreneurship as being a valid diversification strategy to expand the productive base of the Saudi economy. Therefore, it ventured to map the country's recent economic evolution, identify key socio-economic challenges facing the country and to highlight some milestones that have played a pivotal role in reshaping the socio-economic configuration of the country.

The rapid transformation of the Kingdom of Saudi Arabia from one of the least developed countries in the world to a developing country with a rapidly growing economy was credited to the 1973 sharp increase in oil prices and level of oil production. However, the oil wealth and the rapid transformation of the economy brought tremendous new challenges that are inconsistent with the challenges usually associated with a developing country, most notably the wealth in financial capital and the severe lack of human resources.

The export of oil in commercial quantities in the early 1950s, and the 1973 sharp increase in oil prices have played into the hands of the state and further emphasised its role in the economy as well as in the many aspects of the everyday activities of its citizens. Saudi officials justified the heavy involvement of the state in the economy by the private sector's lack of resources and the knowledge necessary for building much-needed infrastructure. However, government involvement in the economy was not limited to instigating infrastructure projects. The government-sector monopoly is evident by the large state-owned corporations such as the conglomerate oil company "Saudi ARAMCO" and the Saudi Arabia Basic Industries Corporation "SABIC" and in the telecommunication and insurance sectors. The state domination over the economy undoubtedly has hindered the emergence of new viable private enterprises and the expansion of existing ones.

Oil wealth provided free education, healthcare and subsidised housing and utilities but did not ensure even for the educated Saudis, categorical employment opportunities outside the government or within the government beyond the mid-1980s. Generous government benefits provided for much of the Saudis' needs while foreigners did most

of the manual labour and the highly technical work –leaving large numbers of Saudis with no incentives to exploit or even explore their potentials. The rewards of being self-employed and the incentives to own a business were often outweighed by attractive employment packages in the public sector or in large corporations mainly within the oil industry. State benefits, thus have created a frosty attitude towards manual and applied work in general and entrepreneurship in particular. The reward structure that accompanied the oil boom has encouraged the traditional thinking of many Saudis who sought quick profit by acting as agents for foreign companies or through merchant, real estate and trade activities rather than through the lengthy process of building enterprises. It has also driven many citizens from country life to city living and from traditional work to administrative jobs in elegant offices, and so all too soon, causing major disturbances to the socio-demographic balance of the country.

The state has embarked on five-year development plans since 1970 in order to manage its unexpected wealth and to plan for its development projects. Consecutive development plans have emphasised the need to diversify the economy, reduce the reliance on oil- and gas-related industries, and to expand the overpowered private sector. However, despite various diversification attempts, the Saudi economy largely remains an oil-based economy that depends on the vulnerable international oil markets to balance its books and implement its development plans. The sharp decline in oil revenue in the mid-1980s and late 1990s, coupled with the worsening unemployment figures among Saudis have compelled Saudi policymakers to seriously consider introducing economic structural reforms as well as fiscal reforms.

The much needed and much anticipated reforms that started in 1999 are aimed at steering the Saudi economy. Although encouraging, the reforms fell short of being sweeping or radical in order not to upset the social balance of the Saudi society. Moreover, it is evident that the reforms have failed to include the entrepreneurship sector, thus failing to attend to one of the most pressing challenges facing the country – unemployment.

Saudi policymakers seize every opportunity to reiterate that Saudi Arabia will preserve its values and traditions whilst pursuing development and progress, apart from that, there is no reference to the Islamic worldview of development as outlined in the previous chapter. Some of the imperative questions that remain to be answered are: does the state consider entrepreneurship to be a viable development strategy and if so, does it incorporate such strategy within its overall development strategy? Is Islam

evident in the Saudi entrepreneurship activity and are Islamic principles of socio-economic justice prevailing in the course of Saudi development? Neither the literature nor a preliminary assessment of the Saudi reforms provides conclusive evidence to justify giving even an indicative answer to either of these questions. Therefore, they will be at the heart of the investigation throughout the fieldwork.

CHAPTER FIVE

RESEARCH METHODOLOGY AND FIELDWORK EXPERIENCES

Until recent decades, a typical ambition of most researchers was to discover the objective truth about event–truth unaffected by the investigator’s personal interest, beliefs and values. But today, most researchers would likely agree that subjectivity inevitably influences their work in several important ways, including

- *the choice of the questions they hope to answer,*
- *the sources from which they gather their information,*
- *the techniques they use to collect that information,*
- *how data are classified and interpreted, and*
- *researchers’ personal relationships with the people and events they investigate.*

Thomas (2003, p. 75)

In the face of the many challenges confronting the course of economic development in the Kingdom of Saudi Arabia, it has been argued in Chapter 4 that entrepreneurship is a viable diversification strategy that Saudi Arabia must undertake, or at least consider, in order to face such challenges. Earlier discussions have also suggested that while entrepreneurship is a universal phenomenon in its extent, it is nevertheless a culturally specific experience in its nature and character. Different cultures develop distinctive entrepreneurial models and employ specific approaches towards entrepreneurship, based on their historical milieus and cultural value systems. The unsuitability of applying Hofstede’s (1991) cultural dimensions and other Western standards to explain entrepreneurship in non-Western cultures underscored the need to develop alternative research instruments sensitive to respective cultures.

This chapter describes the research methods and the instruments used in the field to collect the necessary data in line with the main aim and objectives set for this study. I embarked on a four-month fieldwork research undertaking between the months of March and July 2004 in the city of Riyadh, Saudi Arabia. In the field, I employed a mix

of research methodologies to collect data, deemed crucial for addressing the research question and attending to its objectives, from several distinct groups of Saudis.

This chapter is divided into two major sections: the first section discusses the theoretical dimension that provides rationale and justification for the chosen research methodologies and instruments. It also discusses the research design and briefly considers the basis for site selection, sources of data, and data collection techniques. The second section describes the implementation of the methods and techniques I used in the field. It also underlines the invaluable experience and mirrors the realities of doing field research with its numerous challenges: the few moments of joy and the many more moments of justifiable frustration. Major themes dealt with in this section are: piloting the study and administering the questionnaire, rethinking the methodology and recruiting and interviewing participants, methods of data analysis and ethical issues, and various challenges that are most likely to confront researchers wishing to do research in Saudi Arabia. This section concludes by addressing the issue of subjectivity in research and the researcher's relationship with the people and events under investigation.

RESEARCH METHODS AND DESIGN

Site selection

My choice of Saudi Arabia as the country in which to undertake this research on Islamic entrepreneurship was based on several theoretical as well as practical considerations. Despite its enormous oil wealth, Saudi Arabia is identified with Islam, and it has a distinct spiritual status in the Islamic world for being the place of revelation of the religion of Islam and the site of two of Islam's holiest mosques in Mecca and Medina. There is a prevalent tendency to link the religiously based Saudi traditional value system to its views on modernisation and development. Saudi Arabia is often regarded as an anti-development country because of its Islamic-based value system.

It is widely perceived and largely accepted that Saudi Arabia is the most traditional and sanctified Muslim country. More than 90% of its population are Arabs and 100% are Muslims. Therefore, it could be argued that if an Islamic entrepreneurship-based development model were to be built, then Saudi Arabia would be the most probable

country to espouse and to house such a model. Consequently, the legitimacy and the authority of the model could be extended beyond the boundaries of the Kingdom to cover other Islamic countries. The predominant Islamic environment and the homogeneity in the make-up of the Saudi population coupled with the Islamic-based constitution of the country will have, I argue, a positive impact on the development of the model. For any model to gain legitimacy and approval, it should be inclusive and should reflect the realities of the indigenous people it claims to represent and intends to serve.

High unemployment figures together with the lower output of productive business activities are among the many economic challenges facing Saudi Arabia. Saudi officials have come to recognise the need for expanding the productive base of the Saudi oil-based economy and the need to give due consideration to the unemployment dilemma. Saudi Arabia has tried different strategies in its pursuit to diversify its national source of income, but has been unable to achieve tangible outcomes. Entrepreneurship has been universally promoted as a viable alternative diversification strategy that advances development and provides for new employment opportunities. In this study, therefore, I argue that Islamic entrepreneurship in particular can make a true contribution towards solving some of the socio-economic difficulties facing Saudi Arabia and other Muslim countries. Hence, I sought to investigate entrepreneurship from an Islamic perspective within the Saudi domain.

The selection of the city of Riyadh as the site of the research was mainly based on practical justifications: Riyadh, the capital of the Kingdom of Saudi Arabia, is located at the heart of the central province of the Kingdom. It has witnessed phenomenal horizontal as well as vertical growth within the last three to four decades, to cover an extended landscape of approximately 600 square miles and to house about five million people⁴⁸. In addition to being the political capital of the country, Riyadh is also the centre of its commercial and business activity⁴⁹. Therefore, Riyadh has the advantage of providing access to all stakeholders involved in the research and it is where political as well as economic decisions are made.

The harmony and the anxiety of the “modern” and the “traditional” of Saudi society meet and mix in Riyadh; modern high rise skyscrapers stand alongside old clay

⁴⁸ It is estimated that about 5 million people inhabit the city of Riyadh. However, accurate and more reliable official statistical figures are unavailable.

⁴⁹ According to Shibliq (2002), it is estimated that 40% of the total Saudi business activities are generated in Riyadh.

structures, and green blossoming gardens in the middle of harsh yellow desert are some of the physical contrasts to be found in the city. More importantly, it is expected that both the very “contemporary” and the very “traditional” views and attitudes are to be reflected by the views of the inhabitants of the city. The Saudi citizens of Riyadh are a mix of native Bedouins, who take too much from its rough environment, and the new immigrants from other parts of the country, particularly from coastal cities, which are more exposed to the world and to contemporary business practices. Accordingly, the fieldwork is expected to produce interesting and valuable data essential to answer the research question and reflect the current division within Muslim societies regarding the ‘apt’ response to modernisation, Westernisation and development.

Riyadh also is the home of major educational and cultural institutions and research centres, namely: King Saud University (KSU), the Imam Mohammed Islamic University, King Abdulaziz Library and the Institute of Public Administration (IPA). Another key factor that influenced the site selection process was the positive attitude and the high interest shown by KSU towards this study and their willingness to extend logistical as well as intellectual support. Finally, as Neuman (1997, p. 338) suggested, “Personal contacts and connections are integral to the research process”; I have lived and worked in Riyadh and I still have my business associations and personal contacts there. This, I hoped, would open some doors and make my fieldwork a little easier and more enjoyable.

Combining research methods

The discipline or nature of the field of investigation does not necessarily dictate the choice of a particular research method. The selection of a fitting research methodology, or mix of methodologies, is based rather on the nature of the issues under investigation, the objectives of the indented research and the type of information to be collected. Other factors, such as time and resource constraints and the skills and expertise of the researcher, also influence the choice of research methodology. Nevertheless, methods are selected based on their efficiency, effectiveness and relevance in answering the research question and addressing the research objectives (Overton & Van Dierman, 2003; Warwick & Lininger, 1975). Smith (1991, p.2) agreed with these guidelines and emphasised that designing a methodological framework for social research “should be shaped by the nature of the question, the phenomena being considered, and the sort of answer that will satisfy us”.

Creswell (1994) discussed at length the basis for selecting an appropriate research methodology and summarised his views by suggesting five criteria to guide the selection process. He concluded that the decision to use quantitative or qualitative methods depends mainly on the nature of the problem under investigation and the researcher's: "world-view", "psychological attributes" and his/her personal preference, experience and skills.

While survey questionnaires are the most common instruments used in collecting quantitative data, qualitative data, on the other hand, are usually collected through participatory and non-participatory observations and in-depth interviews. Interviews could be structured; semi-structured or unstructured depending on the research purposes, and the researcher might utilize a single set or a combination of interviews in the same study.

The distinction between the quantitative and qualitative approaches could be explained by the nature of the two research paradigms. Quantitative researchers identify the variables and define the categories before they commence their studies. Concepts, assumptions and hypothesis are predetermined. The aim of the quantitative researchers is to determine the precise relationship between the variables and to test the validity of hypotheses, thus they employ more statistically based analytical approaches to collected data.

Surveys are invaluable instruments for exploring the attitudes, beliefs, values and priorities held by a certain group of people with common interests (Verheul, Wennekers, Audretsch & Thurik, 2003; Singleton & Straits, 2005). A well-constructed questionnaire is a valuable tool in the hands of the researcher. It enables him/her to collect reliable and valid data in a cost-efficient and timely manner. Such data are more likely to produce trustworthy results that can be generally applied to the wider population. Another important advantage of written questionnaires is that they offer the busy potential respondent the opportunity to complete them in their own time and space.

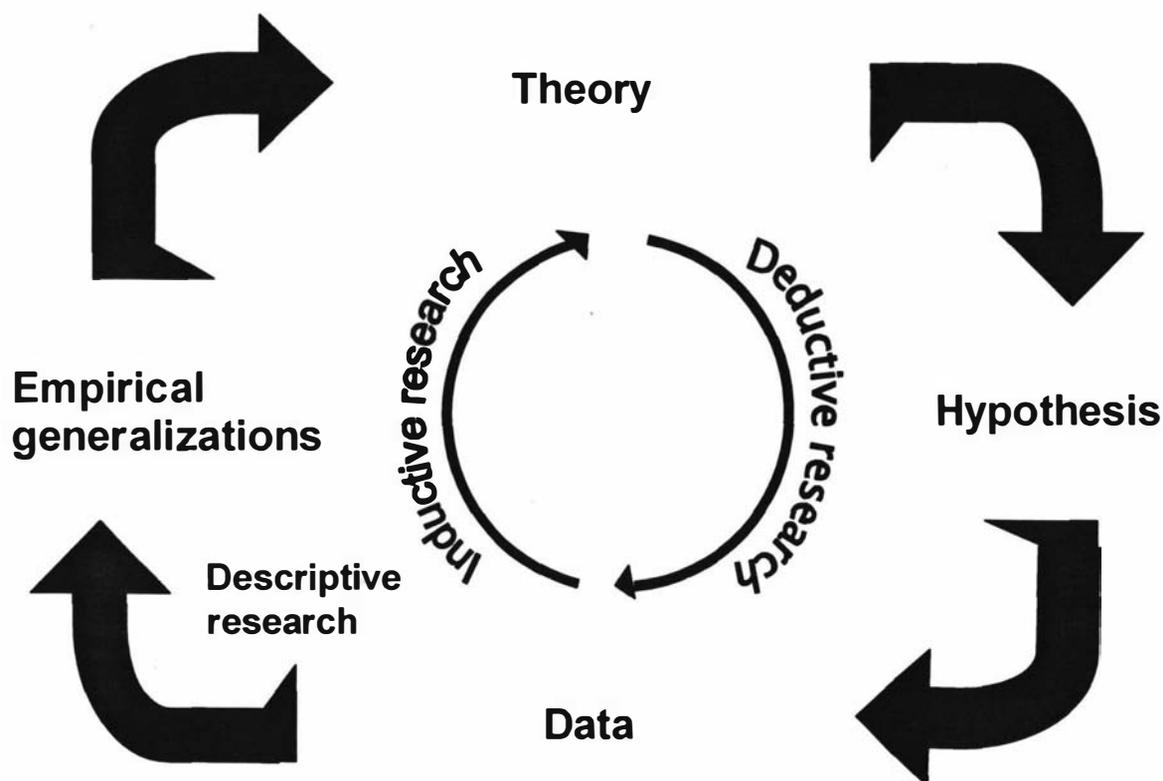
Questionnaires may contain close-ended and/or open-ended questions. De Vaus (2002) suggests that close-ended questions are appropriate when using self-administered questionnaires. Response rates are generally higher, since they require minimum time and less effort than open-ended questionnaires. This type of questionnaire is useful when the aim is to collect a vast number of responses for the

purpose of generalisation, and statistical analysis. However, open-ended questions are more appropriate when there is a need to give respondents the opportunity to elaborate, comment on and / or express their feelings more freely and not be constrained by a set of pre-assembled options (Dobbin & Gatowski, 1999; Neuman, 1997). Open-ended questionnaires ensure that the views of the participants are clearly expressed rather than selecting an answer from a pre-determined set of answers that might not precisely reflect their views. The tendency to mix open and closed questions within the same questionnaire is a legitimate and acceptable practice that aims at capitalising on the strength of both approaches.

In contrast, categories and concepts in qualitative research emerge and evolve during the research process. The qualitative researcher aims at gaining in-depth insights into the phenomena under investigation in order to have a broader perspective and appreciation of the complexity of the phenomena (Marshall & Rossman, 1999; Neuman, 2006). Qualitative data are often presented in a case study format. Since qualitative research seeks answers to the questions raised in the real world, the researcher conducts the research in the field rather than in laboratories (experiments) or through written surveys. The focus of qualitative research is on developing conceptual issues and building theory rather than on testing hypotheses and measuring relationships. It uses an inductive rather than a deductive approach to develop a theory based on collected data (Schutt, 2004). What distinguishes qualitative research is the high level of the researcher's personal involvement in the research. However, qualitative methods are not free from drawbacks; validity, reliability and ability to generalise their findings are major concerns for qualitative researchers.

Figure 5.1 illustrates the deductive / inductive research cycle and demonstrates the feasibility of applying both strategies to the same research.

Figure 5.1 The research cycle



Source: Schutt (2004, p. 45)

Quantitative and qualitative methods of data collection and analysis remain distinct research paradigms. Each has its own strengths and shortcomings. However, “the distinction between qualitative and quantitative research techniques is not always clear-cut” (Schutt, 2004, p. 306), and integrating both methods in a single piece of research, when appropriate, could enhance the confidence in the research process, reliability of the collected data, and credibility of the research findings.

Another issue that must be considered when deciding on an appropriate research methodology or mix of methodologies is the question of time available to spend in the field. Gartner and Birley (2002) reaffirmed the fact that qualitative data require more time to collect and analyse, and such time is not often available for doctoral programmes. The three to six months usually allocated to complete the fieldwork research do not allow for a thorough and a comprehensive ethnographical qualitative line of inquiry. In addition to the time factor, most PhD researchers are constrained by tied budgets and limited personal financial resources.

The literature cited above suggested that the objectives of this research would be best served by pursuing a mix of research methodologies, based on a concurrent complementary “two-phase design” (Creswell, 1994). The process of collecting primary data involved the use of a variety of instruments and techniques as shown in Table 5.1 below.

Table 5.1 A summary of the combined research methods

Research paradigm	Quantitative (Descriptive survey design)	Qualitative (In-depth, face-to-face, semi-structured interviews)	Qualitative (In-depth, face-to-face, semi-structured interviews)
Research population	All Saudi entrepreneurs in the city of Riyadh who conform to the operational definition of the entrepreneur	All respondents who successfully completed the questionnaire and agreed to participate in the interviews	-Saudi officials /policy-makers -Saudi intellectuals with a special interest in Islamic entrepreneurship and/or Islamic development such as Saudi academics and religious scholars
Research focus	- Profiles and characteristics of participating Saudi entrepreneurs and enterprises - Attitudes of Saudi entrepreneurs to Islamic and Western entrepreneurship	- Approaches and practices of Saudi entrepreneurs in their businesses - Entrepreneurs' perceptions of the Saudi entrepreneurial activity and entrepreneurship environment	- State policy towards entrepreneurship: . Incentives and support . Institutions and programmes - Social and political entrepreneurship environment - Entrepreneurship education in the formal and higher Saudi education institutions
Research type	Descriptive	Exploratory	Exploratory
Research strategy	Deductive	Inductive	Inductive
Research site	The city of Riyadh	The city of Riyadh	The Kingdom of Saudi Arabia
Sample design	Random sampling	Purposive sampling	- Purposive/ convenience sampling - Snowballing sampling

Sample database	Riyadh Chamber of Commerce and Industry Directory (2004)	All respondents to the survey questionnaire who agreed to participate in the interviews	Referrals, workshops, seminars, conferences and other functions
Data collection technique	Standardised, self-administered survey questionnaire	In-depth, semi-structured face-to-face interviews	In-depth, semi-structured face-to-face interviews
Data analysis	Descriptive statistical analysis using (SPSS) package	(Case studies)*	(Themes and patterns)

*Selected case studies represent a mix of attitudes and approaches of Saudi entrepreneurs, variable sizes and ages of Saudi enterprises and various sectors of the Saudi economy.

It became evident at the early stages that in order for this study to achieve its objectives, the methodological approach must account for two basic mechanisms. Firstly, the collection of primary data must involve the use of combined methodological approaches and utilise multiple sources of evidence to examine the Saudi entrepreneurship phenomenon from an Islamic perspective. Secondly, the researcher must be personally involved in the research by living in the field. The desire to gain insights into the Saudi entrepreneurial environment and the need for reaching beyond the 'superficial' survey data meant that the researcher had to be an active participant in the research by sharing the entrepreneurs' experiences, exploring their opinions, attitudes, and feelings (May, 1997) towards the entrepreneurial activity, and gathering evidence regarding their business behaviours and practices. Therefore, personal interviews with Saudi entrepreneurs and other parties with a special interest in Islamic entrepreneurship and development were designed to achieve these objectives.

Data sources and data collection techniques

The research design incorporates distinct but complementary research methodologies. Secondary data will be collected by means of a literature review and the examination of documents, statistical reports and other publications. On the other hand, the intent is to use a multi-pronged approach to collect the necessary primary data: firstly, through the use of a self-administered survey questionnaire among a random sample of Saudi entrepreneurs in the city of Riyadh and develop case studies based on in-depth face-to-face semi-structured interviews with Saudi entrepreneurs; secondly, by conducting

several semi-structured personal interviews with a range of Saudi officials, intellectuals and specialists who have an interest in Islamic entrepreneurship and/or development. The aim is to gain more inclusive understanding of the Saudi entrepreneurial setting from an Islamic perspective. My decision to employ these research methods was based on my own capabilities and expertise as a researcher and on my judgment that these methods (individually and collectively) best suit the purpose of this research.

Secondary data

Existing data and information provided the researcher with a valuable source of secondary data. In addition to placing the study within its context, a critical review of the literature was crucial in identifying the basic themes of the study and contributed to the development of the survey questionnaires and the semi-structured interviews. Other sources of secondary data – such as government statistics, Chamber of Commerce studies and publications, World Bank reports, local newspapers and other releases and publications – were valuable in mapping the Saudi development path and assessing the contribution of entrepreneurship evidenced by the SMEs sector in the economic development of Saudi Arabia.

Some scholars have questioned the objectivity of government-sponsored data and warned against accepting such information at face value. Governments, at times, may tend to present a particular picture or convey a special perception through their statistics. One has to be aware that not all printed official information is necessarily valid and accurate (Bulmer, 1993). Therefore, official releases were verified against other sources of information when available.

Primary quantitative data

The survey instrument used in this study is a written questionnaire consisting mainly of closed questions; simple category scale, multiple choice single response scale, and multiple choices multiple response scale. At the end of the questionnaire, respondents were encouraged to register an opinion by commenting on any item included, or which should have been included, in the questionnaire. Some entrepreneurs did take advantage of this feature, while many did not. Participants were also requested to explicitly indicate their willingness to further participate in the research by agreeing to

an approximately one-hour face-to-face interview with the researcher at a time and place convenient to them.

Standardised survey questionnaire

The conceptual working model developed by the researcher has guided the design and the development of the standardised questionnaire used in this study. The survey questionnaire was used mainly to generate systematic, representative and reliable data that could be categorized and subjected to descriptive statistical measurements. It contained 106 statements and questions organised in five major sections. Each section was intended to serve a major theme of the research. The first section elicits demographic as well as other relevant information necessary for the mapping of the profiles of the Saudi entrepreneurs. The other four sections of the questionnaire included 80 Likert-type items used to establish respondents' attitudes towards entrepreneurship in general and Islamic entrepreneurship in particular. A 5-point Likert scale summated rating was used wherein a scale value of one indicates a strongly unfavourable attitude and five indicates a strongly favourable attitude. Many of the statements that make up the questionnaire and the interview questions were compiled, derived and/or borrowed from relevant literature and other surveys (Bergin & Breen, 1999; Harrison & Hart, 1993; Scott, Rosa & Klandt, 1996; Rosa, 1993; Sardar, 1997; Siddiqi, 1979; Sloane, 1999; Stevenson & Lundström, 2001). Every effort was made to ensure the validity and relevance of each statement/question.

The survey instrument (the questionnaire) in this study was developed in English although it was intended for a non-English speaking population. My personal experience in the Saudi business environment confirms that large proportions of Saudi entrepreneurs would be competent in answering the questionnaire in its original English version. Although English is widely used in the Saudi Arabian business environment, the Arabic language remains the official language of the country. I felt it was appropriate to give the potential participants the choice of responding in either Arabic or English.

A 'double back-translation process' was applied to the survey questionnaire and to the interview questions. The translation procedure was in line with the framework developed by Brislin (1980) and used more recently by Kreiser, Marino, and Weaver (2002). The questionnaire was translated into Arabic by an authorised translation office in Riyadh. If it was suspected that some words in the English formulation of the

questionnaire were difficult to translate without distorting the essence of the question or the statement, therefore such word(s) were avoided. The questionnaire was then translated back into English by a third party and finally translated again into Arabic by the researcher. A distinguished member of the King Saud University Faculty of Administrative Sciences approved the Arabic version of the final draft. All respondents chose to conduct the interviews in Arabic and the majority chose to complete the Arabic version of the questionnaire.

Primary qualitative data

The *Journal of Business Venturing* devoted its entire September 2002 issue to “celebrate the use of qualitative methodologies in entrepreneurship research” (Gartner & Birley, 2002, p. 387). It was not the intention of this special issue to discredit the importance, or to question the relevance, of quantitative methods in entrepreneurship research, nor to initiate a debate between quantitative and qualitative entrepreneurship scholars. Rather, the aim was to underscore the application of qualitative methods to the process of learning and to understand the behaviour and the practices of the entrepreneurs. Gartner and Birley (2002) duly stated that:

Some questions simply are not asked, or cannot be asked when undertaking quantitative studies. It is this conundrum (what is missing?) that qualitative research might be better suited for. How then can these “missing questions be asked” Gartner & Birley (2002, p. 387).

Once the process of writing the questionnaire began, it became obvious that fundamental information had to be sacrificed and other information would be compromised if the survey questionnaires were to be the only source of primary data. In addition to establishing the profiles and the attitudes of Saudi entrepreneurs, this study sought to generate a better understanding of the interconnectivity and the dynamism of the Saudi entrepreneurial activity, and the beliefs underlying the actions of the Saudi entrepreneurs. In other words, the aim was to build theory, and building theory requires putting qualitative methodologies in action. Therefore, I used semi-structured face-to-face in-depth interviews to generate further data to supplement data provided by the survey questionnaires. I utilised two valuable instruments, namely tape recordings and a research journal, to collect and retain primary data generated from the interviews and to document observations from the field.

Semi-structured face-to-face in-depth interviews

The use of semi-structured face-to-face interviews was deemed the most appropriate method for the type of data to be collected. The reason for adopting a semi-structured design for the interviews was to ensure the collection of abundant, yet manageable, data.

Saudi entrepreneurs (case studies)

Respondents to the questionnaire survey who expressed their willingness to participate in the interviews were identified as potential participants in the case studies. The goal was to involve 15 - 20 entrepreneurs in the second phase of the data collection process by taking part in in-depth face-to-face interviews. I was faced with two equally strong arguments when it came to selecting participants in the case studies. In terms of the first argument I sought to subject participating firms to certain constraints such as 1) the firms had to have been in business for at least five years 2) the firms have shown growth in terms of number of employees and 3) the founder entrepreneur is actively involved in the daily operation of the enterprise. Conditions 1 and 2 indicate that participating firms have achieved a level of success by surviving the critical initial stages and the entrepreneurs have demonstrated the ability to establish and run successful ventures. Understandably, the first two to three years of starting a business (start-up phase) are coloured with uncertainty, instability and the struggle to establish presence. Robert (2001, p.18) concluded that data generated from studies that involve entrepreneurs within the first two years of starting their businesses "are unreliable, cannot be replicated, and may or may not enhance the understanding of entrepreneurship".

The adoption of this approach would ensure that the level of economic success of the selected cases would be higher than the achievement level of the typical entrepreneur. It is important to know what form of entrepreneurship has led to their success. Is it because they embrace individualism and have tolerance towards risk? Alternatively, is their success a consequence of adhering to Islamic values and practices? Experienced successful entrepreneurs are in a better position to reflect on their own success stories and comment on the role that Islam has/has not played but could play in entrepreneurship development. Further, it is more likely that successful entrepreneurial firms will grow and make an impact on the national economy than the subsistence

firms. The third condition ensures strict adherence to the adopted operational definition of the term “entrepreneur”.

The other view contested this justification and argued that newly established and poorly performing firms can make contributions to the research which are equally as important as those of well established enterprises. Since the broad aim of this study is to build an Islamic entrepreneurship-based developmental model, it is important to investigate whether or not Islam has played a role in the Saudi entrepreneurs’ decisions to start their businesses and the subsequent impact of Islam on the level of success/failure of their ventures and how it was so.

Therefore, this view includes rejecting the imposition of any conditions on the inclusion of participants in the case studies. It further argued that involving new and regular firms in the case studies is indispensable and crucial to conducting an integrated research that captures the total picture and enriches our understanding of the concepts and the dynamics underlying Saudi entrepreneurship. The selection process of case studies must be free of any other stipulations, given that no limitations or constraints were imposed on the selection of the survey sample, from which the case studies would emerge. Consequently, this study adopted the second view that cases are to be reflective and representative of the total population (the completed questionnaires).

The case study design

Are Saudis employing their cultural values and religious beliefs in the development of entrepreneurship culture in the Kingdom? If not, why and how could they? Answering these research questions requires wider and more in-depth understanding of the Saudi entrepreneurial activity in both its theoretical and its practical dimensions. Case study literature suggests that the implementation of case study protocol is both a viable and an appropriate approach to answering such research questions.

The case study method as defined by Yin (1993, p.59) is “an empirical inquiry that “investigates a contemporary phenomenon within its real life context, addresses a situation in which the boundaries between phenomenon and context are not clearly identified and uses multiple sources of evidence”. The purpose of exploratory research according to Bouma (1996, pp. 89-90) is to assemble a body of information that enables the researcher to develop a comprehensive and an extensive overview of the

research subject(s). Such wealth of information generated by case studies is crucial when answering “the question ‘what is going on?’”

The case study approach provides opportunities to conduct exploratory, explanatory and descriptive research. “Case study strategy has a distinct advantage when “(how)” or “(why)” questions are being asked about a contemporary set of events over which the investigator has little or no control” Yin (1994, p.9). The objective of the case study approach is to test existing theory and/or to build new theory (Lee, 1999; Yin, 1989), and they can be single-case or multiple-case studies. Yin (2003, p. 33) argued, “In multiple-case studies, cases are not “sampling units” and should not be chosen for this reason. Cases are to be viewed as multiple experiments”. Yin furthermore shared with Herriott and Firestone (1983) the view that although the conduct of multiple-case studies requires more resources and consumes more time, it has the advantage of enhancing the quality of the study and increasing its external validity. Being one form of the qualitative research approach, the ability of a case study to produce a valid, reliable and statistically generalised outcome is questioned. To counter this shortcoming, triangulation is seen as an essential aspect of case study design. Patton (1990) identified four types of triangulation as a solution to the subjectivity issue of qualitative methods (data, investigator, theory and methodological triangulation). Most qualitative researchers accept the principles of reliability and validity as major concerns for the qualitative researcher, but use the terms infrequently because of their association with quantitative measurements (Neuman, 2006).

Yin (1994, pp. 37-38) explained his argument regarding the question of generalisation as follows: the logic behind multiple-case studies is replication, not sampling. Thus, the theoretical framework will emerge because of the replication process and will form the basis for generalising to new cases. Therefore, the issue of generalisation is an “analytical” or “theoretical” not “statistical” generalisation. Wells (1999) argued that qualitative research does not need to produce representative (i.e. valid for an entire population) or replicable results. That is because one “simply can’t precisely re-create the same research circumstances time after time – too much is changing within and outside the research” (Wells, 1999, p. 39). According to this line of analysis, it is more important to maintain internal consistency within one case study than the attempt to replicate or to establish statistical generalisation.

Another basic question emerges when conducting case studies: what is the appropriate number of cases to investigate? Although there are no definitive guidelines or

mathematical formula to follow, there is a need to maintain a balance between point of “theoretical saturation” and the availability of time and resources. Oppenheim (1992) and Seidman (1991, p. 45) suggested that the saturation point would be reached when the emerging data become redundant and fail to generate new ideas or add new knowledge.

As to the appropriate number of cases to be investigated, Maykut and Morehouse (1994, p. 63) proposed that saturation point could be reached by carefully conducting 12 to 20 interviews. It is felt that the inclusion of 15-20 in-depth interviews with Saudi entrepreneurs complemented with 100 valid and usable questionnaires will place the study in a position to have internal validity and external representativeness of its outcome.

Collecting “verbally self-reported data” (Lam, 1999, p. 39) directly from the entrepreneurs telling their stories, explaining their attitudes and describing their approaches to entrepreneurship in their own words is most likely to generate a healthy body of new knowledge to be considered in the model building process. It is also anticipated that the analysis of such a wealth of information will add value to the ongoing ethical debate regarding the relationship between Islam and development, and will provide a platform for theory building as suggested by Eisenhardt (1989). It is neither the intention nor an objective of this study to carry out a comparative or a cross-case analysis.

Saudi officials and policymakers

Politicians, public administrators, and scholars in both developed and developing countries alike agree on the importance of the creation and the promotion of new enterprises. Several studies have established the existence of a positive relationship between state assistance policies to the SME sector and the creation of employment opportunities, economic growth, and innovation (Acs & Audretsch, 1988; Storey, 1994; Wennekers & Thurik, 1999; White & Reynolds, 1996). The debate therefore is not about the vital role of entrepreneurship in development or whether SMEs should be supported; the real debate is, rather, focused on how to advance the cause of entrepreneurship and which policies would be more effective in rendering due support for the SME sector. What is the best approach the government could take to create the right climate for small firms’ start-ups, survival, growth and prosperity? A universal policy model to cultivate and foster entrepreneurial activity does not exist. New

programmes and policies are developed to reflect specific national and cultural settings and circumstances. Such policies and programmes vary in their content, targets and means of delivery. To advance the cause of entrepreneurship in a country, a coherent policy for enterprise development that draws from empirical research is necessary.

Although many governments have recognized the need to develop small-scale enterprises, examples are difficult to find of countries in which this recognition has actually fed through into policy. Instead, the concern to support small-scale enterprises is often limited to the setting up of a special department or institute, in many cases within a ministry for industry, to deal with problems of the small business (Development Cooperation, 1991, p.13).

Stevenson and Lundström (2001) pointed out that governments are increasingly shifting their focus and priority from targeting small businesses in their policies to sponsoring entrepreneurship policies. In this study therefore, the researcher seeks to interview Saudi officials and policymakers in order to have a better understanding of the government's official perception of entrepreneurship and to determine the level and the nature of current government involvement in entrepreneurship development and promotion (relevant institutions and support programmes). Likewise, the interviews are also intended as a means to explore the current and the potential role that the state could, and should, play in building an Islamic enterprising culture in SA based on its Islamic values and cultural heritage.

A purposive sampling approach is designed to recruit Saudi officials and policymakers for the semi-structured interviews. Officials are specifically sought for their knowledge in current entrepreneurship policies and for their role in influencing policies towards the development and the promotion of entrepreneurship.

Saudi intellectuals and development specialists

Both the survey questionnaires and the personal interviews underlined the priority that Saudi entrepreneurs attached to the role of education in entrepreneurship development. Furthermore, the majority of Saudi entrepreneurs were unified in their criticism of the current structure of the educational system and its failing role in creating entrepreneurship culture, mainly from an Islamic perspective. The aim of interviewing Saudi intellectuals with a special interest in Islamic entrepreneurship and development therefore would be to create awareness and to gain understanding of the status of entrepreneurship education in the Saudi educational institutions. Exploring the perceptions of the Saudi intellectuals in relation to Islamic entrepreneurship and their

attitudes towards integrating the principles of Islamic entrepreneurship within the formal Saudi educational system was another aim of conducting such interviews. In addition, the interviews examine the mutual relationship between intellectuals and policymakers and their collective role in developing entrepreneurial culture based on the country's Islamic value system.

I will use a snowballing sampling technique (personal referrals and peer recommendations) to recruit participants among Saudi intellectuals and Islamic development specialists. In the field, I will identify and consult key potential references to suggest names of individuals with authority and/or special interest in entrepreneurship and Islamic development who might be willing to take part in the research. It is expected that the majority of prospective participants within this group would be mainly academics and faculty members of King Saud University and Imam Mohammed Islamic University in Riyadh. However, other distinct entities such as bankers, religious authorities and development specialists are of particular interest. I realise that it would be unrealistic to determine in advance the final make-up of the targeted team and to pre-assemble a list of potential participants.

IN THE FIELD

On my way to Saudi Arabia, I spent one week in Kuala Lumpur, Malaysia. The time I spent at the International Islamic University Malaysia (IIUM) was useful and productive. In the IIUM library I came across a valuable body of literature on the subject of Islamic development and entrepreneurship. As a result, some revisions to the survey questionnaire were made to account for the newly available materials.

Piloting the study⁵⁰

I invited a selected group of academics and professionals to review the questionnaire to capture their instinctive feedback about its context, format, accuracy, relevance, wording and administrative procedure. Each individual was asked to identify questions that were deemed to be unclear, misleading, redundant or sensitive to Saudi culture. I

⁵⁰ The pilot study resulted in: omitting two questions that were deemed culturally sensitive, six questions were judged irrelevant to the research question or to the research objectives, and one question was considered redundant. On the other hand, two questions were added to section 4 regarding the motives behind the association of entrepreneurs with Islamic banking.

also consulted the Centre of Research and Economic Studies at the Council of Saudi Chambers of Commerce and Industry (CSCCI) for their comments and suggestions based on their experience with Saudi SMEs. A common observation was that the length of the questionnaire might discourage potential respondents from participation.

Against my argument that all questions are relevant, I was reminded repeatedly that there are some questions that “must be asked” while others are “nice to have” (Frary, 1996; 2003). The prevailing suggestion was to shorten the questionnaire. I employed a cosmetic tactic in a bid to change the perception of a “lengthy questionnaire” by changing its layout and the format resulting in the reduction of the total number of pages. Modifications and clarification to some of the statements/questions had been implemented accordingly. Then the questionnaire was subjected to pilot testing where 12 semi-randomly selected entrepreneurs in Riyadh were asked for their input. Participants in the field trial were excluded from the actual survey.

The purpose of the pilot study was to account for, and clarify, any ambiguities and/or any inaccuracies in the translation of the questionnaire prior to its distribution. The pilot testing also provided feedback on the participants’ perceived length of the questionnaire and the average time required for its completion. Another advantage of the pilot study was to assess the relevance of questions being asked to the research objectives. The final draft of the questionnaire (Appendix - 1) included only the statements that proved to be free of ambiguity and served defined objectives.

Rethinking the methodology

Pre-designed research techniques always carry within some assumptions regarding the place and the people to be investigated and the course that the fieldwork is most likely to take. However, the realities of being in the field might at times dictate re-adjustments to the pre-scripted research methods and protocols.

Study population and the study sample

Hofstede (1991) argued that in order for information about a population to be valid, it should meet four criteria:

1. *It should be descriptive and not judgmental (otherwise it contains more information about the value system of the informant than about the particular population).*
2. *It should be verifiable from more than one independent source (otherwise, it reflects only one subjective perception).*
3. *It should apply, if not to all members of the population, at least to a statistical majority (otherwise, it is a false generalization).*
4. *It should discriminate, i.e., it should indicate those characteristics which apply to this population but not to others (otherwise, it is trivial).*

Hofstede (1991, p. 249)

Davidson and Delmar (1992) observed that most entrepreneurship research focuses on the entrepreneur population or only on a single target group as the main unit of analysis. They further noted that the majority of entrepreneurship studies are centred on the entrepreneur with little or no attention being given to the wider population base that produces the entrepreneur and the environment that determines the viability and the success of the entrepreneurial activity. The population base in this study was extended beyond the entrepreneur to include other stakeholders such as government officials and Saudi intellectuals with a special interest in Islamic entrepreneurship and development. Consequently, the scale of analysis will be extended beyond examining personal factors of the individual entrepreneur (micro level) to account for environmental factors such as economic, cultural and government regulations and policies affecting Saudi entrepreneurship development (macro level).

The population base (sampling frame) for the survey questionnaire consisted of all Saudi entrepreneurs in the city of Riyadh who met the operational definition of the term 'entrepreneur', and who were listed in the Riyadh Chamber of Commerce and Industry (RCCI) database at the time of the fieldwork –April 2004, which comprised about 35,000 businesses⁵¹.

It has been argued that probability-sampling techniques are best fitted if the objective of the research is to describe accurately the features of a sample and to generalise its findings to the whole population. From the above-defined database of Saudi entrepreneurs, I drew a stratified random sample to represent the population in the

⁵¹ The Saudi Chambers of Commerce and Industry is a non-governmental entity created and funded privately by the commerce and industry sectors. Its broad mission is to promote, to advance the cause of the Saudi private sector, and to preserve its interests in various governmental bodies and associations assemblies. (RCCI) annually publishes a comprehensive directory containing the names, addresses and telephone numbers of all its business affiliates. This public document is also made available on the Internet. Businesses are organised in the directory in a yellow pages format, where each establishment can be identified by its main business activity.

survey questionnaire –based on the following formula (Crano & Brewer, 2002) and bounded by specific considerations:

$$n = \sigma (1-\sigma)/d^2$$

Where: d= the tolerated margin of error (coefficient interval) which was set to be 3%

σ = the proportion of entrepreneurs in the city of Riyadh who would respond in a certain way, estimated to be 64% - based on pilot study.

n= estimated necessary sample size

$$n = (.64) (.36) / (.03)^2.$$

$$n = 256$$

The finite population correction (fpc) was ignored because the estimated sample size (256) for this study consisted of less than 1% of its total population estimated at (35,000) entrepreneurs. Some researchers recommend applying the (fpc) formula when the sample consists of more than 5% of the population, others have suggested that the formula should be applied when the sample size exceeds 10% of the population that is, where the correction will result in a significant change in the corrected sample size.

The feedback I gathered from the RCCI indicated that the response rate to survey questionnaires within the Saudi business community has historically been low. I also anticipated that certain difficulties would arise while attempting to distribute questionnaires among Saudi women entrepreneurs. To account for these shortcomings, I decided to increase the sample size of the survey questionnaire from 256 to 300. I divided the 300 questionnaires into two batches: the first batch consisted of 270 questionnaires randomly distributed amongst male Saudi entrepreneurs in the city of Riyadh. The random sampling ensured adequate representation of various business sectors (manufacturing / industry, engineering and electronics / information technology, construction and contracting, retailing and wholesaling, services and others) and enabled every Saudi entrepreneur listed in the RCCI 2004 directory to stand an equal chance of being included in the study. The second batch consisting of the remaining 30 questionnaires was allotted for convenience distribution amongst Saudi women entrepreneurs to ensure their (adequate) representation in the study.

Postal questionnaires generally “have histories of high levels of non-response” (Curwin & Slater, 1985, p. 13). The negative impression I held towards the feasibility of mail surveys in Saudi Arabia was reinforced by the advice I received from various Saudi academics and research centres, such as the Centre of Research and Economic

Studies at the CSCCI. Relying on mail surveys is not a practical option in the Saudi context and is most likely to yield a very low response rate. This is due to many factors among which are the poor performance of postal services and the likelihood that the questionnaire will not reach its intended destination within a reasonable period –if indeed it was successfully delivered. Surprisingly, there is no mail delivery to street addresses (residential or business premises) in Riyadh; instead, mail is delivered only to a postal address. Therefore, I concluded that in order for the questionnaire surveys to produce tangible responses, they had to be hand-delivered, hand-collected and had to have constant follow-up in between.

The premeditated idea of employing students from the business school at KSU as research assistants for the distribution and the collection of the questionnaires was ruled impractical because the timing of the fieldwork coincided with the end of year final exams to be followed by long summer holidays. Alternatively, I sought the help of sales representatives and marketing executives from various business organisations. These individuals had the advantage of being a group of mature professionals who are more knowledgeable of the geography of the city and its business environment. Ten individuals, including the researcher, shared the workload whereby each assumed the responsibility for the distribution and the collection of 25-30 questionnaires depending on the extent of his personal and professional networks and the time available.

Despite the growing participation of Saudi women in business activity, involving Saudi female entrepreneurs in this research was not an easy assignment. In addition to the random sample of 270 male entrepreneurs, I also sought to take account of female entrepreneurs by including as many Saudi women entrepreneurs in the broader survey questionnaire as possible. Random sampling was not a feasible option since the particularities of the Saudi society do not allow for male/female interaction especially considering that the questionnaires are to be hand-delivered to, and hand-collected from, the premises. Therefore, a convenience sampling technique was employed to include Saudi women entrepreneurs in the research. Out of the 30 questionnaires allocated to the female entrepreneurs, it was possible to distribute only 18. Friends and ex-business colleagues assisted in the distribution of the questionnaires among and through their immediate and extended families, colleagues and friends.

I also attempted to make special arrangements to interview Saudi female entrepreneurs, but the prevailing circumstances did not allow such arrangements to take place. Other arrangements, such as appointing female assistants to conduct the

interviews, were considered but ruled inappropriate. In fact, none of the female respondents indicated a willingness to take part in the interviews; consequently, interviews were restricted to the Saudi male entrepreneur population. The small number (8) of female entrepreneurs who completed the survey questionnaire and their unwillingness to participate in the interviews underscores the difficulties facing (male) researchers in Saudi Arabia attempting to include female subjects in their research.

Response rate and invalid responses

While the researcher anticipated a 40% response rate, Table 5.2 shows that out of the 288 questionnaires distributed among Riyadh entrepreneurs, 101 questionnaires (35.07%) were returned and 97 responses (33.68%) were complete and deemed usable for further analysis.⁵² Hofstede (2001, p. 49) rightly observed, "Any paper-and-pencil instrument produces some invalid responses". Thus, it is not out of the normal that some respondents leave some questions unintentionally blank while others might give more than one answer where only one is allowed.

Table 5.2 The response rate for the survey questionnaires

Gender	Distributed questionnaires		Total Distrib.	Returned questionnaires		Total returns	Usable responses	Response rate
	Arabic	English		Arabic	English			
Male*	248	22	270	85	8	93	89	34.44 (32.96)
Female**	18	-----	18	8	-----	8	8	44.44 (44.44)
Total	266	22	288	93	8	101	97	35.07 (33.68)

*Random sampling

**Convenience sampling

Data entry errors also do occur such as coding (5) while only (4) choices exist (Hofstede, 2001). Another avenue for invalid responses in this study arises from the

⁵² Four returned questionnaires were excluded from further analysis for the following reasons: a) It was evident that this respondent did not understand how to fill in the questionnaire. He thought that he was to choose five questions (statements) from each section instead of rating his agreement with each statement on a scale one to five. b) This respondent failed to declare explicitly that he/she was a Saudi entrepreneur, a criterion for the validity of the questionnaire. c) This entrepreneur has two distinct businesses. He photocopied the questionnaire and filled out one for each business. I excluded one questionnaire because about 95% of the responses to the two questionnaires were identical. d) This questionnaire is deemed unusable because more than one half of its questions were left unanswered.

possibility that someone other than the Saudi entrepreneur might complete the questionnaire despite explicitly requesting potential respondents to confirm that they were Saudi entrepreneurs. Therefore, invalid answers were excluded and the results of analysis and percentages in the frequency distributions are based on valid responses only. Table 5.3 presents response rates for similar studies.

Table 5.3 An account of response rate of similar studies in Saudi Arabia

No.	Research (topic)	Researcher	Date	Sample size	Response rate
1.	The role of marketing in small enterprises (in Arabic)	Dr. Ahmed Al-Shmairi	Dec. 2002	550	30.5%
2.	Small Businesses: Engines for aspired economic growth (in Arabic)	Sajini Research and Consultancy Centre	Oct. 2003	200	58%*
3.	Available investment opportunities for Saudi women (in Arabic)	Research Centre at the RCCI	Dec. 1993	1200	7.3%

*The higher response rate could partially be explained by the fact that this research was carried out by a well-established research centre, where the availability of resources, expertise and time factor play to its advantage.

Recruiting and interviewing the participants

The Saudi entrepreneurs

As pointed out in earlier discussions, an explicit question and special return form were attached to the questionnaire asking the participants to indicate their willingness to further participate in the research by agreeing to an approximately one-hour interview with the researcher at their own convenience. The forms along with the completed survey questionnaires were to be returned in provided unmarked envelopes. All positive responses were to be considered as potential participants in the interviews, subject to their meeting other inclusion criteria, if any.

The initial plan was to wait until all expected (40%) responses were accounted for before starting the process of identifying potential case studies, then employing a purposive sampling technique to select the cases. However, the reality of the unfriendly Saudi summer made its presence felt and called for the re-examination of the soundness of this approach at this particular time. Summer holidays were at hand and

most business owners and employees would soon start their extended annual holidays. Failure to act would most probably result in the missing of an opportunity to interview a sizable number of willing entrepreneurs. Likewise, a preliminary appraisal of incoming responses indicated that one in six respondents, on average, had a positive response towards the interviews. This initial finding meant that out of the expected 100 –120 responses there would be around 17– 20 entrepreneurs willing to take part in the semi-structured face-to-face interviews. Such a conclusion clearly suggested that the researcher would not have the luxury of having a preference in choosing participants for the interviews; rather he must adjust his methodological approach in the light of the emerging trend.

I initiated contacts as early as possible with all who agreed to be interviewed. My aim was to gain the trust of the doubtful and lower the expectations of the very hopeful by reaffirming the objectivity of the research and the researcher. In addition to breaking the ice and establishing personal relationships with potential participants, the follow-up contacts sought to address any issues that may have been of concern to the prospective interviewees. The rationale was to build on the existing momentum without having to risk missing opportunities.

In total, I interviewed seventeen entrepreneurs out of the twenty-one who expressed a readiness to participate in the interviews. Two entrepreneurs cited “personal reasons” for not wishing to go ahead with the interviews despite their previous agreements. Unanticipated circumstances prevented the other two entrepreneurs from attending scheduled meetings, and it was not possible to reschedule the meetings since both of them would be out of the country for a long time.

The in-depth semi-structured personal interviews took place during scheduled visits to the participating Saudi firms. The interviews were designed to collect an abundance of quality information within an approximately one-hour period. While the majority of the interviews lasted 45 - 60 minutes on the average, some lasted 90 minutes. One particular interview was going nowhere, so I had to end it after about 15 minutes. The young interviewee has a pleasant personality but had little to contribute to the interview. The sudden death of his father forced him to take charge of the business, and at the time of the interview he was still learning the ABC's of the business.

The interviews were guided by ‘case study protocol’; the time and the place of the interviews were scheduled at the participants’ own convenience, mainly around midday

(right after *Duhur* prayer) or at the evening (after *Isha* prayer). Most businesses in Saudi Arabia operate on a two-period basis: 8-12 am and 4-8 pm due to high temperature readings that make conducting business activity between mid day and 4:00 pm intolerable. Interviews were conducted at a rate of one to two interviews per day (complete interviews schedules are attached in Appendix – 4). Meeting arrangements had to be confirmed within two days of the agreed time. Although I have maintained some kind of uniformity in the sequence of asking the questions, the design of the interview protocol was flexible enough to allow me to instantly evaluate the direction of the ongoing interview and to deviate from the script if necessary. The flexibility of the semi-structured interviews' procedure also enabled me on different occasions to probe beyond the answers of the participants and to ask for more information, clarification, and to engage them, informally, in discussions to pursue emerging issues that were unaccounted for in the original prepared list of interview questions. The majority of participating Saudi entrepreneurs (14 out of 17) did not object to the tape-recording of the interviews. Tape-recording took place only when consent was given. Primary data gathered through the interviews were supplemented by available documents such as business profiles, official statements, reports, bulletins and brochures of the respective businesses.

Saudi entrepreneurs have made some interesting comments and displayed opposing attitudes towards this research project. Their remarks, as shown below, reflected mixed perceptions, anticipations and therefore reactions towards the research and the researcher. Such a prevailing position underlined the need for more convincing explanations on the part of the researcher to clarify the purpose and the objective of the research, and to assure potential participants of the impartiality and objectivity of the researcher.

On the one extreme, an entrepreneur wrote:

- *First read into your questionnaire gave me the impression that you are a tool in the hands of your supervisors who are pushing you to reach a conclusion that Muslims do not follow Islam and or Islam is an obstacle in the way of their development and progress.*
- Another entrepreneur might have linked the research with the “conspiracy theory” against Islam, thus was more forthcoming in expressing his feelings:

I thought that the researcher is a narrow minded (New Zealander) who belongs to the American school of hatred and carries a lot of enmity towards Islam.

On the other extreme, some entrepreneurs had different views of the research and the researcher, one entrepreneur commented:

You scholars carry tremendous responsibilities in your quest to uncover the truth where it might be. I am confident that your work is of a great value and I have no doubt that your research will prove that Islam is the religion of salvation and prosperity.

- Another entrepreneur remarked:

Good luck in your research. It is for a great cause especially nowadays where many familiar and unfamiliar evil forces are targeting Islam. Islam needs more intellects like you who by their methodical and impartial work refute the unsubstantiated oriental thesis about the gloomy role of Islam in development.

- And a third entrepreneur felt that:

"It was reassuring to see someone who is profoundly jealous about his religion to the point where he decided to do something about it, and try to change false impressions by presenting empirical evidences from the field".

The Saudi officials

Originally, the plan was to open direct contacts with top Saudi officials (elites) in respective ministries, departments, and agencies to explain the nature and the purpose of my research and to obtain their permission to conduct interviews with their designated subordinates. The elite officials are in a better position to nominate the right person(s) for the specific task. This purposive sampling approach was deemed the most appropriate and workable despite the fact that it raises concerns regarding the "anonymity" and the "objectivity" of the participants.

Once in the field I had to rethink the entire planned recruitment approach. The range of bodies (organisations) that had an interest in SMEs, and the specialised nature of the service they offered necessitated adjustment to the planned interviewing protocol. It became evident that none of the potential interviewees would be in a position to answer all of the prepared questions. Participants from various ministries and departments were asked questions relevant to their speciality and experience.

The absence of a single state-sponsored authority responsible for the development and promotion of Saudi entrepreneurship rendered the planned approach to recruiting subjects for the interviews impractical. In the field, I discovered that to know whom the real decision makers are is a mission on its own. This coupled with the reality of the Saudi entrepreneurship sector made interviewing the (real) policymakers "mission

impossible". Champion (2003, pp. 221-223) rightly noted that securing an interview for research purposes with high-level Saudi officials is not an easy task. Subordinate officials, on the other hand, usually do not reveal more than what is already public knowledge. They also expect their identities to be kept anonymous.

Odendahl and Shaw (2002, p. 308) fittingly described the difficulties facing researchers wishing to interview the elite: "scheduling interviews with the elite individuals is labour intensive, typically requiring several telephone calls with personal assistants or other gatekeeper(s)". The starting point or "the gatekeeper" had to be the RCCI, since it was the "only" relevant semi-official body accessible without difficulty. Officials at the Chamber are to be commended for their dedication and cooperative spirit regarding all activities focussed on advancing the cause of SMEs. There, I acquired valuable insights and in-depth understanding of the Saudi small business sector. The cooperation and the backing of the officials at the Chamber proved indispensable, especially in arranging for interviews with officials, who have an interest in entrepreneurship and small business development: In all, I was able to interview twelve Saudi officials from the following Ministries, organisations and departments. Eight interviews were tape-recorded.

- Council of Saudi Chamber of Commerce and Industry
- Riyadh Chamber of Commerce and Industry
- Saudi Arabian General Investment Authority
- Ministry of Industry and Trade
- Ministry of Commerce and Planning
- Labour Office
- General Organization for Technical Education & Vocational Training
- Human Resource Development Authority
- Authority of *Zakah* and Income

Not being able to access 'policymakers' undoubtedly had a negative impact on the quality of gathered information. The information provided by Saudi officials in most cases lacked depth and originality. Most of the interviewees did not reveal more than what is publicly known. They recounted the services and the support (when available) offered by their ministries and departments to the SMEs. A rational explanation of this outcome is that the interviews were frank and honest and the quality of the provided information truly reflects the reality of the Saudi entrepreneurship environment. Another argument explains the reluctance of participants to disclose meaningful and critical information (assuming that they had such information) in terms of the general tendency to abide by unwritten polices that 'things can not be better'.

The majority of officials I interviewed explicitly stated that they had neither the power nor the authority to decide upon new policies or undertake new initiatives to promote entrepreneurship. Some officials made it clear that they did not wish for their responses to be linked to, or interpreted in the context of the offices they held.

The Saudi intellectuals

I used a snowballing sampling technique to recruit participants among Saudi intellectuals and Islamic development specialists as planned. In addition to facilitating the logistics of the research, the association with KSU gave me the opportunity to establish close contacts with the Saudi academic community, which proved beneficial to the research process on different occasions. A recognised member of KSU faculty shared with me some of his publications regarding Islamic development and suggested a few names to contact.

In contrast with the difficulties I encountered while trying to identify and schedule interviews with Saudi officials, the process of identifying candidates and conducting the interviews with Saudi intellectuals was not problematic. I was able to interview 13 academics and development specialists through the utilisation of a variety of sources, all within the general framework of the snowballing technique used to identify and recruit potential participants⁵³.

Retaining and managing data

Tape-recording

Tape-recording is a powerful, yet controversial tool in the hands of the researcher. Therefore, the benefits of the tape-recording facility must be balanced against its possible shortcomings. This is particularly true when sensitive information is at the core of discussions and/or where the research is being carried out in an environment where tolerance is not part of the political tradition. By using tape-recording, one risks the objectivity of the interviewee when answering certain questions. Despite the

⁵³ I attended the following three functions while in the field that proved to be useful in identifying and recruiting potential participants. Firstly, a workshop organised by the NZ Embassy and the Saudi Ministry of Higher Education in Riyadh (May 1st, 2004); secondly, a forum organised by the 'Human Resource Management Fund' and chaired by the high profiled Minister of Labour to debate the unemployment problem in the Kingdom (May 23rd- 25th, 2004). Thirdly, a seminar on the role of Saudi professional organisations towards Saudi Business-youth organised by RCCI (May 11, 2004).

assurances given to the participants that no third party will have access to the recorded interviews, (some) participants remain suspicious about who might listen to the interview. They might feel pressured to give what they think might be the right answers and acceptable views, which might not necessarily be their own. Hence, the accuracy and the honesty of the data could be compromised (Lam, 1999).

My own experience with tape recording depicts this other face of the coin. I felt on at least two different occasions that I was not getting the full story from my interviewees. In our informal meetings, they talked openly and provided a wealth of ideas, opinions, criticism, and observations vital to the topics under discussions. However, at the time of the interviews they were far more moderate and even reluctant in expressing their views than they had been in our informal introductory meetings just a day or two earlier. This is despite the fact that they had the choice and the final say of whether or not they wished the interviews to be recorded. A tactic I used to overcome this inconvenience was to constantly remind my informants during the course of the interview that we could turn off the tape-recorder permanently or temporarily at any point of time. This approach has worked well in subsequent interviews. Three of my informants from various organisations at different points throughout the interviews asked for the taping to be stopped in order to respond at ease to specific question(s).

Despite my reliance on tape-recording and other note taking techniques as primary methods of retaining and managing data collected from the personal interviews, I created what Neuman (2006, p. 402) calls a "face sheet". Face sheet is a complementary account of the interview process containing descriptive information of the interview setting. Data about each interview included the time, date and place of the interview; characteristics of the interviewee; relevant observations and nonverbal behaviours during the course of the interview such as special gestures, eye contact, and the reaction to certain questions. Face sheet was used to establish a point of reference and a link between the researcher and each interview, and by doing so; it proved to be a valuable instrument at the time of transcribing and analysing the interview content.

Research journal

I maintained at all times a research journal to record any exciting idea that could strike at any time and leave the memory in no time. The research journal served as a database that contained questions, thoughts and insights, quotation and phrases,

notes and observations from the field, a description of a given relevant setting, unexpected but meaningful encounters, and personal feelings and impressions towards the direction in which the fieldwork was heading.

I managed to review the journal at the end of each day in order to attend to issues that needed immediate action and to integrate new ideas and information in the research process. I also carried out a weekly review of the research journal to ensure against overlooking outstanding issues or missing potential leads.

Data analysis

There were two sets of data generated by this study, the quantitative data obtained from the questionnaires, and the qualitative data obtained from interviewing three discrete Saudi groups; Saudi entrepreneurs, Saudi officials and Saudi intellectuals. The nature and the objective of the research coupled with the researcher's analytical skills have determined the choice of methods of analysis. The descriptive/exploratory nature of this study dictated the use of descriptive statistical techniques to analyse collected quantitative data, and the logic of grounded theory to develop inductively systematic theory based on data generated by the semi-structured in-depth interviews.

Quantitative analysis

This purpose of the survey questionnaire was to establish the characteristics of Saudi entrepreneurs and to describe their attitudes towards Islamic entrepreneurship, thus in it I used simpler descriptive methods of data collection. The data collected through the survey questionnaire of Saudi entrepreneurs were edited to ensure that the responses were ready for computer analysis. Responses were given arbitrary numerical codes then entered into a computer database using the Microsoft Excel computer programme for retrieval and later analysis. Editing, coding and data entry were carried out while in the field. The Statistical Package for Social Science (SPSS) was employed in analysing collected data because of its simplicity and suitability in obtaining meaningful descriptive results.

The statistical descriptive analysis provided the basic tool for summarising the first section of the survey data. Statistical results such as central tendency measurements, frequency distributions, dispersions and percentages were generated to describe the background, demography and distribution of the subjects. Furthermore, cross-

tabulation and factor analysis were used to examine the relationship between different variables such as the relationship between level of success and level of re-investment in business, size, sector and age of the business and gender, age and educational background of the entrepreneur.

A larger portion of the questionnaire was devoted to the attitudes of Saudi entrepreneurs. In total, the questionnaire contained 80 item statements relating to entrepreneurs' individual perceptions and attitudes towards an array of entrepreneurial issues. Each statement was judged on a five-point Likert-type scale: from one (*strongly disagree*) to five (*strongly agree*). Initially, all Likert item responses were given the same values. However, the values were adjusted to reflect more accurately the attitudes of respondents. Strongly disagree and strongly agree responses were given values of five for both positively and negatively worded statements. For easier and more meaningful interpretation, results were summarised using the mode and frequency, instead of the mean, and the range rather than the standard deviation. Results of the analysis were presented as percentages and frequency distributions in the form of tables (Appendix – 6). "Multiple comparisons" tests were carried out on attitude responses regarding gender, age, educational background, size and sector of business levels to determine whether or not there were statistically significant differences in entrepreneurs' responses.

Only eight female Saudi entrepreneurs completed the questionnaire, and none agreed to be interviewed. Such a small sample size of female entrepreneurs inhibited the use of statistical tests involving gender and made meaningful statistical analysis of collected data unattainable. However, since it is neither the aim nor the intention in this study to specifically focus on gender as a research issue, only simple analyses that explore relationship at a gender level were performed when such analysis was deemed appropriate and served a purpose. Otherwise, the term "Saudi entrepreneurs" was used to refer to both men and women entrepreneurs. Accordingly, all other analysis and discussions were carried out within this frame of understanding.

The consistency and correctness of the responses

I subjected collected data to scrutiny to test their validity and reliability by employing two reliability tests to uncover any discrepancies or inconsistencies and to guard against possible response bias. The objective of the internal consistency test was to detect any inconsistencies and contradictions in entrepreneurs' responses. Some

statements that carry the same meaning and serve the same purpose were worded differently “and placed in different places in the questionnaire” to uncover possible inconsistencies. Statements 21-25 of section 2 served this purpose. Another technique was also used based on including two interrelated or mutually exclusive statements/questions in the questionnaire, where the response to one statement determines the response to the other. If an entrepreneur strongly agrees with the statement “I consider myself to be a good and a devout Muslim”, it is expected that the same entrepreneur will strongly agree or at least agree with the statement “I always conduct my business according to the laws of *Shari’ah*”.

The purpose of the second test was to minimise the likely occurrence of possible bias in answering the survey questions. Bias usually occurs when a respondent tends to select one scale to fill in for the statements of the entire section or throughout the whole questionnaire. Bias also often occurs when respondents tend to respond consistently by simply choosing the first or the last answer as a guide in answering the entire set of questions. “To safeguard against response-set bias”, Cooper and Schindler (1998, p.197) argue that a balance should be maintained in phrasing the statements of the Likert scale-based questionnaire.

Table 5.4 The distribution of responses among the 5-point measuring scale

Scale	Frequency	Percentage
1 = Strongly disagree	747	9.63
2 = Disagree	1174	15.13
3 = Not sure	1434	18.48
4 = Agree	3073	39.60
5 = Strongly agree	1266	16.31
No response	66	0.85
Total	7760	100%

Likert Scale-based statements: (80*97) matrix consists of responses to all attitude statements of the questionnaire

The mixture of favourable and unfavourable statements in this questionnaire generated unbiased sets of responses. Table 5.4 above shows that around 25% of responses had a negative tone (disagree/strongly disagree) and about 56% had a positive preference (agree/strongly agree) with respective statements of the questionnaire. Furthermore, above 18% of responses were without clear opinion regarding the raised issues in the questionnaire, and less than 1% of the questions were left unanswered.

Qualitative analysis

Data generated from the semi-structured interviews allowed the researcher to account for issues that were not included in the structured questionnaire. The verbatim collected data were summarised and grouped into categories within the framework of the conceptual model developed by the researcher. I have organised the major components of the model into conceptual categories, and placed each emerging concept under the appropriate category. If there was no best-fit category to accommodate emerging (original) concept(s), a new category was created. The purpose of the categorisation process was to transform data into concepts and then to examine the relationships between the emerging concepts. In addition to searching for common themes, patterns and relationships in information provided by interviewing stakeholders, I chose six representative interviews with Saudi entrepreneurs to form the basis for the case studies. The aim was to generate new knowledge from the collected data and consequently to build up inductively a systematic theory on Islamic entrepreneurship within the Saudi context.

I have chosen to analyse all data generated by the interviews manually despite my appreciation of the advantages of using computer software packages for analysing recorded qualitative data. After all, the personal element gives qualitative research its distinct bearing!

Ethical issues

I submitted an application form for ethical approval from the Massey University Human Ethics Committee to undertake the field research. A meeting was scheduled and convened to discuss the application, which was approved in line with the university's code of ethics.

Parallel to that, much effort was exerted to obtain the permission of the Saudi authorities concerned to carry out the research in the Kingdom. Once in the field, there was no further permission required from higher authorities to gain access to Saudi entrepreneurs or any other potential participant in the study. However, some individuals and official bodies were (understandably) initially reluctant to cooperate and asked for evidence to demonstrate the legitimacy – and the authorities' approval – of the research. An introductory endorsement letter from King Saud University and another from Riyadh Chamber of Commerce were very helpful and proved to be very effective in meeting such demands.

Information Sheet

All potential participants in the study were given an information sheet consisting of a letter introducing the researcher and the research, an informed consent and a clear explanation of their rights and obligations as potential participants in the study. Potential participants in the survey questionnaire were also provided with a copy of the complete questionnaire including necessary directions on how to go about filling in the questionnaire (Appendix - 3). All research subjects were explicitly informed that their participation was voluntary and that they had the right to decline participation. Only participants who gave a signed or a verbal consent showing understanding and an awareness of the nature and the purpose of the study and willingness to participate were included in the study. Individuals taking part in the study were given the option of signing a written consent form or alternatively it was made clear to them that by completing the questionnaire and/or participating in the interviews, they were giving their implicit informed consent. Respondents were informed of their rights to decline to answer any question(s) and to cut short their participation at any time without having to give a reason and without incurring any penalty.

Respondents were assured that the requested information would be combined with information from other participants and used only and solely for academic purposes in relation to the objective of this study. Participants were further assured that their responses would be treated with utmost confidentiality and the results would be reported in such a way that no link whatsoever could be made to any participant in any form or shape. The questionnaires are anonymous and contain reassurances that no attempt will be made to identify respondents. Once data analysis has been accomplished and the original data are no longer needed, the researcher ensures that such data are destroyed.

Potential participants were reassured that their participation in the research would not expose them to any risks nor would it promise them any financial benefits. However, they were told that the information they provide would make a valuable contribution towards advancing the cause of Islamic entrepreneurship.

The challenge of doing research in Saudi Arabia

Field research, especially in the socio-political discipline, is not an established part of the Saudi culture. This is evidenced by its historically poor record of response rates to various research attempts and limited information shared with the researchers (Champion, 2003). Such attitudes could be understood in the light of the following: Firstly, Saudis at state level as well as at the individual level are sensitive about their privacy and space and they do not feel at ease sharing their private (personal and/or business) information with others. Secondly, some Saudis are reluctant to get involved in the research because they are under the impression that research is an activity that requires explicit authorisation of the political establishment; hence, they are apprehensive of the consequences of their participation. Thirdly, people in general are hesitant to be involved in activities that they are not obliged to be part of, especially if they do not foresee an incentive for doing so. Researchers are unlikely to take the time or make the effort to explain the objectives and the practical implications of the research to the participants. Furthermore, research findings are rarely communicated with the participants and in most cases do not render any positive contributions to their businesses. Finally and more importantly, Saudis do question the motives and the authority of the majority of foreign researchers and they doubt the adequacy of their approaches. They believe that foreign, and particularly Western, researchers are not impartial; they come to the Kingdom with prepared agendas and pre-determined negative views of the phenomena to be investigated. "They proclaim the verdict before commencing the trial," commented a Saudi official. Their main aim is to prove their hypotheses, which are usually built on the assumption that Muslims are backward people and Islam is a static religion, which tends to deter development and impede progress.

The lack of accurate and reliable statistical data was a major obstacle facing this researcher, as it has faced many other scholars (Vassiliev, 2000; Champion, 2003; Al Zahrani, 2003) who have attempted to undertake research in Saudi Arabia; data regarding the same element or variable, if and when available, vary widely between different official sources. Therefore, one should question the accuracy of the figures cited and treat them with caution. Statistics from secondary sources cited in this thesis are to be viewed as indicative in reflecting trends or patterns rather than as being facts to be used in further statistical analysis.

In addition to the above challenges and limitations, the timing of the fieldwork was not advantageous. A non-compromising stipulation for the validity of the returned questionnaires was that they must be completed by the Saudi entrepreneur him/herself. However, Saudi entrepreneurs, like the majority of Saudis, arrange for their annual holidays to coincide with the summer school holidays when they seek to escape the heat of the Saudi desert. This inconvenient timing, which I could not avoid due to delays in obtaining research permission, had an adverse effect on the number of returned questionnaires and subsequently on the number of the interviews. The linking of the socio-political (unrest) state of affairs, that the Kingdom was experiencing at the time of the fieldwork, with religious groups did not help the cause of this research either. The prevailing circumstances might also have interfered with the objectivity of entrepreneurs in expressing their attitudes and explaining their approaches towards the role of religion in business.

Despite the many challenges, it would be fair to state that Saudis in general have shown real appreciation of this research undertaking. Once they understood the purpose and the objectives of the research and established trust in the researcher, they became more accommodating and showed a considerable interest and support. The comments of some respondents indicated that they took this study seriously and wanted their voice to be heard. An entrepreneur wrote in the comments section of the questionnaire; "Of course there are sensitive and important comments to be made. If the researcher kindly visits us, he will find us not only open minded, but also open hearted". Another respondent was critical of the use of the questionnaire as being an ineffective means to collect data. He wrote:

Survey questionnaires as data collection methods are preferred instruments by majority of researchers because they are easy to administer and suite their academic purposes. However, this is not the case for the respondents. Questionnaires limit their ability to explain themselves and elaborate on the reasons behinds choosing rigid answers

Such comments clearly indicate that Saudi entrepreneurs want to be counted and their input to be considered. They also reflect their high expectations of the academic community to be impartial and true to the cause of the research. Further, they expect the research to be relevant and to have practical implications for the well-being of their businesses.

Insider / outsider and the issue of subjectivity

The opening quotation for this chapter highlighted the issue of subjectivity in qualitative research and the fact that subjectivity influences the researcher's work in many ways, including the personal relationship between the researcher and the research setting (people and events). Mehra (2002) drew attention to the risk of too much bias on the part of the researcher to the point where the research becomes an account of the researcher's own views, values and preferences, and the findings merely a reflection of the researcher's anticipated conclusions. In order to minimise such a risk, researchers are advised to thoroughly document their fieldwork by keeping detailed and comprehensive field notes, and not to attempt to deny or hide their subjectivity, (cited in Mehra, 2002) because as Mehra stated, "The researcher bias enters into the picture even if the researcher tries to stay out of it". How the researcher can be objective while undertaking qualitative research –considering that "qualitative research is subjective in nature" (Zikmund, 1994, p. 110). Nonetheless, it is expected that qualitative researchers adopt appropriate procedures and apply certain measures that limit their bias and ensure the integrity of their research.

Berg and Smith (1988) asked the important question of where social scientists position themselves in connection with their research. Being a Muslim Arab (entrepreneur) who lived, worked and had his first experience with entrepreneurship in Saudi Arabia, I wonder if I can claim exercising reasonable objectivity in my research or, on the contrary, that subjectivity has influenced even my choice of the research topic. The fact that this research is purely academic and personally funded renders it free from direct and indirect external influences. However, as to the personal bias, although I do not pretend that I was able to completely neutralise my feelings and remove myself from the research process, I can claim that I maintained a balance between my involvement in, and my detachment from the, research setting. Thus, I can affirm my commitment to the impartiality of the research, especially in the process of data collection, data interpretation, and in reporting the findings of the study. The contrasting comments I received from some Saudi entrepreneurs regarding their perceptions of the questionnaire reflect my endeavour to maintain such impartiality.

In the field, I was mostly viewed as an insider or, at least as, an outsider with (special status) by the majority of Saudis associated with the research. After all, I share with Saudis religion, language, value system and many of their cultural traditions. This

relationship on the one hand, made it more difficult to maintain a higher degree of objectivity and on the other it played to the advantage of this research, most notably: I was spared the cultural shock that tends to distress most researchers undertaking research in cultures contrasting to their own. I also had the acceptance, trust and hence the co-operation of the majority of Saudis whom I came in touch with (while Western researchers usually do not). This acceptance made access to potential participants in the private sector much easier and thus provided opportunity for an insider viewpoint. However, accessing policymakers remains a hard pursuit, even for Saudi researchers. Furthermore, my empathy and previous experience in the Saudi business environment allowed me to question participants' answers and press on (within reason) for elaborations, clarifications and/or justifications of their initial responses. These attributes undoubtedly have contributed to the quality and credibility of collected data, and consequently to the findings of this research.

The reception I had from the majority of Saudi entrepreneurs, academics and officials whom I interviewed overwhelmed me. In addition to opening their businesses and allocating their valuable time to participate in the research, some also opened their homes to me and made me feel appreciated and that my work was worthwhile. Their attitude left me with no doubt that they value the research I am undertaking and at the same time, they count on robust and credible outcomes.

CONCLUSION

This chapter has discussed the rationale for the selection of data collection and data analysis methods, and the experience of applying these methods in the field to examine the entrepreneurship phenomenon from an Islamic perspective within the context of Saudi Arabia. The principle of triangulation underlines the significance of exploring the same social phenomenon (Islamic entrepreneurship) using multiple sources of evidence and collecting data through different means. Triangulation was applied in this research in an attempt to offset the limitations and reduce the impact of the biases associated with each of the selected methodological approaches. Specifically, to compensate for the lack of depth to data collected through the survey questionnaires, and the inability to generalise the outcomes of studying fewer cases by means of personal interviews (Jick, 1979; Creswell, 1994).

While the first part of this chapter presented a detailed account of how I intended to practically address the research question and objectives, the second part described the application of the planned and/or revised methodologies in the field and the real experiences of doing fieldwork research. The flexibility of qualitative research and the advantage of being in the field enabled me to reconsider the research design, and rethink the research methodology whenever deemed necessary, and pursue a line of inquiry consistent with the emerging propositions and preliminary research findings.

I used self-administered survey questionnaires to generate descriptive data regarding the characteristics of the Saudi entrepreneurs and their attitudes towards the Islamic entrepreneurship phenomenon. The semi-structured interviews, on the other hand, generated enriched sets of qualitative data that were used to develop case studies, complement, explain and justify the survey data, and to augment the general understanding of the Islamic entrepreneurship experience within the Saudi context. The research parameters and the vast majority of the statements that comprised the questionnaire and the interviews questions were largely derived from the conceptual entrepreneurship model developed in Chapter 2 and 3 and from other related literature (Chapters 1 to 4).

The findings of this study, as will be demonstrated in the next three chapters, underscore the viability of applying triangulation method in the same research. They further show that the understanding of the reality of the Saudi entrepreneurship in general and specifically from an Islamic perspective was significantly enhanced by exploring the entrepreneurial phenomenon from different angles and by different lenses.

The chapter concluded with a more personal account on doing research in Saudi Arabia and how the researcher positioned himself in connection with the research. Doing research in Saudi Arabia, especially in the social science discipline, is not an easy endeavour. Many challenges await potential researchers long before they actually commence their fieldwork; not the least is finding a Saudi sponsor (*kafeel*) and a reliable and well connected local associate willing to spend time and exert effort in following up the journey of “the visa file” from one ministry to another. However, even with the challenges discussed in this chapter and many others, Saudi Arabia provides researchers with wealth of research opportunities that are worth pursuing.

CHAPTER SIX

THE ATTITUDES OF SAUDI ENTREPRENEURS

Economic life is deeply embedded in social life, and it cannot be understood apart from the customs, morals and habits of the society in which it occurs. In short, it cannot be divorced from culture.

Fukuyama (1995, p.13)

In line with the objectives set for this study, this chapter advances the research into its analytical phase by focusing on the data collected through the survey questionnaire. The broad aim of this chapter is to examine the attitudes of Saudi entrepreneurs towards key ingredients of the proposed conceptual model in order to accumulate descriptive data to assess the strength and the degree of acceptability of these ingredients among Saudi entrepreneurs. Consequently, the questionnaire instrument did not identify variables or establish the dependent/independent type of relationship between the variables nor did it attempt to test hypotheses. It merely sought to define and describe the attitudes and the feelings of Saudi entrepreneurs towards Islamic and Western entrepreneurship. The next two chapters will pursue further an exploratory investigation to complement data on hand in order to attend to the research questions and objectives.

The self-administered attitudinal survey questionnaire focused on seven broad but related sets of issues. The first set of questions dealt with the attitudes of Saudi entrepreneurs to Westernisation and modernisation. The second set focused on the attitudes of Saudi entrepreneurs to the Saudi cultural values and belief system. The third set sought to establish an understanding of Saudi entrepreneurs' perceptions of entrepreneurial activity. The fourth set examined the attitudes of Saudi entrepreneurs towards the role of Islam in cultivating and promoting a vibrant entrepreneurial culture. The fifth set explored the attitudes of Saudi entrepreneurs towards the Islamic approach to entrepreneurship and development. The sixth set aimed at examining the attitudes of Saudi entrepreneurs towards the role of Islamic values in their business

behaviours and practices. Finally, the seventh set of statements, which will be presented in chapter eight, was focused on examining the attitudes of Saudi entrepreneurs to economic and cultural globalisation, and towards the Kingdom's joining the WTO.

Responses to each statement/question were analysed separately using descriptive statistics such as frequency distributions and percentages. Factor analysis among the survey statements revealed some – but not clearly identifiable – patterns, therefore the researcher sought to re-group statements according to key themes for further analysis. Each set of data was analysed as an inclusive entity in order to formulate the attitudes of respondents towards a specific pertinent issue. Subsequently, the outcomes of entity analysis were consolidated to form a comprehensive understanding of the feelings of Saudi entrepreneurs towards Western and Islamic entrepreneurship.

The religious devotion of Saudi entrepreneurs

Respondents to the self-administered survey questionnaire came from a cross-section of Saudi businesses in the city of Riyadh. The study covered male as well as female entrepreneurs from different age groups, educational backgrounds and business experiences. It also accounted for business entities that varied in their size, age and line of business. The survey questionnaire generated 89 usable responses from Saudi male entrepreneurs and eight valid responses from women entrepreneurs.

Table 6.1 Self-perception of the devotion of Saudi entrepreneurs

Item	Contents	Statistical measurement (Percentage)					
		SD 1	D 2	NS 3	A 4	SA 5	NR ⁵⁴ 0
1.	I am a good and a devout Muslim	0	2	16	53	29	0
		2		16	82		0

Despite their diverse characteristics and backgrounds, participating Saudi entrepreneurs displayed a predominantly positive attitude towards their religious commitment. Data in Table 6.1 show that the majority of Saudi entrepreneurs had a favourable religious self-perception and regarded themselves as being faithful and

⁵⁴ SD= Strongly Disagree; D= Disagree; NS= Not Sure; A= Agree; SA= Strongly Agree; NR= No Response

committed Muslims. Only a marginal minority (2%) of respondents felt otherwise and a further 16% were unsure, hence they were reluctant to classify themselves either way. This religiously homogenous makeup of the study sample is in sharp contrast with Dodd and Seaman's (1998) research sample where almost 50% of respondents reported no affiliation, no attendance and no impact of religion on their lives.

Modernisation ... Westernisation and the Saudi entrepreneur

Although the relationship between development and culture is well established and well documented, it is somehow controversial; on the one hand are the modernisation theories advocating cultural transformation of the underdeveloped nations, and on the other are the campaigners for cultural-based development. Muslims, profoundly, have concerns regarding Western cultural domination. They view the imposition of Western cultural values, especially the unlimited and unrestrained freedom for the individual, as a threat to their own conservative values.

The findings of this study did not provide conclusive evidence to support the perception held by many Westerners that Saudis are fundamentalists who reject everything associated with the West. Data in Table 6.2 show that while 30% of participating entrepreneurs rejected Westernisation in abstract terms, 54% of them did not have the same attitude and did not reject Westernisation for the sake of the denial. Against the expectations, the statement that portrayed Westernisation to be the only path to modernisation was rejected by only 54% of respondents and endorsed by as many as 31% –leading one to conclude that Saudi entrepreneurs neither discounted nor embraced Westernisation on its entirety at face value. Westernisation, to Saudi entrepreneurs, is not the only path, to modernisation, and hence is not a condition for development. What Saudi entrepreneurs are saying is that; yes, we acknowledge and we recognise the Western culture, but it remains where it should be –Western. We, Saudis, are not Westerners and we do not pretend or aspire to be. We have our own value system and our own definition and views of development.

However, it is evident that the majority of Saudi entrepreneurs rejected the implicit, and sometimes explicit, suggestion of the Western modernisation theories that equate 'modernisation with Westernisation'. This attitude goes beyond passive rejection to offering an alternative in the form of home nurtured and promoted indigenous modernity

Table 6.2 The attitudes of Saudi entrepreneurs towards Westernisation and modernisation

Item	Contents	Statistical measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	I reject Westernisation	23	31	15	25	5	1
		54		15	30		1
2.	Westernisation is the only path to modernisation	20	34	14	16	15	1
		54		14	31		1
3.	Each country should pursue modernisation based on its understanding of the term and in line with its own values and convictions.	3	3	4	61	27	2
		6		4	88		2
4.	SA can modernise while preserving its culture.	0	4	10	39	47	0
		4		10	86		0
5.	SA should build upon its Islamic values in its pursuit for modernisation and development.	1	0	0	41	58	0
		1		0	99		0

There was a definite agreement among responding Saudi entrepreneurs in embracing Islamic-based modernisation where 99% of respondents believe that Saudi Arabia should build upon its Islamic values, not its customs and traditions, in its pursuit of modernisation and development. Entrepreneurs have emphasised that Islamic values, not people’s traditions, should map their modernisation process and guide them towards the state of well-being. They made a clear distinction between Islamic values and people’s customs and traditions. Culture as a context encircles religious values as well as other people’s traditions, which are not necessarily part of the Islamic value system. Saudi entrepreneurs believe that their development model should be based on Islamic foundations rather than on people’s customs and traditions. This indicates that 13% of participants believe that Saudi culture is not entirely based on Islamic values and that some non-Islamic elements, which have slithered into it, could hinder development, and thus need to be addressed.

The fact that about one in three respondents has considered Westernisation to be the only path to modernisation contradicts their attitudes towards indigenous Islamic modernisation. It also raises some genuine questions regarding the basis of the Saudi development and the course it is taking. This contradiction also brings to light “the crisis of Saudi modernity” and the thesis that Saudi Arabia is a country in transition towards an uncertain destination.

The Saudi society is widely portrayed as being composed of two distinct groups: the conservatives and the liberals. However, building on the work of Introvigne (2005), where he discussed the “*Niches in the Islamic religious market and fundamentalism*” mainly within the context of Turkey, one could argue that the attitudes of Saudis towards the relationship between reforms and Western modernisation could be established as shown in Table 6.3.

Table 6.3 A model of the Saudi religious market

Niches	Trends	Relationship Between religion and culture	Sector(s) of the population
Ultrastrict	Ultrafundamentalism	Total identification	- Smaller scale within remote communities and minority of religious scholars (passive rejection) - Intellectuals who believe Islam offers the alternative
Strict	a) Fundamentalism or b) Traditionalism	Identification (some compromise accepted)	- Religious <i>Ulama</i> - Royal family (old generation)
Moderate-conservative	Conservatism, reformism	Distinction (but not separation)	Royal family (new generation of young princes), technocrats
Liberal	Religious liberalism	Separation (tolerated))	Very few, mainly Western-educated
Ultraliberal	Modernism	Separation (promoted)	-----

Source: Derived from Introvigne (2005, Tables 1, 2 & 3).

Do Muslim entrepreneurs have to adopt Western values and Western practices to succeed in business?

Saudi entrepreneurs were focused in their views about the differentiation between modernity as an “instrument” and as a “concept”. They restated the same attitude when asked about their feelings towards the adoption of Western methods and values in their businesses. Data in Table 6.4 indicate that compared with the 26% of respondents who believed that success in their business is more likely to be achieved by adopting Western practices; only 2% thought that it was crucial for Muslim entrepreneurs to adopt Western values in order to realise success in their business ventures.

Table 6.4 The attitudes of the Saudi entrepreneurs towards embracing Western values and Western practices in their businesses

Item	Contents	Statistical measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	Muslim entrepreneurs must adopt Western methods in order to succeed in business.	22	24	28	23	3	0
		46		28	26		0
2.	To succeed in business, Muslim entrepreneurs must also adopt Western values	43	49	6	2	0	0
		92		6	2		0
3.	In general, Westerners are better entrepreneurs than Muslims	23	42	13	15	2	5
		65		13	17		5

This attitude raises the question as to whether it is possible for Muslims to be selective in adopting technology in its physical structure while forcefully rebuffing its cultural origin (Tibi, 2003). Muslim intellectuals such as Dr. Mahathir (2003) strongly believe that Muslims can overcome the effects of adopting Western technology by truly adhering to the principles of Islam and by their honest “return to Islamic roots”. Special efforts must be devoted to fostering the complementary nature of the relationship between religion and science. He further stressed the urgent need to “reinterpret” some Muslim traditions rather than “re-inventing” Islam (Mahathir, 2003, p. 34).

While 17% of respondents accepted that Westerners are (better) entrepreneurs than Muslims, 65% rejected such a suggestion, thus confirming the positive self-perception held by Saudi entrepreneurs. However, one has to acknowledge that the third statement in Table 6.4 above is too broad and any response to it would be relative. How and on what ground would one explain or define the word “better”? Although the statement is being used within the context of efficiency and productivity, it is left to the intuition and to the understanding of the responding entrepreneur to give it a meaning and then judge the statement accordingly. Nevertheless, the majority of Saudi entrepreneurs did not agree with the proposition that Western entrepreneurs are (better) than their counterpart Muslim entrepreneurs regardless of the meaning they attached to the word (better).

A recent report released by Japanese officials highlighted the immense cost that Japan had to shoulder for adopting Western business practices (*Western values causing*

illness, 2006). Corporate Japan attempted to globalise by espousing Western approaches to business. In the process, Japanese workers were forced to abandon their traditional work system – which is built on seniority and corporate loyalty – in exchange for unfamiliar Western system that offers little job security and leads to greater pay disparities. The report concluded that adapting to Western business practices has caused a widespread mental illness amongst Japanese workers and had had an adverse impact on the demographic landscape of the country.

The Saudi entrepreneur and the Saudi culture

The feeling of cultural superiority expressed by Saudi entrepreneurs could be explained from different perspectives: one explanation is based the theory that having enormous wealth and the feeling that such wealth could buy almost anything might have led Saudis to think that they are somehow superior to others⁵⁵. Another explanation presented by Long, (1997) explains the feeling of cultural superiority in historical terms. The fact that Saudi Arabia, unlike the majority of Muslim countries, has never been the subject of direct Western colonisation might have led Saudis to believe that they are superior to others even in neighbouring Islamic countries. Finally, the attitude of cultural superiority over the secular Western culture could also be explained in religious terms; Saudis consider themselves privileged to have a special association with Islam, considering that Saudi Arabia is the birthplace of Islam and the home of its the two holiest mosques in Makkah and Madinah

Surprisingly, Saudi entrepreneurs were divided over the call for cultural transformation towards individualism, which is a distinguishing feature of the Western socio-economic configuration. How can this apparent contradiction be justified? How can people, despite their belief in the superiority of their culture, positively respond to calls for the transformation of that same culture? Two possible explanations for such inconsistency in attitudes could be argued. The first explanation is devised in terms of the perceptions that Saudi entrepreneurs might have of the notion of “individualism”.

The line of this inquiry reveals that Saudi entrepreneurs approach the notion of “individualism” from two different perspectives. Firstly, some entrepreneurs have viewed the notion of “individualism” in terms of the relationship between the individual entrepreneur and his/her social status. They advocate the transformation of

⁵⁵ Despite, or due to, the fact that such wealth is not generated by a productive economy.

conventional traditions, where individuals are judged by their social networks, to new standards where they are given the opportunity to stand out on their own regardless of their social affiliations. This attitude does not imply abandoning strong family ties or the departure from well rooted traditional values that expect individuals to be loyal and faithful to their immediate family members and extended relations.

The evidence in Table 6.5 below shows that just as Saudi entrepreneurs have strong and positive attitudes towards their culture, they also have some concerns about certain aspects and practices being linked to, or associated with, that culture. Data indicate that 44% of Saudi entrepreneurs view Saudi culture as placing emphasis on the social status of the individual rather than on his/her own personality and credentials. Furthermore, two in three respondents feel that social capital, such as immediate and extended family members, tribe, friends and other social associations, plays a crucial role in shaping the social and the business status of the individual. This intrusive behaviour has a great potential to influence and even to upset the power structure of society. By shifting the focus from “what we are” to “who we are”, people (unlawfully) gain employment, get promoted, access financial resources and secure business deals. Such practices go against the spirit of Islamic ethics and code of conduct. Saudi entrepreneurs who have spoken for cultural transformation are actually calling for this cultural attribute to be changed (Kay, 1982).

Table 6.5 The attitudes and perceptions of Saudi entrepreneurs towards their Saudi cultural values

Item	Contents	Statistical measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	Saudi culture is superior to Western culture.	1	6	9	30	53	1
		7		9	83		1
2.	Saudi culture puts more emphasis on individual profit making.	5	16	34	36	9	0
		21		34	45		0
3.	In Saudi Arabia, power is achieved through privilege and position rather than through merit and knowledge.	3	17	16	54	10	0
		20		16	64		0
4.	The individual Saudi is identified based on his/her social connections.	3	29	23	37	7	1
		32		23	44		1
5.	Saudis must undergo cultural transformation towards individualism in order to achieve development and entrepreneurship.	7	24	38	27	4	0
		31		38	31		0

One in every three respondents believes that individuals should be recognised, viewed and valued on their merit as independent 'entities' rather than on their social affiliations and claims to social distinction. While they value the support of their families in their business ventures, Saudi entrepreneurs do not wish for their hard work and achievements to be seen as an outcome of patronage connections and favouritism. They need to be able to claim personal success by being capable contestants in the world of business where fairness is supposed to be, but is not always, the norm. "It is true that we enjoy strong and unconditional support from our families" wrote an entrepreneur, "but we do not wish to be acknowledged and accepted solely on the background of our family connections". The same attitude was confirmed in the subsequent face-to-face interviews with Saudi entrepreneurs. It is obvious that the one third of Saudi entrepreneurs, who have such an interpretation of the term 'individualism', were in favour of cultural transformation. Secondly, another one third of surveyed Saudi entrepreneurs have rejected the idea of cultural transformation. It is most likely that they have formed their attitude based on their understanding of the term "individualism" as being strictly an expression of self-interest aimed at maximising personal gain without giving any regard to the well-being of society.

Alternatively, the definition of *individualism*, which will be explored in later discussions, could be understood in the context of the emerging evidence that Saudi Arabia is a country in transition and the socio-economic transitional process is affecting the country's cultural values and having an impact on its priorities. The move towards individualism and the emphasis on self-interest and profit making could be viewed as probable manifestations of "imposed" Saudi modernity. In the absence of a defined "development model" with supporting institutions, Saudi entrepreneurs are left bewildered and confused. On the one hand, they truly believe in their Islamic value system, and on the other the reality of the moment is that these values remain convictions, and the challenge becomes how to use these values to shape their identities and form the pillars for their aspired home grown development model.

The Saudi entrepreneur's perception of entrepreneurship

Islam motivates and inspires every Muslim to exert all efforts towards the ultimate objective of achieving *falah*; hence, all Muslim activities supposedly are channelled towards the achievement of this end goal. *Falah*, as discussed in Chapter 3, refers to the well-being of the individual in this life and in the hereafter. The two components of *falah* are unified in the sense that one's well-being in the hereafter depends on his/her

well-being in this life; and to achieve well-being in this life, one has to live according to Islamic principles and stand for its values and abide by its rules. Muslims perform all their spiritual and material activities with the intention of pleasing The Almighty Allah. Thus, all activities when performed accordingly become a form of *ibadah*, for which Muslims will be rewarded in this life and in the hereafter. Islamic entrepreneurship, like any other human activity, follows the same set of rules and strives to achieve the same ultimate goal of pleasing The Almighty Allah.

Classical economics approaches entrepreneurship from a purely economic angle. It fails to account for non-quantifiable variables because of its unwillingness to recognise other than mathematically based models for economic development and growth. In view of that, it appreciated the entrepreneurial act only as a pure economic activity aimed at maximising profit and personal interest. Current modern mainstream economics has moved towards a more relaxed approach and acknowledged that other social factors encompass the entrepreneurial phenomenon. But they still define entrepreneurship as an economic activity that works towards the realisation of human well-being, which is defined purely in financial terms. Siddiqi (1979) explained that the depth and scope of the Islamic concept of human well-being is richer and broader than what the term 'welfare' entails. That is because the 'well-being' concept assumes a spiritual as well as a materialistic dimension and accounts for both this worldly life and the hereafter, which makes it unique to Islam.

Robichaud, Egbert and Alain (2001) linked entrepreneurial motivations with the objectives and goals of the entrepreneur that he or she seeks to achieve through business ownership. Data in Table 6.6 reveal that the majority of Saudi entrepreneurs interviewed understand entrepreneurship to be a spiritual as well as an economic activity. The popular saying "work is *ibadah*" was frequently emphasised by a significant majority of respondents who at the same time regarded entrepreneurship to be a prime source of livelihood. On the one hand, 68% of Saudi entrepreneurs have affirmed their perception of entrepreneurship as an economic activity aiming at maximising profit and primarily directed towards one's own self-interest. On the other hand, 45% of respondents considered the welfare of society to be the prime objective of entrepreneurship. Others regarded serving society as an outcome rather than as the objective of the entrepreneurial activity.

Table 6.6 Saudi entrepreneurs' general perception of entrepreneurship

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	Entrepreneurship is an effective means to spread the word of Allah.	0	2	16	53	29	0
		2		16	82		0
2.	Entrepreneurship is an ideal mechanism for expressing thanks to Allah.	1	15	26	44	13	1
		16		26	57		1
3.	Entrepreneurship is an economic activity to maximise profit and personal gain.	2	24	6	64	4	0
		26		6	68		0
4.	Entrepreneurship is a prime source of livelihood	0	2	24	47	26	1
		2		24	73		1
5.	Muslim entrepreneurs optimise social benefits rather than maximising profit.	3	23	27	42	5	0
		26		27	47		0
6.	The main objective of entrepreneurship is to promote the welfare of society.	1	31	23	38	7	0
		32		23	45		0
7.	Islamic entrepreneurship aims at advancing others' as well as one's own interests.	0	7	26	54	5	8
		7		26	59		8
8.	I strive to reach balance between my personal gain and the welfare of society.	1	2	12	67	18	0
		3		12	85		0
9.	The balance between spiritual security and material gain is distinctive to Islamic entrepreneurship.	0	1	13	62	23	1
		1		13	85		1
10.	Entrepreneurs create personal and national wealth.	1	2	7	71	19	0
		3		7	90		0
11.	Successful entrepreneurs have an obligation to give back to the country.	0	6	9	66	19	0
		6		9	85		0
12.	Entrepreneurship has a materialistic as well as a spiritual dimension.	0	1	11	88	0	0
		1		11	88		0
13.	The challenge is to have a balance between material and spiritual needs.	1	15	12	57	14	1
		16		12	71		1

Data also captured the apparent contradiction in the perception of Saudi entrepreneurs of the role of entrepreneurship at personal as well as at the national level. Saudi entrepreneurs made it clear that they strive to achieve a balance between their own self-interest and the common welfare of society.

More than half of respondents (57%) believe that expressing their thankfulness to The Almighty Allah is best communicated through the engagement in ethically based and socially accepted productive business activities. Through entrepreneurship, Saudi entrepreneurs believe that they are actually helping themselves and at the same time extending a helping hand to their Muslim brothers and sisters. Further, they are acknowledging that they are entrusted with wealth and that their fortunes are from God and God said, "If you are grateful, I will add more (favours) unto you" (Qur'an, 14, 7). However, in order to deserve God's benevolence, Muslim entrepreneurs must do their utmost to realise their well-being in this life and in the hereafter through their good deeds and moral actions.

How do Saudi entrepreneurs view the role of Islam in promoting entrepreneurship?

Saudi entrepreneurs had strong and positive attitudes towards the role of Islam in promoting entrepreneurship. Data in Table 6.7 indicate that there is a widespread agreement amongst Saudi entrepreneurs regarding the status of entrepreneurship in Islam. The importance of entrepreneurship in Islam is demonstrated by the religious status Islam has given to entrepreneurial activities and the rewards which *halal* practice of entrepreneurship in this life can be expected to produce in the hereafter.

Table 6.7 The attitudes of Saudi entrepreneurs towards the role of Islam in cultivating and promoting entrepreneurship culture

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	Islam puts more emphasis on entrepreneurship than on employment.	1	5	10	52	32	0
		6		16	84		0
2.	Islam has a supportive system that encourages entrepreneurship.	0	0	27	42	30	1
		0		27	72		1
3.	One cannot be a good Muslim and a successful entrepreneur.	64	29	1	3	3	0
		93		1	6		0
4.	There is a valid analogy between being a Muslim and being an entrepreneur.	3	8	20	45	23	1
		11		20	68		1

Source: derived from the work of Sloane (1999), Sadeq (1993) and various Islamic literature

Saudi entrepreneurs pointed out that many Qur'anic verses and traditions of the Prophet (PBUH) are directed towards encouraging and motivating Muslims to embark of the path on productive entrepreneurship.

Box 6.1 Motivational Qur'anic verses and Prophetic sayings

– Translation of the meanings of some of the most frequently repeated Qur'anic verses by respondents:

“And when prayer is finished, ye may disperse through the land, and search for the bounty of Allah” (Qur'an, 62, 9).

“It is He Who has made the earth manageable for you, so traverse you through its tracts and enjoy of the sustenance which He furnishes: but unto Him is the resurrection” (Qur'an, 67, 15).

“And others travelling through the land, seeking of Allah's bounty” (Qur'an, 73, 20).

“A person gets whatever he strives for, and the fruit of his striving will soon come in sight” (Qur'an, 53, 39 - 40).

– The most frequently quoted hadith was:

“A faithful and trustworthy businessperson will be resurrected at the Day of Judgement with the Prophets, the truthful, and the martyrs” (Ibn Majah; al-Tirmithi).

Survey data show that while 84% of respondents believe that Islam places more emphasis on the act of entrepreneurship over employment, only 72% thought that Islam combines/complements its positive attitude towards entrepreneurship with a practical framework. The overwhelming majority of respondents strongly disagree with any suggestion, which implies that being a good Muslim and being a good and successful entrepreneur have an inverse relationship. In fact, two out of three entrepreneurs believe that there is a well-founded analogy between being a Muslim and being an entrepreneur.

Considering their positive perception of the role of Islam in promoting entrepreneurship, Saudi entrepreneurs were asked whether they considered entrepreneurship in Islam to be a collective obligation (*Fard kefayah*). The question sought to assess the perceptions and capture the attitudes of Saudi entrepreneurs to the Qur'anic verse “when Prayer is finished, then may ye disperse through the land, and search for the

bounty of Allah” (Qur’an, 62, 10). The question was designed in an open-ended format to give potential respondents the opportunity to elaborate and to speak their minds.

Box 6.2 Is entrepreneurship in Islam a collective obligation? Selected responses of Saudi entrepreneurs
- Work in general is an act of worship (<i>ibadah</i>). Entrepreneurship also is considered <i>ibadah</i> as long as it is guided by Islamic ethics and conducted in accordance with Islamic business principles.
- Islam commends work and urges Muslims to engage in productive activities. I believe that the cited Qur’anic verse is an explicit call for all Muslims: individuals and groups, to exert all efforts to be productive, each in his/her own field.
- I totally agree with the given interpretation and I further make reference to the tradition of the Prophet (PBUH) that nine-tenths of <i>rizq</i> is realised through trade and business activities.
- A closer look into the wording of this Qur’anic verse leads one to unmistakably conclude that it’s a clear call for Muslims to be active entrepreneurs by taking risk (disperse) and being innovative (search).
- Islam encourages work in all its forms and shapes as long as it is practised within the boundaries of Islamic business rules and ethics.
- Islam’s support of entrepreneurship goes beyond passive encouragement to creating a supportive framework for entrepreneurship development.
- Islam considers entrepreneurship within the context of the wider economic system in order to ensure its viability and development.
- A careful examination of the verses of the Holy Qur’an reveals that Allah Almighty always links the ‘deeds’ of Muslims with their ‘actions’ and addresses the ‘believers’ in conjunction with the ‘good doers’ in every single related verse. Work in Islam is more than a means of earning <i>halal</i> income; it is <i>ibadah</i> .
- “Allah loves the strong believer more than the weak one” this hadith implies that Muslims should be strong in all aspects of their daily lives. Strength is not confined to physical strength; it also includes religious, social, economic, and scientific as well as spiritual strength.

Some entrepreneurs accepted the given interpretation of the Qur’anic verse that entrepreneurship in Islam is a collective obligation, while others had a different understanding of the verse. Nevertheless, all were quick to point out that Islam values and promotes all productive ethical work regardless of it being in the form of employment or self-employment.

Statements in Table 6.8 sought to capture the feelings of Saudi entrepreneurs towards some claims often cited by Westerners to prove that Islam is a counterproductive religion. Such claims occupy a prominent place in the literature and are still the subject of lengthy debates within intellectual circles. However, they certainly did not arouse any controversy among Saudi entrepreneurs.

Table 6.8 Responses of Saudi entrepreneurs to Western claims that Islam is an anti-entrepreneurial religion

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	Islam is a static religion that hinders development and entrepreneurship.	81	16	1	1	1	0
		97		1	2		0
2.	There is a conflict between faith (Islam) and reason (science).	51	33	7	6	3	0
		84		7	9		0
3.	Islam is a hereafter religion that disregards wealth and works against entrepreneurship spirit.	54	38	4	3	1	0
		92		4	4		
4.	Practising Islamic religious duties will lessen productive time available for entrepreneurs to carryout their entrepreneurial activities.	72	25	0	2	1	0
		97		0	3		0
5.	Islamic moral code has a negative effect on the entrepreneurship development.	37	40	11	6	5	1
		77		11	11		1

Respondents were clear, focused and they had firm attitudes about the raised issues:

- Islam is a dynamic religion that challenges man to work hard, to search, to be creative and to extend his potentials. Hence, it was not surprising to have 68% of respondents endorse the analogy between being a Muslim and being an entrepreneur, because both are challenged to strive to reach their optimum. This understanding of the Saudi entrepreneurs led them to categorically reject the suggestion that Islam is a stagnant religion. The rejection was unanimous (97%); where 81% of respondents “strongly disagreed” and a further 16% “disagreed” with the implication of such a statement.
- Islam presents humankind with the motivation (the reason) and the framework (the mechanism) to engage in ethical productive business activities as a means to the realisation of ultimate well-being. Saudi entrepreneurs understood that Islam deplores poverty and views *halal* wealth to be the lifeblood for their own daily activities as well as for those of their societies. An entrepreneur has commented,

“Spending in ‘the cause of Allah’ is an often misunderstood concept”. He further explained that money spent on one’s own family and even on one’s own self without uncalled for extravagance is considered to be in the cause of Allah. Muslims are encouraged to earn more, to have more and to be able to spend more in the cause of Allah in order to gain more rewards in this life and in the hereafter.

- There is nothing in Islam as *Aqidah* (faith and piety) or *Shari’ah* (rules and practices) that obstructs scientific thinking or contradicts the logic of reason. In fact, many Qur’anic verses advise and challenge the human mind to wonder, observe and think, and never put a limit to what one might achieve.
- The Saudi entrepreneurs rejected the suggestion that adhering to the Islamic moral code will negatively affect the development of their entrepreneurial activities. Furthermore, the assumption that by practising Islamic ethics in business, Muslim entrepreneurs risk losing (business) opportunities proved to be unfounded. In fact, 85% of respondents believed that practising Islamic work ethics had a positive outcome for their businesses.
- Saudi entrepreneurs totally rejected the inference that practising their Islamic rituals has a negative influence on their level of productivity. On the contrary, the five to ten minutes’ break for prayer is considered by the majority of entrepreneurs to be a stimulant that energises them by keeping them in a direct and constant relation with The Almighty Allah. By practising their religious duties, entrepreneurs, I was told, are actually engaging in a self-monitoring exercise intended to prevent them from behaving contrary to the Islamic code of conduct. In his defence of practising daily religious observances, an entrepreneur contrasted the time spent in fulfilling religious calls with the many tea breaks a typical employee/employer has in the course of a working day. He forcefully argued that on all counts, performing religious duties would lead to physical fitness as well as to spiritual inner contentment leading to more productivity.

Through their presence in the markets and their involvement in business activities, religious entrepreneurs offer the best security and assurance against all forms of unethical and immoral practices. Hence, it is for the good of the *ummah* to have religiously motivated entrepreneurs. Religious entrepreneurs will not deceive, misrepresent, break promises, mix priorities or risk the welfare of society for short-term personal gains.

When asked whether Islam had played a role in their decision to become entrepreneurs, only 36% of participants responded positively. Furthermore, the data clearly indicate that the level of religiousness among Saudis did not have a visible

impact on the level of entrepreneurship and vice versa. Nearly one in four respondents believed that entrepreneurs are more religious than non-entrepreneurs, compared with only 8% who believed that the level of religiousness would be less among entrepreneurs than among the rest of population.

Table 6.9 The relationship between level of religiousness and level of entrepreneurship

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	There was a religious dimension to starting my business.	9	34	17	31	5	4
		43		17	36		4
2.	Entrepreneurs are likely to be more religious than others.	6	31	39	18	6	0
		37		39	24		0
3.	Level of religiousness would be lower among entrepreneurs.	27	49	15	8	0	1
		76		15	8		1

The findings of this study offer little evidence to suggest that a significant correlation between the level of piety and the level of entrepreneurial activity among Saudis exists. Such findings in a religiously based society are cogent, consistent and explainable: Entrepreneurs are a representative segment of the religiously homogenous wider Saudi population where everybody is expected, and is assumed, to be religiously committed. The fact that only 2% of respondents considered themselves not to be religious renders any further statistical analysis between religious and non-religious entrepreneurs impractical.

Islamic entrepreneurship education and the Saudi entrepreneur

Earlier analyses have shown that the majority of Saudi entrepreneurs had achieved solid formal education, and many had exposure to entrepreneurship education (Appendix – 6). However, Islamic entrepreneurship – as will be seen in the following two chapters – is rarely mentioned in the Saudi educational institutions.

Figures in Table 6.10 indicate that Saudi entrepreneurs displayed an understanding and appreciation of the role of Islam in promoting entrepreneurship, thus, they believed that Islamic entrepreneurship should be included in the Saudi educational system. This attitude is most likely to be based on their conviction that Islamic entrepreneurship

education would have positive impact on the supply and the quality of Saudi entrepreneurs.

Table 6.10 Attitudes of Saudi entrepreneurs towards Islamic entrepreneurship education

Item	Content	Statistical Measurement (Percentage)					
		SD	D		A	SA	NR
		1	2	3	4	5	
1.	The educational system should place more emphasis on Islamic entrepreneurship.	3	5	9	61	19	3
		8		9	80		3
2.	The inclusion of module(s) on Islamic entrepreneurship in the school curriculum would motivate youth to consider entrepreneurship as a career option.	1	3	12	58	23	3
		4		12	81		3

Alternative financing: Profit-and-Loss Sharing (PLS)

The role of financial institutions in promoting entrepreneurship is an imperative theme of any economy. Entrepreneurs across nations are faced with enormous obstacles before, during, and after starting their business ventures. Nevertheless, mobilizing start-up capital is considered a common problem faced by the majority of prospective entrepreneurs regardless of their whereabouts.

Chapter 3 discussed some of the obstacles facing potential entrepreneurs in their efforts to secure start-up capital, and the prospective role that Islamic financing can play in entrepreneurship development. The reluctance of commercial lending institutions to extend credit to (potential) entrepreneurs is largely attributed to the high risk and high administrative costs of lending to small firms. Commercial banks in many instances hold negative and often discriminatory attitudes towards new entrepreneurial undertakings and small businesses in general. Their attitudes towards small businesses leave many potential entrepreneurs unable to utilise an essential source of business financing. Failing to mobilise needed financial resources for business start-ups carries the danger of suppressing and even diminishing the entrepreneurial spirit among potential entrepreneurs.

Viewing the delicate relationship between potential entrepreneurs and commercial banks from an Islamic perspective raises more concerns. Islam views all forms of

interest-based financial transactions to be unjust; hence, they are prohibited and should not be practised by Muslims. The alternative Islamic solution to the lack of funds for financing new business start-ups is based on the principle of PLS, through partnership agreements between the Islamic financial institutions and entrepreneurs. An entrepreneur with an idea but lacking the financial resources to transform the idea into reality enters into a partnership agreement with an Islamic bank. The partnership agreement is an abiding contract that enables the entrepreneur to obtain *halal* financing without having to carry the burden of debt and the guilt of conducting an unethical business transaction. PLS arrangements also minimise the risk involved in any business undertaking as both parties share the risk of loss as well as the prospect of profit according to pre-determined proportions.

Mudarabah and *musharakah* are two PLS arrangements where the financial capital is combined with human capital to create new business entities. Please refer to Chapter 3 for comprehensive definitions of the two terms.

Partnership financing and the Saudi entrepreneur

Islam prohibits all forms of interest-based financial transactions (*riba*) regardless of what term they might come under and does not tolerate any attempt to justify interest-based financial activities “Allah permits trade and forbids usury” (Qur’an, 2, 275). Hence, an alternative financial arrangement, that is consistent with the religious convictions of Muslims and in harmony with their cultural characteristics, is sought to fulfil their business as well as personal financial needs. Relevant to this study is the Islamic concept of partnership financing.

Discussion in Chapter 3 highlighted the importance of partnership financing through the utilization of two prevailing financial instruments, namely *mudarabah* (silent partnership) and *musharakah* (partnership financing). These instruments are based on the principle of PLS as opposed to conventional interest-based financing. The emphasis is on rearranging the relationship between the borrower and the lender from being a debt-based to an equity-based relationship. It is argued that partnership financing favours small entrepreneurs and extends long-term financing to entrepreneurs embarking on long-term productive entrepreneurial projects. Partnership financing provides protection against inflation and transforms the spirit of the relationship between the lender and the borrower to one of cooperation between two

equal partners who have vested interests in the success of the business. These advantages of partnership financing are decisive factors in promoting entrepreneurship. For any social or economic system to gain ground and to deliver, firstly, it is imperative to create an awareness of the existence of such a system amongst the population it intends to serve. Secondly, intended beneficiaries need to have a reasonable understanding of its capabilities, paybacks and limitations. Thirdly, the system must be backed by the political will in order to create (the right) conditions and supportive environment necessary for its proper functioning.

Data in Table 6.11 indicate that about two in every three surveyed Saudi entrepreneurs had awareness of the availability of the Islamic financial system as an alternative to interest-based conventional banking. While 62% of respondents were aware of Islamic banking, only 30% believe they have “adequate” knowledge and understanding of the theory underlying Islamic financing and the mechanism by which the system functions. About the same percentage (34%) of responding Saudi entrepreneurs confirmed that they abide by Islamic financial principles in their personal as well as business dealings. Almost one half of respondents were not sure whether their financial activities were being conducted in accordance with the teachings of the Islamic *Shari'ah*.

The fact that the majority of entrepreneurs relied on sources other than commercial banks to raise money to start their businesses does not mean that there would be no future business relationship between the two parties; in fact, entrepreneurs, in most cases, had no choice but to deal with commercial banks. Expediting business financial transactions such as deposits and withdrawals, wages and salaries and establishing letters of credit (L/Cs) requires interaction with commercial banks. An entrepreneur can decline to accept interest on his/her deposits but can never be certain whether or not his/her money was invested in an Islamic-sanctioned business activity. This unbalanced relationship between the entrepreneur and the financial institution leaves the entrepreneur vulnerable and at risk of not abiding by Islamic financial principles. The nature and the extent of the relationship between the Saudi entrepreneur and Islamic financial institutions remain to be established in the next chapter. In fact, none of the entrepreneurs, as will be shown in upcoming discussions, was able to confirm a single case of partnership financing with an Islamic financial institution. Hence, it would be fair to assume that the 34% of respondents who indicated their commitment to the principles of Islamic financing have based their responses on their refusal to accept interest on their deposits

Table 6.11 Attitudes of Saudi entrepreneurs towards Islamic financing in promoting entrepreneurship and development

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	I am aware of other Islamic financial avenues alternative to commercial banks.	2	20	16	40	22	0
		22		16	62		0
2.	I have an adequate theoretical as well as practical understanding of the Islamic financial facilities.	1	33	36	26	4	0
		34		36	30		0
3.	I conduct my personal and business financing according to the principles of Islamic finance.	1	18	47	27	7	0
		19		47	34		0
4.	Financial arrangements based on Profit-and-Loss Sharing (PLS) between Islamic banks and potential entrepreneurs will have a positive impact on the birth of new businesses.	1	1	14	61	22	1
		2		14	83		1
5.	Financial arrangements based on the principle of PLS would benefit the Muslim society at large.	3	1	31	54	11	0
		4		31	65		0
6.	Islamic banks have the same unfavourable attitudes to new entrepreneurs and small businesses as those of commercial banks.	2	12	34	37	14	1
		14		34	51		1
7.	My association with Islamic banking is (would) be motivated by the <i>halal</i> factor.	0	4	18	54	20	4
		4		18	74		4
8.	My motive to be associated with Islamic banks is (would be) their economic performance.	2	32	35	26	1	4
		34		35	27		4
9.	Muslims must learn all business principles, rules and ethics from an Islamic perspective.	0	2	8	64	24	2
		2		8	88		2

An interesting, but not surprising, preliminary finding of this study indicates that the majority of Saudi entrepreneurs had a positive attitude towards Islamic business financing, despite their apparent lack of familiarity of its mechanism, and the fact that none of the participants was able to confirm having successful experience with Islamic banking. It is most likely that they based their attitude on perception rather than on actual experiences and on belief rather than on thorough understanding of the financial principle involved. It is not surprising that in religious matters people tend to form attitudes that correlate to their religious convictions without possessing the theoretical

and/or practical knowledge to justify their attitudes. This statement can be validated by the fact that some respondents indicated their commitment to Islamic financing despite their lack of familiarity with the concept. Contrary to the expectations, this positive feeling towards Islamic banking did not materialise into partnership arrangements that favour entrepreneurs and promote entrepreneurship. The question why the Saudi banking system has failed its developmental role through the promotion of entrepreneurship will be examined in the next two chapters in the light of the emerging evidences from the in-depth interviews.

When asked about the motive for their association with Islamic banking, 74% of respondents agreed that the *halal* factor, not the performance, was (or would be) the main reason for preferring Islamic banking. Furthermore, two-thirds of Saudi entrepreneurs believe that the benefits of PLS arrangements go beyond benefiting the parties involved to benefit the entire society. The bank's investment in the entrepreneurial activity (capital) actually belongs to a diverse group of local individuals and businesses. Hence, society as a whole would have a stake in the success of the new entrepreneurs and in the promotion of their indigenous entrepreneurial activities. This constructive approach to partnership financing is most likely to extend much needed public backing to new business enterprises and infuse more faith in the participating financial institutions.

Yousef (1997) disputed the validity of the assumption that Islamic financing, as it is being currently implemented and practised, leads to more entrepreneurship. He argued that the available evidence, regarding the operation of Islamic banks in the past twenty years, negates "the fundamental principles of PLS". Among other un-Islamic financial practices, Islamic banks require the entrepreneur to come up with substantial security in the form of collateral before approving or even considering the loan application. This is despite the fact that such a practice goes against the essence of the PLS concept. Harper (1997) and Yousef (1997) have questioned the commitment of Islamic banks to small entrepreneurs and to emerging enterprises. They – along with a host of entrepreneurs – observed that access to financial facilities is generally extended to those who do not usually need them, such as large and well-established businesses.

Business ethics

Bribery, corruption, misleading advertising, flawed accounting practices and fraudulent accounting books, hoarding and market manipulation are but a few of the unethical and

immoral practices employed by many businesses to fulfil their lust for material gain. The problem is widespread and it is causing much harm to the immediate stakeholders as well as to the communities and society at large. The cases of Enron and WorldCom companies are proof of the potential threat posed by unethical business practices. Carroll (1987) differentiated between three goal-oriented approaches to management ethics. The goals of immoral management are to achieve profitability and attain organisational success with no regard to the means by which profit maximisation was achieved. The amoral management focuses solely on realising profitability without considering other goals. The moral management is a socially responsible management that focuses on seeking profitability but within the legal framework and according to ethical standards.

Business ethic, or lack of it, is emerging as an important issue in the light of the many disgraceful actions by big corporations. Such high-profiled corporate scandals have shattered confidence in big businesses and provoked a call to take a closer look at corporate business ethics and ethical codes of conduct. They also incited the call to rethink the way business ethics are being taught at American educational institutions (*Breakfast, 2004*). The growing importance of business ethics has prompted some scholars to call for the inclusion of business ethics courses in management education (Enderwick, 1994). However, teaching business ethics might prove to be a challenging endeavour in secular societies where “religion and economics do not mix”. Viewing economics to be a “neutral” and a “purely scientific” discipline implies that ethics and economics are incompatible and frees economics from all ethical values and obligations (Ghazanfar, 2003).

Western business ethics are neither based on, nor sanctioned by, an accepted source of ethical ideals (supreme religious might). They also lack authority and the power of generalisation because they are man-made guiding principle, based on trial-and-error. Consequently, they are limited to their respective environments at certain points in time. On the other hand, the concept of ethics in Islam gains its legitimacy from being based on divine commands that institute operational guidelines that permeate all spheres of human life. Islamic ethical standards do not change overtime and are neither subject to human interpretation nor environmental transformation. Having stressed that Islamic ethics span all aspects of human well-being, it is imperative not to divert the focus of this study by overextending its initial line of inquiry, which was defined in terms of Islamic entrepreneurship.

An economic activity in Islam cannot be viewed separately from other everyday socio-economic activities nor does it function solely based on rationality and pure “mathematical formulas”. It is rather a key component of the broader Islamic concept of this worldly life and its amalgamation with the hereafter. Islamic ethics are an integral part of the larger Islamic system and are of great importance to its economic activity. Wiene (1997, p. 38) explained that ethical behaviour for a Muslim “is not a goal in its own right but a means to live his relations with God and his neighbour”, and that includes business relations. Therefore, ethics and economics do mix in Islam, and they are “not only compatible but also inseparable” (Al-Mutairi, 2002, p. 57). The fact remains that along with each economic decision undertaken by the entrepreneur, the entrepreneur is compelled to make an ethical choice as well. What to produce, how and where to market the product, what prices are considered fair and reasonable, how to communicate with the customers and how to access financial resources all carry within an ethical as well as an economic dimension (Kuratko & Hodgetts, 200, pp. 155-160). In Islam, there is no segregation or separation between ethics and economic activities. Ethics are embedded in all business practices.

Islamic business ethics and the Saudi entrepreneur

Earlier comments by Saudi entrepreneurs have underscored the important role that Islam attaches to doing business in general and to the entrepreneurial activity in particular. Yet again, respondents were quick to draw attention to the pivotal role that the business ethics of early Muslim traders have played in spreading the religion of Islam. High ethical standards displayed by early Muslim merchants and their trustworthy approaches to their business practices prompted the people of Asia to actively seek more knowledge about Islam. Consequently, they were drawn to Islam voluntarily.

Literature has approached the definition of ethics in Islamic economics from two different, but complementary, perspectives: First, the institutional approach with its call for the establishment of Islamic financial institutions that operate in accordance with Islamic financial principles, most notably, Islamic banking and partnership financing. Second, the individual approach to defining business ethics in Islam has highlighted the personal resolve and commitment on the part of the entrepreneur to adhere to Islamic ethical values while conducting everyday business activities (Sloane, 1999).

Muslim entrepreneurs are free to engage in all economic activities except those deemed by Islam to be harmful, destructive and unethical. The dilemma between the legal and the ethical has its roots in the Western business environment. Since ethics are relative, a business activity could conform to all legal requirements thus be lawful, but the question is: is it ethical? Is it what the community wants? Saudi entrepreneurs believed that legality on its own is not sufficient to justify the business undertaking. The integration of legality, morality and social acceptability are the core components that determine the authenticity of a business undertaking.

Table 6.12 Attitudes of Saudi entrepreneurs towards the role of Islamic ethical values on their business behaviour

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	I always conduct my business according to the law of Shari'ah.	0	4	26	40	29	1
		4		26	69		1
2.	My business practices are based on morality and honesty.	0	1	8	60	30	1
		1		8	93		1
3.	I do not misrepresent my products and services.	0	0	4	50	46	0
		0		4	96		0
4.	I work hard to cut costs and pass the benefits to customers.	0	4	8	58	30	0
		4		8	88		0
5.	I work hard to cut costs to maximize my profit.	4	25	6	54	11	0
		29		6	65		0
6.	I allow my employees reasonable time to fulfil their religious duties.	0	0	1	53	46	0
		0		1	99		0
7.	Islamic work ethics have a positive impact on my entrepreneurial conduct and business behaviour.	0	2	5	59	34	0
		2		5	93		0
8.	Practising Islamic work ethics has a positive effect on my business.	0	1	14	52	33	0
		1		14	85		0
9.	Sometimes I feel pressured to engage in unethical business practices.	18	34	14	32	2	0
		52		14	34		0
10.	My firm lost business opportunities due to adhering to Islamic work ethics.	20	36	21	15	8	0
		56		21	23		0
11.	I have been in a business situation where I had to compromise my values.	17	39	12	29	2	1
		56		12	31		1

Compared with the 82% of respondents who described themselves as good and devout Muslims, only 69% of them reported conducting their everyday business activities according to the law of *Shari'ah*. These figures clearly indicate disparity between the perception and the reality, where the strength of the entrepreneurs' personal convictions about Islamic principles in business did not fully materialise in practice. Contrary to expectations, some Saudi entrepreneurs who identified themselves as faithful Muslims declined to confirm their observance to all aspects of the law of *Shari'ah* in the due course of practising their business activities. This disclosure on the part of the entrepreneurs is best comprehended by revisiting the institutional and the individual approaches to defining Islamic ethical values and the interdependency of implementing some aspects of the latter on the former. One can strongly argue that the absence of Islamic financial institutions willing to form partnership agreements with existing and potential entrepreneurs may have (forced) some to seek non-Islamic alternatives to secure needed capital and so further engage in unethical business practices. The disparity between the attitudes of Saudi entrepreneurs and their business practices will be further explored and analysed in the next two chapters.

Respondents were cohesive in their attitudes to the role of Islamic ethical values on their business behaviour and practices. The message as conveyed by Saudi entrepreneurs was that good business ethics lead to successful businesses despite the temptation to behave, in some instances, otherwise. The vast majority of Saudi entrepreneurs (93%) believed that their commitment to morality, honesty and truthfulness was a good investment that had positive returns on their entrepreneurial conduct and their business behaviour. Furthermore, Saudi entrepreneurs believed that practising Islamic work ethics has positively contributed to the success of their businesses.

It is believed that the most widespread unethical practices in modern business are in the area of marketing, including price fixing, price discrimination, dishonesty and misleading advertisements. The consistent and unflinching deception of the public by means of false representation and the creation of artificial needs for superfluous products, at the cost of personal and social health and wealth – such as the tobacco industry – have become a common and somewhat accepted practice by the majority of businesses. However, a striking majority (96%) of Saudi entrepreneurs firmly reiterated their loyalty to Islamic business ethics and rejected the prevalent concept of “cheat but cheat lawfully” (Kao, Kao, & Kao, 2002; pp. 172-175). As one might expect to hear from

(any) businessperson, Saudi entrepreneurs totally rejected all forms of false advertisements, misrepresentation and concealment of defects. Their attitude was consistent with the teachings of the Holy Qur'an, "And do not withhold from the people the things that are their dues and commit not evil in land with intent to spread disorder" (Qur'an, 11, 85). It was also consistent with the tradition of the Prophet Muhammad (PBUH) that it is not lawful for a Muslim to sell a commodity that has a defect, except that the defect is revealed to the buyer. The Prophet (PBUH) said: "If anyone sells a defective article without drawing attention to it, he will remain under Allah's anger" (Ibn Majah).

Despite the fact that Islam places the highest prominence on ethical values in human life, and despite its unbending attitude towards ethical rules of business conduct, it would be an illusion to claim that some wrongdoing and immoral business practices do not occur. Just above one-third of Saudi entrepreneurs felt that they have been pressured at some point to engage in immoral business behaviour. Moreover, almost the same percentage admitted being in a business situation where they had to compromise their ethical values and act against their basic beliefs⁵⁶.

Responses to an earlier question showed that a solid majority (85%) of respondents viewed their adherence to Islamic work ethics as having a positive impact on the success of their businesses. When asked whether holding onto Islamic business ethics has resulted in the loss of promising business opportunities, 23% have confirmed that they have lost what (would have been) profitable business opportunities due to their devotion to Islamic ethical standards and their refusal to engage in questionable business practices.

What is interesting about what seems to be two conflicting answers to the same question is the manner in which Saudi entrepreneurs perceived 'business opportunity'. Business opportunity without moral foundations is by no means an opportunity, and profit unlawfully gained is certainly not a cause to rejoice. This cultured perception of business opportunity concurs with the philosophical opinion expressed by the Greek thinker Chilon that for a merchant "to take a loss" is better than "to make a dishonest

⁵⁶ I was informed by more than one reliable source from within my list of interviewees and other business executives from outside the list that some departments in various ministries are engaged in unethical practices where some public servants demand certain percentage payoffs in order for them to authorise the release of due payments for respective enterprises in the private sector. Entrepreneurs therefore are forced to choose between rejecting the demand and taking the risk of encountering long delays in collecting their outstanding payments, or to give in and walk the path of immorality.

profit”, because “a loss maybe painful for a while, but dishonesty hurts forever” (Chilon, 560 B.C., cited in Kuratko & Hodgetts, 2001, p. 146).

The findings of this study are in line with the finding of a study from the USA (Renato & Fiume, 2004), which suggested that religiosity “may contribute to the entrepreneurial success”, and there was no contradiction between the faithful entrepreneurs’ pursuit of material wealth and achieving a high level of satisfaction. The findings are also consistent with the results obtained in “50 international academic studies” where 33 studies found a positive relationship between ethics and business performance, “14 found neutral results” and only three studies found a negative relationship between socially responsible investments and returns (Greene, 2004, p. C4).

The dilemma of legality and social acceptability

The concept of ethical or Socially Responsible Investment (SRI) is gaining recognition and attracting much support across cultures. Like any other investment, SRI seeks to generate profit but, “unlike conventional portfolios, excludes companies whose environmental, social or accounting records are questionable. They will also avoid specific industries – such as tobacco, alcohol and armaments – and denounce practices that harm animals” (Greene, 2004, p. C4).

Table 6.13 Attitudes of Saudi entrepreneurs towards socially responsible entrepreneurship

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	In addition to its legality, the entrepreneurial activity must be based on morality and must be socially acceptable.	0	0	9	66	23	2
		0		9	89		2
2.	Earth resources should be utilised while considering the interests of future generations.	2	3	7	56	31	1
		5		7	87		2
3.	People are trusted with wealth and should use it accordingly.	0	1	1	46	50	2
		1		1	96		2
4.	People have the right to exploit earth’s resources to maximise their personal material gain.	2	22	19	43	9	4
		24		19	52		4

The dilemma facing many businesses is how to reconcile the relationship between the ethical and the legal in their daily business practices as well as in their long-term strategic plans. Saudi entrepreneurs believe that although certain business undertakings might be licensed and deemed legal by authorities, they still need to be socially accepted and sanctioned in order for them to genuinely be considered ethical and lawful. The Muslim entrepreneur is allowed to produce only socially useful goods that benefit society without causing damage to the environment or inconvenience to its inhabitants. The environment is being ill treated because of man's lust for money and his disregard for anything that might stand in the way of his quest to maximise his profit. Pollution, global warming, the destruction of forests and the endangering of species are but a few manifestations of the cruelty of man and his one-dimensional focus.

While Saudi entrepreneurs have understood the nature of their relationship with God, they have displayed mixed attitudes towards the nature of their relationship with the earth and its resources. According to Islamic faith, Allah Almighty has created humankind, made him His *khalifah* on earth, and entrusted him with the earth and its resources. Being the ultimate owner of the earth and its resources, God made the earth manageable to benefit humankind and urged humankind to use its wealth prudently in order to benefit future generations. Data in the above table show a consensus among surveyed Saudi entrepreneurs that they are merely stewards whose responsibility is to ensure the well-being of the trust in their hands. Data also point to inconsistency in their attitudes towards the earth's resources; whereas 87% of respondents showed concern regarding the unwise use of the earth's resources and had regard for future generations, above 50% thought it was man's given right to exploit nature in order to maximise personal gains. This discrepancy is consistent with previous observations that Saudis today are becoming more materialistic and are increasingly being drawn towards profit maximisation and consumption (Sabri, 2001).

CONCLUSION

Saudi entrepreneurs perceive themselves to be committed Muslims⁵⁷. They hold a very positive attitude towards Islamic entrepreneurship and strongly believe that Islam is an

⁵⁷ Descriptive data on the demography and characteristics of the Saudi entrepreneur and the Saudi enterprising process are presented in (Appendix 6).

entrepreneurial religion. They understand entrepreneurship to be a religious as well as an economic activity intended to generate *halal* income to meet their financial obligations and to contribute to the welfare of the *ummah*. However, their priorities are unclear and thus they often contradict themselves. Saudi entrepreneurs' belief in the superiority of their culture does not prevent them from admiring Western technology or lessen their willingness to adapt to it –but not at any cost.

Statistical descriptive analyses indicate that the attitudes of Saudi entrepreneurs were independent of the demography and the geography of the entrepreneurs and their enterprises. Neither the level nor the source of educational qualification, the age and/or the gender of entrepreneurs affected their perception of their cultural values or those of the West. Furthermore, analysis also failed to show a correlation between the attitudes of Saudi entrepreneurs and the size and/or the sector of their enterprises. Cross-tabulation analysis, however, established the existence of a positive relationship between the level of success achieved by Saudi entrepreneurs and the level of profit re-invested in the businesses, the entrepreneurs' educational attainment and their business experience prior to starting their own businesses.

As Saudi entrepreneurs showed very strong and positive attitudes towards their Islamic-based culture and towards the Islamic perspective of the entrepreneurial activity, many fundamental and crucial questions were left unanswered. Has the concept of Islamic business partnership become established and been deemed functional within the Saudi financial sector? What role did, or did not, the educational system play in creating awareness, changing attitudes and preparing enterprising individuals? What policies, incentives and support initiatives have been on offer to promote entrepreneurship development in the Kingdom, especially from an Islamic perspective? How could one explain the inconsistency between the attitudes of Saudi entrepreneurs and their business practices? These questions, along with many others, underscore the need to expand the research further and carry out in-depth face-to-face interviews with Saudi entrepreneurs, Saudi officials and Saudi intellectuals with an interest in Islamic entrepreneurship and development. Chapters 7 and 8 are intended to address these questions by presenting key themes, justifications and explanations as they emerged from the semi-structured personal interviews.

CHAPTER SEVEN

THE VIEWS AND APPROACHES OF SAUDI ENTREPRENEURS

(Case studies)

It might be argued that the theoretical development of the notion of entrepreneurship has reached something of an impasse. Perhaps a more useful direction for research to take in order to develop such theories further is that of examining the specific local cultural contexts of actual entrepreneurial activity.

Lavoie and Chamlee-Wright (2000, p. 54)

Chapter 6 concluded with the view that Saudi entrepreneurs embraced strong positive attitudes towards their culture and perceived their religiously based value system to be pro-entrepreneurship. However, Giddens (1998) argued that information gathered by surveys “may be superficial”, and “response may be what people profess to believe rather than what they actually believe” (Giddens, 1998, p. 548). Collected data should be rich enough to enable the researcher to devise ‘thick description’, that goes beyond describing what happens or stating an attitude to explaining the relationship “between behaviours or events and their contexts” (Geertz, 1973, cited in Ruane, 2005, p. 168).

Consequently, it was deemed necessary to conduct personal interviews with Saudi entrepreneurs to complement, validate and better explain data featured in the previous chapter, and further to explore the linearity between the stated attitudes of the Saudi entrepreneurs and their approaches to business activity. The semi-structured in-depth interviews also presented entrepreneurs with the opportunity to explain their viewpoints and justify their responses to the survey questionnaire.

In this chapter I seek to develop six representative case studies based on in-depth semi-structured face-to-face interviews with the Saudi entrepreneurs and general observations from the field. Consistent with the general approach discussed earlier in Chapter 2 for studying entrepreneurship development, each case study included information relevant to the four broad factors impacting on entrepreneurship development in the Kingdom: the individual entrepreneur and the enterprise process,

the cultural milieu, the institutional setting, and the historical/structural factors. The conceptual model developed in Chapter 3 provided an appropriate framework within which to organise the wealth of information generated from the in-depth interviews.

I placed special emphasis on the actual words and statements of the entrepreneurs themselves (translated into English) throughout the production of the case studies. I felt that such emphasis was necessary in order to capture the richness of individual experiences and to reveal the inner tension and differing viewpoints among the entrepreneurs towards the raised issues. I began all interviews with an introductory informal question asking the participants to talk freely about themselves as entrepreneurs and about the origin, the motive, the development and the direction of their entrepreneurial experiences. The closing question was framed in such a way that gave participants the feeling that their concerns were appreciated and their inputs could make a difference; “should you have your say, what would you like to see the government of Saudi Arabia do to develop and to promote entrepreneurship in general and Islamic entrepreneurship in particular”? A complete listing of the interview questions is included in (Appendix - 2).

Al-Jasim Engineering⁵⁸

Back in the mid 1970s, the city of Riyadh was like a working-bee, a city that does not sleep. Regardless of one's whereabouts, he/she was most likely to witness a developmental project underway: a royal palace, a ministry, a residential complex, a school, a hospital, a shopping mall, a bridge, or another infrastructure-related activity. Government spending was at its pinnacle. I concluded that there was money to be made in the construction business and building materials and that was when I decided to go out on my own (Al-Jasim, 2004).

Introduction

Mr. Al-Jasim started his business in 1975 with a team of seven employees in addition to himself. A lack of personal financial resources forced him to borrow SR500,000 (US\$135,000) from other business investors. The borrowed funds plus associated ‘fees’

⁵⁸ Names that might lead to the identification of participants and/or their businesses were altered and any data that might lead to such conclusions were excluded to preserve participants' rights to confidentiality and anonymity.

amounted to SR625,000 (the equivalent to an interest rate of 25%), were to be returned a year later. However, Mr. Al-Jasim was able to repay the loan along with the due 'interest' within 10 months. "I was working fourteen hours and driving 500 km a day". He talked proudly of being the first to introduce "a certain building product" to the Kingdom. Being the only supplier of this product, coupled with the high demand from major clients such as royal palaces, ministries, the diplomatic quarter, hospitals and universities, presented his firm with promising business opportunities in the short and medium terms. If success is to be defined in terms of business expansion, then the Al-Jasim Engineering is definitely a successful one as there are about 300 individuals, from many different nationalities, currently listed on the company's payroll.

His move to industrialisation in 1987 was inspired by his desire to manufacture locally (better quality products at competitive prices) to replace some of the imported building materials that he was selling. "It was more important to manufacture hoses that fitted the needs of our clients and could withstand the tough Saudi environmental conditions." Mr. Al-Jasim started his manufacturing endeavour with the production of six types of hoses: Water, Gas, Fire, Petrol, Chemical and Steam hoses. Currently, the business produces in excess of 100 types of hoses ranging from 1 ml to 300 ml. Manufacturing was also extended to include other related products.

Mr. Al-Jasim's practical experience prior to starting his business was consistent with his scientific background. He started his career as a water treatment specialist at the Ministry of Trade in the Eastern province before being transferred to the Central province. Mr. Al-Jasim acknowledges that his move towards entrepreneurship was mainly driven by economic stipulations rather than religious motivations. "When the opportunity presented itself, I was keen to exploit it and that is exactly what I did".

Mr. Al-Jasim believes that while Saudi Arabia is not in short supply of entrepreneurs, it greatly needs more enterprising individuals. He considers the majority of Saudi entrepreneurial activities to be cyclical and that they do not meet the basic needs for advancing the development of the expanding economy. Saudi entrepreneurs are mostly focused on making a quick profit by exploiting opportunities that become available in the local market rather than on building businesses with a long-term orientation.

Mr. Al-Jasim junior agreed with his father's assessment that Saudi Arabia has an adequate share of entrepreneurs and he also questioned the quality of Saudi entrepreneurship:

If we consider the quantitative and qualitative components of the equation, we conclude that there is a hard work still needs to be done in order to build up a viable entrepreneurship sector in the Kingdom. The majority of new entrepreneurs rush into starting new businesses without proper research and adequate preparation or planning. They tend to emulate established successful small businesses without taking a broader perspective on the implications of their decisions and moves.

The negative outcome, in many cases, is evidenced by the high failure rate among new businesses.

Muslim entrepreneurs and Western entrepreneurship

Mr. Al-Jasim portrays the Saudi entrepreneur as being an emotional and informal individual who lacks long-term planning for his business undertaking. On the other hand, he describes his counterpart, the Western entrepreneur as a rational, well structured and a practical person motivated by his self-interest and the desire to make money. The Western entrepreneur goes by the book. He is rational, so he makes his decisions after exhausting his options and the decisive factors of whether to start a business would be the “how much” would it cost? “How much” would I make? On the other hand, the Muslim entrepreneur has to ensure that his business activity is *halal*, moral, and socially desirable, thus he has extra variables on hand to deal with. The domain and, at the same time, the constraints of the Islamic entrepreneurship equation are wider, hence balancing the equation is more delicate and requires hard work and diligence. However, once the point of equilibrium is identified and accepted there would be no other path for the entrepreneur but the path of success. His son summed up his view on the issue by stating:

Business is business. Let it be in the East or in the West. The entrepreneur enters into lawful business motivated above all by his own interest. Benefiting others and promoting the social good would be either the natural outcome of the process or the result of a genuine but secondary concern for the entrepreneur.

However, as both entrepreneurs are motivated by self-interest, they conduct their businesses under “legal vs. moral” sets of rules and considerations. Western entrepreneurs operate within the boundaries of the prevailing legal systems in their societies and Muslim entrepreneurs operate according to their own convictions based on the principles of ‘the eternal divine’, where the ‘self-monitoring mechanism’, not the eyes of the law, is expected to keep them in line with Islamic business ethics, explained Mr. Al-Jasim junior.

Does this 'self-monitoring mechanism' really work? Both my informants agreed "probably not", and they attributed this deviation, as many other entrepreneurs did, to the exclusion of Islam from Muslims' daily activities. Muslims to a large extent seem to have maintained and preserved *ibadat* at the expense of *Muamalat*. Another entrepreneur I interviewed was more straightforward and said:

Let us be clear from the start. Are we talking about Islam or about Muslims? Yes, there is a huge inconsistency between the ways we selectively practice Islam, and being faithful Muslims who truly live Islam.

Practising Islam in an everyday business activity is an ideal pursuit that Mr. Al-Jasim tries hard to achieve. Being truthful, fair, punctual, seeking reasonable profit, maintaining good and honest relationships with employees and customers are key characteristics that Mr. Al-Jasim and his son ensure that they practise in the course of running their business. They further claimed that they do not engage the business in any unethical activities. It was evident from the reaction of Mr. Al-Jasim that he did not expect me to remind him that he started his business with an interest-based loan, which definitely goes against the very basis of the Islamic interest-free financial system. His only justification was that he had no other alternative. "It was the only (option) I had at the time, so I did the impossible to repay the loan as soon as I could. I constantly ask His Almighty Allah for His forgiveness".

Islam expects Muslims to behave entrepreneurially

Both Mr. Al-Jasim and Al-Jasim junior believed that Islam has a positive attitude towards entrepreneurship, evidenced by the high status it attaches to productivity and *halal* earnings. Nothing in Islam stands in the way of an honest and ethical entrepreneurial activity. "As a matter of fact Islam expects Muslims to work hard, to strive and to behave entrepreneurially in all aspects of their daily activities".

Furthermore, Mr. Al-Jasim did not see any attitude or tradition in the Saudi culture or value system that stands in the way of entrepreneurship development. He believes that Saudis are "born traders" and the Saudi culture does not hold them back. The Saudi culture has a very positive attitude towards entrepreneurship and successful entrepreneurs are recognised and well-perceived by the majority of Saudis:

Should data have been collected on two classmate groups where one group opted for employment in the public sector and the other group chose the path of

entrepreneurship, the outcome is most likely to reveal that the entrepreneurs are far better off financially, socially and intellectually than their ex-classmate who favoured being employed rather than being employers.

Saudis have more incentives to enter business than many others do: as a Muslim, the Saudi entrepreneur seeks the financial as well as the hereafter rewards from the business undertaking. The strength of family ties and social cohesion among Saudis ensure that the entrepreneur still has the emotional, social and financial support of his family, relatives and friends should the business venture fail. Mr. Al-Jasim acknowledged that the oil boom of the 1970s was not all-good news for the cause of the Saudi entrepreneurship sector. Many parents sought employment for their children particularly with the government: employment with the government carried with it the prestige, the rewards, the security and minimal accountability. "Even when our parents wanted us to be doctors, solicitors and engineers: it was not with the prospect of opening a clinic, a law firm or an engineering office, but to find employment with government agencies". However, things are changing and entrepreneurial activity is regaining its impetus, believes Mr. Al-Jasim junior.

Despite the enormous changes that have taken place within the Saudi society in the past three decades, Saudi Arabia remains a relatively closed and private society. Family and tribal relationships, in most instances, prevail over other forms of social interaction between Saudis. The implications of strong family ties affect all other forms of *muamalat* (relationships) within the Saudi society, especially business activities:

Knowing that you have a family that you can rely on and that it will stand by you and support you, regardless, will undoubtedly provide young Saudis with the courage and confidence to take the final step towards starting their own businesses.

Mr. Al-Jasim has no doubts that the Saudi culture is endowed with the vital entrepreneurial ingredients:

As well as Saudis being "natural traders", they are also "risk takers" and "good believers". They believe that Allah is the provider for rizq, hence; they accept failure with the same spirit as they accept success.

Viewing the concept of *rizq* from such a narrow angle portrays Saudi entrepreneurs to be passive and fully dependent on divine power, I commented. Mr. Al-Jasim explained that accepting that *rizq* is pre-determined by The Almighty Allah does not relieve the entrepreneurs from exerting all efforts and taking all precautions to ensure the success of their business undertaking in accordance with the Islamic code of conduct. He

further pointed out that an often highly misread and misunderstood concept of Islam is the concept of fate and rewards. Being humble to the will of The Almighty Allah does not mean the passive acceptance of life as given, and that the individual is left with no choice or voice. Putting absolute trust in Him and believing that The Almighty Allah predetermines all decisions and actions to be taken by individuals does not imply that people should take unqualified decisions and justify the outcome of their actions as “the willing of God”.

Mr. Al-Jasim moved on to explain the difference between *tuwukkol* and *tuwakol*; *tuwukkol* requires Muslims to mobilise all resources and to take all possible measures necessary to achieve the desired goals then rely on The Almighty Allah for guidance and success. Islam on the other hand deprecates *tuwakol* because it implies that one should do nothing and hope for everything, clearly defying the universal law and commonsense. The second *Khalifah* Omar Bin Al Khattab, may Allah be pleased with him, told a man who spent much of his days and nights praying in the mosque and asking The Almighty Allah for help “Sky does not rain gold and silver”. He ordered him to go out there and leave no stone unturned in the quest of earning a *halal* living, then to seek the help of The Almighty Allah.

Two generations and two contrasting views of the role of the State

Mr. Al-Jasim highly praised the role of the state in encouraging entrepreneurship and supporting small businesses. He elaborated on this, after I asked him to be more specific, by saying that every Saudi citizen can start, with minimum requirements, the business he/she wishes as long as it is consistent with the Islamic code of ethics. There are no restrictions imposed by the state. Registration fees are minimal and Saudis do not have to pay taxes on their profit or income except for the religious duty of paying *Zakah*.

Mr. Al-Jasim viewed the responsibilities of the state in development from his own perspective as a contractor, thus his appreciation of the role of the state was linked to the level of its support of the construction sector. “Any government that does not encourage the construction sector is a failing government”. He explained that there are about 2,000 industries directly involved with building activity: Furnishing, air conditioning, plumbing, carpentry and electrical work in addition to the basic building materials, are but a few businesses to list, that have direct links to the building activity. Thus, by encouraging the development of a thriving construction sector, the

government would be actually helping thousands of small enterprises to be in business and putting tens of thousands of individuals into employment. The “Saudi government is doing just that”, believes Mr. Al-Jasim.

Mr. Al-Jasim junior had a different reading of the role of the state in entrepreneurship development and argued that such a role should go far beyond that which his father has suggested. The question is what other incentives and/or assistance that could be provided by the state for potential entrepreneurs before and after they commence their business activities are needed. It is the state’s responsibility to undertake initiatives and policy measures aimed at stimulating entrepreneurship, and extending support to existing and future enterprises such as access to financing and other fiscal incentives. Mr. Al-Jasim junior did not deem the state exemption of entrepreneurs from paying taxes on their profit to be a special policy that favours the small business sector or aims at encouraging entrepreneurship; it is merely a policy that puts the entrepreneur on an equal footing with other wage/salary earners. “Taxing entrepreneurs on their profits would be unfair practice since no tax is being imposed on any other source of income.” Mr. Al-Jasim junior was also critical of the State policy regarding Saudisation and believed that forcing small businesses to employ a certain percentage of Saudis would not be fair for either party.

Mr Al-Jasim believes that the practices of Islamic financial institutions, in general, do not differ from those of the commercial banks. They both would rather deal with established large accounts than deal with new and risky small businesses. The partnership arrangements (*musharakah*) between Islamic financial institutions and the (emerging) entrepreneurs, if existing, are the exception. The relationships between Saudi banks and their clients are, in many cases, more of a personal rather than a business-like relationship.

“Why is the West ahead and the majority of Muslim countries are poor and underdeveloped? Is it because we are ‘Muslims’ and the West is ‘The West’? Is it because our values get in the way of our ambitions and aspirations for development and progress?” I asked. Mr. Al-Jasim junior acknowledged the differences in values but unequivocally rejected the reasoning:

It is true that there is incompatibility of values between Islamic and Western cultures, and we are not apologetic about such incompatibility. Differences are expected and they are natural because we are two different societies and cultures. However, such incompatibility neither implies the superiority of the

Western culture nor necessarily translates into incompatibility between Islamic values and economic enterprise. Furthermore, cultural differences do not mean that Muslims are incapable of development and producing quality entrepreneurs.

He argued that differences in scientific and economic prosperity between Muslim and Western countries could be explained in a variety of contexts (political, institutional, structural and historical) but “definitely not in religious or cultural terms”. He was also quick to recall Muslim’s remarkable achievements and contributions to global knowledge, and expressed confidence that the imposed status quo on the majority of Muslim countries is by no means the end. Life, as he put it, is a “merry-go-round”, and added “if it plays against you today, it is certainly yours tomorrow”.

Alyami Contracting

It is perfectly normal to be apprehensive and timid of the unknown and to have that sense of insecurity, because entering into a new territory is never an easy endeavour. There is so much at stake. On the other hand, individuals must visualise the rewards of rising above their fears and having the opportunity to realise their dreams: financial security and independence, autonomy, self-satisfaction, prestige and the pride of being productive members of society (Alyami, 2004).

Introduction

I started the interview by inviting Mr. Alyami to talk briefly about his entrepreneurial journey: its beginnings, its evolution and its direction. He stated that, as a business entity, our broad mission is “to realise and fulfil the main purpose of our existence on earth; to build everywhere and that is exactly what we do”. When I commented that my understanding of the purpose of our existence, as Muslims, is worshipping His Almighty Allah, he agreed and explained that there is more to the act of ‘building’ than its physical characteristic and implications, Islam considers all ethical work to be a form of worship.

Mr. Alyami linked his attitude towards the entrepreneurship phenomenon with his passion for venturing into unsafe waters. However, he emphasised the need to differentiate between being an adventurer, a risk-taker based on facts and researched preferences, and being immature and rushing ill-equipped and badly prepared into situations under the pretext of luck and destiny.

Mr. Alyami went back in time about thirty years to recapture the turning point that made him realise that there was a better alternative to being an employee in the public sector, which was the trend in the mid-1970s. While he was a third-year business student at KSU, one of his lecturers cynically commented that the monthly income of a PhD university lecturer hardly amounts to half the SR 20, 000 salary of a truck driver. "If that was the case, how about being the owner driver? Imagine the rewards of owning two trucks...three trucks, I wondered"! Mr. Alyami made further inquiries and decided not to waste more time and to exploit the opportunity. "Attending the university and putting in long hours on the road was by no means an easy task". Nevertheless, Mr. Alyami was certain that the long hours behind the steering wheel and the sleepless nights would not be in vain, and in time, he would be rewarded for his dedication and hard work. Mr. Alyami definitely was on his way to having his own construction business. "Being in the construction business at that time was financially more rewarding than being in any other business. The business, which he started with two other employees in late the 1970s, now employs more than 150 individuals of different nationalities and diverse backgrounds.

However, it was evident that Mr. Alyami was not overjoyed with my question as to whether or not Islam was the decisive factor in his decision to become an entrepreneur:

I would love to say yes, but with all honesty, I cannot claim that I based my decision to start my business on religious grounds. It was a combination of economic rationale and the need to transform my passion for adventure into a business reality, made possible by the availability of the right opportunity.

Mr. Alyami feels that Saudi Arabia has a healthy stock of individuals who are already engaged, or willing to be engaged, in business creation. The downside of this optimistic account is that the majority fail to take a holistic approach to the entrepreneurial activity and rush into the first business opportunity unprepared. They do not realise that starting a business and ensuring its continuity involves more than having an idea and securing the starting capital. This surely undermines the quality rather than the quantity of Saudi entrepreneurs and explains the relatively high rate of business failures. "We have the numbers and we have the spirit, but we do not have the supporting policies and the active institutions to create an efficient and productive enterprising sector". Acknowledging this shortcoming did not prevent Mr. Alyami from expressing his admiration of the many self-made Saudi entrepreneurs who have

gained local, regional and international recognition for their business excellence and achievements.

The Muslim and the Western entrepreneur: Similarities and differences

Contrasting the Muslim entrepreneur with his Western counterpart, Mr. Alyami believes that once the Western entrepreneur is convinced that he/she has found the right business idea or opportunity; s/he starts searching for possible sources of finance to raise the needed start-up capital. He/she does his/her homework by preparing feasibility studies and business plans to convince the financial institution of the viability of the business undertaking. His/her utmost concern becomes how to repay the loan (principal and interest). He/she measures success by the ability to pay off the loan, because he/she realises that banks have no mercy and defaulting signals the end. Thus, the bank, which is supposedly meant to help potential entrepreneurs and small enterprises, becomes a possible cause of their failures. Theoretically, Islamic financial instruments are designed to protect the entrepreneurial undertaking from such a fate. Mr. Alyami concedes that putting true Islamic banking into practice is a goal yet to be attained. He further compares interest-based conventional financing with a cruel “butcher” showing little or no mercy towards his casualty. This in part explains why only a small fraction of Saudi entrepreneurs seeks to obtain business loans through formal financial institutions.

Mr. Alyami explained that Saudi entrepreneurs conduct business at a personal level while personal relationships for the Western entrepreneur are not important. They usually take the attitude “it is just business”. Muslim and Western entrepreneurs also differ in their approach to the recruitment and dismissal of employees. “As a Muslim entrepreneur, I take into consideration other humanitarian aspects especially when faced with the hard decision of discharging an employee”. A Muslim entrepreneur considers helping Muslim brothers into employment and making a living to be a religious duty for which he/she would be rewarded in the hereafter. However, Mr. Alyami did not agree with the view that portrays the Western entrepreneur to be a materialistic human being totally removed from spirituality. He argues that despite differences in the priorities, the motives and the expected rewards attached to the entrepreneurial activity, Western and Muslim entrepreneurs each render a valuable contribution to their society as well as serving their own interests.

Mr. Alyami is keen to practise Islamic work ethics “to the best of his ability” while running his business. His honesty, straightforwardness and fairness towards his employees and clients have earned him their trust and consequently comprise the blueprint for success. “We take extreme care to be engaged only in *halal* and productive business activities”. Islam seizes every opportunity to inspire, stimulate and require Muslims to acquire useful knowledge, and to base their behaviour on moral grounds by being truthful, sincere, honest, fair and just when dealing with others. Therefore, Mr. Alyami believes that Muslim entrepreneurs are obliged to fight fraud by avoiding deception, dishonesty, price fixing, monopolisation, falsification and misrepresentation. He was quick to point out that such basic business ideals are embedded in Islamic teachings. “In fact there is a complete *Surah* (chapter) in the holy Qur’an devoted to warning Muslims and non-Muslims alike against fraud”. He recited:

Woe to those that deal with fraud, those who when they have to receive by measure from men exact full measure, but when they have to give by measure or weight to men, give less than due. Do they not think that they will be called to account On a Mighty Day” (Qur’an, 83, 1-5)?

Mr. Alyami is confident that should Muslims truly implement the directives and the guidelines integrated within the Islamic value system in their business dealings, they would be, as once they were, the most successful people on earth.

A culture that is rich in business tradition

Saudi Arabia is a conservative Muslim country, and “we Saudis, despite the rapid socio-economic changes of the past three decades are still, to a degree, a tribal society”. The fact that Saudi cultural values are inseparable from religious values and the Islamic belief system did not prevent some un-Islamic traditions/customs creeping in and for these to be viewed and even accepted by some, as part of the Islamic traditions. There is no doubt that Islam is an entrepreneurial religion. Some Qur’anic verses are explicitly, and others are implicitly, aimed at motivating Muslims to be productive entrepreneurs. Thus, it is natural for Saudis to be business-minded people. In fact, links between the Arabs and trade is not a new occurrence. Long before Islam, the people of Arabia were well known for their trading skills and their spirit of business venturing. Islam endeavours to cultivate this business spirit and to promote the beneficial association of the Muslim with business.

Mr. Alyami finds it hard to pinpoint or to claim that certain Saudi cultural values might discourage Saudis from pursuing the path of entrepreneurship. On the contrary, he thinks that Saudis have a high regard for keen entrepreneurs and a great appreciation of fair entrepreneurial activity:

There are no religious impediments or cultural barriers standing in the way of entrepreneurship development in Saudi Arabia. On the contrary, we have a culture that is rich in business tradition and a religion that rewards us for being responsible entrepreneurs and earning a halal living. Such incentives and motivations to be dynamic and productive are not to be found in any other cultures. The problem is not in our religion; it is rather in our practices, or more precisely, in not practising our religion.

Mr. Alyami recalls that soon after his marriage, his wife's girlfriends paid a visit to convey their good wishes. "They thought that my wife was lucky because she was married to a businessman": a sign of wealth and social status. Having emphasised the generally positive attitude of Saudis towards entrepreneurship, Mr. Alyami reiterated, "It is the misguided interpretations of these values that sometimes give the impression that Saudi cultural values and entrepreneurship have an inverse relationship". Furthermore, the implications of oil wealth for the Saudi society might have temporarily diverted attitudes from entrepreneurship, but definitely, things are changing in favour of entrepreneurship, believes Mr. Alyami.

Islamic entrepreneurship between the ignorance of the public and the negligence of the officials

Despite the high regard that Islam holds for entrepreneurial activity, 'Islamic entrepreneurship' remains a foreign concept and unfamiliar phrase in Saudi business terminology. Mr. Alyami further commented that Islamic entrepreneurship did not draw the attention of the state nor did it capture the interest of its policymakers. This explains why very little, if any, has been done by the state to promote forms of Islamic entrepreneurship. Saudis are not exposed to Islamic entrepreneurship in their schools, universities, media, the mosque, or religious preaching. Mr. Alyami had his doubts whether the state has any official policy (explicit or implicit) concerning either entrepreneurship in general or about Islamic entrepreneurship in particular:

Personally, I did not notice or experience any official move towards developing entrepreneurship nor towards supporting new or existing small businesses. The feeling I have is that entrepreneurship development is not on the state agenda and small enterprises were left to their own fate.

Mr. Alyami explained that the absence of true Islamic banking facilities has left Saudi entrepreneurs disadvantaged and virtually excluded from utilising Islamic financing in their attempts to raise capital for their entrepreneurial endeavours. He further believed that the Saudi banking industry is pursuing a dangerous and a destructive policy aimed at freeing the minds of the Saudis from the taboo of *riba* and transforming their attitudes to accept *riba* as a lawful and a normal financial activity. Generous and attractive employment packages are being offered to young Saudis inducing them not to question the legitimacy of their earnings or the morality of the service they offer. This is being carried out under the nose and the eyes of the government⁵⁹.

In fact, there are no pure Islamic banks in the Kingdom. The government forbids the establishment of Islamic banks on the ground that authorising such banks to exist and operate implies that other existing banks are un-Islamic; a compromising position surely the Saudi government does not wish to be in or to acknowledge.

Religious scholars are also not doing their homework regarding their choices of the topics they preach. They are out of touch with the contemporary challenges facing the Muslim *ummah* and the issues that pertain to the Muslim masses.

While Saudi wealth stored in Western banks is being used to create new businesses and support existing ones in the United States and Europe, financing new entrepreneurial initiatives remains a real problem facing Saudi entrepreneurs. Mr. Alyami described his experience with one of the leading Islamic financial institutions as “difficult and unpleasant”. He further explained that Islamic banks are most likely to impose exceptionally tough terms and conditions on the potential entrepreneurs that, in most cases, they will not be able to meet. Islamic banks are also criticised for being administratively inefficient; “it took the loan application more than eighteen months to be processed; by then, the business opportunity was no longer viable”. Furthermore,

I was amazed to find out that the so-called ‘administrative fee, which in reality is another term for ‘interest rate’ used by financial institutions claiming to practise Islamic financing, amounted to 11% while the ongoing lending rate at the time was 7- 8%!

The reluctance of Islamic financial institutions to engage in financing new businesses might be explained by the extra cautious approach adopted by these institutions to

⁵⁹ Mr. Alyami suggested that it would be an excellent research topic for a Master, if not a PhD, thesis to investigate the hidden agenda and the questionable tactics and approaches exercised by conventional Saudi financial institutions in their undeclared pursuit to create a Western-style business culture in the kingdom.

protect the interests of their clients. Mr. Alyami rejects this logic and argues that such a justification questions the commitment of Saudi Muslim investors to Islamic financing. The majority of Saudis, he argues, are well aware of the risks as well as the potential rewards when they chose to invest the Islamic way.

The conservative approach adopted by the majority of Islamic financial institutions towards entrepreneurship limits their ability to perform their intended role as 'partners in development'. Furthermore, a large portion of their massive savings inevitably ends up invested in morally questionable financial investments in the global market. Unfortunately, Islamic financing as currently being practised is unfeasible, unproductive and unfriendly towards potential entrepreneurs.

The prevailing reality of Islamic banking negates the very basic principles justifying the need for its existence and development. After all, it seems that the instruments of mudarabah and musharakah you are talking about are more of books' materials and research topics than financial realities.

Mr. Alyami believes that the best service the state can provide to advance the cause of Saudi entrepreneurship is to recognise the many contributions that entrepreneurship can render to the economic development of the country. Accordingly, the state is required to translate such recognition into working policies and programmes and to have the political will to ensure their honest implementation. Mr. Alyami highlighted the importance of securing capital to start a new business or to finance an ongoing one and the potential role that the state can play in facilitating access to such capital.

Surely, the Saudi government can somehow allocate a very tiny share of the hundreds of billions that it invests in the US economy alone to invest in the local economy. Is this too much to ask?

The exclusion theory

The suggestion that the current economic and technological ills of the majority of Muslim countries can be attributed to their cultural values and belief system, which are deemed by Western standards as incompatible with modernisation and development, is baseless. Instead, Mr. Alyami explained the economic and technological divide between the Muslim countries and the West in terms of the dependency and the complete failure of the formal institutions in the majority of Islamic countries to carry out needed reforms. He pointed out that the majority of Islamic countries still suffer the damaging impact of colonisation and the "cruelty of Western dominance". Colonial

powers did their utmost to ensure that Muslim nations remained poor, illiterate and backward in order to secure their dependency on the West for as long a time as possible.

Imperialism, the new face of colonisation, is assuming the same role of colonisation but through different means. Examples are: installing and protecting authoritarian regimes that do not represent or reflect the will of the people, exploiting the wealth and natural resources of Muslim countries under the pretext of 'technology transfer' and investments and, on many occasions, through massive arms sales to fuel regional conflicts that they have originally engineered.

Mr. Alyami has no doubt that Muslim countries are the main targets of the Western powers. He gave what he calls "live and painful" examples from the former Soviet Union where newly independent Islamic Republics were the subject of Western domination and exploitation. The engineered currency crisis that aimed to bring down the Malaysian economy in 1997 was another testimony that Islamic countries are being targeted, not to mention the many examples from the Middle East, added Mr. Alyami. This state of affairs prevented Muslim countries from rearranging their in-house affairs and mobilising their national wealth and so enabling them to pursue meaningful and effective developmental strategies.

However, Mr. Alyami did not hesitate to acknowledge that the West outsmarted the Muslim world by rising above the medieval mentality in their quest to achieve social, economic and scientific revitalisation and recovery. He pointed out that Western scholars embarked on ambitious campaigns and translated numerous references and valuable manuscripts in all disciplines of knowledge and from different sources, mainly of Islamic origins. They adopted and, in many instances, they claimed what they deemed useful to be of their own creation.

Frankly, they were smarter. They redrafted the best of what they translated into laws and applied them in their business conduct while we were left in the cold. The majority of Muslim countries remained economically dependent on the West even after they achieved their questionable political independence.

Mr. Alyami argued that the majority of Muslim governments were active participants in fuelling "our miseries". At the individual level, there are, on the one hand, the hardworking poor who work their hearts out every day in order to provide the bare necessities and put food on the table for their large families; hence they have no will or appetite to ask questions or demand answers. On the other hand, there are large

numbers of university graduates who were lured by the Western opportunities and infuriated by the oppression at home, hence they (decided) to emigrate.

Think of all the enlightened young Muslim intellectuals who were being (forced) to migrate to the West. Think of the huge loss in terms of irreplaceable human wealth and the potential contributions that they could, if allowed, deliver to the well-being of the Muslim ummah. It is a deliberately engineered policy of 'brain drain' aimed at depriving poor countries of their most valuable assets; their human wealth, after they have exploited their economic resources. Sadly, the majority of our governments are active partners (intentionally or unintentionally) in the planning and the execution of the crime.⁶⁰

To prove his point, Mr. Alyami spoke of a business colleague who had a meeting with executives from the world's third largest computer company in the late 1970s:

Eighteen out of the nineteen executives and scientists at the meeting were immigrants from third World countries. In fact, there is an exodus of about 30,000 highly qualified emigrants from India alone to the United States every year.

Shabanah Trading

My destiny was to work hard and to struggle since the early years of my childhood. I worked and worked diligently for many years before the opportunity knocked on my door. Being an entrepreneur is my destiny. Otherwise, how would you explain the journey of an illiterate young man from the narrow dusty streets of a small unheard-of town in the middle of the Arabian Desert teaming up with a world-renowned Swiss company to establish a fruitful relationship that lasted well above fifty years and is still growing? The only logical explanation I am able to put forward is that it was my 'destiny'; it is Allah's will. Although it was not always an easy ride or a rosy journey, it is nevertheless a very rewarding and inspiring experience, which surely was worth all of the dedication, diligence and hard work that were put into it. The success I achieved far exceeded my wildest dreams. This positive relationship was not likely to prosper and flourish if it was not built and promoted on ethical grounds and carried out in an open and an honest manner (Shabanah, 2004).

⁶⁰ According to a study commissioned by the Gulf Centre for Strategic Studies, the current political and economic realities in all Arab countries have led to the exodus of about 450,000 highly qualified Arab brains mainly Doctors, Engineers and Scientists to various Western countries; namely to the US, UK and Canada. The study estimated the annual direct economic cost of such 'brain drain' to the Arab economies to be in excess of US\$ 200 billion (*Al Iqtisadiyah*, 2004, May 24, p. 5).

Introduction

Mr. Shabanah contrasted the contemporary 'easy' living Saudis, presumably, enjoy nowadays with the 'tough but simple and peaceful' life that he had years ago. Many things have changed in the past fifty years or so. Modernisation, in the form of advanced technology and the unlimited desire for consumption and material gain, is forcing its way into our pattern of living and imposing its will on the lives of a large segment of society, explained Mr. Shabanah. Mr. Shabanah therefore strongly believes that it is a solemn responsibility of older generations to ensure that future generations are well equipped to face the many impending challenges by being good Muslims. Good Muslims accept in their hearts as well as in their minds that Allah Almighty is the supreme authority who justly divides wealth (*rizq*) among his creatures. Each of us was born with special abilities and attributes and was meant to be a unique human being. Individuals must exert every effort to realise their potential. "I had a strong desire to be a scientist, but unfortunately I never had the opportunity to attend school", confessed Mr. Shabanah:

I educated myself and I will continue to do so as long as I live. I am convinced that the best education anyone can acquire is to be knowledgeable of Islamic principles and teachings and the best behaviour any one can exhibit is to put acquired knowledge into practice. By doing so, people will have light in their hearts and will realise that God is overseeing their intentions and actions, so they conduct their daily affairs with contentment and hopefulness. I am content with what Allah has given me.

His many years in business have taught Mr. Shabanah that good intentions and sincerity in work are keys to success and contentment:

Every time I truly devote my full intentions to pleasing The Almighty Allah, I end up – by God's willing – achieving far more than I expected or wished for. "O Lord! So order me that I may be grateful for thy favours which thou hast bestowed on me and on my parents" (Qur'an, 27,19).

Mr. Shabanah talked about the contribution of his business to the well-being of hundreds of families over the years. Being able to employ hundreds of individuals from more than twenty different nationalities meant opening many homes and sending many more children to schools and universities. For Mr. Shabanah, this is a real satisfaction. The positive attitude of Mr. Shabanah demonstrates that his compassion and concern go beyond the ethnic divide and geographic boundaries of Saudi Arabia. "If it was not for our business, our partners in Switzerland would definitely have fewer

workers on their factory payroll”, added Mr. Shabanah. The whole business to Mr. Shabanah becomes a means by which he helps himself by helping others. “How much do I need for myself? My needs and requirements are very little but my purpose is definitely not”.

Accepting the challenge and the decision to stay in the ‘big city’

One of the decisive moments that greatly influenced the thinking of Mr. Shabanah and shaped his character was the moment he had to farewell his mother on his way to Riyadh:

She handed me a large empty plastic bag and asked me to return it full of money... At that moment, I felt that my (intellectual) age surpassed the twelve years or so that I had lived. There, I realised that the future is full of challenges and the expectations are very high.

Mr. Shabanah went through a detailed account of his long and thorny journey to Riyadh, and the mixed feelings he experienced:

Life was not easy in Riyadh. Should I go back? What should I tell my mother who is expecting a bag full of money? If life in Riyadh was hard, I knew it was even harder back home.

Mr Shabanah accepted the challenge and decided to stay in the ‘big city’:

One day while I was looking around in the market, I came across a group of people selling a bag full of belongings of someone who had just passed away. I liked what I saw and decided to buy it. I had no money whatsoever, so I sold a ring that I had on my finger and purchased the bag. It did not take me long to resell its contents separately and instantly realise a good profit.

Before he knew it, Mr. Shabanah found himself actively involved in the market dynamics. His approach to business was spontaneous and traditional and the focal point of his business activity was the re-sale of locally purchased items.

I felt that buying and selling was the natural thing for me to do. I had the skills, the courage and the passion. I felt that I was born to be a merchant and that entrepreneurship was my fortune.

Mr. Shabanah continued his pursuit for business opportunities mainly in trade for many years until he formally teamed up with his current Swiss partners back in 1950.

Mr. Shabanah was driven to entrepreneurship motivated by his natural tendency to be in business and to meet family financial needs. However, soon after, he started questioning his own perception of the essence and the purpose of the entrepreneurial activity and tried relentlessly to understand and define his role as a Muslim entrepreneur:

It is no longer about making money; it is about how we earn and how we spend money. Money could be a cause of delight and grace or a cause of misfortune and adversity. We are being tested with our fortunes; therefore the issue is about making halal money and the challenge becomes how to spend it in the cause of Allah.

Business taught Mr. Shabanah to be thankful to The Almighty Allah for His countless blessings and to appreciate what he has. He went on to explain that the ultimate goal of any activity undertaken by a Muslim is to please The Almighty Allah. By providing food for his family and by being able to help others through employment and by extending a helping hand at other occasions, the Muslim entrepreneur is doing just that. "What is a better way to help others than being a Muslim entrepreneur? It is a real satisfaction"!

Good entrepreneurs are always in demand

Like the majority of Saudi entrepreneurs I have interviewed, Mr. Shabanah was convinced that Saudi Arabia has no problem with the current or the future supply of entrepreneurs. On the contrary, he believes that the eagerness of many Saudis to start their own businesses might prove to be counterproductive; many are taking uncalculated risks by rushing into business without proper considerations. Mr. Shabanah explains:

Generally, there are two kinds of Saudi entrepreneurs and both are 'traditional'; the first type is best portrayed by the 'regular guy' who saved or secured a modest amount of capital and waits for the (right) opportunity to knock on his door. He is most likely to end up duplicating a new business around the corner that he perceives to be successful. The other type involves the higher educated individuals who travelled abroad hence were exposed to the Western style of retailing and technology. Their enthusiasm usually leads them to imitate without questioning what they have perceived to be an opportunity regardless of its suitability to the particularities of Saudi culture or to the local market needs. The result in both cases can be witnessed in the tens of empty shopping malls all over Riyadh and in the tens of identical small firms, which were hastily established in close proximity soon after someone introduced the new idea.

Mr. Shabanah concluded his appraisal of Saudi entrepreneurship by warning against the tendency of taking more interest in the quantitative aspects of entrepreneurship at the expense of its quality.

The good entrepreneur creates a good enterprise. No economy can truly claim to have enough good entrepreneurs. Good entrepreneurs are expensive commodities that are always in demand.

Islam is a religion and a way of life

Most Western societies consider religion to be just one aspect of life. Based on their secular principles and their socio-economic upbringing, Mr Shabanah believes that Westerners conduct their business, among other daily activities, without feeling the need to consult religion for decrees or guidance. In an Islamic society however, Islam is a religion and a way of life: an inclusive system that commands an influential and a more involved role in the conduct and the decisions of its followers concerning their everyday, especially economic, activity. Islamic entrepreneurship therefore cannot be separated from the religion; it abides by its rules and guidelines (*halal and haram*). Western entrepreneurship, on the other hand, is an economic activity primarily motivated by personal desire for material gains. The two systems differ in their motives, goals, and approaches to the entrepreneurial activity.

Mr Shabanah pointed out that the attitude of the Muslim entrepreneurs towards hiring and firing employees has a more humanitarian aspect than that of their Western counterparts. Western entrepreneurs are rational; they largely base their decisions on economic parameters, where the business interest usually overrides other considerations. On the other hand, Muslim entrepreneurs conduct their business (the do's and the don'ts) guided by their own consciences and based on their religious convictions; convinced that God knows their intentions and oversees their actions. "While the Muslim entrepreneur pays *Zakah* willingly in anticipation of greater rewards, the Western entrepreneur pays as much taxes as he has to while legally taking advantage of every article of the law to minimise his dues".

Mr. Shabanah spoke proudly of the harmony between the 400 individuals from more than twenty nationalities who constitute the backbone of the business. "They are more than employees; they are our partners. The success of the business is their success and its failure is their failure". Honesty, truthfulness, mutual interest and the respect for all are the basic traits that define the nature and the shape of the relationship between

the team members and the firm's relationship with clients and suppliers. Mr. Shabanah made a promise that he kept for over fifty years and still intends to keep; the rights of every individual connected with the business are to be protected and every one shall get his full dues. "There is no room in our business for exploitation or discrimination on any ground".

Mr. Shabanah explained that Islam is an entrepreneurial religion; it encourages Muslims to work hard, to be successful and to be rich. One of the noble intentions of the *Zakah* is to encourage Muslims to invest their wealth in productive and useful businesses. By doing so, the Muslim will increase his own wealth and so be economically independent and at the same time contribute to the well-being of others. Many Qur'anic verses and traditions of the Prophet (PBUH) urge Muslims to be productive and to earn a decent living. The Prophet (PBUH) practised business before he became a prophet and he was known as 'the trustworthy' and 'the honest'. Islam does not tolerate poverty nor advocate hardship in life. In fact, being a rich, caring Muslim gives the individual the opportunity to live a good life and the benefit of gaining more rewards in the hereafter. Muslims are rewarded for spending in the way of Allah: spending in moderation on personal needs, providing for the needs of the family and helping others.

Many of the Prophet's companions, who were promised "paradise", were extremely rich and used their wealth for good causes. Those beloved companions, May Allah be pleased with them, definitely did not build their fortunes by being employed by others. They understood the spirit of Islam and its demand that Muslims be strong intellectually, morally, socially and economically. Their behaviours were in complete harmony with their attitudes. They were honest, dedicated and trustworthy entrepreneurs who had every worldly obsession at their hands but not in their heart!

Mr. Shabanah explained that the only concern Islam has raised about Muslims being involved in *halal* entrepreneurial activities is the danger of getting too involved in the business and so being diverted from the remembrance of Allah, which also entails obligations towards all His creatures. He recited:

By men whom neither traffic nor merchandise can divert them from the Remembrance of Allah, nor from regular prayer, nor from the practice of regular charity: their (only) fear is for the Day when hearts and eyes will be transformed (in a world wholly new) – That Allah may reward them according to the best of their deeds, and add even more for them out of His Grace: for Allah doth provide for those whom He will, without measure (Qur'an, 24, 37-38).

However, Mr. Shabanah acknowledged that the conduct of business activity in the West is governed by defined rules and regulations, whereas labour laws in the Saudi business environment, for instance, are vague and lack consistency in their implementation. This is by no means the fault of Islam, commented Mr Shabanah. The only things in most cases that guarantee workers (specially foreign labour) their dues and assures them of their rights are the religious sincerity and the good intentions of the business owner/manager, which are not always to be taken for granted.

Islamic values and un-Islamic traditions

Mr. Shabanah approached the relationship between the Saudi culture and the entrepreneurial activity from a historical perspective. The history of trade in the Arabian Peninsula goes back 3,000 years. The geographic location and the occasional rainfall necessary for agriculture and farming forced the inhabitants of the Arabian Desert to turn to trade for a living. Islam came to cultivate and to regulate this entrepreneurial quality among Muslims. This is evidenced by the many verses from the Holy Qur'an and the traditions of the prophet (PBUH), where entrepreneurship is given a religious and a moral dimension.

Mr. Shabanah argues that Saudi cultural values are predominantly based on, and derived from, Islamic values. Saudis therefore value honesty, integrity and hard work and they hold high regard for self-made and high achieving individuals. They appreciate fairness and sincerity in conducting business. These qualities are basic ingredients for successful entrepreneurship.

Despite the positive outlook that Saudis have towards entrepreneurship and self-employment, large proportions of them, regrettably, are still captive to baseless socially inherited traditions that limit the opportunities of the potential entrepreneur. Saudis differentiate between two types of business activities; distinguished professions such as medicine, engineering and any other office-based types of business activity and undistinguished professions, which mainly involve the hands-on approach such as pumping gas, cutting hair, plumbing, carpentry and butchery types of business. The former are viewed favourably and respected while the latter are considered inferior and degrading; hence they decline to take part in them or to be identified with them.

If you run a "tyre repair shop" for example, the chances that somebody will be willing to have you as a son or a father-in-law are almost unreal, even though you

might be very successful. The majority of Saudis would be extremely reluctant to be associated with you

Although at times it seems that the government regulations for obtaining the necessary consent to start business are complicated, it is nevertheless not a major obstacle in the way of entering entrepreneurship. Mr. Shabanah believes that the Saudi government has a positive and a relaxed approach towards the formation of new businesses. Each citizen is able to start the business of his/her choice as long as there are no special requirements for that type of business. "Obtaining necessary permission to start a business is usually accomplished within a reasonable time and a minimal cost and with little hassle from the state." The state also affirms its support for national industries by giving preferential treatment to Saudi contractors and priority to locally manufactured products in all government-sponsored projects. However, Mr. Shabanah could not think of specific policies or programmes adopted by the state to promote entrepreneurship and to support small businesses.

Despite not being formally educated, Mr. Shabanah believes that education is the key to entrepreneurship success at individual as well as at national levels. Nations can realise their visions by engineering creative educational systems that best serve their developmental goals. Yet,

Our educational system has failed to emphasise the positive relationship between Islam and business activity. It has also failed to teach us how to conduct business according to Islamic ideals. Our universities, being extensions to our schools, teach our young Muslims the principles of Western economic, management and other financial and administrative sciences as the standards. The same schools and universities frequently avoid the inclusion of Islamic economic and Islamic business ethics in their curricula.

Mr Shabanah believes that Islamic banking is an ethical and a just concept that "unfortunately is not truly being implemented in the majority of Islamic countries, including Saudi Arabia". The very few self-proclaimed Islamic financial institutions in the Kingdom are privately owned, and have no role to play in the development of Saudi entrepreneurship. The same applies to the special departments/divisions created by commercial banks presumably to provide Islamic banking. Mr. Shabanah explained that the majority of commercial banks had no choice but to be engaged in "some sort of Islamic banking" due to public demand and in order to preserve their share of the market. However, people have no trust in such financial institutions and they question the morality of their practices and the authenticity of their developmental role.

A revolutionary religion

Mr. Shabanah deplored any suggestion that Islam is a backward religion that prevents Muslims from acquiring advanced knowledge and building prosperous economies.

How could Islam be an obstacle in the way of development and progress while the holy Qur'an and noble Sunnah make it obligatory for each Muslim to seek knowledge and urge them to disperse through the land and seek the bounty of Allah? Islam motivates Muslims to integrate their useful knowledge with good deeds in order to build ethically based productive economies and prosperous societies.

It is a certain truth that Islam, since its early beginnings, has aimed at liberating humanity from ignorance and challenged Muslims to extend their boundaries. Mr. Shabanah pointed out that the first crucial mission of the newborn religion was to reconstruct the landscape of the Arabian Peninsula and to rearrange the priorities of its inhabitants by reforming their moral, social, economic and legal relationships (amongst themselves and with their Creator). Islam in that sense can be viewed as a revolutionary religion that always dares its followers to be involved and to be productive.

If Islam is the cause of underdevelopment in Muslim countries, then who is to blame for the miseries of Africa and the lack of economic development in Latin America and other parts of the globe which, by the way, are not Muslim territories?

Mr. Shabanah further reminded us that Muslims for centuries had prosperous economies and were the masters of all facets of knowledge, thus he wondered how one would explain the high level of achievements of early Muslims.

When we deserted our religion, we lost it all; our political weakness led to a weaker economy, which in turn did not help our developmental cause. The problem is not in Islam; it is in the absence of Islam from our hearts and deeds. It is in our lust for self-interest. In brief, we lost the sincerity in our intentions.

The second *khalifah*, Omar bin khattab, said "His Almighty Allah blessed and honoured us with Islam and should we abandon it and go off-course, then we will be doomed and disgraced". That is exactly what happened; the majority of Muslim countries were occupied and many are still captive to the legacy of colonisation. Mr. Shabanah added:

Western powers worked without failing to ensure that Muslim countries remain dependent on the West for the foreseeable future. Such dependency was

accomplished through outdated and backward educational systems and was enforced by economic means. Muslim societies were meant to remain consumer societies with no real economic input.

Mr. Shabanah expressed his strong belief that Muslims' cultural values and / or religious beliefs have nothing to do with the current predicament of the majority of Muslim countries:

The problem rests within the individuals, not in the religion; when some individuals or a group of people act improperly, it does not necessarily mean that the principle they hold is malfunctioning. We Muslims, individuals and states, have misunderstood therefore, intentionally or unintentionally, [we have] abandoned our religion and the outcome was confusion, despair, and a lack of progress.

The state could, and should, do more

The state is under an obligation to be more involved in assimilating Islamic work ethics and Islamic financing into the school curriculum and to take an active role in making available Islamic financial alternatives to new entrepreneurs.

Mr. Shabanah believes that the state should take an advisory role in directing and guiding potential entrepreneurs towards viable investments that would both benefit the entrepreneur and add value to the national economy. Raising awareness about specific entrepreneurial opportunities or areas with potential would counter the chaotic realities of a large proportion of entrepreneurs who blindly imitate "the new shop around the corner". The state can deliver the message through the media, various publications and/or by organising targeted seminars and workshops.

The Saudi government should clean up its act and declare war against bureaucratic corruption. A starting point, for instance, would be the labour office. Mr. Shabanah is convinced that the labour office has a lot to do with the current unemployment dilemma facing the country. He explained that the labour office unlawfully continues to issue a large number of visas to "certain people" thus creating what has become known as "the visa business". Some individuals with no business premises or activities, equipped only with their certificate of business registration have been allocated between 500 and 2,500 'free' visas to be sold or traded in the black market.

The Software House

Some people are farmers and others are hunters, and I am definitely a hunter. Having been through many disappointing business experiences has strengthened my tenacity and left me with a wealth of experiences that are indispensable for success. Failure is a sign that an action has been taken; therefore, it should be viewed as a step forward towards success (Amir, 2004).

Introduction

Family hopes and social expectations left Mr. Amir with the feeling that he was compelled to go through university and obtain a degree despite his unyielding resolve to embark on the path of entrepreneurship. However, the sudden death of his father and his sense of responsibility towards his mother, sister and a younger brother forced him to face the realities of life at an early age and hastened his quest for self-dependency. The decision to drop out of the College of Pharmacy at KSU was painful but inevitable, and carried within tough challenges - what is next?

As a teenager, I used to work for my uncle in his computer company after school and during school holidays. My desire to be in business on my own coupled with my love for computers left me certain that the lines were drawn and that entrepreneurship is going to be my zeal for a long time to come.

The pleasant and outgoing personality of this young entrepreneur helped him to mobilise a modest start-up capital that enabled him to set up his first business venture at the age of 19. He recognised that being in business requires flexibility and adaptability so he wears different hats for different occasions. On occasions you find him on his way to meet a Western businessman dressed smartly in a three-piece business suit, on other occasions he puts on the traditional Saudi white *thoub* and heads for a meeting with Saudi officials or other Saudi businessmen, yet he is a man with principles and a mission.

Failures and a success

His first affiliation with entrepreneurship goes back to 1987, soon after the death of his father. The business did not have a good start. Sales figures were low and the revenues did not cover the expenses. Mr. Amir linked the business' poor performance

to the fact that neither he nor his partner was dedicated to the business. "At times I felt I couldn't give the business my full attention and commitment". The other reason could be the lack of planning and experience of both young entrepreneurs, "we did not do any planning. I recall that there were about a dozen similar computer outlets in the same shopping mall".

The first venture ended in the summer of 1989, only to pave the way for the second attempt soon after. A valuable lesson Mr. Amir had to learn the hard way was "there is no such thing as a part-time entrepreneur. If you feel strongly about a new business, commit to it fully".

Under a new name, in a new location and with a new approach, Mr. Amir started his second entrepreneurial undertaking to market computers, computer parts and computer consumables. The business had a good start and continued to do well for the next six to seven years. "Things looked pretty good until we had a project with one of the ministries". The project was an excellent opportunity and meant a lot to the future of the business. It was financed according to the *mudarabah* arrangement through a group of Saudi investors. The project's completion time was estimated at four months, and financial settlement was to take place at the time of delivery. But due to financial circumstances in the ministry and unaccounted for hurdles imposed by the financial officer, payments were received a year later than scheduled, divesting the business of much-needed liquidity. The business was unable to cope and consequently did not survive the scale of this adversity. For the second time, the business ended in failure.

It did not take Mr. Amir long before he attempted for the third time to build a business. Along with a friend, he established a computer consultancy firm with minimal capital. The business was not performing according to expectations. Therefore, " I had to find a job to supplement my income in order to support the family and to repay debt that I had incurred as a result of the failure of my second business undertaking".

Mr. Amir was back in business for the fourth time in 2002, in a computer Software Company specialising in medical applications. The current business is designed to be self-financing with minimal investment in hardware equipment and overhead expenses. Employees are hired once new contracts are secured.

But, what makes Mr. Amir keep coming back despite the ups and downs, the occasional success and the frequent setbacks, and why this insistency on being an entrepreneur when he could have a high paying job without having to put up with the uncertainty and the insecurity of the entrepreneurial activity? Mr. Amir effectively used 'the farmer and the hunter' contrast to convey his thoughts and behaviour toward being in business by pointing out that people are different: there are the farmers and there are the hunters, all render benefits to themselves and to their communities. Farmers have their own agendas and set of procedures and they decide well in advance what to plant, thus they are most likely to have an idea of what the outcome might be under various circumstances. Hunters, on the other hand, might come across huge catches that will suffice them for days, weeks and probably years, or they might go without a catch for days and months:

I am definitely a watchful hunter, who enjoys the challenge and is always ready to act. After all, being in business is a Sunnah where it is narrated that the Prophet Muhammad (PBUH) said, "nine tenths of rizq is in business".

The most valuable lesson Mr. Amir learned from his many entrepreneurial attempts was "how to survive a business failure and that failure is not the end; it is a step forward towards a more promising new beginning".

The hunt for finance

There was another entrepreneurial attempt initiated by Mr. Amir and some of his colleagues in 1994. The venture involved establishing a personal computer (PC) factory in the Riyadh province. The idea was well perceived; the Ministry of Trade approved the feasibility study and the Ministry of Industry allocated the proper land for the project in the industrial area. However, financing the project proved to a hard pursuit. Private investors were reluctant to invest in the project because they misunderstood its objectives. They thought that the project was intended to compete with brand name PCs such as Acer, Hp and IBM; hence, they were neither convinced of the viability of the project nor satisfied with its competitiveness. They failed to appreciate the viability of the project in the long term, and the positive implication it would have for the information technology industry in the Kingdom and other GCC states:

I think the difficulty in raising initial capital, which was roughly estimated to be SR 2,000,000 (US\$535,000) was due, in part, to the high-tech nature of the project.

If the project was about a plastic factory or food processing plant, for example, then it would have been easier to attract investors.

The Industrial Development Fund (IDF) imposes strict conditions when lending money for financing prospective projects. They require solid evidence that the borrower has at least 60% of the total cost of the project even before they seriously consider the application. The release of funds, pending the loan approval, is further conditional on the commencement of the construction work. It is estimated that the time for the approval of the loan, if granted, will be more than two years. By then, the project most probably would have lost its viability.

The truth is that small industrial initiatives have little chance, if any, of being financed through the (IDF). IDF policies are designed to serve the interests of big businesses, mainly in the industrial sector.

Neither conventional nor Islamic financial institutions were approached for start-up capital for the proposed project. Interest-based financing was not, and is not, an option for Mr. Amir, and true Islamic financing facilities were not available. The requirements of the so-called "Islamic financial institutions" in relation to business lending are hard to fulfil; they want to know, up-front, what guarantees for the loan the applicant has even before they discuss the application or take the time to look into the business plan and the feasibility study. Shares and assets with a value that exceeds the value of the requested loan are the two preferred and accepted forms of security by Islamic banks. The concept of *musharakah* surely did not apply to this experience. Mr. Amir believes that if the potential entrepreneur does not have adequate personal savings or family support or the right social connection (networks) with private investors then certainly he will struggle to start a business.

Entrepreneurship and the Saudi culture

Saudis are naturally businesspeople, traders and merchants, and the Saudi culture generally encourages entrepreneurship. The Family is the most basic, yet influential, institution that influences the development of entrepreneurship in Saudi Arabia. In most cases, the father encourages and grooms his children either to start their own businesses or to take over and assume responsibility for the family business once the "old man" is no longer capable of running the business. Saudis are keen on improving their income, and at the same time they realise that entrepreneurship is an effective

means to achieve such an objective, therefore they have a positive attitude towards entrepreneurship.

Mr. Amir explained that the incentives offered by the public sector in the past were too generous and tempting. Therefore, they might have prevented many from devoting their full energies towards entrepreneurship. However, things have changing, and more people are choosing, or are being forced to choose, the path of self-employment and entrepreneurship. The relaxed working hours from 8:00 am to 2:00 pm in the public sector leaves the government employees with ample free time, thus the opportunity to pursue a business of their own to supplement their income.

Mr. Amir viewed the quality of the Saudi entrepreneurs and the nature of their entrepreneurial activities to be “traditional and conventional”, and argued that the Kingdom needs a stock of ‘good’ entrepreneurs and quality enterprises.

Frankly, what we have is what I call “carbon copy” entrepreneurship; it is neither innovative nor creative. In plain language, Saudi entrepreneurship is traditional and the majority of Saudi SMEs are a ‘copy cat’ form of business undertakings that do not add real value to the imported product or service.

Moreover, large segments of the Saudi society view certain professions and businesses as inferior, hence considers being involved or associated with them as shameful and demeaning (Saudis do not do this and Saudis do not do that). It seems that this unhealthy and un-Islamic attitude was embedded in the Saudi traditions and passed from one generation to the next and notably fuelled by the increase in oil revenues. This is despite the fact that Islam holds the highest regard for all productive work as long as it is not associated with *haram*.

Morality in business

Although Mr. Amir appreciates the entrepreneurial spirit of Islam, he acknowledges that Islam was a motive but not *the* motive that led him to the path of entrepreneurship. He further explained how he perceived the differences between the Muslim and the Western entrepreneur. “To them, a decisive factor whether to start an entrepreneurial activity, given it is lawful, would be its economic viability, but for us there is a lot more to consider:

A business colleague and I wanted to buy a local dairy. One stipulation I put forward to my partner was not to sell tobacco products, despite the fact that I am

a smoker myself. When I smoke I hurt myself, and that is wrong and un-Islamic. However, selling tobacco products (although legal) makes me guilty of causing harm onto others. That is immoral, unethical and it goes against the nature of the good Muslim. Simply I do not wish to be asked about such a haram action on the Day of Judgement.

Mr. Amir strongly believes that pleasing The Almighty Allah is the ultimate fulfilment from any action the Muslim undertakes, including business activities. Otherwise, business is business and there is no difference between the Muslim and Western entrepreneur; each has his own definition and source of morality. He realises that financial gain is a legitimate goal shared by both entrepreneurs, whereas the level of emphasis on such motives differs between the two.

I asked Mr. Amir whether he believes that the issue of morality in Islam limits entrepreneurial opportunities. "Absolutely not!" Mr. Amir further elaborated by saying that as a Muslim, he believes that whatever Islam endorsed and declared *halal* is for humankind's own good, and whatever Islam averted and declared *haram* is because it harms humankind in this life and in the hereafter. The Muslim entrepreneur therefore has to deal with more delicate variables than his Western counterpart and has to consider the religious as well as the economic implications of his action. It is important to bear in mind that when Islam forbids one harmful and immoral business activity, it gives legitimacy to hundreds more that are moral, beneficial and free of *harm*.

The value of money is not always measured by how much one has, explained Mr. Amir. It is rather measured based on how far it goes, how it is being utilised and how it benefits the individual, the community and the *ummah*. Mr. Amir talked about the concept of *Al barakah* and how he as a Muslim entrepreneur believes that SR5,000 might have more *barakah* than SR50,000.

Mr. Amir believes that the motives and the objectives of the Muslim entrepreneur, from his business undertaking, are complementary and interconnected; hence, they are hard to prioritise. He further sees no contradiction between the entrepreneur seeking his own self-interest and contributing to the welfare of society as long as his business practices abide by the Islamic code of conduct. "Yes, benefiting the *ummah* is a cause and is an outcome of the entrepreneurial activity but the truth is that I went into business to serve my own interest in the first place".

The Muslim entrepreneur is supposedly fair to his suppliers, employees and customers. He does not deceive, lie, misrepresent, overcharge or underweigh. The

Prophet (PBUH) said “Allah’s mercy is upon a kind open-handed individual when he sells, when he buys and when he deals with others”. The Muslim entrepreneur does not take advantage of people ‘in need’ nor does he exploit their difficult circumstances for material gain. The Muslim entrepreneur does not act morally just because he/she fears the law, but because of his/her obedience to God’s commands and submission to His will. It is that constant connection and the feeling that God is always with you that makes people strive to be the best they can, explained Mr. Amir. However, he admits that “Unfortunately, those are very few and you do not come across one of them every day. I do not pretend to be one of them either, although I try”.

Among the other ethical practices that Mr. Amir ensures fulfilling in his everyday business dealings is that of being fair to his employees and fulfilling his obligations to his customers. He takes pride in the honesty and transparency of his business and in his resolve not to engage in any questionable business dealings that might involve any *haram* activity.

The ‘hazy’ role of the state

Although Mr Amir could not think of a single initiative undertaken by the state particularly aimed at promoting entrepreneurship, he feels that it might be unfair to claim that the state has done nothing to support entrepreneurship. Part of the problem is that entrepreneurs are rarely made aware of state help if and when it is available to them. There are some instances where the government gives incentives and extends its support to encourage Saudi exporters. However, such support by no means translates to supporting the entire small business sector, since the majority of Saudi small businesses are not export-oriented.

The majority of Saudi entrepreneurs view the latest decision taken by the Ministry of Labour, which prevents firms with fewer than ten employees from employing non-Saudis, to be hostile to their cause. Mr. Amir wonders how a small business can have a healthy start and a prospect of success without the skills, the experiences, the commitment and the affordability of expatriates. Mr. Amir regards the call for the Saudiisation of small business to be “in fact a ruling for their demise”.

Mr, Amir responded cynically to the question as to whether the state is engaged in any programmes or is undertaking any initiatives to encourage forms of Islamic entrepreneurship. “Not that I know of. The state, for instance, does not sponsor Islamic

banking, and in fact Islamic financial institutions, such as Al Rajhi bank are subjected to more restrictions than other commercial banks". The people of Saudi Arabia are Muslims and the constitution of the country is based on the principles of *Shari'ah*. Thus, it would be hard to substantiate the existence of official policies that discourage the development of Islamic entrepreneurship in the Kingdom. However, the failure on the part of the state in maintaining functional Islamic institutions such as financial and legal institutions leads to the same detrimental outcome.

Based on his failed attempts to secure funding through Islamic financial facilities, Mr Amir came to realise that Islamic financial institutions differentiate between two types of business projects in relation to their lending criteria; financing ongoing secured projects and entering into partnership agreements with potential entrepreneurs for the purpose of starting new businesses. The former is possible since the risk factor is minimal and the bank is most likely to recover its contribution plus (interest) –“call it management fees if you like”! The latter, which is based on the concept of *musharakah*, may exist in the books, but not in the real business world, believes Mr. Amir.

Another issue of importance that requires the attention of the state would be to rethink the implications of the newly introduced controversial labour law that prevents businesses with fewer than ten employees from hiring foreign labour. “The truth is that most Saudis are not yet competent to successfully run viable businesses”. Thus, the government is compromising the very existence of the small business sector by making it harder for small businesses to bring in qualified and cost-efficient foreign expertise.

The emphasis placed by Mr. Amir on the small business sector's need for foreign expertise prompted me to comment that it seemed logical for the state to restrict the number of foreign workers considering the high unemployment figures among Saudis. His reaction was neither diplomatic nor compromising. He reiterated, as did other entrepreneurs, the many unpleasant experiences they have encountered with Saudi employees⁶¹. “We have to think and rethink 100 times before employing a Saudi”. Most businesses in the private sector that employ Saudis are doing so in line with the law which requires each business to employ a certain percentage of Saudis, and that

⁶¹ I have been told by more than one source that Saudi business owners at times had to pay Saudi employees without requiring them to show up. Their explanation was that the damage they might inflict on the business by being there far exceeded the inconveniences of their not being there.

certain jobs must be filled by Saudis. Mr Amir compares such employees with “frames hanging on a wall”, and “their only qualification is being Saudis”. They have no real function to perform and they do not have much to add to the productivity of the firm. He further thinks that only about 5% of Saudis working in the private sector have the right attitude and were employed as a result of being professionally qualified.

The entrepreneurship sector also needs the attention of the state. The state should not continue to favour big businesses at the expense of small ones and should take steps to make it easier for new entrepreneurs to start and to run successful businesses. “I wonder why we do not have a bank or a fund dedicated to working with and extending support to small and new start-up businesses, similar to the (IDF)”.

Beyond entrepreneurship

Mr Amir is certain that the Islamic value system never was, and never will be, an obstacle in the way of Muslims’ technological advancement or economic development. A quick read into the history of Islamic development reveals that Islam enjoyed successful and brilliant experiences in all fields of knowledge while Muslims truly practised Islam. The reason behind raising the profile of Muslims’ past achievements in all sciences, mathematics, literature and economics is neither to live the success of past nor to find justifications for current failures, commented Mr. Amir. It is merely a reminder that such pioneering achievements and visionary leadership were realised under the banner of the same religion that is being accused of being ‘backward’ and labelled as “outdated”. There is no reason whatsoever that prevents the comeback of Islam, once we change our hearts and purify our intentions that is, once we return to Islam.

Mr. Amir believes that the disappointing realities of most Arab/Islamic countries are a result of a string of failing policies by outdated regimes that have a “free hand” over their people and the resources of their countries. Take, for example, the case where King Abdul Aziz City for Technology has thousands of patents to be formally registered, but only four were registered last year. Such inefficiency led many with innovative ideas to emigrate or at least to look for employment where they would be valued as individuals and appreciated as intellectuals. “The financial status of our scientists and scholars is far worse than that of taxi drivers. In addition, they are not allowed to speak their minds”. The damaging consequences are being felt in many Arab/Muslim countries. Large numbers of our intellectuals are heading for the United

States, Canada, Australia and other Western countries where they can excel and be productive. The magnitude of the calamity is enormous and the loss is irreplaceable, commented Mr. Amir.

The reason why the West is ahead also has nothing to do with genetic attributes or special virtues that are only to be found in the Western dogma. Mr. Amir referred to the findings of studies, which proved that Arab children remain the smartest among all until the age of four (pre-school). The pointer then starts to stabilise and gradually changes direction towards south. Once of school age, the child embarks on a long journey with a futile educational system that limits his/her ability to think big and to question. The legacy of sustained Western domination over the vast majority of Muslim countries is what Mr. Amir believes impedes their development and progress:

The many failures of Muslims are by no means due to embracing Islam; on the contrary, they are best explained by the fact that Muslim individuals and states, are not truly practising Islam.

- *The government has no clear vision for the country. We can navigate using a compass, but surely, we cannot rely on a watch for direction. Once we decide on what and where we would like to be in 10 or 20 years, then we need to mobilise all our resources, especially the educational system, towards that goal.*
- *Our educational system at its best stuffs our brains with incomprehensible information that we tend to forget soon after the exam.*
- *Our legal system is malfunctioning especially when it comes to labour disputes.*
- *Our government still practises a not letting go policy and holds a tight grip over the economy as well as over the people.*
- *Our economy is not as free as it might seem to be, and we entrepreneurs are not able to exercise business freely. There are certain activities that are off-limit for the common entrepreneur such as trading in livestock. I am not able to import sheep from New Zealand for example.*

Al- Fadel Marketing Solutions

As we believe that the ruling family has a vital role to play, we also at the same time believe that it should relinquish some major powers, and extend the circle of political representation to embody wider segments of the Saudi society. We envisage greater involvement by the intellectuals, the ones who hold different views and the ones who can make a difference. There are lots of decent, sincere and capable individuals out there –that should be given the opportunity to participate in the political process (Fadel, 2004).

Entrepreneurs from different educational and social backgrounds made their wishes for the infusion of “new blood” into the political establishment known:

The monarchy has to undergo serious reforms in order to bring itself and the country to a level where it can live up to the expectations and confront the many difficulties facing the country. History teaches us that reactionary solutions to deep-rooted problems are short-lived and that they are unlikely to cure the syndrome; it is like giving a tablet for pain relief to a heart patient. Thus, policy-makers should attend to the causes of the problem rather than just dealing with its consequences. Entrepreneurship development, like many other developmental issues, social order, legal and economic concerns is interrelated with, and directly linked to, the main issue of power sharing and political reforms.

Introduction

Once he obtained his MBA degree from the United States in 2001 Mr. Fadel returned to the Kingdom to face the future with an open mind and heart and to face “the real life after academia”. He took some time to reflect on his long academic journey and to sketch a portrait of his ambitions for the future. Although not keen to be a typical “9 to 5 working guy“, he weighed up his options, contrasted potential alternatives in both the public and private sectors, and decided to follow his intuition and become an entrepreneur. “I had the financial as well as the moral backing of my family, specially my father who is also an entrepreneur, and the encouragement and the support of my friends”. Mr. Fadel is positive that his religious beliefs played a key role in shaping his positive attitude towards business and particularly towards entrepreneurship. He further feels that the economic payback and the intangible rewards of being an entrepreneur compensate for the risk he is taking and the sacrifices he had to make.

Quality that counts

“We, at Al-Fadel, pride ourselves in being a highly professional team who introduced a new concept in providing state-of-the-art marketing solutions, professional consultations and customised services that fit the need of businesses and individuals alike”. This is achieved through the affiliation with worldwide network of specialised expertise houses and ongoing training and dedication of the staff. Mr. Fadel was determined from the start not to let his business become just another typical entry in RCCI’s database.

I have a vision and my business has a purpose and a direction. I foresee a promising future for the business that started two years ago as a one-man project and currently employs eight professional individuals.

The real concern is not whether Saudi Arabia has an adequate number of entrepreneurs and enterprises, “We do”, explained Mr. Fadel –“the real issue is whether Saudi Arabia has a productive entrepreneurship sector”. The majority of start-up firms are imitations of existing businesses that are perceived to be successful. They are largely concentrated in the service sector and are engaged in traditional forms of business activities. Even when local entrepreneurs act as agents for foreign companies, they usually market the imported products as they are, with little or no revision or creativity that adds value to the product and benefit to the local consumer.

One concept and many readings

Mr. Fadel believes that both Islam and the West share the same positive attitudes towards work and productivity and they both extend their qualified support for the entrepreneurial activity. There are no restrictions imposed by either Islam or capitalism on individuals wishing to be engaged in business activities as long as such activities are conducted within the boundaries of “the law”. Thus, they share the same concept but each has its own definition and interpretation of the law and its articles; the forbidden practices in Islam differ from those in the West. Islamic *Shari’ah* and Western rules and regulations thus share their concern for the well-being of society however; they diverge in their analysis of “what constitutes this well-being”. For example, Islam considers alcohol harmful to the individual and to society at all times; hence, it strictly forbids dealing with alcohol under any pretext. In contrast, drinking alcohol in Western societies is considered harmful by law only when consumed above a certain level prior to, or while, driving.

Moral standards that are expected to guide and monitor the practices of the Western entrepreneur are relative because they are man-made and man-monitored; they are subject to constant review and evaluation and they might change from time to time and from one Western society to another. On the other hand, Mr. Fadel believes that the absolute Islamic system that defines the ethical values of the business activity and puts trust in the individual to act morally is more effective in most cases. The monitoring mechanism in the latter is based on the relationship between man and His almighty Allah, while in the former is based on the relationship between man and man. He further argued, “The fact that Islam did not undergo any serious reformations or

reinterpretation for centuries especially in the economic sphere”, and the clear failure of Muslim scholars to address contemporary issues resulted in confusion among Muslims and unfair criticism of Islam by the West.

Mr. Fadel works hard to maintain a strong Islamic presence in as many aspects of his daily business activities as possible:

We do our utmost to practise Islam in all our communications with our employees, clients and other business partners and associates. Furthermore, we have taken a decision to keep a distance from un-Islamic banking institutions.

Every employee is considered to be an active and involved partner in the business. In addition, the business is envisaged to be a legitimate means by which all stakeholders earn *halal* living. The gracious business environment does not only tolerate but also encourages employees to practise their religious rituals. Relationships with other individuals, firms and institutions are based on truthfulness, transparency and mutual respect”.

The two entrepreneurial qualities that others do not have

Saudi culture has two distinct pro-entrepreneurial motivational attributes that most other cultures do not have, explained Mr. Fadel. Firstly, Saudis have an entrepreneurial religion that rewards the Muslim entrepreneur for striving to make *halal* earnings for his/her own consumption and for the sake of helping others. Secondly, Saudis have a tribal society with very strong traditional family support that one can count on regardless of the outcome. “You always belong to a tribe, to a family that would stand by you in bad times as they would in good times and they will not let you down even when you are wrong”. However, some aspects of the Saudi culture, as in the case for the majority of developing countries, do not encourage entrepreneurship. Although people’s attitude towards small and start-up firms is relatively positive, Mr. Fadel thinks that If they have a say, the vast majority of Saudis would prefer to work for larger firms or government agencies, due to the obvious advantages they offer.

Mr. Fadel argues that the many challenges facing the Saudi small business sector warrant the direct and indirect involvement of the government.

Frankly, I cannot think of any single policy or programme undertaken by the government with the aim of promoting entrepreneurship or treating new firms preferentially. On the contrary, government policies usually, and in many respects, discriminate against small firms.

State support is most needed in providing a transparent legal system and supportive financial institutions as well as protective measures to ensure the survival and viability of this sector -especially under the rules of the global economy.

Islamic banking is not an option ... it is a must

Mr. Fadel, like many other Saudis, is convinced that the 'Saudi State' does not fully implement the rule of Islam especially where it pertains to Islamic economics and social justice. This is despite the official proclamation that the state bases its constitution on the principles of Islamic *Shari'ah*. There are no visible signs that the state is actively engaged in initiatives aimed at sponsoring and promoting forms of Islamic entrepreneurship: the educational system, the financial institutions and the religious establishment individually and collectively contribute little, if anything, to advance the cause of Islamic entrepreneurship. Mr. Fadel further comments, "It is the government's view that the common social interest is best served by maintaining the operation of traditional *riba*-based banks, despite the fact that the overwhelming majority of Saudis favour having true Islamic banking facilities". But he believes that in order for the Saudi banking sector to have a locally competitive advantage after the Kingdom becomes a member of WTO, it has no choice but to go the Islamic way prior to signing for WTO membership. Otherwise, "Citibank is bigger, more reliable and offers better and more diverse services".

The state can do more

It is the view of Mr. Fadel that the state can, and should, do a lot more in the way of helping current and future entrepreneurs and emerging new firms. The most important task would be to establish an independent agency that would have proper authority and be fully dedicated and recognised as the voice of Saudi entrepreneurship. This would ensure the active involvement of Islamic financial institutions in the financing of new business undertakings, and providing soft support for Saudi entrepreneurs in the form of consultancy services, legal advice and the preparation of feasibility studies. The state can also offer small businesses huge support by not making them the target of unjust policies such as the recent decision by the Ministry of Labour that bans small firms with fewer than 10 employees from having access to foreign labour. Such policies

and regulations not only discourage the creation of new small businesses, noted Mr. Fadel, but they would also force existing entrepreneurs out of entrepreneurship.

The key to an honest and effective approach to supporting entrepreneurship, as I see it, would incorporate entrepreneurship development within the overall development strategy of the country, and that requires economic as well as political reforms.

Although Mr. Fadel did not seek external funding to finance his business undertaking, he had other encounters with Islamic banking. “Frankly, I did not feel that there was a difference in the attitudes and the practices of Islamic and traditional banking systems”. They both share their extreme reluctance in investing in small businesses and the passion for maximising their financial gains. “As a matter of fact, Islamic financing is more expensive than traditional financing”.

To view the differences in economic and scientific achievements between Islamic and Western countries from a single perspective would be an oversimplification of the issue. The fundamental question remains: how does Islam fit in?

It is true that we have abandoned many of our treasured values in exchange for distant values, which are inappropriate to our society. On the other hand, when one speaks of ‘freedom’ – despite being a fundamental Islamic concept – one would be accused by some religious groups of being secular and unethical. The Muslim individual is confused and is torn between idealistic values he strongly believes in and materialistic realities he gradually drifts towards. The West adopted and practised many of our values and advanced accordingly, while we have abandoned ours and remained at a standstill. We, in the land of Islam, have been trained to be good Muslims and that translates largely into praying and fasting but not to asking questions and demanding answers. We have not been taught that human liberty and human self-expression are fundamental to Islamic teachings that must not be compromised. It is politics, my brother, and entrepreneurship is but a small piece of the big puzzle.

There are many factors actively working against Muslim countries moving forward with their economies and advancing their technological potential; some are external and are imposed on us, others are home-made, but none is embedded in our religion or value system. Differences in the level of development between the West and Islamic countries are better explained from a historical and political angle than cultural and religious perspectives. It is paradoxical that although Arab countries and Africa are extremely rich with raw materials and natural resources, they are among the least developed countries. “The ‘sometimes invisible’ and many times ‘visible hands’ of the greedy West must have something to do with this peculiar situation”.

Dr. Khamis

Although officially I have started my business in 1998, I feel that I have been in business all my life. Being born and raised in a family with strong connections to entrepreneurship, I knew deep in my heart that it would be sooner rather than later that I would start my own business. My Ph D in Civil Engineering secured me a lecturer position at KSU, which I enjoy since it gives me the satisfaction of being relatively independent and keeps me informed and up to date with the latest information in the field. While my PhD was my passport to the world of academia, my passion for business and my love for my personal independence were my foremost motives to entrepreneurship. Being in business on my own was the natural thing to do (Khamis, 2004)!

Introduction

Being a faculty member of the engineering school at KSU, and running a business that has grown from six to 25 employees over the past six years meant that Dr. Khamis leads a demanding life. Dr. Khamis sees no conflict of interest between being in business and attending to his academic work. On the contrary, he views such a relationship to be complementary. "I am a civil engineer and my business is mainly involved in infrastructure projects, which has a lot to do with civil engineering. It is actually combining theory and practice".

The need for quality entrepreneurs

There is a large segment of the Saudi population involved in one way or another in some kind of business initiative mainly to improve their income⁶². However, according to Dr. Khamis, the majority of those individuals are not true entrepreneurs and their businesses are mostly a "copycat" type of business, where they lack creativity, innovation and challenge. They do not add to the productivity of the national economy. He further explained that when people save a certain amount of money and wish to invest it, they usually take the first opportunity and in most cases without proper preparation (no feasibility study and no planning). They tend to copy XYZ because it seems that the XYZ business is doing well. That explains why it is common to find, for

⁶² This assessment is consistent with the finding of a recent study by Dr. Shibliq where he found that large numbers of Saudi small business owners are employed in the public sector. They do not devote the time or the resources needed for the business to succeed. On the contrary, they view the business to be an indirect investment to generate quick and easy profit (Saleh, 2004).

instance, more than 30 identical “tailoring shops” or “dry cleaning” businesses in a small stretch of one of Riyadh’s streets.

Islam and morality in business

Dr. Khamis considers his association with entrepreneurship to be a natural outcome of a rich and rewarding family experience of running their business. “With all honesty, I would love to say that Islam had a major influence on my decision to become an entrepreneur, but I am afraid that if I say so, I would not be telling the truth”. However, he believes that Islam helped him to stay focused and not to lose sight of his objectives while carrying on his business activities. “It also taught me to do my utmost with sincerity and to accept the outcome with no regrets” because, as a believer, he unconditionally accepts that whatever is the outcome, it is for his own good. Despite not being able to claim that Islam had a direct influence on his decision to become an entrepreneur, Dr. Khamis strives to conduct all his business activities according to the teachings of Islam. Therefore, the most basic rule he follows is to stay away from any business dealing that involves *haram*, such as bribery, deception and dishonesty. In addition, he maintains a policy of being straightforward with his clients, in terms of what is expected from both parties signing the contract.

I neither overplay the positives of my business nor overstate its capabilities. I am very conscious to ensure that my employees are paid their full dues on time in accordance with the teaching of the Prophet (PBUH). I also feel that it is my responsibility to ensure that my employees have the proper environment, which enables them to perform their religious duties in a dignified manner. I also would be happy to grant any of my Muslim employees two to three days paid leave in order for him to visit the holy cites in Makkah to perform omrah.

Islamic entrepreneurship: The invisible role of the state and the missing role of Islamic financial institutions

Dr. Khamis used his personal savings along with a handsome contribution from his family to start his business; “therefore I have had no experience with either Islamic or commercial banking when raising starting capital”. Being a Muslim society that demands the availability of Islamic banking has forced commercial banks in the Kingdom to pay attention to, and review, their strategies and approaches in order for them to be competitive and retain their customer base. Their response to such demand was to open special branches or sections, within the existing banks, that offer

Islamic banking facilities. The future with no doubt is for Islamic banking –although the change is gradual.

The role of Islamic banking in entrepreneurship development is still, if it existed, marginal and insignificant. The terms and conditions imposed by Islamic banks on the potential entrepreneur are harder than those required by conventional banks. Thus, the partnership arrangements between the Islamic financial institutions and the potential entrepreneurs in the sense of (*musharakah*) have not taken place yet.

Saudi culture is neutral. It neither encourages nor discourages entrepreneurship. The opportunity exists for all self-motivated individuals to be entrepreneurs. Public attitudes admire and encourage anyone with entrepreneurial qualities. What hinders entrepreneurship are government procedures lack of information, unclear procedures and many imaginary barriers and -above all- widespread corruption. The nature of the corruption goes beyond poor, or lack of, performance and its magnitude covers most public sectors.

Following the oil boom era, Saudis did not have to work hard to provide for their needs because of the adopted state 'welfare' policies. The employment market was wide open and the opportunities were attractive so the need to take risks and engage in new business initiatives was minimal. However, things are changing:

We in Saudi Arabia do not have a research culture. We ask and we seek answers and we expect others to research on our behalf. Even on the business opportunity level we ask what business is successful so we can replicate it. Our schools do not teach us how to research. Our parents pay private tutors to do the thinking so we pass the exams. Our educational system is failing our future generations. The early schooling years foster within the individuals qualities that shape their personalities for many years to come, and unfortunately, we are missing the point and failing our children. Thus, we are compromising our future.

Furthermore, Dr. Khamis believes that Saudi officials have failed to create a constructive "teaching culture" that combines the right teacher with the right attitude and the appropriate curriculum. It is easy to design or to adopt excellent curricula, but if they are not enforced with excellent teachers, teaching facilities, and appropriate delivery systems, the result will be a big disappointment.

Dr. Khamis was not aware of any policies or programmes undertaken by the state to encourage entrepreneurship in general and Islamic entrepreneurship in particular:

To the best of my knowledge, the state does not offer any support aimed at nurturing entrepreneurship culture in the kingdom. There are no state initiatives designed to promote entrepreneurship and no help is on offer to encourage the creation of new businesses. The Industrial Development Fund, which is only concerned with industrial projects, actually favours multimillion-dollar projects and pays little or no attention to small-scale projects.

He further commented that: Islamic entrepreneurship might be a new concept to most Saudi entrepreneurs. "Neither the educational and the financial institutions nor the religious establishment promote entrepreneurship on a religious basis". This lack of attention given to Islamic entrepreneurship led Dr. Khamis to wonder whether the absence of a true and active Islamic banking sector in the Kingdom is deliberate. The role of the state in promoting Islamic entrepreneurship at its best can be described as "not there", concluded Dr. Khamis.

Local commercial banks, on the other hand, are failing new entrepreneurs and small enterprises. They do not offer financial assistance in any form or shape to those trying to start their own businesses. Instead, banks render their services to those who do not need them such as big businesses and their executives and members of their board of directors. The Saudi monetary fund's monthly statistical bulletin indicated that in November 2002 about two-thirds of the total deposits in Saudi banks were in turn deposited abroad in foreign (Western) banks. "Only God knows in what type of business activities such deposits end up!" The state, through proper regulations, could compel banks to invest a minimum percentage of their deposits in the local economy. Commercial banks should be encouraged to assume a responsible role in stimulating economic activities by offering easy loans to new entrepreneurs.

The state could also facilitate the process of obtaining business registration by cutting red tape and compiling a clear and concise list of requirements needed in order for the potential entrepreneur to obtain business registration. The government should also ensure the observance of Islamic work ethics by its employees, and show consideration and tolerance when dealing with entrepreneurs and other clients. Large proportions of public sector employees are criticised for being unresponsive and unproductive; they give little credence or regard to their own time at the job or to the time of their everyday clients, the ordinary citizens.

The claims that lack of development in the majority of Muslim countries is due to their Islamic cultural values and belief system are untrue. Dr. Khamis can think of no religious reason that prevents or hinders the emergence of prosperous economies in

Islamic countries based on the principles of Islamic economics and within the boundaries of Islamic work ethics. The fact that Muslims have done it in the past is a testimony that they can do it once again. A productive entrepreneurship sector is most likely to emerge and thrive should the political establishments truly have the vision and the courage to integrate the will of religion in business, and pay a little more attention to the failing educational system, commented Dr. Khamis.

Dr. Khamis believes that education deserves much more attention from the state. He explained that the shortfalls of the current educational system are widespread and the poor showing of the Saudi entrepreneurship sector is only one manifestation of such shortcomings. Education should be directed at developing enterprising Saudis capable of starting their own viable businesses and consequently developing a productive entrepreneurship sector in the Kingdom.

Corrupt public sector

The most troubling issue facing small business owners, according to Dr. Khamis, is the corruption embedded in many government departments, especially within the labour office, evident by what came to be known as the (visa business). Some individuals with inside connections are unjustly granted tens, and in some instances hundreds, of open visas to be sold for up to thousands of dollars each. This happens while in most cases small firms are subjected to many restrictions when genuinely applying for needed visas. In addition to being unfair to small businesses and unethical on the part of the participants, such practice affects the lives of many in different countries who fall victims to such deception. In many cases, the hopeful sell their treasures in order to pay for a visa and a ticket that would take them to the land of the black gold, only to discover that it would cost them years of hard work to recover their initial losses!

It is the state's sole responsibility to create a qualified and productive Saudi national workforce able to assume the heavy task of running the economy. In addition to failing in this responsibility, the state has neglected its responsibility by not forcing the big companies that moved into the Kingdom to embark on training and capacity building programmes to prepare Saudi nationals to assume their responsibilities in building their national economy.

The current approach to 'Saudisation' (replacing foreign labour with Saudis) works against the interest of existing and future small businesses. "I sincerely hope that the

Minster of Labour will reconsider his decision which bans firms with fewer than 10 employees from employing foreign labour". Small firms are vulnerable and any hasty decision could have destructive consequences on them. Dr. Khamis anticipates that the impact of Saudiisation on small businesses will be devastating and signal the end for many of them. Saudiisation, if implemented, will lead to a substantial increase in the operational expenses of small firms and at the same time to a decrease in their productivity thus compromising the economic viability of many SMEs. "We have an unproductive Saudi labour force and imposing such a workforce on small firms will certainly do them a lot of harm". The foreseeable outcome would be that many businesses would have no choice but to cease operations, while others would be forced to downsize the scale of their business activities. Thus, owners and dismissed employees will be pushed into the unemployment queue to be part of the problem rather than the hoped for solution.

CONCLUSION

Six case studies from the seventeen interviews were developed and presented in this chapter. The range of cases represented the multiplicity of views and backgrounds of Saudi entrepreneurs. They also reflected their cohesive attitude towards Islamic entrepreneurship and the diversity in their approaches to the entrepreneurial activity. Each case study highlighted a unique key issue(s) viewed by entrepreneurs as imperative to the development of the Saudi entrepreneurship sector. Case studies also gave entrepreneurs the opportunity to explain their views and justify their responses.

Some of the key issues highlighted by the Saudi entrepreneurs were the exclusion of entrepreneurship development from state policies and the state's overall development strategy; the scarcity of Islamic sources of finance, if any, available to new and existing entrepreneurs; and the neglect of the anticipated educational reforms to integrate entrepreneurship into the school curriculum at all levels. Furthermore, case studies drew attention to the need for a broader participation by Saudi citizens in the state's economy and politics, the need to expand the base of the initiated reforms to include the entrepreneurship sector and the building of institutions conducive to the development of Islamic entrepreneurship.

Saudi entrepreneurs clearly rejected the thesis that links their socio-economic developmental predicament to their Islamic values. On the contrary, they considered their Islamic-based culture to be the most valuable asset that the country has in terms of pro-entrepreneurial qualities. They attributed the lack of entrepreneurship development in the Kingdom to colonial domination and to the many political and institutional failures. In fact, there was a pattern in their responses; a repetition of certain words and phrases such as state policies, institutions, Islamic finance, education, and Western domination. I felt that while the entrepreneurs were sharing with me their entrepreneurial experiences and concerns, they were raising more questions and expecting answers. They wanted to know whether or not they were appreciated by the state, as it proclaims, and if so, why they were excluded from its goodwill. Therefore, the aim of the next stage of the research would be to capture the views of Saudi officials and Saudi intellectuals in attempt to answer some crucial questions raised by Saudi entrepreneurs, and to have a more comprehensive understanding of the Saudi entrepreneurship landscape.

Case studies uncovered some of the challenges confronting Saudis who aspire to be “good” Muslim entrepreneurs, such as the lack of supportive Islamic institutions needed to successfully undertake entrepreneurial activities. They also highlighted the inner conflict and the frustration of not being able to practise what they believe. “It is tempting to claim that I chose entrepreneurship motivated by Islam, but if I pretend so, I would not be telling the whole truth”, admitted an entrepreneur. In all the interviews with Saudi entrepreneurs as well as with Saudi officials, I intentionally delayed bringing in the question of Islamic entrepreneurship to the discussions, hoping that participants would do so. Surprisingly, they did not.

CHAPTER EIGHT

THE REALITIES AND THE LANDSCAPE OF SAUDI ENTREPRENEURSHIP

It is individuals who create new businesses and develop existing ones. Therefore, we should be thinking more about how to create the right environment and circumstances to motivate and stimulate individuals to become entrepreneurs, including enabling them to acquire appropriate skills and learning opportunities and surrounding them with opportunity-driven supports.

Lundström and Stevenson (2001, p. 16)

The need to examine the environment of Saudi entrepreneurial activity was deemed indispensable in order to gain a comprehensive understanding of the Saudi entrepreneurial process and explain some variations between the attitudes and the approaches of the entrepreneurs as depicted in Chapters 6 and 7. The state, through its pragmatic policies and corresponding institutions, could play a constructive role in building a harmonious relationship between cultural and environmental ingredients, leading to the emergence and the development of an indigenous entrepreneurship sector. In addition, the education system is uniquely situated to render huge contributions towards developing enterprising individuals and entrepreneurial businesses. Saudi entrepreneurs were fully aware of such a potential role, yet they were equally critical of the contents and delivery of the current educational system and the adverse effect it has on creating an entrepreneurship culture in the Kingdom.

The materials used in the development of this chapter came from many sources including: the in-depth interviews with Saudi entrepreneurs, Saudi officials⁶³, and Saudi intellectuals; the questionnaire survey; relevant documentations and releases obtained from various stakeholders and personal observations and encounters in the field that were documented in the research journal. The broad aim in this chapter is to probe into

⁶³ Saudi officials who participated in the interviews made it clear that they do not consider themselves policymakers. Furthermore, many of them did not wish for the information they provided to be linked with the positions they held.

the realities of the Saudi entrepreneurship sector, and to establish whether an Islamic form of development / entrepreneurship exists in Saudi Arabia, and if not why. Information presented in this chapter are sequentially organised in three distinct sections.

In the first section an attempt is made to construe the role of the state in promoting entrepreneurship in terms of policy and institutional support. The divergence between the attitudes and the approaches of Saudi entrepreneurs towards Islamic entrepreneurship cannot be explained in isolation from the business environment in which they function. Hence, the scope of the investigation into Saudi entrepreneurship was extended to include key environmental elements such as the role of the state and the level of involvement of its formal institutions in promoting entrepreneurship in general and from an Islamic perspective in particular.

The realities of the Saudi educational system in relation to entrepreneurship development are examined in the second section. Preliminary indications highlight the need for policymakers to rethink their official attitude and approach towards the invaluable contributions of entrepreneurship and consequently to employ the power of education (as an instrument of change) to reshape the Saudi entrepreneurship landscape.

In the third section three external factors that greatly influenced the course of Saudi entrepreneurship development are explored namely, the influx of expatriates to the Kingdom prompted by the influx of oil in the early 1970s, and the perceived effect of globalisation and joining the WTO on the socio-economic well-being of the country. Some of the tangible manifestations of the prevailing realities of Saudi entrepreneurship – such as the type and level of entrepreneurial activity, the Saudisation policy of the private sector, and the involvement of Saudi women in business – are further surveyed. The chapter concludes with a brief summary of key findings established in the chapter to provide, along with the findings in Chapters 6 and 7, the grounding for the upcoming discussions and conclusions chapters.

SAUDI ENTREPRENEURSHIP

State policies and institutions

Among the many questions that I attempt to answer in this section are; how does the state generally view entrepreneurship and how does it integrate entrepreneurship strategy, if it exists, within its overall development strategy? What role does the state assume in developing the Saudi entrepreneurship sector in terms of policies, initiatives and programmes? What resources, incentives and supporting measures is the state making available for potential entrepreneurs and emerging enterprises? Moreover, does the concept of Islamic entrepreneurship have a presence in the relevant policies and programmes?

In the interviews with Saudi officials I sought to clarify the state's attitude towards entrepreneurship by investigating how entrepreneurship development fits into the state's overall development strategy. Responses to the question of whether developing a viable entrepreneurship sector constituted a part of the state's overall development plan were organized according to their common themes. The researcher accordingly, summarised these emerging themes in the following table:

Table 8.1 Entrepreneurship and the state's overall development strategy

Item	Response	Count
1.	I am not aware of any formal policies or policy statements that uphold entrepreneurship as a part of the state's overall development policy.	5
2.	The state recognised the important role of the private sector and small enterprises in its five-year development plans (1990-1995) onwards.	3
3.	I believe that the state is seriously considering the integration of entrepreneurship development within its overall development strategy.	1
4.	There is an inclination on the part of the state to integrate entrepreneurship within its overall development strategy. Thus far, there is no evidence to suggest that intentions are being transformed into actions.	3
5.	Saudi policymakers are not fully aware of the many benefits that entrepreneurship could extend to the well-being of the country therefore, entrepreneurship is excluded from the development process.	5
	Total	17*

*Figures may not equal the total number interviewed due to the possibility of multiple answers and/or no answers to certain question by some participants.

Despite minor differences in their accounts, the majority of respondents perceived the role of the state to be passive and indifferent towards entrepreneurship, and at times discriminatory against small enterprises. Respondents did not believe that entrepreneurship was part of the state's overall development strategy.

Verheul, Wennekers, Audretsch and Thurik (2002, p. 65) argued that governments could influence the course of entrepreneurship development "directly through specific measures and indirectly through generic measures". However, it seems that Saudi officials had different reading into the state's direct and indirect commitment to promoting entrepreneurship. The consolidated responses of the most frequently recurrent responses of Saudi officials (Table 8.2) clearly indicate that the failure of the state to account for entrepreneurship in its broader development plans had negative implications for entrepreneurship policy, and consequently hindered the development of a viable indigenous Saudi entrepreneurship sector. The end result was that Saudi entrepreneurs played a marginal role in the development of modern Saudi Arabia.

Saudi officials believed that the state did not adopt special policies designed to extend direct support to the entrepreneurial activity. Alternatively, they assumed that the state has the attitude that entrepreneurship will benefit from the macro-economic policies and initiatives aimed at stirring the whole economy. The state could initiate a wide range of general economic policies such as investing heavily in upgrading the country's infrastructure, adopting more friendly regulatory policies, and exempting certain imported machinery and spare parts from custom duties. Yet, Saudi officials as shown in table 8.2 were hardly able to name few policies and/or programmes or to recall any initiatives specifically designed to promote entrepreneurship.

Table 8.2 Specific versus generic measures towards entrepreneurship development: Integrated views of Saudi entrepreneurs

Item	Response	Count
1.	There are no policies specially designed to promote entrepreneurship and small businesses. State macroeconomic policies sometimes serve, and at many other times impair, the development of a viable small business sector.	4
2.	There is no official policy specially designed and dedicated to meeting specific needs of emerging entrepreneurs and new enterprises.	3
3.	The state's macroeconomic policies are biased towards big businesses; loans, grants, subsidies, and duty exemption on parts and equipment are usually extended to big and well-established firms rather than to start-up or existing small firms.	2
4.	The government has adopted a range of policies, procedures and incentives aiming at creating a friendly and hospitable business environment where the private sector can thrive and be productive. These policies include the completion of an integrated network of modern infrastructure that obviously benefits small as well as big businesses.	1
5.	Entrepreneurship was excluded from the recent economic reforms that aimed at promoting the national economy. However, some reforms are expected to benefit the small business sector in the short term, specifically the reforms that were designed to meet the WTO's requirements. Eventually, the reforms will harm the small business sector if it is left to its own devices.	2
6.	The state did not offer special assistance or incentives to entrepreneurs in areas such as training and access to credit or to small enterprises in areas such as marketing and export support and linkage with larger organisations.	4
	Total	16*

Figures may not add up to equal the total number interviewed due to the possibility of multiple answers and/or no answers by some participants to certain questions.

Saudi officials acknowledged that entrepreneurship development in Saudi Arabia was left to individuals' motivations, initiatives and their ability and determination to mobilise their own resources. There are no state-sponsored policies or systematic approach aimed at creating enterprising individuals and promoting a culture of entrepreneurship in the Kingdom. Furthermore, Saudi officials responded with hesitancy when asked to name key policies and leading initiatives undertaken by the state to promote entrepreneurship and facilitate the creation of new firms. Their responses as cited in Box 8.1 clearly demonstrate their belief that the state, for the most part, is not actively engaged in the entrepreneurial process.

Box 8.1 Entrepreneurship development: State-sponsored policies and initiatives as viewed by Saudi officials

- On the contrary, we are keen on big things; big houses, big families, big offices and the list goes on to include big projects and big enterprises. We were under the impression that big firms are what the country needs for development and growth. Therefore, we neglected the small business sector and virtually we did not offer it any assistance or incentives. Saudi small businesses are in crisis. Studies found that 50 to 60 small firms go bankrupt every day in Riyadh alone and 50% of the city's new firms do not survive their first year in business (Official-8, 2004).
- Up to recent times, we did not give much attention or due appreciation to small firms and we did not see a need to develop and promote entrepreneurship. We had the money to buy almost everything. Nevertheless, the inability of the public sector to take in new job seekers will definitely force decision makers to pay more attention to entrepreneurship as an alternative source of employment (Official-3, 2004).
- The state's involvement in the small business sector is limited to issues of a regulatory and procedural nature through City Councils, the Ministry of Industry and the Ministry of Commerce. In addition, about 19 other governmental agencies have direct influence over the small business sector. The efforts to support small enterprises, if available, are ineffective because they are scattered and in many instances are duplicated. There is no single authority in charge of the well-being of the small business sector, thus there is no coordination between the initiatives and the efforts of the many parties that have an interest in small firms. Apart from the initiatives of Chambers of Commerce and Industry little can be reported regarding help extended to small enterprises. A joint effort between the regional Chambers of Commerce and Industry and the Council of the Saudi Chambers is underway to formulate a comprehensive strategy for small business development at the national level (Official-4, 2004).
- The state has extended preferential treatment to assist and promote the private sector by urging all government departments to give priority to purchasing national products and awarding contracts to national firms. Furthermore, the state offered generous subsidies to local exporters (most likely to the large firms) in order for them to be competitive in the global markets. However, the Ministry of Industry, for example, does not provide any tangible or intangible assistance in marketing the products of small manufacturers. There is no law in effect that compels big firms to utilise the products of small firms, where possible, or incentives that motivate them to do so. Even if there was such a policy, it is rarely respected or observed. The individual(s) in charge of purchasing usually shop overseas, motivated by the expediency of established procedures and/or driven by special considerations and, seemingly, self-interest (Official-2, 2004)!

Source: Fieldwork (2004)

Table 8.3 lists some formal institutions perceived by Saudi officials as most relevant to, and active in, promoting entrepreneurship and supporting the small business sector.

Table 8.3 Key formal institutions involved in entrepreneurship development

No.	Institution	Function/objective	Count
1.	Saudi Chambers of Commerce and Industry*	<ul style="list-style-type: none"> - Extend advice and counselling services to existing and new business undertakings. - Coordinate with governmental and non-governmental financial institutions to mobilise funding for small firms. - Promote entrepreneurship culture through various functions such as conferences, forums and workshops - Provide small firms with advice and assistance to overcome their internal (administrative, marketing and organizational) and external problems (mainly with government departments) 	9
2.	General Organisation for Technical Education and Vocational Training	<ul style="list-style-type: none"> - Hold awareness seminars and training programmes to promote the importance of entrepreneurship - Encourage its graduates to establish their own businesses. - Provide financial support services to assist young graduates in the start-up of their new businesses. 	3
3.	Human Resources Development Fund	<ul style="list-style-type: none"> - Fund special programmes aimed at training Saudis and preparing them for employment. 	3
4.	Ministry of Trade and Industry	<ul style="list-style-type: none"> - Registering and licensing new businesses. 	2
5.	Saudi Arabian General Investment Authority (SAGIA)	<ul style="list-style-type: none"> - The Foreign Investment Act of April 2000 aimed at opening new investment opportunities and facilitating existing opportunities for national as well as international investors. 	2
6.	Saudi Credit Bank (SCB) – Bank <i>Al-Taslif</i>	<ul style="list-style-type: none"> - Provide qualified businesses with interest-free loans⁶⁴. - There are strong indications that the state is in the process of naming the SCB as the ultimate authority responsible for representing the interests of the Saudi small business sector. 	5
	Total		24**

* Saudi Chambers of Commerce and Industry are non-governmental organisations, created and funded privately by the commerce and industry sectors.

** Figures may not add up to equal the total number interviewed due to the possibility of multiple answers and/or no answers to certain questions by some participants.

⁶⁴ This is one of the functions intended for the (SCB) to perform. However, none of the entrepreneurs I formally interviewed or business people that I informally met were able to confirm that the (SCB), or for that matter any other financial institution, offered them such a service. Furthermore, Saudi financial institutions were extremely reluctant to enter into partnership agreements with existing or new entrepreneurs.

Politicians and policymakers have extensively debated the rationality of providing public fund to the needy, unemployed and the less fortunate with the aim of moving them from poverty and dependency to autonomy, self-sufficiency and productivity through self-employment and entrepreneurship. Although many governments have adopted policies specifically designed to accommodate the disadvantaged by transforming them into a productive segment of society through the path of entrepreneurship, findings from the field indicate that this was not the case in Saudi Arabia. However, many Saudi officials addressed this issue and spoke of ongoing efforts and consultations to establish a special fund dedicated to the cause of the disadvantaged groups such as, women, unemployed university graduates and unemployed individuals under the age of 25. The proposed 'Poverty Fund' would be a charitable fund supported by private donations and designed to empower the underprivileged by bringing out their entrepreneurial qualities, and creating favourable conditions for them to exploit their strengths by owning and running their own small projects.

Islam displays exceptional sensitivity towards the needs of the underprivileged, thus granting them a recognised right to the public wealth through the institution of *Zakah*. A key objective of *Zakah*, as discussed in Chapter 3, is the realisation of social justice among all Muslims by presenting every Muslim with an equal opportunity to be a productive and active member of society. Therefore the *Zakah* fund is considered to be an effective instrument intended not only to extend a helping hand to the disadvantaged and the poor, but as an empowering mechanism to help them reach their potential by being productive 'entrepreneurs', rather than being dependent individuals relying on charities and handouts. The interviews with state officials, including representatives from the Authority of *Zakah* and Income, revealed that the state did not put in place a coherent system to collect *Zakah* from individuals and re-channel a proportion of its revenues to benefit the disadvantaged and the excluded in the form of capacity building programmes and small business start-up initiatives.

The interviews also sought to examine whether the state has two separate sets of entrepreneurship policies: one designed for the creation of entrepreneurs and the promotion of entrepreneurship and the other for extending support for new firms and providing incentives for existing ones. The majority of Saudi officials considered the question of whether the national development policy differentiates between policies and programmes designed to address the special needs of entrepreneurs and the needs of small businesses. "Simply, they do not", was a straightforward response frequently

repeated by Saudi officials. "The fact that there is not an overall state entrepreneurship policy renders this question off the point", commented a Saudi official.

Saudi officials perceived, and therefore approached the concepts of entrepreneurship and small business, as if they were one and the same. They used the two terms interchangeably and in the same capacity and more often used the term "small businesses" to symbolise both concepts. In fact, they placed more emphasis on the firm rather than on the person responsible for establishing the firm. Such misreading of the terms hindered the researcher's attempts to focus the discussions on the spirit of entrepreneurship as opposed to the notion of small businesses. It further explains, in part, the absence of entrepreneurship policy-oriented research from the Saudi research programme. The General Organization for Technical Education and Vocational Training was an exception since it stated its mission in entrepreneurial terms: "planting the importance of entrepreneurship in society and encouraging the young people to establish their own business projects". The SCCI also believed that they were promoting entrepreneurship and that some of their activities and programmes were directed toward serving the interests and the needs of the entrepreneur.

Another objective of interviewing Saudi officials was to understand the state's official attitude and approach regarding entrepreneurship education. Saudi officials recognised the potential role that entrepreneurship education could play in creating awareness, fostering entrepreneurship tendencies and providing potential entrepreneurs with needed skills and proper training. At the same time, they acknowledged that despite being of such importance, the Saudis' formal education system excludes entrepreneurship education in general and Islamic entrepreneurship in particular from its curriculum. Likewise, Saudi officials were unable to advise whether or not entrepreneurship education is being critically contemplated or considered for serious deliberation by policymakers and education specialists. However, Saudi officials expressed their profound confidence that the issue of entrepreneurship education sooner rather than later will force itself onto the agendas of Saudi policymakers and education authorities.

Earlier discussions highlighted Islam's positive attitude and constructive approach towards entrepreneurship, and pointed out that Saudi entrepreneurs perceived Islam to be an entrepreneurial religion. Saudi officials were asked about their general perception of the role of Islam in the overall development of SA and through the promotion of Islamic entrepreneurship in particular. Moreover, whether the state

adopted any policies or exerted any efforts to promote 'Islamic entrepreneurship', such as the promotion of Islamic banking and the inclusion of Islamic entrepreneurship education in state schools' curricula. Respondents recounted in abstract terms the positive attitude of Islam towards entrepreneurial activity without adding to what is already known in terms of how this positive attitude, in reality, has influenced the cause of entrepreneurship in Saudi Arabia. Typical responses were:

- Islam motivates and challenges Muslims to engage in productive work, thus it gives priority to entrepreneurship over other forms of *halal* earnings. There is no doubt that Islam is an entrepreneurial religion and has a profound influence in directing the individual towards entrepreneurial activity.
- Several Qur'anic verses and prophetic traditions urge Muslims to be self-reliant and to pursue the path of entrepreneurship evidenced by the fact that many of the Prophet's (PBUH) companions were successful traders and entrepreneurs who employed their wealth to advance the cause of Islam in addition to realising their own well-being.

Saudi officials were also unable to provide convincing accounts of practical initiatives undertaken by the state to promote Islamic entrepreneurship. In fact, they were unable to name a single state-sponsored policy, institution or a distinct initiative solely designed or devoted to serving the cause of Islamic entrepreneurship.

In the light of the convictions held by both Saudi entrepreneurs and Saudi officials that the state has no entrepreneurship policy, the question on the relationship between policy and action with regard to entrepreneurship development in SA seemed irrelevant. Table 8.4 lists some of the thoughts shared by Saudi officials regarding the relationship between policy drafting and policy implementation in general.

Apart from acknowledging the importance of the small business sector and affirming the good intention of the state in supporting SMEs, there is no evidence to suggest active engagement on the part of the state in promoting entrepreneurship culture or extending support to starting up new businesses. There are no special supportive policy measures or specialised institutions for providing preferential treatment to small businesses. On the contrary, Saudi entrepreneurs believe that policymakers not only overlook the small business sector, but they – unintentionally – hold a discriminatory attitude towards it as well.

Table 8.4 Policy legislation versus policy implementation

Item	Response	Count
1.	The lack of coordination amongst the many parties and agencies involved with the small business sector has resulted in duplication of efforts and misuse of time and financial resources. It seems that the only existing coordinated efforts are those between the small business development centres in each regional Chamber of Commerce through the Council of Saudi Chambers.	5
2.	There are ongoing attempts to establish a unified central authority to oversee all efforts and activities aimed at promoting small businesses. However, such efforts so far have not materialised in adopting practical policies or creating working institutions committed to the cause of entrepreneurship.	3
3.	Lack of policy implementation is not confined to entrepreneurship or small business policies; it is part of an inefficient and unproductive public sector that lacks transparency and credibility.	7
4.	Bureaucracy and the lack of monitoring mechanisms that hold public servants accountable usually hinder the implementation of sanctioned policies.	7
5.	There is a big gap between the drafting of a policy and putting that policy into action.	5
6.	Both the Minister of Commerce and Industry and the Minister of Planning and Economy have acknowledged the big gap between policy endorsement and its actual execution in general, hence they have called for renewed effort to speed up the implementation of approved policies.	1
	Total	28*

* Figures may not add up to equal the total number interviewed due to the possibility of multiple answers and/or no answers by some participants to certain questions.

Saudi officials did not contest the claim that Saudi entrepreneurs were left to their fate, nor did they counter the suggestion that entrepreneurship is not part of the state's overall development strategy –despite its commitment to the private and small business sector as stated in various five-year development plans. Likewise, the state did not give due recognition to the diverse contributions that entrepreneurship extends to the well-being of the country, thus they failed to sanction the development of a productive entrepreneurship class in the Kingdom. Collected data also indicate that Islamic entrepreneurship is still a novel concept to many Saudi officials –evidenced by the visible lack of policies and institutions totally, or in part, dedicated to the cause of Islamic entrepreneurship.

Earlier discussions raised the concern that the information supplied by Saudi officials lacked depth and originality. Different readings and interpretations were drawn from the attitudes and the responses of Saudi officials to the interview questions: the first reading gave the impression that officials were reluctant to provide momentous information due to their fear of being subjected to official questioning –despite the confidentiality and anonymity assurances given by the researcher. The second reading led one to conclude that officials were frank and candid in their responses, which were true reflections of the reality of the Saudi entrepreneurship sector. Now, as the features of Saudi entrepreneurship become clearer, I realise that Saudi officials were telling what they actually knew and believed to be the specifics about the role of the state in entrepreneurship development.

The lack of real interest and the inadequate involvement of Saudi policymakers and economic planners in entrepreneurship development could be linked to their narrow understanding of the valuable contributions that entrepreneurs extend to the socio-economic well-being of the country. State officials and policymakers themselves might need to be educated and made more aware of the viability of entrepreneurship as a development strategy. Once they come to realise the benefits of entrepreneurship, they are most likely to consider examining various policy options and to adopt what they believe to be the most appropriate within the Saudi context, and integrate such policies within the overall national development strategy.

A participant in the interviews said that he will not be revealing a secret if he says that the only real and effectual decision-making authority in the Kingdom is the authority of the Council of Ministers. As long as there is no recognised envoy assigned to represent the aspirations of entrepreneurs and defend the interests of small enterprises among the 30 or so ministers, this sector will remain helpless and economically unviable. “If the state is serious about promoting entrepreneurship and supporting small businesses, it ought to create a new Ministry entirely devoted to entrepreneurship and small business development or at least to establish an independent but inclusive department within the appropriate ministry to assume due responsibility for this sector” (Official-03, 2004). “Policies must be linked to the Council of Ministers in order for them to have a chance of being implemented”, commented another Saudi official.

The role of the education system⁶⁵

“Unless or until all of society shares the entrepreneurial spirit, the educational task will not be complete” (OECD, 2001a, p. 82). Both Saudi entrepreneurs and Saudi officials emphasised the potential role of education in building a viable Saudi entrepreneurship sector; therefore, it was imperative to involve Saudi intellectuals and education specialists in the research⁶⁶. Education is a multi-faceted discipline that has a dual influence on entrepreneurship development: as a core component of the indigenous culture, education provides vital input for policymakers to consider while debating entrepreneurship policies. Equally important is the fact that education is a powerful instrument for entrepreneurship policy implementation; therefore, it is deeply affected by the adopted policies.

The common orthodoxy that education plays an important role in shaping the entrepreneurship environment in any given country is unquestionable. However, what is in question is the assumption that formal education constantly leads to more entrepreneurship. The role of formal education in creating a culture of entrepreneurship has been controversial and subject to prolonged debates. Scholars often explain lack of entrepreneurship in many countries by the inflexibility of their educational systems. The majority of Saudi intellectuals and academics I interviewed held the same unfavourable perception of the role of Saudi education in developing an entrepreneurial class in the Kingdom. They explained the lack of true entrepreneurial spirit amongst Saudis by the rigidity of the national education system that neither promotes autonomy and creativity nor stimulates positive thinking through the process of search and inquiry. In a personal interview with the Deputy Minister for Educational Development, he disputed this account and explained that the educational system prepares students to be positive and productive citizens; therefore, it indirectly encourages entrepreneurial qualities among students. He nevertheless conceded that the issue deserves more attention.

The attitude of Saudi academics was also in line with the widely held view that entrepreneurship education positively contributes to the cause of entrepreneurship.

⁶⁵ For more on the Saudi educational system, please refer to Sedgwick (2001).

⁶⁶ Interviews with Saudi intellectuals included: academics mainly from Saudi Universities, specialists from the Ministry of Education (including the Deputy Minister for Educational Development), representatives from the Ministry of Higher Education and prominent religious scholars, as they all have special interest in Islamic entrepreneurship and development.

They iterated that entrepreneurship education would increase the awareness and the understanding of the entrepreneurial process, stimulate and cultivate enterprise culture, revive the spirit of entrepreneurship and provide potential entrepreneurs with the relevant skills and appropriate training to start and run a new business.

Entrepreneurship education is rapidly gaining momentum and becoming an integral part of the academic curriculum in many schools and higher educational institutions around the globe, and the growing inclination towards entrepreneurship education is most likely to continue. However, Saudi intellectuals believe that the prevailing educational policies in Saudi Arabia do not give due recognition to the contributions of entrepreneurship education, nor do they allow for the emergence of an entrepreneurial culture in the Kingdom.

Table 8.5 presents some views and perceptions of Saudi academics and entrepreneurship specialists regarding the realities of the Saudi educational system as they relate to entrepreneurship development.

Table 8.5 The realities of the Saudi entrepreneurship education

The issue/theme	The response	Count
How do you generally perceive the relationship between formal education and the level of entrepreneurial activity?	<ul style="list-style-type: none"> - Positive - Controversial - No casual relationship - Adverse 	<p>1 3 2 7</p> <p>13</p>
How do you perceive the relationship between entrepreneurship education and entrepreneurship development?	<ul style="list-style-type: none"> -Entrepreneurship education is positioned to play a leading role in promoting an entrepreneurship culture and advancing entrepreneurship development both quantitatively and qualitatively. -Entrepreneurs are born not made. Therefore, education although important, is not a precondition for the emergence of entrepreneurship. 	<p>11</p> <p>2</p> <p>13</p>
How do you assess the relationship between entrepreneurship education and entrepreneurship development in Saudi Arabia?	-Theoretically, entrepreneurship education would have a positive impact on entrepreneurship development; however, Saudi youth are rarely exposed to entrepreneurship education throughout their schooling years. Thus, it would be inappropriate to judge the extent and the value of such a relationship.	<p>10</p> <p>10</p>

<p>The inclusion of entrepreneurship education in the Saudi educational system</p>	<p>-Entrepreneurship is a topic virtually excluded from the schools' curriculum; entrepreneurship education is yet to be fully accepted and incorporated within the national education system.</p> <p>-Neither school curriculum nor institutes of higher education make clear reference to entrepreneurship.</p> <p>-Entrepreneurship education is not on the agenda of education specialists/ authorities</p> <p>-There are some scattered materials in the curriculum intended to create a positive attitude towards work in general.</p> <p>-The Ministry of Education is seriously considering adopting a more structured approach to promote entrepreneurship.</p>	<p>7</p> <p>4</p> <p>3</p> <p>2</p> <p>2</p> <p>18</p>
<p>At what level is entrepreneurship being taught in the Saudi educational institutions?</p>	<p>-Neither Saudi schools nor universities teach entrepreneurship as a scholarly subject at any level.</p> <p>-Even university students majoring in business studies or engineering are most likely to graduate unaware of entrepreneurship as a viable alternative to employment.</p> <p>-Few business papers at university level barely refer to entrepreneurship in an informal and unstructured format.</p>	<p>6</p> <p>5</p> <p>2</p> <p>13</p>
<p>At what level should entrepreneurship be formally introduced to Saudi nationals?</p>	<p>-Entrepreneurship education should be incorporated in the school curriculum and taught as a compulsory subject at the primary level. "It is never too early to introduce individuals to the ideals of entrepreneurship", because "early years are considered the most important developmental phase of the individual's lifetime".</p> <p>-High school level</p> <p>-University level</p> <p>-Students should have theoretical exposure to the principles of entrepreneurship at primary level; however, the practical part of entrepreneurship education that includes training and capacity building should commence at some point at high school level.</p>	<p>4</p> <p>7</p> <p>2</p> <p>2</p> <p>15</p>
<p>How and in what ways?</p>	<p>-“We must begin in our schools”. A starting point would be to embark on a nation-wide programme to explain the concept in simple and straightforward terms to as many people as possible. Various educational institutions would play a central role in the campaign. The message should be that entrepreneurship which is rooted in</p>	<p>12</p>

	<p>Muslims' culture and traditions is also a way of earning <i>halal rizq</i> and pleasing The Almighty Allah.</p> <ul style="list-style-type: none"> - The family bears special responsibility in fostering the seeds of entrepreneurship amongst its members. - The media constitute a powerful tool that should be effectively employed to raise the profile of entrepreneurship. - Religious leaders are in a unique position to spread the message of entrepreneurship especially among the youth. 	<p>4 8 9 33</p>
<p>Who should be the target of entrepreneurship education?</p>	<ul style="list-style-type: none"> -Entrepreneurship education should not be limited to students who might choose self-employment. Instead, it should target all segments of society in order to create a general awareness and provide basic knowledge of its principles in the first place, and then focus on building the capabilities of potential entrepreneurs. -Engineering and business students are the ones more likely to start a business than others. -Entrepreneurship education should also target bankers, lawyers, government officials and others with whom the entrepreneurs will come into contact. The perceptions of these individuals and their attitude towards the entrepreneurial activity would have a great influence on the development and success of entrepreneurship in Saudi Arabia. 	<p>10 4 6 20*</p>

*Multiple responses are allowed

In entrepreneurship literature attention is frequently drawn to the failure of education systems in the majority of developing countries to promote an entrepreneurship culture and to create enterprising individuals. Formal education, particularly at university level, tends to teach and train people to be good employees rather than be successful employers. The spread of the "take-a-job" as opposed to the "create-a-job" attitude in many countries is mainly blamed on the passive role of their educational systems and the hesitation of universities to incorporate entrepreneurship education and training within their curriculum and programmes (Kourilsky, 1995).

Saudi intellectuals were consistent in their assessment regarding the status of the Saudi entrepreneurship education with respect to the following three categories of

entrepreneurship education as identified in the literature (Jamieson, 1984). Firstly, education about enterprise: the objective is to generate a proper understanding of entrepreneurship concepts and an appreciation of the entrepreneurial phenomenon. Specific desired outcomes include: increasing an individual's interest in entrepreneurship and his/her readiness to recognise and seize opportunities (Walstad & Kourilsky, 1998); nurturing a positive attitude towards entrepreneurship is to be regarded as socially accepted and personally rewarding (Green & Pryde, 1990); creating an awareness of self-employment as an alternative career option. Secondly, education for enterprise aims at developing enterprise skills and providing training for existing and new entrepreneurs. Thirdly, education through enterprise, which is an informal type of entrepreneurship education, is intended to link educational institutions with local communities and the private sector. It aims at involving entrepreneurs in the education process through real life practical projects using convenient case studies, company visits, team projects and interaction with role model entrepreneurs. "In reality, the Saudi education system hardly covers any aspects of the components that comprise this triangle –most notably, the practical dimension of entrepreneurship education", commented a prominent academic figure at KSU School of Business.

Other interviewees had an identical or similar assessment of the realities of Saudi entrepreneurship education. They believe that entrepreneurship education currently does not rise to the inventory of education priorities as identified by Saudi policymakers and education specialists. However, they expressed their confidence that change in the official attitude towards entrepreneurship education is being initiated.

Saudi universities are often accused of failing to be adaptive and having a tendency to offer what they already have instead of tailoring their offerings to fit customers' needs (the economy). Universities and the private sector are engaged in a cycle of "claim and counterclaim" as to who should bear the responsibility for the alarming unemployment figures –particularly among university graduates. The Saudi private sector, on the one hand, frequently complains that large numbers of Saudi university graduates are "illiterates or semi-illiterate", especially in the areas of communication and analytical proficiency. They lack basic skills and proper training to be productive and cost-effective in a competitive and profit-driven private economy.

Saudi academics, on the other hand, acknowledged that the Saudi education system all the way through to higher education neither prepares young Saudis to be successful entrepreneurs nor provides them with proper training to be competent and

committed employees. At the same time, they stressed the viewpoint which argues that “universities are higher educational institutions mainly aimed at providing knowledge, delivering high quality education and developing research activities”. Preparing students for the market, although a priority; is not the top priority for most universities. Therefore, they declined to accept all the blame and swiftly countered the claim by portraying the private sector to be greedy, self-centred and partisan. They further challenged the private sector to display a sense of national responsibility by investing in the new graduates and providing them with needed training despite the hefty cost that they might incur in the short term.

Yet, Saudi academics did not dispute their social and moral responsibilities towards their communities such as maintaining a close line of communication with the labour market to identify and to respond in a timely manner to emerging market requirements. However, they admitted that communication channels with the private sector are neither adequate nor satisfactory, thus they called for more interaction, coordination and integration between the higher educational institutions and the private sector. “I believe that the emphasis on strengthening the (fragile) relationship between Saudi educational institutions and the private sector would be one of the most important recommendations that this thesis is set to deliver”, commented a Saudi academic.

Up to recent times the freedom of universities to undertake research projects or consulting works outside the walls of the university was hindered by bureaucracy, a string of regulations and the possibility of being subjected to lengthy question and answer sessions. Saudi intellectuals believe that things are changing and the interaction between the two entities is steadily developing. The interest and involvement of the private sector in academia are manifested in different forms such as sponsorship of various university functions, offering specialised chairs and holding “career days and career weeks” at the universities’ premises. Universities, on the other hand, are strengthening their relations with the private sector by utilising their human capital and physical infrastructure to embark on research activities relevant to the needs of the private sector. Universities also organise seminars, forums and workshops to further inform, educate and train business people. However, it remains imperative that the contribution of Saudi universities to the economic development of the country should be largely enhanced through the stimulation of entrepreneurship.

While Saudi intellectuals strongly believe that universities are in a good position to play a constructive role in developing an enterprise culture in Saudi Arabia they also

emphasised the role of the family, the school, the media and the religious establishment and argued that nurturing an entrepreneurship culture and developing enterprising individuals are common responsibilities.

Islamic entrepreneurship in Saudi Arabia

Table 8.6 below clearly indicates that all Saudi intellectuals I interviewed firmly believe that Islam holds a high regard for entrepreneurship and places a strong emphasis on entrepreneurial activity. Saudi intellectuals were firm in their uniform response to my question as to whether there is such a thing as Islamic entrepreneurship: “certainly”, “definitely”, “absolutely”, and “positively” were brief but concise answers frequently repeated by Saudi intellectuals. They further emphasised their belief that entrepreneurship has a strong presence in Islam by citing many verses from the *Holy Qur’an* and quoting many traditions of the Prophet (PBUH).

Entrepreneurship in Islam is the source and the origin of *rizq* while employment is a recent invention that came about to fill the administrative needs of the (modern) state. Islam, therefore, as seen by Saudi intellectuals, does not only endorse entrepreneurship, but it also urges and motivates Muslims to take initiatives and not to wait for the sky to rain gold or silver. However, responses to my revised question as to whether or not Islamic entrepreneurship in reality has a presence varied considerably from “definitely” to “not sure”. Respondents emphasised that entrepreneurship is deeply rooted in Islamic history and in Muslim culture. Suffice to say that many of the Prophet’s (PBUH) companions were very successful entrepreneurs. They practised entrepreneurship in a true Islamic spirit and consequently made fortunes for themselves and for the Muslim *ummah* and helped spread Islam to new territories. Not surprisingly, the majority of participants attributed the contemporary failures in implementing Islamic entrepreneurship primarily to the absence of relevant Islamic institutions intended to promote entrepreneurship and facilitate the entrepreneurial process through its various stages.

Table 8.6 Islamic entrepreneurship and the need for a model

The issue/theme	The response	Count
<p>- Is there such a thing as Islamic entrepreneurship?</p> <p>- In reality, is Islamic entrepreneurship manifested in the practices of Muslim entrepreneurs?</p> <p>- Does the Islamic perspective of entrepreneurship differ from the Western perspective of entrepreneurship?</p> <p>- Can the Islamic model of entrepreneurship be integrated within the general (Western) model?</p> <p>- Is the call for the construction of an Islamic entrepreneurship model justified?</p>	<p>- Certainly, absolutely, definitely, positively</p>	<p>13</p>
	<p>- Strongly manifested</p> <p>- Manifested</p> <p>- Not sure</p> <p>- Not manifested</p>	<p>2</p> <p>6</p> <p>3</p> <p>2</p>
	<p>- Yes, they differ in their philosophies, views, objectives, and means of delivery.</p> <p>- Yes, however, the Western model is converging towards the Islamic model by addressing business ethics and social responsibility.</p> <p>- Both models have a lot in common. Yet, differences are profound.</p> <p>- The Western model is more structured than the Islamic model.</p>	<p>7</p> <p>3</p> <p>1</p> <p>2</p>
	<p>-Midpoint can be reached to accommodate both models.</p> <p>- No it cannot</p> <p>- No, it cannot and should not</p>	<p>2</p> <p>3</p> <p>8</p>
	<p>- Absolutely justified</p> <p>- Justified</p> <p>- Not sure</p>	<p>9</p> <p>3</p> <p>1</p>
<p>-Do you feel that Islamic entrepreneurship should be taught?</p> <p>- At what levels?</p> <p>- In what ways?</p>	<p>Positively, certainly, of course.</p>	<p>13</p>
	<p>- As early as possible</p> <p>- At school age</p> <p>- At high school level</p>	<p>7</p> <p>3</p> <p>3</p>
	<p>- All possible ways</p> <p>- School</p> <p>- Home</p> <p>- The mosque</p>	<p>7</p> <p>8</p> <p>3</p> <p>4</p>
		<p>22*</p>

*Multiple responses are allowed

As Saudi intellectuals recognise the differences between the Western and the Islamic perspectives of entrepreneurship, they strongly believe that the call for an Islamic entrepreneurship model is justified. The in-depth discussions with Saudi intellectuals enabled the researcher to assimilate their views and insights and compose the following brief summary on their perceptive of what Islamic entrepreneurship entails.

Box 8.2 Islamic perspective on entrepreneurship as seen by Saudi intellectuals

The concept of entrepreneurship in Islam is strongly linked to the more inclusive and comprehensive concept of (tawhid); the "Oneness of God". The general rules relating to human activities in Islam are inclusion and permissibility (*halal*) while exclusion and prohibition (*haram*) are the exception. Whatever activities and behaviours Islam has outlawed have been due to the harm and the mischief they cause at personal, community, national and global levels. Islam for instance prohibited alcohol and drugs because of their mentally and economically damaging effects. It also prohibited prostitution because it is immoral and it has a destructive impact on individuals, families, and communities. Islam prohibited interest-based financial transactions on the grounds that they are unjust, immoral and widen the gap between the rich and the poor.

The Muslim's entrepreneurial activity thus is guided and regulated by the following set of rules: firstly, it must absolutely preserve the full rights of Almighty Allah whether these rights relate to *Aqida* or *Ibadah*. Secondly, it must not lead to an offence or cause harm to the entrepreneur's body, soul or possessions, as the Muslim does not own any of these treasures in absolute terms. He/she is merely entrusted with them, and therefore is under religious obligation to safeguard this trust. Smoking, for example, causes harm to vital parts of the human body and God says "but let there be amongst you traffic and trade by mutual good-will: Nor kill (or destroy) yourselves: for verily Allah hath been to you Most Merciful!" (Qur'an, 4, 29) and he also says "and spend of your substance in the cause of Allah, and make not your own hands contribute to (your) destruction; but do good; for Allah loveth good doers" (Qur'an, 2, 195). Thus, smoking is a clear violation of the terms of trusteeship with The Almighty Allah. Allah also is the ultimate and the absolute owner of all wealth "give them something yourselves out of the means which Allah has given to you" (Qur'an, 24, 33). Therefore, individuals are obliged to earn and to spend such wealth in the way that pleases The Almighty Allah. Thirdly, Islamic entrepreneurial activity must not lead to an offence, pose a threat, or cause damage to others or their properties. Fourthly, Islamic entrepreneurship must be practised ethically and morally and must be completely free of any form of "conflict of interest".

In addition, entrepreneurial activity must realise the following two specific objectives respectively in order to conform to Islamic values and beliefs: it has to bring tangible benefits to the entrepreneur's community and to humanity at large. The product or the service it provides must deliver a useful service to the wider community without leading to corruption or causing distrust among any fractions of the society. The entrepreneurial activity must also bring direct or indirect benefits to the individual entrepreneur as recognition of his/her constant efforts and productive contributions.

Source: Integrated responses of Saudi intellectuals regarding Islamic perspective on entrepreneurship (Fieldwork, 2004).

The majority of participants objected to the way I framed the question regarding the viability of integrating Islamic entrepreneurship within the Western model and whether

the construction of an Islamic model is really needed and/or justified. They pointed out that while the Western model is relatively new, with many of its concepts having deep roots in Islamic business principles, the Islamic model existed some 1,400 years ago. The call must be to reconstruct and to restore rather than to recreate, the already existing model.

As Saudi intellectuals acknowledged the variation between the two systems, they had different explanations of the nature and the implications of these differences: on the one hand, are the graduates of religious schools from Islamic universities who categorically rejected any suggestion that convergence between the two models could eventuate. They explained that the secular Western ideals –including the Protestant work ethic– are largely oriented towards materialism, and view entrepreneurship purely as an economic activity intended to create tangible benefits. In contrast, Islam considers work and specifically entrepreneurship to be *ibadah* before being an economic activity aimed at generating economic value. The basic virtues embedded in Islamic entrepreneurial activity led Saudi intellectuals to accentuate the uniqueness of the Islamic view of the entrepreneurial phenomenon, and to conclude that the integration between the Islamic and Western perspectives of entrepreneurship is impractical and methodically invalid.

On the other hand, a minority of graduates of business schools from Western universities advocated the complementary role of both systems and argued that the two models are converging. “I foresee a convergence between the two models, and the convergence is definitely towards the Islamic ideals”, commented a faculty member of the KSU School of Business. This low-key viewpoint justifies its validity by the gradual changes in the Western perspective towards business activity, influenced by the propagation of the “humanistic and behavioural schools” and their attentiveness to ethics and social responsibility in business.

The Islamic model excels in the philosophical aspect of entrepreneurship while the Western model is well advanced in the art of institution building. Therefore, the West could, as it has previously, integrate some of the moral aspects of Islamic entrepreneurship into its model. At the same time Muslims could learn from the Western model how to draft working policies and build functional institutions compatible with their specifics, their identity and their own brand of entrepreneurship, explained a Saudi intellectual.

A group of Saudi academics justified the scarcity of entrepreneurship and/or small business education in Saudi schools and universities by the low demand from students, who generally lacked due awareness of the benefits of entrepreneurship education. Others put the blame on academics interested in entrepreneurship themselves for their lack of zest and their failure to campaign vigorously to include entrepreneurship and small business education within the offerings of their respective departments. Another group of intellectuals criticised the educational reforms during the past 30 years and charged that reforms were merely a new presentation for an old product; the focus of reforms was on the form rather than on the substance. Reforms also failed to view, thus promote the educational evolution as a complete entity that encompasses more than the textbook. The value of individual initiative, achievement orientation, creativity and positive thinking are but a few functions that the reformed education system has overlooked the need to reinforce.

Moreover, Islamic entrepreneurship education was hindered by the fact that the majority of academics specialising in entrepreneurship are graduates of Western universities who were influenced, in one way or another, by the Western secular school of thought. The clear shortage of specialised scholars who combine the scientific vision in various fields of knowledge with the true understanding of the Islamic perspective of the issues raised undoubtedly had its adverse impact on the drive to promote Islamic entrepreneurship education. Some intellectuals did not seek to come up with justifications or scripted explanations and gave plain answers such as: "ignorance", "lack of common sense", "lack of awareness", "neglect", "failing to notice", "unwilling to change", "no immediate need", and "frankly, there is no excuse or justification".

It was interesting that the interviews revealed that educational officials at the ministry level are themselves the policymakers who decide what to include in the school curriculum. At the university level, universities are free to decide what to teach, within the boundaries of the stated policy and objectives. Individual universities enjoy a great deal of flexibility and are given their own space to draft and carry out their policies and programmes. The offering of papers and courses is an internal affair decided through a process that must be endorsed respectively by: the department council, the college council and finally the university board. The Ministry of Higher Education has no influence or input whatsoever in deciding upon the nature or the contents of the university teaching programmes.

External factors

The level and the quality of the entrepreneurial activity within a society are also subject to the influence of many external variables. Starting a private enterprise under the communist system, for instance, was strictly prohibited; hence the entrepreneurial spirit in East Europe under soviet domination was suppressed. Likewise, the overseas Chinese owned and managed successful businesses in Malaysia, Hong Kong and Singapore while they were denied the opportunity to practice their entrepreneurial skills in communist China (Liao & Sohmen, 2001).

The conceptual entrepreneurship model, which guided the development of this study, has identified three external factors of great influence on the Saudi entrepreneurship development process: the influx of oil rents, the influx of expatriates and foreign labour and the speed and intensity of globalisation. Saudi entrepreneurs, Saudi officials and Saudi intellectuals shared their views regarding the effect of these external forces on the spirit of Saudi entrepreneurship and the quality of Saudi entrepreneurial activity.

The oil factor

Previous discussions highlighted the crucial role that oil continues to play in the socio-economic development of Saudi Arabia and the debate on whether oil is a blessing or a curse. Saudi entrepreneurs, conceivably more than other players in the economy, were affected by the oil discovery and commercialisation and had the following to say regarding the impact of oil on the country's entrepreneurial drive.

Box 8.3 Oil and entrepreneurship: Four testimonies from the field

The first testimony:

There is no doubt that oil revenues largely contributed to the speedy development of Saudi Arabia. However, it was feasible for such massive wealth to deliver healthier returns to the various sectors of the economy -if it was not for the 'big brother' role of the government and its firm control over the people, the economy and the natural resources. The "rediscovery of oil" in the 1970s created a general business atmosphere focused on infrastructure development and encouraged Saudis to seek employment rather than to be engaged in business creation. The state assumed a passive role and failed to promote productive entrepreneurship among its citizens. Therefore, it was left to the individuals' own motivations and attitudes and their willingness to devote their initiative and ability to mobilise the resources; individuals with the vision, the "go ahead attitude" and the passion for being on their own surely benefited from the extraordinary opportunity (Intellect-8, 2004).

Continues next page ...

The second testimony

The oil boom of the 1970s undoubtedly had an enormous positive impact on various aspects of development in Saudi Arabia, most notably in the infrastructure projects and social services. On the other hand, one must not underestimate the magnitude of its negative impact on the attitude of future generations towards a range of issues. The sudden wealth has created an unhealthy attitude among many Saudis towards entrepreneurship and work in general. The motives to start a business were not compelling and were outshone by the prospect of being employed in the public sector, or acting as an agent for a foreign company. The oil boom also resulted in mass migration to the main commercial centres denying rural areas and other communities their proper share of development. One of the state's big failures in planning for the post-oil era is evident in the appalling numbers of unemployed Saudi university graduates. What puzzles me further is that we live and act as if we are still in the middle of the oil boom era. The truth is we are not. When I finished high school in the mid-1970s, I had five scholarship offers from various ministries to choose from, all in American universities, and once I graduated from the university, I had that many employment offers to choose from in the public sector. Now it would be a kind of wishful thinking to get one scholarship offer, and a tougher challenge would be to find an employment opportunity after graduation. Things have changed and we have to be realistic and adapt to the new realities (Intellect- 4, 2004).

The third testimony

The oil boom of the 1970s and the influx of sudden wealth played a constructive role in transforming the structure rather than the spirit of the Saudi economy. Tremendous sums of money were invested in renovating the much-needed infrastructure projects and modernising other social sectors such as education and health. However, policymakers were not successful in building a productive economy that frees the country from its dependency on oil revenues. One might argue that the ample opportunities to start a business that accompanied the oil boom were counterbalanced by the generous and attractive employment offers in the public sector (Entrep-12, 2004).

The fourth testimony

Nobody can question the enormous contributions the oil wealth has extended towards the economic development and prosperity of the Kingdom. Least to mention is the fact that we have money to trade and do business. On the negative side, our attitudes towards many things have been negatively manipulated. The young Saudi who was born with a 'silver spoon' and had his first new Mercedes at the age of 17 grew up to believe that his future is secure. This feeling led him to think that he can buy almost anything and everything, therefore losing the sense of responsibility and the will to be productive. However, things are changing (Official-4, 2004).

Source: Fieldwork (2004)

The expatriates

Ho (1992, p. 27) attributed the success of Hong Kong's entrepreneurial experience, among other factors, to the "influx of management expertise, hardworking migrants from China". While Saudi Arabia cannot claim to have most of the business friendly attributes that Hong Kong has acquired, it seems that it did not realise, and thus failed to capitalise on the positive features it did have. This is evidenced by the way it dealt with its expatriates and foreign labour. The shortage of a skilled and unskilled Saudi

indigenous workforce capable of stirring the economy and carrying out large scale development projects prompted Saudi authorities to open the country to foreign labour and expertise. The Saudi General Statistics Authority (SAIR) estimated the number of non-Saudis in November 2004 at 6,144,236 (27.1%) of total population (SAIR, 2005). Professional expatriates from all corners of the world have brought an unparalleled wealth of diversified experiences to the Kingdom of Saudi Arabia from the early 1970s onward. Ray (2004) argued that attracting immigrant entrepreneurs is a smart policy in a community where entrepreneurial drive is lacking. Even developed countries such as Canada, Australia and New Zealand have effectively employed immigration policies targeting individuals with entrepreneurial qualities.

Unlike the majority of Western industrialised countries, Saudi Arabia did not open its doors to welcome this influx of human wealth and integrate the very capable and promising (at least from Arab/Islamic countries) within its development process. Saudi authorities opted to pursue a conservative immigration policy where the potential entrepreneurs and individuals with scientific or business advantage were not offered Saudi citizenship, thus they did not create a sense of belonging between the expatriate and the country. Citizenship is an empowering instrument and an effective means that could be employed to strengthen loyalty to the country and enable expatriates to utilise the benefits of being citizens in productive initiatives. In many instances, expatriates were unfairly treated, intentionally or unintentionally, as if they were exploiters, and were largely perceived as opportunists whose main aim was to have a bigger slice of the pie. In return, their contribution to the overall development was merely the same. Saudi authorities failed to capitalise on this massive wealth of human richness and expertise and thus missed a "lifetime opportunity" to transform its economy by advancing its own entrepreneurial drive. Saudi Arabia neither gave its expatriates the opportunity to excel and contribute to the development of the country nor made them feel welcomed and appreciated as dedicated and sincere "hired foreign labour".

The exclusion of foreigners from exercising their entrepreneurial expertise has led expatriates to seek 'other avenues' to practice entrepreneurship; an expatriate would form an agreement with a Saudi citizen where the expatriate would work on his behalf and under his sponsorship. The Saudi extends legal cover to the foreigner by allowing him to conduct his business using the Saudi business licence/registration. In return, the expatriate would pay the Saudi a one-time lump sum amount of money or fixed monthly instalments regardless of the performance of the business.

Discussions in Chapter 3 on Islamic entrepreneurship established that in order for money to be *halal*, it must be earned through legitimate means as an outcome of productive effort. This perspective leads one to question the morality as well as the legality of the forged arrangements between the expatriate and his Saudi 'partner'. Such 'off the record' illegitimate arrangements leave the expatriate at the mercy of his Saudi sponsor who can at any time claim ownership of the business leaving the expatriate literally powerless and penniless. This state of affairs clearly underscores the need to reform labour laws.

The dishonest arrangements between some foreign (entrepreneurs) and Saudi nationals had negative impact on the Saudi economy: firstly, Saudi nationals in most cases were excluded from employment opportunities created by new firms, except in certain jobs that must, by law, be filled by Saudis, such as liaison officers. Each establishment usually embarked on a preferential employment policy that favoured the nationals of its founder/owner. Secondly, 'Undercover' foreign entrepreneurs did not have to pay taxes imposed on foreign companies since they were registered as Saudi businesses, thus depriving the national economy of a source of income. Thirdly, As Dr. Al-Shidadi, the President of Saudi Management Association, explained during the interview, expatriate entrepreneurs and foreign employees in most cases would transfer most of their earnings/profits outside the Kingdom. It is estimated that about SR635.7 billion (US\$169.5 billion) were legally transferred by expatriates through official channels between 1992 and 2002 (Al Omri, 2004). This is in addition to undisclosed sums that are drawn outside the Kingdom through other informal channels. The Kingdom has an open policy regarding the movement of money from/to the Kingdom, and has no regulations in place to limit the amount that any individual or business can transfer out of the country.

Globalisation

One of the most exciting and promising avenues for entrepreneurs to expand their businesses is to be players in the global market. This emerging opportunity has been facilitated in part by the decline in trade barriers, lower transportation cost, advancement in technology, and the emergence of major trading blocs such as the North American Free Trade Agreement (NAFTA), European Union (EU), Asia-Pacific Economic Cooperation (APEC), Southern Common Markets (SCCM), and Association of Southeast Asian Nations (ASEAN).

An implicit assumption shared by the diverse definitions of globalisation is that international trade is “free and fair”. Yet, many have questioned the validity of this hypothesis and argued that the realities of the world’s eco-politics and the egotism of many influential countries work against the spirit of this positive assumption. The issues of “free and fair trade” still provoke heated debates and sharp divisions on a global scale. “On the face of it, free trade sounds like a great thing. After all, it has the word “free” in it. In reality though, free trade is not that free” (Pierce, 2001, p.1).

Data in table 8.7 suggest that almost one-half of participating Saudi entrepreneurs hold a pessimistic view of “free trade”. About one in four respondents believe that “free” trade does exist, compared with just a little under one half (47%) who saw otherwise.

Table 8.7 Attitudes of Saudi entrepreneurs towards economic globalization

Item	Content	Statistical Measurement (Percentage)					
		SD	D	NS	A	SA	NR
		1	2	3	4	5	
1.	Free trade is always free	11	36	25	23	5	0
		47		25		28	0
2.	Free trade is fair	16	28	36	18	2	0
		44		36		20	0
3.	Personally, I see economic opportunities in free trade	14	22	37	22	5	0
		36		37		27	0
4.	Globalisation benefits and stimulates the Saudi economy.	12	11	54	19	4	0
		23		54		23	0
5.	Globalisation presents Saudi entrepreneurs with the opportunity to compete globally	10	12	35	40	3	0
		22		35		43	0
6.	Saudi Arabia will benefit from joining the WTO.	8	11	49	26	6	0
		19		49		32	0
7.	SA should compromise and be flexible in accepting WTO conditions	9	21	44	22	3	1
		30		44		25	1
8.	Small firms in developing countries cannot compete in the global market.	2	1	15	51	31	0
		3		15		82	0
9.	No single economy can stand alone and achieve prosperity.	5	9	38	34	14	0
		14		38		48	0
10.	We should open our minds and markets to promote globalisation.	11	15	41	25	8	0
		26		41		33	0

The debate on “a global economy” and “free trade” was extended to take in the question of fairness: does free trade imply or produce “fair” trade? Economic globalisation in its simplest definition means the removal of tariffs and other impediments to the flow of goods, services and capital across nations. It means open competition and no state protection. In any open competition, “the strong will always win” and there is nothing wrong with that. However, as Versi (2000) pointed out, in all forms of international competition, including sports, there are always “divisions” in which contestants at different levels of ability compete. The same holds true for international trade. While Saudi entrepreneurs had their doubts and questioned the “free trade” claim, they were firmer in their attitudes and more united in their response against the “fair trade” premise. Only 20% of participating entrepreneurs agreed that trade in reality is conducted in a fair manner and a supportive environment.

Theoretically, entrepreneurial firms in developing countries were supposed to benefit from trade liberalisation. Free trade advocates argued that the removal of trade barriers would open new markets for entrepreneurs thus boosting their exporting opportunities. Participants in the survey questionnaire were asked to share their feelings as to whether they saw in globalisation a window of opportunity for their businesses or a calamity in the making. Unsurprisingly, their responses continued to sketch a gloomy picture of the probable impact of globalization on their firms. This self-appraisal is comprehensible on the ground that the majority of Saudi firms are not exporters; on the contrary, they are concentrated in the services sector and are largely engaged in the re-distribution of imported goods and services, with little or no innovation or added value to the imported product.

Globalisation’s advocates claim that the economic gap between South Korea and industrialised countries, for example, has diminished in part because of global markets, and argue that no poor country has ever become rich by isolating itself from the global market (Nye, 2001). About one-half of responding Saudi entrepreneurs agreed with this assessment, and further one in three entrepreneurs believed that Saudis should embrace globalisation. In contrast, the free trade campaigners are reminded that “the tiger economies of East Asia” achieved economic prosperity “by means of protectionist and interventionist policies which are now contrary to the new economic orthodoxy” (Cameron, 1996, p. 14). The real issue, therefore, is not the debate between protectionists and free trade advocates or the contest between globalisation pros and cons; the real issue is rather how to deal with globalisation? Globalisation is unavoidable, it is a fact that cannot be ignored, and the demand to “stop globalisation”

is an unrealistic demand. How nations position themselves and respond to the challenge of globalisation defines whether they benefit from its opportunities or suffer from its consequences. However, it is important not to forget that not every one is a winner under globalization; globalisation creates losers as well (Pffaf, 1997) –probably far more than it creates winners.

Box 8.4 The views of Saudi entrepreneurs on economic globalisation

- Globalisation is more of a threat to our economy than an opportunity. We will witness the death of many small businesses and the loss of many more jobs. The Saudi competitive edge lies in its oil and petrochemical industries. Otherwise, we are the weaker contestants in the global trade rivalry. The prospect that oil would be treated as any other commodity or product and be exempted from custom duty seems unlikely (Fadel, 2004).
- I feel that I do not possess either the quantitative or the qualitative information that enables me to form a clear opinion on the issue (Khamis, 2004).
- Small enterprises will be hit hard because they will be forced to unfairly compete against multinational corporations with little resources and capabilities at hand. Even our big corporations that we tend to think of as gigantic are considered very small compared with the multinationals (Shabanah, 2004).
- Everyone is talking about globalisation and the WTO, and at the same time, no body is saying anything! Trying to make sense of globalisation is just like trying to understand the newly introduced term to our political dictionary: “the new or the larger Middle East”. The media and every one are repeating the same slogan. I swear by The Almighty Allah that I have no clue as to what it might mean or involve (Shabanah, 2004).
- I cannot comprehend the impact of globalisation on the economies of poor and developing countries, including Saudi Arabia and how can such countries protect their basic and traditional industries from “the Chinese Monster”. Many industries in the developing countries stand no chance of competing against the multinational corporations; hence, it seems that they are awaiting a bleak future and inevitable “devastation”. Economic globalisation will also deter many prospective entrepreneurs from starting their own business ventures –more evident in certain sectors than others (Alyami, 2004).
- Information at hand is not sufficient to enable me to form a clear and focused attitude concerning the implications of globalisation and free trade for my own business and for the national economy (Al-Jasim, 2004).
- Economic globalisation will benefit giant Saudi corporations like SABIC in the way of having better access to the international markets and removing extra duties imposed on their exports. On the other hand, small enterprises ought to be alarmed if they remain at a stand still and do not reform both the quality of, and the market for, their products, and if they continue to attract little attention from the state. Firms focused on import-substitution will also feel the impact of globalisation (Entrep-11, 2004).

Source: Fieldwork (2004)

The recently concluded negotiations between the Kingdom of Saudi Arabia and the WTO regarding the terms and the conditions of joining the WTO have been carried out and kept at the top level with no reliable information filtering to the public. Such ambiguities and lack of transparency were reflected in the responses of Saudi entrepreneurs. More than one-half of respondents (54%) were not sure of the probable impact of globalisation on the Saudi economy. The other half was equally divided in their attitudes between those who considered globalisation to be a stimulant to the Saudi economy and those who disagreed with such a proposition. Data also have revealed similarly indifferent attitudes to the perceived benefits of joining the WTO, where almost one-half of respondents (49%) did not have a firm opinion on whether or not the Saudi economy would benefit from such a move.

Box 8.5 The views of the Saudi entrepreneurs about joining the WTO

- Joining the WTO is not a choice, it is a must. We have no choice but to join, therefore the issue becomes how to design and implement a customised system that enables Saudis to exploit the benefits and minimise the drawbacks of globalisation on their economy and social order (Fadel, 2004).
- Being a consumer-oriented economy, we have very little to gain and too much to lose by joining the WTO (Amir, 2004).
- The WTO is an organisation created by the West with the main purpose of subduing any moves towards any meaningful industrialisation in the developing countries well before their conception. The WTO denotes the end of hopes and inspirations of many poor countries that someday they might be truly independent and economically prosperous (Alyami, 2004).
- Joining the WTO will have a mixed impact on the national economy; the state would be obliged to reform its legal system and labour laws to be compatible with WTO standards and that would be a positive implication and a step forward in the short run towards more meaningful reforms. However, the negative impact in the end would be far reaching if Saudi Arabia fails to run a competitive economy. We have no choice but to be part of the international body, therefore joining the WTO is only a matter of when, not if (Al-Jasim, 2004).

Source: Fieldwork (2004)

Saudi entrepreneurs share with a majority of Muslims their anxiety regarding the impact of globalisation on their culture and way of life. Only 13% of respondents did not foresee negative implications of globalization for their culture, while 63% expressed unease about the cultural impact of globalisation. A sizable segment proportion (45%) of respondents was not sure whether resenting globalisation offers the best assurance for escaping its ills. Furthermore, one in four of surveyed entrepreneurs expressed total

rejection of globalisation and believed that the best way to deal with globalisation is by not being part of it. However, is this a practical option? Globalisation is a fact and a reality and since it cannot be overlooked or stopped, efforts should be directed towards its management. Islamic countries, as well as a host of other nations, are faced with the difficult challenge of finding ways to deal with globalisation. How nations respond to globalisation defines whether they benefit or suffer from its consequences.

Data show that 83% of respondents had a strong belief that adhering to the Islamic teachings will minimise the risk associated with globalisation on their culture. Furthermore, the majority of respondents have a strong faith that Islam can weather the threats posed by globalisation and will play the central role in protecting Saudi Islamic values and preserving its unique identity.

Table 8.8 Attitudes of Saudi entrepreneurs towards the globalisation of cultures

Item	Content	Measurement Statistical (Percentage)					
		SD 1	D 2	NS 3	A 4	SA 5	NR
1.	Globalisation will have a negative impact on our culture.	1	12	22	47	16	2
		13		22	63		2
2.	To preserve our culture, we must resist globalisation.	11	19	45	16	9	0
		30		45	25		0
3.	Islam can withstand the threats posed by globalisation.	1	1	20	51	27	0
		2		20	78		0
4.	Dealing with globalisation from an Islamic perspective means optimising economic gains and minimizing its negative impacts	2	0	14	54	29	1
		2		14	83		1
5.	There is no conflict between Islam and globalisation.	9	8	35	36	12	0
		17		35	48		0

Almost one half of Saudi entrepreneurs did not see any contradiction between Islam and globalisation and saw in globalisation an opportunity for Muslims to increase their contacts with the world and to be active players in the international arena. Islam is a universal and global religion. It does not put any limitations or restrictions on how much the human mind can achieve. Hence, the Muslim should have an open mind and be

perceptive to new knowledge and modern technology in order for him/her to grow and achieve.

Box 8.6 The views of Saudi entrepreneurs concerning cultural globalization

- I have faith that we can protect the particularities of our culture by adhering to our Islamic values (Khamis, 2004).
- Cultural globalisation would have a dual impact on the Saudi social order; The Saudi society is most likely to be the target of intruding liberal ideas and images, which are deemed morally destructive and contest the very basics of the Saudi cultural value system. However, most Saudis are devoted Muslims and their strong faith would safeguard them against drifting off course. Parallel to its objectionable implications for the Saudi society, cultural globalisation has the potential to play a positive role in the maturity of the Saudi political process. The exposure of the common Saudi citizen to other cultures and political systems might hasten the pace of the much needed and much awaited political reforms; to me this is far more important to the future of the Kingdom (Fadel, 2004).
- The threats posed by globalisation to the Saudi culture will be met with greater resolve and an honest return to Islam for guidance. Saudis will reaffirm the distinctive bond between them and their Islamic-based cultural values and belief system (Amir, 2004).
- Being pious Muslims is the best shield that would guard Saudis against the cultural ills of globalisation (Al-Jasim, 2004).
- The social impact of globalisation on the Saudi society will be minimal: Saudis have long been exposed and linked to the other world through travelling, satellite television and recently through the Internet. I am confident that Saudis will overcome the many challenges posed by the globalisation of cultures by staying resolute and committed to their religion (Amir, 2004).
- Our values at family, community and national levels, which we hold dear, are endangered. Actually –if it is left to its fate, unchecked and uncontrolled, globalisation will destroy the foundations of our being (Shabanah, 2004).

Source: Fieldwork (2004)

More than one in three respondents were unable to form an opinion regarding the likely effects of globalisation and joining the WTO on the economic and the cultural well-being of the Kingdom. Furthermore, the views of those who had an attitude were diverse and most likely based on “personal intuitions”. Such views lacked rationality since they were not based on sound analysis of credible information nor were they the outcome of coherent and informed intellectual debates.

It is most likely that the private sector – and specifically small and medium businesses – would be affected by globalisation and joining the WTO, nevertheless, negotiations are being held in exclusion from this sector. The average Saudi citizen is not aware of

the issue and business owners are being kept in the dark. There is no intellectual debate taking place in the private sector to assess the impact of globalisation and to draw defensive strategies and practical approaches to minimise the negatives and exploit the positives of joining the WTO. The comments made by one of the respondents said it all “WTO’s charter amounts to approximately 16,000 pages⁶⁷. All that is revealed to our politicians is merely the introduction, and to us virtually nothing. We are anxious, suspicious and confused”. Another entrepreneur expressed his frustration at the lack of public engagement in debating the issue. He pointed out that the Saudi public and Saudi officials alike are not certain whether oil – which is the lifeblood of their economy – will be subjected, as is any other commodity, to the rules and regulations of the WTO or remain outside the WTO’s domain. This state of uncertainty and lack of awareness could partially explain the high rate of ‘not sure’ responses.

Contrary to the expectation that Saudi entrepreneurs would reject globalisation on moral grounds, data clearly indicate that their rejection is largely driven by economic concerns. Saudi entrepreneurs showed confidence that Saudis could limit the negative impact of globalisation on their culture by being good Muslims. However, they feel disadvantaged by the unfair rules of globalisation thus they are troubled by what globalisation would do to their businesses.

In sharp contrast with the ambiguity and the apprehensive attitude of Saudi entrepreneurs towards globalisation, the work of Sloane (1999) showed a firm and a clear attitude on the part of the Malay Muslim entrepreneurs towards globalisation. “To be a true Muslim, like the Prophet, Malay Muslims had to increase, not decrease, their exposure to the world, while at the same time helping to improve it” (Sloane, 1999, p. 73). This variation in attitudes could be explained in part by the differing approaches of the officials in both countries towards globalisation. While Saudi officials have hardly engaged the Saudi public in debating the issue, the former Prime Minister of Malaysia, Dr. Mahathir, was never shy of speaking his mind, presenting his views, arguing his case and pressing for change.

Dr. Mahathir warned Muslims not to miss the Information Revolution as they missed the Industrial Revolution before, and urged them not to “reject globalisation outright”. He reminded Muslim governments not to let globalisation “result in the marginalisation

⁶⁷ Dr. Abdulwahab Abu Dahish, senior economist at the Riyadh Bank, estimates the actual volume of WTO documentations to be 22,000 pages.

of their countries as happened with the Industrial Revolution". He further called upon Muslims to influence the interpretation of globalisation and to "regulate it, change its base and reshape it" rather than being passive spectators (Mahathir, 2001, p. 1).

THE SAUDI ENTREPRENEURSHIP SECTOR

Traditional enterprises and part-time entrepreneurs

While the majority of Saudi entrepreneurs raised concerns over the quality of Saudi entrepreneurship, they believed that Saudi Arabia has an adequate share of entrepreneurs. Available statistical data, despite their scarcity, neither dispute nor substantiate their assessment of the level of entrepreneurial activity in Saudi Arabia, but confirm their concerns over the quality of Saudi entrepreneurship. Saudi Arabia had roughly 340,000 registered firms in 1993 and about 478,000 in 2002. At the same time, the Saudi population inclusive of foreigners was estimated at 12 million and 16.5 million in 1993 and 2002 respectively. The ratio of the total number of business to the total population, therefore, would be approximately 2.8 and 2.9 businesses/100 citizens⁶⁸, compared with 6.18 registered businesses per 100 people in Hong Kong in 1992 (Cheah & Yu, 1995, pp. 336-337) and 8.08 in New Zealand in 2001⁶⁹. Working under the assumption that about 50% of Saudis are under the age of 18 years means that there were about 6.0 million (in 1993) and 8.25 million Saudis (in 2002) as potential entrepreneurs, from which 340,000 and 478,000 were actually entrepreneurs. These figures translate to a ratio of approximately 5.7 and 5.8 businesses per each 100 potential entrepreneurs respectively as shown in Table 8.9. This is a relatively low tolerable ratio compared with the Total Entrepreneurship Activity (TEA) index for countries viewed by the Global Entrepreneurship Monitor (GEM) despite differences in the measuring instruments⁷⁰.

⁶⁸ These figures are based on the assumption that a single entrepreneur represents each business entity.

⁶⁹ Based on the results of March 6, 2001 census that the country had a total population of 3,737,277 and a total of 302,152 enterprises. Retrieved March 21, 2006, from: www.stats.gov.nz/products-and-services.

⁷⁰ (TEA) index as defined by (GEM) is the adult population (18 years and above) that is either actively involved in starting or acting as the owner/manager of a new business (defined as one that has operated for at least three but not more than 42 months). *The GEM - 2000 Wales Executive Report* highlighted the significant differences in the level of entrepreneurship between countries. The report indicated that "in Brazil, 1 in every 8 adults is currently starting a business, compared to 1 in 10 in the USA, 1 in 12 in Australia, 1 in 32 in the UK and 1 in 100 in Ireland

However, this conclusion must be treated with extreme caution given that the analyses are based on estimated figures and that unknown numbers of businesses are registered as Saudi firms when in reality they are owned and operated by foreign nationals.

Table 8.9 Saudi entrepreneurial activity index for the years 1993 and 2002

Year	Total population (Saudi nationals) (M)	Total number of businesses	Businesses/ 100 citizens	Population > 18 years (M)	Businesses/ 100 potential entrepreneurs
1993	12.00	340,000	2.80	6.00	5.60
2002	16.50	478,000	2.90	8.25	5.80

According to Kam (2004), the average TEA index in 2004 for countries in Asia and Oceania was 7.6% and for OECD members the average was 6.7%. Comparing the calculated Saudi total business index of 5.8 in 2002 with the above figures (please note the differences in the definitions of both indexes) draws attention to the shortfall in the Saudi level of entrepreneurial activity.

A closer look at the figures of Table 8.9 clearly indicates that there was no real growth in the Saudi business ownership index or entrepreneurship index between the years 1993 and 2002. Despite the high level of unemployment among Saudis, there is little or no evidence to suggest that the economic downturn has prompted Saudis to consider entrepreneurship as an alternative to unemployment. This outcome is clearly inconsistent with the conventional wisdom that high level unemployment presents potential entrepreneurs with “an opportunity” to start their own entrepreneurial activities.

Dr. Al-Shidadi (Fieldwork, 2004) echoed many other Saudi officials and entrepreneurs and voiced his concern that the majority of small businesses in reality are owned and operated by foreigners. The unofficial ownership of many businesses by foreign nationals also has its negative impact on the quality and the growth of these businesses; the insecurity and the feeling that they are always pursued by authorities forces foreign business owners to take a more conservative approach, thus to operate within a narrow domain and in limited sectors of the economy. The unlicensed foreign-

and Japan. In Wales, roughly 1 in 70 of the population is currently involved in establishing a new venture” (Jones-Evans & Brooksbank, 2000, p. 9)

owned small businesses are most likely to have short-term orientation and to focus on making quick money with little regard for growth and other altruistic motives.

Shiblaq (2002) reported that economic activities generated in Riyadh city account for approximately 40% of the total Saudi business activity. However, the total number of registered businesses in Riyadh does not exceed 10% of the overall number of Saudi business entities. This imbalance could be explained by the fact that many of Riyadh's residents are employed in the public sector such as government ministries and agencies, educational institutions and research centres. It also reflects the fact that Riyadh-based enterprises are generally larger in their sizes and in their employment capacity than other firms in different parts of the country.

The manifestation of the shortage in the supply of Saudi entrepreneurs and the low level of Saudi entrepreneurial activity is evidenced by the modest contribution of the small business sector to the Saudi GDP. Table 8.10 shows that although the proportion of Saudi small firms (fewer than 20 employees) to total number of firms is comparable with that of many other developing countries, their actual contribution to GDP is far less than satisfying.

Table 8.10 The contribution of small firms to the GDP of selected countries

The country	Proportion of small firms to total business population	Contribution of small businesses to the GDP
Egypt	96%	76%
India	92.1%	39%
Singapore	97%	70%
Saudi Arabia	96.8%	24% (Approximately)*
Tunisia	92%	53%

Source: SRCC (2003, p. 10)

* Not including oil related revenues

The poor showing of the Saudi small business sector is not limited to its modest contribution to the country's GDP, but is also extended to include the employment field. The Sajini Research and Consultancy Centre (SRCC) study concluded that the Saudi small business sector provides for only about 24.7% of the total employment opportunities in the Kingdom. The figures quoted in IPR (1999) were even more disappointing and revealed that the Saudi private sector employed only 16% of the total work force. The assessment of the Ministry of Labour and Social Affairs indicated that

Saudi nationals filled only a tiny fraction (2%) of the total job opportunities created by the Saudi small business sector (Alammar, 1999).

It is evident that the many universal contributions of entrepreneurship manifested by small businesses, which were discussed in Chapter 2, have failed to materialise in the case of Saudi Arabia. Despite the fact that Saudi small businesses account for more than 90% of the total number of businesses in the private sector, their delivery was, by no means, reassuring or in proportion to their magnitude. The majority of small businesses are focused on the service sector and engaged in traditional business activities such as dry cleaning, bakeries and catering, air conditioning, distribution and general maintenance. According to Shiplaq (2004), it is hard to find small or medium-sized Saudi industries that act as suppliers for larger national industries or as import substitutes to meet some local demands, thus adding value to the national economy⁷¹.

Large numbers of small business owners are full-time employees, most probably in the public sector. Many of them perceive entrepreneurship (owning a business) merely as a quick way to generate extra income with little effort and minimum investment. They neither allocate the time nor mobilise the resources needed for business success and growth. Usually, they appoint a relative or a friend to run the business, and their relationship with their businesses remains limited to collecting the anticipated profit. The finding of this study is consistent with the findings of Shiplaq (2004), where he concluded that the notion of small businesses was a widely misunderstood concept amongst the majority of Saudis. Five out of the seventeen entrepreneurs I interviewed had steady full-time jobs in addition to owning their businesses. A Saudi entrepreneur commented that:

Too many Saudis want to start their own business. However, the majority of them have forgotten that starting a business is not an easy endeavour. It is a combination of having the vision and the positive attitude; it requires taking risks and making some sacrifices in the short term and being steady and persistent in the long term. Starting and maintaining a business is hard work that demands dedication, devotion and total involvement.

⁷¹ There appears to be a contradiction between the fact that Saudi entrepreneurs are well educated, with 50% of them holding a university degree, and the other fact that the quality of their entrepreneurial activities is not what one might expect. This outcome clearly indicates that Entrepreneurship is 'a full-time' business undertaking.

Saudisation of the private sector

“If we, the GCC states, had a sound economic perspective in the interest of our people, problems such as unemployment would never crop up. There would not have been issues like Kuwaitisation and Saudisation” (Al Jarallah, 2004 cited in Looney, 2004b, p. 1). The high unemployment rate amongst Saudis coupled with a disproportionate number of expatriates involved in running much of the business activities incited the policy of Saudisation of the private sector. Many Saudi policymakers and politicians regarded Saudisation to be the cure to the unemployment problem facing the country.

The unemployment predicament has been the subject of various conferences, seminars and forums. Discussions and subsequent recommendations more often focused on training as the passport to employment. They largely overlooked viewing entrepreneurship as a genuine source of employment and failed to debate the many potential contributions that it could render to the well-being of the country. Involving Saudis in productive business activities remains a legitimate goal that Saudi authorities should endeavour to achieve through every available means, including Saudisation to effectively deal with the many challenges facing the country, not the least being the unemployment threat. However, there is a basic disagreement in the views of policymakers and Saudi entrepreneurs as to the real reasons for the hesitation and lack of interest on the part of the private sector in employing Saudis.

While Saudi policymakers and politicians have acknowledged the obvious causes of the Saudi unemployment predicament, they evaded discussing the more acute impediments of low productivity and negative attitudes of Saudis towards employment in the private sector. They explained the higher level of unemployment amongst Saudis by the fact that they are “more expensive to hire and more difficult to fire” than foreign labour. The solution they proposed was two-fold: to invest heavily in training more Saudis in the needed skills stipulated by the labour market, and to urge the private sector to be more tolerant, more patriotic and to make some sacrifices by absorbing some of the cost associated with employing Saudi nationals. Al Hajji (2004) regarded the Saudi unemployment crisis as a natural outcome of various state policies post oil boom of the 1970s. The state, he rightly argues, has failed to differentiate between economic growth and economic development and thus largely overlooked the human element in the process. The newly appointed Minister of Labour, veteran politician Dr. Al Qusaibi, strongly argued that finding solutions to the unemployment

predicament is the responsibility of all and conceded that the government alone would not have the enchanting answers to this acute problem⁷².

Business owners, on the other hand, have their own accounts of the real reasons behind their reluctance to hire Saudis, and told fascinating stories about their experiences with Saudisation. A Saudi entrepreneur spoke, with frustration, about his ordeal with his “must have” sole Saudi employee among 64 other employees from different nationalities – ‘Al mua’qqeb’.

“Finally, I asked him, what it would take for him to leave the company. He replied: a new Toyota pickup. He got the pickup and I was left with the uneasy task of finding another ‘suitable’ Mua’qqeb”!

These are some of the real reasons behind the reluctance and sometimes the evasion of the private sector when hiring Saudi nationals that Saudi authorities have failed to acknowledge and then to address. Saudi policymakers chose not to deal objectively with the findings of a recent study which found that about 70% of public servants who do not report to work do so without having a legitimate excuse, and one in two employees arrived late to work (Abdul Ghafour, 2003), a custom that the private sector cannot, and would not, tolerate. Lipsky et al arrived at the same conclusions regarding Saudi working habits in 1959. He noted that “other correlates of high status include the privileged of arriving later than subordinates in the morning / or leaving earlier, and of devoting more time to entertaining visitors (Lipsky et al, 1959, p. 158, cited in Vassiliev, 2000, p. 427). One can argue that much of what Lipsky wrote in 1959 about Saudi work habits is still valid in 2006.

Saudi policymakers usually decline to discuss the attitude of Saudis towards employment in the private sector and claim that there is a change in the attitude of the majority of Saudis towards employment. Furthermore, they frequently fail to appreciate the professionalism, the commitment and the positive attitude displayed by the majority of expatriates and their loyalty to their place of employment. “Saudis nowadays are working as sales representatives, taxi drivers and cashiers at supermarkets”, is a statement that is frequently repeated by Saudi officials to indicate change in the attitude of Saudis towards work in general. Although there might be some truth to this statement, the fact remains that positive transformation of attitudes towards business activity does not occur suddenly as a reaction to prevailing

⁷² An opening speech delivered at the Human Resources Development Forum that debated the unemployment problem in the Kingdom, May 23-25, 2004.

(economic) circumstances. Conversely, fostering and developing the desired change in attitude is rather a gradual process that involves the collaboration of a variety of interrelated factors that are rooted in the formal as well as in the informal institutions of the society.

This discussion does not claim to be an inclusive or comprehensive assessment of the state effort to nationalise the Saudi job market. However, it argues that embarking on the path of entrepreneurship, along with a change in the general attitude towards work, would be a more effective and viable approach that would bring more Saudis into the economy⁷³.

Saudi women in business

Women worldwide are establishing themselves as a productive economic force and contributing to the economic well-being of their respective societies. Their participation in business activities is on the increase and is extended beyond being dedicated employees and successful executives to owning and operating their own businesses. Although at a slower pace, Saudi women are no exception to this growing trend (Heathcote, 2006). Collectively, Saudi women hold the lion's share of cash deposits in the Kingdom, estimated at \$185 billion in December 2002. Furthermore, it is estimated that women owned about 40% of the total private Saudi wealth (Cooper, 2002). Such wealth in most cases was accumulated as a result of being either born to rich families or married to rich Saudis. The Islamic principle of 'inheritance' has also largely contributed to their increasing wealth.

Data from the regional Chambers of Commerce indicate that Saudi women are becoming actively involved in the Saudi Arabian economy. Encouraged by notable achievements in education and the feasibility of utilising the internet in business, Saudi women have turned their attention to entrepreneurship and to owning their businesses. Women own some businesses and some other businesses are both owned and run by women. It has been reported that Saudi women own approximately 4.3% of the total business entities registered with the various Chambers of Commerce in the Kingdom (Al Jraifani, 2002; U. S Department of Commerce, n.d). Comparing the number of Saudi women-owned businesses with other readings from different countries as shown

⁷³ For more on the Saudisation phenomenon, see (Looney, 2004b).

in (Figure 8.1) indicates that although Saudi female entrepreneurs have come a long way in a short time, despite the many and often strong cultural and environmental constraints they are subjected to, their battle has just begun.

Figure 8.1 Women-owned firms



Source: National Foundation for Women Business Owners. Cited in OECD (2001c, P. 128) and reproduced by the researcher to include statistics on Saudi women entrepreneurs.

The low participation rate of women in economic activity is evidenced by statistics indicating that women comprise 16% of the total Saudi labour force compared with the world average of 40%. The president of the Saudi Management Association, Dr. Al-Shidadi expressed his frustration that 'Women dressmaking shops' in Saudi Arabia employ about 500,000 most, if not all, are foreign males. He specifically made the point that those shops, which are mostly owned by Saudi women and intended to serve women, should be managed and run by Saudi women not foreign men (Fieldwork, 2004).

The enormous wealth owned by Saudi women, which is passively 'invested' in local and foreign banks, could be invested locally in more productive activities that create jobs (for other women) and contribute to the well-being of the national economy. Furthermore, the real presence of Saudi women in running and managing their businesses and exercising their roles as entrepreneurs do not reflect their actual ownership of the total Saudi business population. There are no reliable statistical figures on the level of participation of Saudi females in entrepreneurship activities.

However, it is acknowledged that women are actually running only a small percentage of the total businesses they own, while the majority are being managed and run by nominated male relatives (Al Jraifani, 2002; *Country Report, 2001; Newsletter, 1993*).

There is nothing in Islam as a faith (*Aqidah*) or rules and practices (*Shari'ah*) that prevent women from acquiring wealth through work or through taking entrepreneurial initiatives. Islam gives women the right to own property, to pursue suitable careers and to have and run their own businesses "to men the benefit of what they earn and to women the benefit of what they earn" (Qur'an, 4, 32). In fact, 'khadijah', the first wife of the Prophet Muhammad (PBUH) was the first woman entrepreneur in Islam, and the Prophet (PBUH) worked for her before his prophethood.

In the modern Middle East, Muslim women are increasingly getting involved in different business activities. The level of their participation varies considerably, depending on the national and local customs of each country and on the prevailing religious interpretation of the role of women in the economy. The only Saudi participating woman entrepreneur who commented on this issue wrote:

As an educated Saudi woman entrepreneur, I can say with confidence that Islam is not and never was an obstacle in the way of the development and the prosperity of Muslim women. Islam, for instance, does not prevent me from having a career or owning my own business. The problem is in our culture, not in our religion, and in the attitude of some ulama that makes it harder for us, women, to contribute to the development of our countries and to promote the well-being of ourselves.

Although Saudi women entrepreneurs share all obstacles encountered by their male counterpart entrepreneurs, they have to deal with more constraints and to act within a smaller circle. Thus, they have to overcome numerous cultural restrictions and environmental divides in their bid to assert themselves as entrepreneurs. While only 10% of male respondents cited cultural constraint as an obstacle in the way of their entrepreneurial endeavours, 50% of female respondents believed that their entrepreneurial drive had been hindered by existing customs and traditions. Despite being unable to do business face-to-face with males, women entrepreneurs are increasingly utilising the available technology such as facsimile and electronic mail to overcome such barriers.

The government of Saudi Arabia has lately recognised the importance of involving Saudi females in the economy and at the same time acknowledged the many existing

obstacles in the way of their participation. This new attitude prompted some regional Chambers of Commerce to establish "women only" sections in an effort to encourage the participation of more Saudi women in business activities. The eighth five-year development plan (2005-2010) recognised the contributions of Saudi women in the socio-economic development of the country. It further confirmed the intention of the state to provide more employment opportunities for women and give them a greater role in the national development process.

However, the definition proposed by Siddiqi almost thirty years ago of the Muslim entrepreneur still represents the attitude of large segments of Muslim societies, especially in Saudi Arabia. Thus, it can be viewed as an indication of the challenges facing the Muslim woman in her quest to establish herself in the business world: "our entrepreneur is a man, seeking to earn a decent living through business enterprise and also to serve the society through his business" (Siddiqi 1979, p.139). This subjective definition goes beyond making assumptions about the gender of the Muslim entrepreneur to asserting, without much divergence from the general perception held by majority of Muslims, that entrepreneurship is a man's territory.

CONCLUSION

The endeavour in this chapter was to describe the realities of Saudi entrepreneurial activity based on secondary as well as primary information collected from the field. The chapter began by examining key environmental aspects that have a profound effect on entrepreneurship development in the Kingdom, such as state policies, institutional framework, educational system, and other external forces. Discussions on the environment of the Saudi entrepreneurship sector signified the level of neglect that this sector has endured from the state over many years. The "indifferent" attitude of the state, the lack of institutional framework and support, coupled with a rigid traditional educational system that largely neglected entrepreneurship has negatively affected the supply of entrepreneurs and the quality of emerging and existing enterprises.

Saudi officials and intellectuals accepted that the state has played a passive role in developing an entrepreneurship culture and fostering a more pro-enterprise environment in the Kingdom. The state has focused its attention on investing in large businesses and undermined the role of the entrepreneurial activity by not integrating entrepreneurship development within its overall development strategy. Issues of great

importance to the entrepreneurial process, such as the efficiency and transparency of the public sector, accessibility of potential entrepreneurs to financing, the promotion of creativity, innovation and entrepreneurship in the education system, are largely overlooked.

The incentive system created by the oil influx in the 1970s largely played against the entrepreneurship spirit; it created a state of 'welfare state' that in the short run guaranteed Saudis attractive employment in the public sector, free education and subsidised services, without preparing them to the post oil era. The influx of oil was also accompanied with an influx of expatriates with diverse skills and expertise, which the Kingdom has failed to exploit and employ in developing its own entrepreneurship sector. The presence of approximately 6 million foreign expatriates doing much of the work in the private sector coupled with the alarming rate of unemployment among Saudis prompted the government to adopt a policy of replacing foreign labour with Saudi nationals 'Saudisation'. However, the apparent lack of investment in the human capital, the implications of the prevailing reward structure, and the apathetic attitude of many Saudis towards employment in other than the public sector did not advance the cause of the "Saudisation" policy.

Saudi entrepreneurs, who acknowledged globalisation as a reality that cannot be avoided, saw in globalisation more of "probable threats" than "potential opportunities". Against the expectations, they were more alarmed by the possible harm that globalisation could do to their businesses and to the national economy than to their cultural values and traditions –reflecting implicit understanding of the weaknesses of the Saudi entrepreneurship sector and its inability to compete in the open markets. Although Saudi women have made encouraging progress towards establishing their role in the economy, the Saudi culture still imposes many restrictions on the type, level and nature of their participation. Saudi women, despite being rich and comprising one half of the total Saudi population, are far less presented in the entrepreneurial equation compared with their male counterpart entrepreneurs or other women entrepreneurs in other countries.

The impact of these factors on the development of Saudi entrepreneurship sector was damaging both quantitatively and qualitatively. The outcome was the emergence of unproductive entrepreneurship structure manifested by the many firms that lack entrepreneurial strength and character; these firms are mostly engaged in traditional business activities and largely managed by unqualified "part-time entrepreneurs".

Understandably, Saudi entrepreneurship delivered minimal, or no real, contribution to the national economy in terms of employment, productivity, and competitiveness.

On the sensitive question of Islamic entrepreneurship, evidence from the field indicates that the majority of Saudis have misread the notion of entrepreneurship in its wider context and from an Islamic perspective in particular. Neither state policies and institutions nor the formal and higher education systems showed more than a scanty interest in Islamic entrepreneurship. In fact, Islamic entrepreneurship was absent from the Saudi entrepreneurship dictionary. Possible explanations to why entrepreneurship in general and Islamic entrepreneurship in particular was overlooked by policymakers will be discussed in the conclusions chapter.

The findings of this chapter highlight the need for Saudi Arabia to rethink key attitudinal, cultural, institutional and structural issues that pertain to its development process in general and entrepreneurship development in particular, and to move beyond its oil mentality. Saudis must defy the temptations of the comfort zone attitude, which, by definition, is anti-creativity and anti-productivity that is, anti entrepreneurship.

CHAPTER NINE

DISCUSSIONS

If the leaders in the Islamic world are truly interested in improving the living standards of their people, gaining economic independence, regaining their pride and days of glory, they must encourage original discovery, research and invention.

Saleem (2005, p. 2)

This chapter presents broad analysis and discussions of the data presented in the last three chapters, and proceeds in two main sections: the first section considers Islamic entrepreneurship within the Saudi context. It also examines the crises of Saudi modernity and highlights the inconsistencies between the attitudes of the Saudi entrepreneurs and their business behaviour. The second section revisits the conceptual model in an attempt to contrast its components and dynamics against the realities of the Saudi entrepreneurship landscape and to explain inconsistencies between the theoretical perspective of Islamic entrepreneurship and the realities of Saudi entrepreneurial activities. It also addresses some of the limitations and shortcomings of Islamic entrepreneurship in practice manifested by the Saudi experience. The discussions will be carried on further in Chapter 10 to present a set of policy suggestions in an attempt to narrow the widening divergence between Islamic entrepreneurship in theory and the way it is being practised.

Islam: Is it a problem or is it the solution?

The majority of Saudi entrepreneurs and intellectuals I interviewed largely shared the attitude that Islam is a modernising and an innovative religion. "Islam started by changing the way people think rather than the way they live, thus endowed its faithful with scientific richness, economic prosperity and military supremacy" (Entrep-11, 2004). When Muslims embraced Islam as the "only constitution" and practised it as the "sole source of reference" for all their activities; they led civilisation. Yet, when they

abandoned Islam, they surrendered the leadership, explained a Saudi scholar (Intellect-4, 2004).

Saudi entrepreneurs, intellectuals and officials believe that the current underdevelopment and lack of modernisation of the majority of Muslim countries has nothing to do with Islam. The fact that the Muslim *ummah* thrived economically and scientifically when it truly implemented Islam indicates that there is every reason to believe that Islamic revival is possible, but only under the rule of a genuine and rightful Islamic state. Thus, they conclude that the Muslims' current development predicament is not because of Islam, but because of "no Islam". Islam is being disqualified from the development strategies of the majority of Muslim countries. Even when a Muslim country integrates some aspects of Islamic business principles with its development strategies, such a presence largely remains theoretical with very little practical ramifications.

Saudi entrepreneurs, just like the vast majority of Muslims, feel that the pragmatism of Islam as an overwhelming power of spiritual salvation and economic liberation has been sidelined and excluded from the development process. They see in Islam "the solution" rather than "a problem" and justly ask that the Islamic model be given the opportunity to demonstrate its authority.

Not surprisingly, Saudi entrepreneurs overwhelmingly rejected the portrayal of Islam as being an outdated religion that has lost touch with contemporary living and progressive thinking. In addition to being a religion with a positive attitude towards entrepreneurship, Islam also offers a unique motivational reward structure and a practical framework that enables the Muslim entrepreneur to excel. A prominent Saudi religious scholar, Salman Al Odeh, whom I consulted during my fieldwork, explained that individuals usually enter into business motivated by the high expectation of being rewarded for their hard work and commitment. Rewards vary in their forms and values; they could take the form of monetary compensation or could be non-materialistic in their nature. They provide the individual with a sense of self-satisfaction of being a high achiever and social status by being a productive member of the community. Islam offers all that and more. In fact, Islam is the only religion, or the only system on the face of the earth that regards ethical work in all its forms and shapes to be *ibadah*. Furthermore, Islam compares workers at their work places with worshippers in their

mosques (Odeh, 2004, pp. 16-17)⁷⁴. The promised rewards for ethical entrepreneurial activities (in this life and in the hereafter) are much higher than the returns awaiting wage/salary workers. This is a sensible reasoning consistent with the fact that entrepreneurs face uncertainties, risk their savings, and sacrifice their physical and mental comfort in acquiring their fortunes so as to be able to spend it in the way of The Almighty Allah.

Saudi entrepreneurs could not think of any reason that prevents a faithful Muslim from having a successful business. A commanding majority (93%) of respondents were convinced that it is possible for an individual to be a good Muslim and at the same time a successful entrepreneur. Respondents were eager to add credibility to their responses by referring to many recent as well as historical success stories of devoted Muslim entrepreneurs. "I am a good Muslim (*in sha'a Allah*) and I am a very successful entrepreneur". Such an interesting comment made by a responding Saudi entrepreneur (Entrep-13, 2004), I believe, was intentionally intended to demonstrate his strong feelings towards the issue and to discredit any suggestion as to the existence of an inverse relationship between being a true Muslim and being a prosperous entrepreneur.

Some participating entrepreneurs felt offended by negatively worded statements, such as those describing Islam as being a static religion that hinders development and impedes entrepreneurship. The rejection of this statement and its implications was almost unanimous at 97%. An entrepreneur noted that the Prophet Muhammad (PBUH) encouraged Muslims to follow the spirit of Prophet Daud's (David) (PBUH) diligence who earned his living from his own labour, "Never had the son of Adam a better food than that was earned by his own labour" (Bukhari). He further commented, "I surely understand this hadith as an explicit call for productivity, it is a call for entrepreneurship" (Entrep-2, 2004).

Saudi entrepreneurs also reacted in a similar manner to statements portraying Islam to be, above all, a hereafter religion with a pessimistic outlook on wealth and other worldly matters, thus diminishing its ability to infuse achievement motivation among its

⁷⁴ Odeh (2004). *Da'wa lill lamal alhurr (A call for entrepreneurship)*. A lecture presented at the Entrepreneurship and Small Enterprises Forum, organized by the Chamber of Commerce in the Eastern Province, Kingdom of Saudi Arabia. January 20, 2004. A copy of the lecture was e-mailed to the researcher by the office of Sheikh Al Odeh on August 23, 2004.

followers. The fact that Islam places more emphasis on the hereafter does not necessarily imply its disregard for or apathy towards this worldly life. "Say; who hath forbidden the adornment of Allah which he brought forth for his bondmen, and the good things of His providing" (Qur'an, 7, 32). This Qur'anic verse clearly goes against the claim that Islam does not hold much regard for this life and its pleasures. Islam not only sanctions but also places an obligation on Muslims to acquire wealth as long as it is pursued within reason and intended for a dignified cause, explained a Saudi entrepreneur. Saudi entrepreneurs strongly believe that Islam deplores poverty and views *halal* wealth to be the lifeblood for their own daily activities as well as for those of their societies. The Prophet (PBUH) on different occasions encouraged his companions to seek wealth, especially through trading and business dealings. In fact, many of them were wealthy entrepreneurs who spent generously in the cause of Allah.

An entrepreneur has commented, "Spending in "the cause of Allah" is an often misread concept". He explained that money spent on one's own family and even on personal needs in moderation is considered to be in the cause of The Almighty Allah. Muslims are encouraged to earn more, to have more and to be able to spend more in the cause of Allah in order to gain more rewards in this life and in the hereafter. This positive attitude goes against the idea that there is a "potential conflict" between being a true Muslim entrepreneur with altruistic motives and realising profit as suggested by Zapalska, Brozik and Shuklian (2005). On the contrary, being a true Muslim entrepreneur means having an added key motive to strive for success.

Wealth handling in Islam is strictly guided by two fundamental principles: it must have originated and been acquired from *halal* sources and used in line with the Islamic ethical and moral code of practice. Mahatma Gandhi echoed this stand and cautioned against the irresponsible use of wealth "Capital as such is not evil; it is its wrong use that is evil. Capital in some form or other will always be needed" (cited in Stock, 2004, p. D8). When Islam warned against the danger of making money the ultimate objective of people by transforming them to "moneymaking machines", it was not advocating poverty nor was it calling on its adherents to thrust aside the good things in life. Rather, it was asserting the primacy and the sovereignty of spiritual well-being over economic well-being while acknowledging the importance of both. It was simply saying there is a higher spiritual prosperity which, when realised, will lead to socio-economic prosperity and not vice versa.

It is evident that Saudi entrepreneurs hold very positive feelings about the attitude and the role of Islam in business and argue that Islam is pro-entrepreneurship. As Islam motivates Muslims to be entrepreneurs and to act entrepreneurially, it also provides a just and practical solution to the most cited obstacle in the way of potential entrepreneurs –financing their entrepreneurial undertakings.

The crisis of Saudi modernity

It has been suggested that Saudi modernisation is a derivative account of the Western modernity and the “crisis of modernity” in Saudi Arabia can be regarded as a minimised portrayal of the overall crises of modernity in the Arab/Muslim world. Despite being the symbol of Islamic values and traditions, Saudi modernisation is often criticised as being “imposed” (Abu-Rabi’, 2003, p. 2), “superficial” and “phony” (Bishop, 2001). It cannot be regarded as a “Western” or an “Islamic” modernisation since it is not based on either; it is “rootless” modernisation.

Muslims firmly reject the cultural yield of Western modernity but at the same time, they have affection for its material manifestations. The crisis lies in the technological supremacy and material drive of the West, which Muslims aspire to have, and a value system demanding that Muslims surrender their rights to be distinct –a demand that they completely reject; “it is the incompatibility of values between Islamic societies and the modern West” (Pfaff, 2003, p. 1).

Entrepreneurs, being the agents for change, are a distinct segment of society that is most likely to influence, and be influenced by, modernisation. Fleming (1980) concluded that while Arabs highly regarded the innovation and creativity of the industrialised West, they were proud of their heritage and wanted to preserve their culture. Likewise, this study shows that the majority of Saudi entrepreneurs admire Western technological advancements and expertise and they would appreciate the opportunity of being able to contest Western technology, but without compromising their national identities and value system. This raises the question as to whether a differentiation between technology in its physical structure (the product) and its cultural foundation (the value system) is possible (Tibi, 2001). Does accepting Western technology entail the acceptance of its manifestations?

This impasse brings the debate back to square one and enforces the argument for home grown modernity; in order for modernisation – Manifested by development and entrepreneurship – to be genuine and effective, it must have indigenous foundations. Hooker, (2003, p. 56) challenged non-Western nations to employ their cultural attributes to create quality “Western-style products”, and cogently argued that “it is not whether “Western values” are better; it is a question of whether those values are properly matched to production and finance”.

History shows that embarking on the path of modernisation will inevitably result in changing the priorities and values of the society in transition. The change, without a doubt, will have the stamp of the source and will reflect the values and beliefs of the provider on the recipient. The impact of modernisation is not confined to traditional societies. Even Western societies were not immune against such effects. Watson (1997) referred to evidence suggesting that the value systems of Western societies were subjected to radical changes through the course of their modernisation process. The transformation of attitudes resulted in abandoning traditionally held values and in instituting new ethical codes reflecting the preference of the emerging social structure.

The negative impact of the rapid modernisation of major Saudi cities within the past thirty to forty years was felt in small Saudi communities as well as in the main cities across the country. The economic growth caused by the oil boom has brought with it fundamental changes in the cultural and social behaviour of individuals. Smaller communities in the midst of the economic boost were neglected. Some have lost the security of self-sufficiency in providing for their basic needs; they became increasingly dependent on the state. The state failed to recognise the importance and the link of community-based entrepreneurial activities to the overall development strategy of the country. As a result, local entrepreneurship was basically excluded from the development process and the role of many communities has changed from being productive units to being consumption centres.

In their quest for economic opportunities, many residents have deserted their communities and migrated from the land of their fathers and ancestors to new and totally alien environments to which they hold no sense of connection or belonging. This “voluntary/involuntary” migration has negatively affected the ecological balance, which preserves the relationships between individuals on the one hand, and the individuals and their environment on the other hand (Al Mudaifer, 2004). It has been always argued that promoting local entrepreneurship contributes to maintaining a more

geographically balanced development without disturbing the natural flow of social harmony within small communities.

The consequences of the rapid and materialistic modernisation of Saudi Arabia are even more visible in the cities. The remarkable expansion of the major cities such as Riyadh and Jeddah was accompanied by equally predictable inconveniences in the daily life of the ordinary citizen. The increased pressure on the housing sector, the transportation system, the educational institutions and the basic services, coupled with the abuse of the environment are but a few challenges caused by the rapid development (Al Mudaifer, 2004). The population of Riyadh, for instance, has doubled 15 times within the past four decades to reach about 5 million inhabitants in 2006. These physical changes, which are the tangible signs of the rapid modernisation, were matched with intangible changes. The general social behaviour, the nature of relationships between the emerging diversified city population and the attitudes towards a host of cultural issues have taken a turn and became more self-centred and materialistically oriented. This is due, at least in part, to the lack of an indigenous foundation to Saudi modernisation. Saudi Arabia was overwhelmed by the speed and the intensity of these changes and was caught unprepared to plan for, and deal with, their impact on its culture and value system.

The reason why Saudi development efforts remain inadequate could be mainly attributed to the absence of a well-defined vision to guide these efforts. The Constitution states that the Islamic law (*Shariah*) would be the point of reference for all developmental endeavours in the Kingdom. However, this affirmation was not backed up by the political will needed for everyday business activity as well as for long-term strategic planning. Saudi entrepreneurs, like other Saudis, are torn between their Eastern values and the sudden exposure to the consumerism culture of the West. They live the materialistic aspect of entrepreneurship while the spiritual dimension remains simply a belief yet to be realised. This dilemma is summarised by the responses of the interviewees and is best expressed by the following candid comment:

There is an extreme contradiction between the way we (as a society) perceive modernity and progress and the way we pursue it, therefore the end result is that we have a form of modernity which is neither Islamic in practice nor Western in character and is questionable by all. Frankly, we are puzzled (Entrep-14, 2004).

The inconsistencies encountered between the attitudes of Saudi entrepreneurs and their approaches towards Islamic entrepreneurship are explainable, and they have

revealing propositions: inconsistencies reflect respondents' bewilderment and confusion. They are also a reflection of the conflict within the respondents' inner selves: on the one hand is their true belief in their value system and on the other is a different reality where these values remain values yet to shape their identities and form the keystone of their indigenous development model. Inconsistencies are live testimonies to the vagueness and uncertainty surrounding the state of the Saudi modernisation process. They can be seen also as factual manifestations that mirror the state of a society in the midst of a socio-economic transitional process. On the one hand, is the Saudi entrepreneur who holds strong feelings and a constructive attitude towards Islamic entrepreneurship, and on the other hand is a state-dominated economy that lacks the infrastructure and the dynamics necessary to promote the development of Islamic entrepreneurship.

Lack of entrepreneurial vigour in Saudi Arabia by no means can be attributed to adherence to Islamic values and business ethics; rather, it could be linked, in part, to the state's failure to integrate the Islamic moral vision to guide its developmental process. Chapra (2000) agreed with the conclusions of the OECD (1996) that the success of 'other societies' could be linked to their ability to translate their "values into formal institutions". He further argued that other societies "have formulated a legal framework and a proper code of conduct for government officials and put in place mechanisms for transparency, rule of law, public accountability" (Chapra, 2000, p. 32). While the findings of this study confirm that Islam is an entrepreneurial religion, they also point out that such praise and the positive attitude towards entrepreneurship is neither matched nor complemented by the social teachings, religious or formal education, rituals and role models. In brief, Saudi Arabia has failed to capitalise on its entrepreneurial Islamic values and to transform them into formal institutions to promote its entrepreneurial drive. There is a clear mismatch between Saudi Islamic values and the prevailing style of formal institutions in the Kingdom, which can be termed neither as Western nor Islamic. The Islamic culture needs an Islamic environment in order for Islamic entrepreneurship to flourish.

Majority of Saudi entrepreneurs, along with Saudi intellectuals, believe that Islam has complemented its positive attitude towards entrepreneurship with a comprehensive framework for entrepreneurship development. Such a constructive attitude should be reaffirmed and enforced through various means. On the other hand, there is a need to re-examine and to transform attitudes to certain un-Islamic customs that have succeeded in penetrating the Saudi social system and in distorting the perception of a

large segment of society. Such customs portray certain honourable and *halal* careers/businesses that involve hands-on approach to doing business as degrading and demeaning, hence they prevent Saudis from being associated with them. Education, as a dynamic element of culture and as an effective policy instrument, is positioned to play an exceptional role in the affirmation of entrepreneurial religious values as well as the exposition and transformation of the un-Islamic customs that impede entrepreneurship processes.

REVISITING THE MODEL

The idea of building a comprehensive Islamic entrepreneurship-based development model as an alternative to the Western model with the aim of promoting the well-being of the Muslim *ummah* occupies the central part of this thesis. Chapter 3 raised the question as to whether or not there was a need for such a model in the prevalent presence of the Western development model. Abstract analysis of the differences between the Western and Islamic world-views of entrepreneurship and development suggested that the need for such a model was justified on philosophical as well as on methodological grounds. Saudi entrepreneurs and Saudi intellectuals, despite minor differences in their attitudes, also supported the argument for instigating an Islamic entrepreneurship model. The aim of the proposed model was to account for variables that were deemed significant to Islamic entrepreneurship but were not included in the Western/general model. Another important aim of the model was to explain the distinctiveness of the Islamic view of entrepreneurship and to underline the vital role of ethical entrepreneurship as an integral part of the more inclusive human well-being concept. Therefore, the general Islamic model was adapted and further developed to accommodate specific Islamic business modules within the Saudi context as illustrated in Figure 9.1.

The Western model of development being based on rationalism, secularism and methodical foundations and by its overemphasis on quantitative appraisal has brought economic prosperity and technological advancement to most Western societies, but at a cost. Muslims justify their objection to the Western brand of modernisation and development mainly in terms of the cultural manifestations of Western modernity and its impact on their value system. Historical experiences confirm that borrowed or

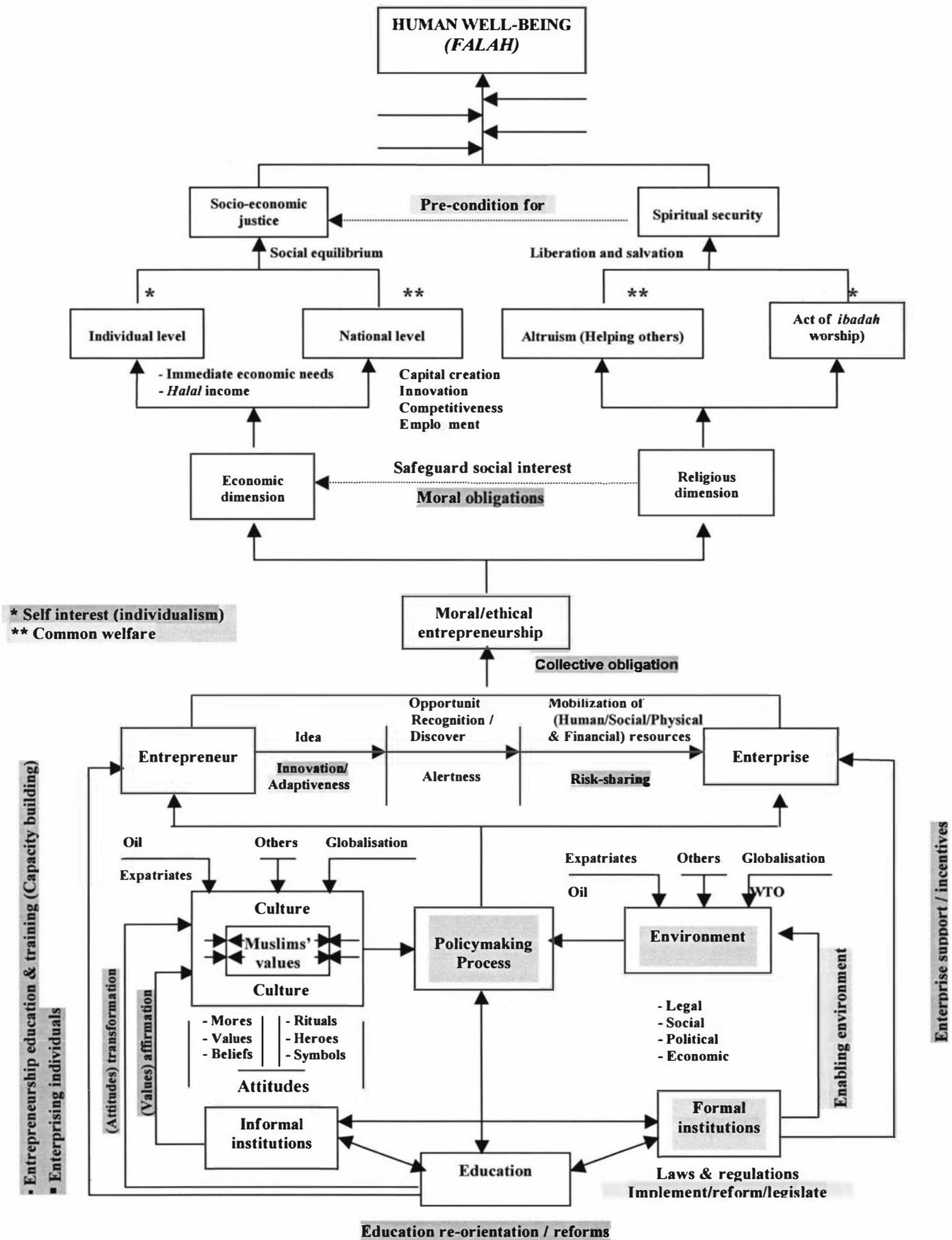


Figure 9.1 An Islamic entrepreneurship model: The Saudi Arabia context

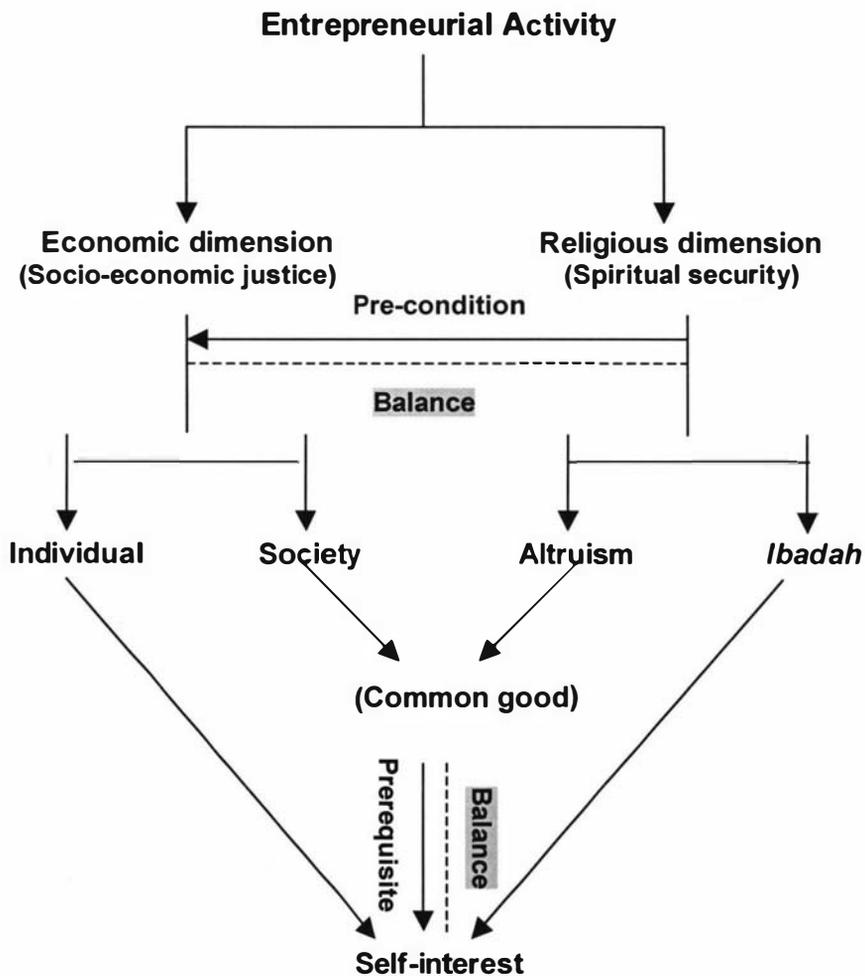
imported development models do not work, because each model is the product of the values, convictions and circumstances of the people and the country of its origin.

The Islamic perspective of entrepreneurship dictates that all business activities must abide by the Islamic code of business ethics consistent with the following basic guidelines: firstly, the business opportunity must be lawful, desirable and morally and socially acceptable. Secondly, needed resources, especially financial resources, must be *halal* and acquired in accordance with the principles of the Islamic financial system. Thirdly, the outcome of the entrepreneurial activities must go beyond wealth creation to account for the spiritual and altruistic dimension of entrepreneurship that is, pleasing The Almighty Allah and contributing to the well-being of the Muslim *ummah*. Islam therefore has profound concerns over the economic welfare of the Muslim *ummah*, but views economic well-being within the wider and more inclusive context; the concept of human well-being. Earlier discussions suggested that Saudi entrepreneurs did not consider such guiding principles as being impediments in the way of their entrepreneurial endeavours. The general rule in Islam is “the permissibility” (*halal*) and the prohibition (*haram*), which is limited to harmful and socially destructive activities, is the exception. However, Saudi entrepreneurs understandably expected the state to sponsor and make available Islamic alternatives, especially *halal* financing to spare them the risk of being involved in *haram* business dealings.

This study identified three major shortcomings in the understanding, the attitudes and the actions of the Saudi entrepreneurs towards Islamic entrepreneurship in practice. Firstly, the Islamic well-being model advocates that self-interest shall be realised as an outcome of advancing the society’s common interest. Social obligations and the common welfare assume primacy over individual interest. The model further indicates that fulfilling spiritual needs and obligations are conditions for achieving material well-being in the form of socio-economic justice (Chapter 3). However, Figure 9.2 unveils the fact that Saudi entrepreneurs strive to balance their own self-interest against the interests of society and to reap the spiritual rewards of entrepreneurship while maximising their personal material gains. Saudi entrepreneurs did not regard their socio-economic well-being to be an outcome of achieving their spiritual well-being, nor their welfare to be a result of attaining the common good welfare of society. This reading into the entrepreneurial activity does not conform to the priorities set by the Islamic world-view of entrepreneurship and development.

Religious, partisan and other altruistic motives were extremely insignificant motivational factors for entrepreneurship and the birth of new business entities, to the point of irrelevancy. This is a sharp departure from what one might have expected to uncover in a religiously based society. However, entrepreneurs firmly believed that there was no conflict of interest in giving precedence to their self-interest over the common welfare, while maintaining that the welfare of the *ummah* will be a natural outcome of practising ethical entrepreneurship.

Figure 9.2 The Saudi entrepreneur: The spiritual and the materialistic dimensions of Islamic entrepreneurship



This finding is a further indication that Saudis are increasingly embracing materialism and gradually moving towards individualism. The following observations from the field, although are not inclusive, they could be interpreted as signals of change in the Saudi orientation towards more individualism and materialistic preference:

- Social pressure and expectations to be wealthy, or at least to appear and act wealthy, led some Saudis to start business motivated only by the prospect of making more money to meet social expectations. Sabri (2001, p. 285) rightly noted that the drive for profit making is taking root in Saudi society. New Saudi generations have an all-consuming desire to live the oil-boom years in the post oil-boom era.
- A young Saudi entrepreneur told the researcher of a friend of his who used to park his new “Camry” car at a distance then walk to meet his friends because he was ashamed to be seen driving a “Toyota” while his friends drove new “Lexus and Mercedes”!
- A Saudi company director, who loved to be linked with the Saudi royals, enrolled his children in a private school known for its exclusivity to the royal family and the very rich. He ended up using the company cars and drivers to take his children to and from school; so they could be seen in different luxury cars. He acted unethically to give a false impression of an extravagant wealth.

IDRC (1996) noted that:

A person from an Eastern culture will often address an envelope by writing the name of the state first, followed by the name of the city and the street, and finally, by the name of the individual. Westerners, on the other hand, reverse this order, placing the name of the individual first on the envelope (IDRC, 1996, p. 8).

Applying this observation to the Saudi context lend support to the argument that the move towards individualism is taking place in Saudi society. Up to recent times, Saudis conformed to the Eastern norms when addressing their correspondence. However, this practice has changed and it is almost certain that an envelope coming from, or heading to, Saudi Arabia would start with the name of the individual, an indication that priorities might be changing.

Secondly, the conceptual model shows that Islam attaches religious meaning to the entrepreneurial activity, and does not recognise maximising profit to be the overriding motive when starting a business. Although a significant majority of entrepreneurs considered work in general and entrepreneurship in particular to be *ibadah*, only 2% of respondents stated that religion was the leading motive behind their entrepreneurial undertakings. Case studies also demonstrated this inner conflict when more than one entrepreneur attempted to claim that Islam was the real force behind their decisions to become entrepreneurs. A Saudi entrepreneur responded to my question whether or not

he believed that there are differences between the Saudi entrepreneur and his Western counterpart:

If you mean differences in the way we look, dress and talk, which I am sure is not the intent of your question; the answer is definitely “yes”. Otherwise, we might differ in our approaches and priorities, but the fact remains that we are both in business to make money.

A solid majority of Saudi entrepreneurs associated success with personal achievement. Only a small percentage (8%) of respondents looked at success from a different perspective and attached religious and other altruistic motives to the definition. Once again, Saudi entrepreneurs did not identify being entrepreneurs in religious or altruistic terms.

Thirdly, evidence from the field highlights the impropriety of judging Islam by the actions of some Muslims. Saudi entrepreneurs admitted that there is a large divide between Muslims as individuals and Islam as a religion. They unreservedly commended Islam as “the perfect religion” and at the same time acknowledged that Muslim actions (including their own) are not (always) true reflections of the ideals of Islam.

The findings from the field further highlight the need to revive and to stimulate several neglected components of the proposed model in order for it to demonstrate its feasibility and significance. The main areas that require the attention and the action of the Saudi policymakers, academics and other parties interested in, or involved with, Islamic entrepreneurship and development (individually and collectively) are denoted by the shaded areas in Figure 9.1. They include, but are not limited to, having an entrepreneurship policy, streamlining of the formal institutions and the re-orientation of the informal ones in order to promote the Islamic world-view of entrepreneurship and development, investing in quality education and redefining the role of the university, and ensuring the availability and accessibility of Islamic finances for Muslim entrepreneurs.

Islamic entrepreneurship model: Possibilities and limitations

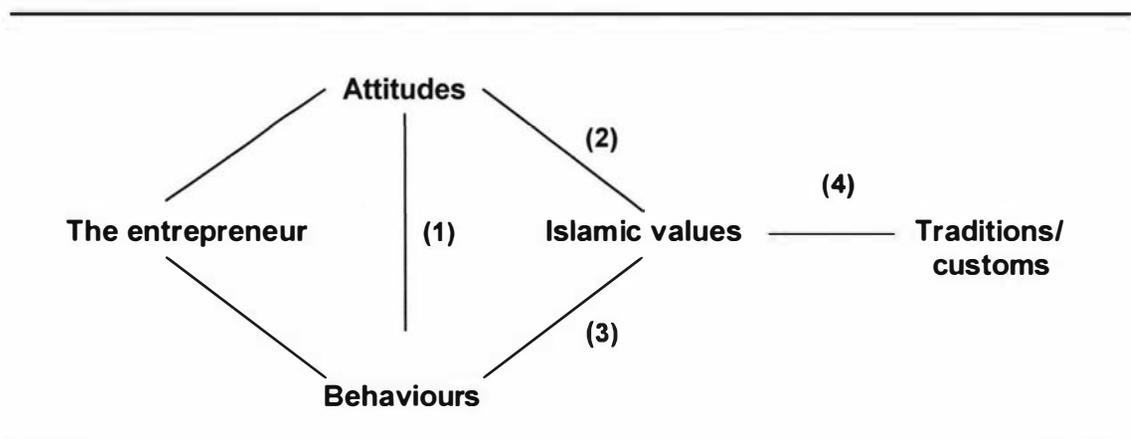
Earlier discussions pointed out that the majority of Muslim countries are developing or underdeveloped countries faced with high unemployment, unbalanced growth, disparities in the distribution of national wealth and lack of economic diversification and

sustainable sources of income, and argued that Islamic entrepreneurship is potentially capable of rendering viable contributions to confront these challenges.

Discussions in Chapter 3 presented the ideals of Islamic entrepreneurship and the righteous role that Islamic entrepreneurship is set to play in realising the well-being of the Muslim *ummah*. It also portrayed a smooth and trouble-free entrepreneurship process, where the components of the proposed model complement each other in a harmonious manner, and perform their functions as (assigned). However, the construction of the model, which eloquently reflects the Islamic view of development, made many key rational assumptions. Most notably, it reasonably assumed that the model would serve a Muslim population in an Islamic environment where the (right) conditions for its implementation exist.

The realisation of these possibilities through Islamic entrepreneurship is obstructed by an array of limitations, contradictions and failures. Saudi entrepreneurs realise that Islam subjects every activity to moral and ethical standards and thus it excludes some business activities and business practices from the portfolio of the Muslim entrepreneur. Yet, they insisted that such very few restrictions by no means would affect the ability of the Muslim entrepreneur to engage in productive and socially desirable business activities. Conversely, evidence from the field revealed that the positive attitudes of Saudi entrepreneurs towards the Islamic perspective of entrepreneurship were not always translated into appropriate behaviour. Analysis of collected data uncovered four areas of tension and/or inconsistencies between the attitudes and the practices of the Saudi entrepreneurs and the Islamic value system as shown in Figure 9.3 below.

Figure 9.3 Attitudes, behaviours and values: Inconsistencies and / or contradictions



Firstly, inconsistencies between the attitudes and the actions of the entrepreneurs, as illustrated by the first case study where Mr. Al Jasim paid interest on his loan despite his strong conviction that such practice goes against the very basics of Islamic ethics. The findings of another study, which examined the relationship between culture and entrepreneurship in London's immigration businesses, did not show differences in the behaviours of Muslims and non-Muslims entrepreneurs towards borrowing from commercial banks to finance their businesses (Basu & Altinay, 2000). The given justification in both cases was the need for finance and the absence of Islamic alternative (*halal*) financing. Furthermore, Basu and Altinay's (2000) study claimed that, contrary to expectations, Islamic ethics did not prevent London Muslim entrepreneurs from engaging in unethical and *haram* activities such as serving alcohol if deemed necessary to the survival of their businesses⁷⁵.

The Saudi banking system continues to operate and function in line with the capitalist economic system. Although the rules of the Saudi Arabian Monetary Agency (SAMA) prohibit dealing with interest, this issue is totally – and most likely to be intentionally – ignored by the Saudi legislation. The widely used interest-based financing (regardless of the terms used to justify it) has the implicit approval of the state⁷⁶. Therefore, the Islamic financial instruments of *mudarabah* and *musharakah* were not given the opportunity to demonstrate their merit.

Secondly, discussions in the previous section also pointed to contradictions between the attitudes of Saudi entrepreneurs and Islamic values, most evidenced by the motives of the entrepreneurs and how they view the link between the self and common interests and how they understand the relationship between spiritual and economic well-being. Findings from the field do not suggest that Islam has been at the heart of

⁷⁵ These unexpected results prompted the researchers to call for further research to explore the practices of Muslim entrepreneurs in business.

⁷⁶ In unedited (preliminary) working paper entitled "Philosophy and Practice of Islamic Economic Development and Finance", Hamid (2006, p. 32) grouped Islamic countries according to their official stand on the issue of Islamic financial practices into four categories as follows:

- *Total allegiance: Those that have transformed their entire internal financial systems to an Islamic form (Iran, Pakistan and Sudan);*
- *Divided allegiance: Those that embrace Islamic banking as a national policy while supporting dual banking tracks (Bahrain, Brunei, Kuwait, Malaysia, Turkey, United Arab Emirates);*
- *Neutral: Those that neither support nor oppose Islamic banking within their jurisdictions (Egypt, Yemen, Singapore, and possibly Indonesia); and*
- *Inimical: Those that actively discourage a separate Islamic banking presence (Saudi Arabia and Oman).*

Ironically, Saudi Arabia is one amongst the very few Islamic countries that opposes the implementation of separate Islamic banking.

Saudi entrepreneurial activity, neither as a motive, a measure of success nor as an instrument for human and financial capital recruitment. This is in contrast with the findings of Sloane's (1999) fieldwork in Malaysia, where Malay entrepreneurs reported that Islam was largely present in their entrepreneurial activities as a motive and as a way of doing business. This outcome could be justified on the ground that, unlike Saudi Arabia, Malaysia has incorporated its values within its development vision. The government was active in promoting entrepreneurship through the creation of the "Ministry of Entrepreneur Development", formally known as the (Ministry of Public Enterprise), ensuring the availability of Islamic financing to potential entrepreneurs and by spending generously on education and educational reforms. Furthermore, the former Prime Minister, Dr. Mahathir, was a strong advocate of reforms and very outspoken about the importance for integrating Islamic values in development.

The majority of Saudi entrepreneurs had an incomplete understanding of what constitutes Islamic entrepreneurship. They largely considered abiding by Islamic business ethics especially in pursuing only *halal* business activities and not engaging in interest-based dealings as being the only features that distinguish Islamic entrepreneurship. They were less transparent in their perception regarding the aim of the entrepreneurial activity and the role of the Muslim entrepreneur in fulfilling spiritual and other altruistic obligations.

Thirdly, contradictions were also detected between the behaviours of the entrepreneurs and the Islamic value system. Some unlawful practices, such as demanding and paying bribes to secure deals, to speed the collection of dues and to obtain work permits, were reported. The irony is that such dishonest practices were carried out despite the fact that they are against the values and beliefs of the concerned entrepreneurs. This inconsistency puts the argument for "self-enforcement" mechanism, on its own, into question, and underlines the need for consistent and transparent implementation of Islamic laws and business ethics through appropriate institutions.

The fourth inconsistency could be explained by the disparity between virtuous Islamic values and some baseless local customs; despite the prominent role of religion in the Saudi culture, there has been a mix between pure religious values and intruding customs and traditions that have nothing to do with religion. Although Islam regards all *halal* work to be noble and a form of devotion to The Almighty Allah, some local customs and tradition still consider certain types of (hands-on) businesses as substandard and shameful. Interviews with Saudi entrepreneurs and intellectuals

confirmed the widely held perception about Saudis negative attitude towards manual work and their inclination for employment with the state:

... Manual labour is generally associated with very low status, while supervisory or policy-making functions carry prestige. Government service, consequently, especially in its higher ranks, is considered the most desirable type of employment. Even on the lower levels, government employees enjoy considerable respect in the eyes of the public (Lipsky et al., 1959, p.157-158, cited in Vassiliev, 2000, p. 427).

The economic downturn of the past few years and the rapid increase in the number of unemployed Saudis have undoubtedly led to gradual moderation of this incongruous attitude. Even so, this attitude is still largely prevalent amongst a wide spectrum of the Saudi society, reflecting serious misunderstanding towards the concept of Islamic entrepreneurship.

The misinterpreted role of Muslim women in the economy is another area where people tend to mix religious values with cultural traditions. Islam is often unfairly criticised for being an obstacle that prevents women from actively participating in the economy and from starting and managing their own businesses that is, being entrepreneurs, a claim that Saudi women entrepreneurs have rejected.

Despite the abundance of possibilities and potential contributions that Islamic entrepreneurship is capable of delivering, discussion above clearly indicates that the many limitations facing Islamic entrepreneurship have rendered such potential and possibilities unrealisable. A key finding is that Islamic entrepreneurship is a concept that is misread by the vast majority of Muslims at individual as well as at state levels. Arguably this misinterpretation has caused, and at the same time is caused by, the neglect of policymakers, lack of institutional support and deficiency in the educational system and its lack of focus on entrepreneurship development.

CONCLUSION

If the “model” is to be defined strictly as “a representation of the real world”, then the validity of the proposed Islamic entrepreneurship-based well-being model is seriously questioned, and there would be a need for a major revision work to be carried out on the model. Alternatively, if the model is viewed as “a way of generating debate and insight depth about the real world” (Pidd, 1996, p.121 cited in Maani & Cavana, 2000,

p. 21), then the proposed conceptual model could constitute an appropriate starting point towards the realisation of such an outcome. However, theoretically based development models remain speculative until they form a working relationship with a supporting and enabling environment that gives them legitimacy and meaning, and allows them to emerge and develop. Otherwise, the divide between theory and practice remains, and development will not occur –as evidenced by the outcome of this study.

It could be argued that the success of the Western development model in the Western context is largely attributable to the harmony between its formal and informal institutions. What distinguishes the Western model of entrepreneurship is the complementary type of relationship that exists between its formal institutions (free market economy, banking system, laws and regulations) and its cultural values (individualism, profit maximisation, consumerism) supported by educational systems that promote such values. Formal institutions and state policies have lent support and enforced Western cultural values; the market economy, for instance, endorses individualism, and both work towards the common goal of profit maximisation and material wealth. Likewise, the outstanding performance of the newly industrialised countries of East Asia is largely credited to the fact that these countries have integrated their values into their development equations and employed them to promote their own brand of entrepreneurship and development. Thus they have created conducive environments that have allowed individual cultures to optimise their potentialities.

Discussion in this chapter has shown that despite its being an inspiring concept and a viable instrument of 'well-being', and despite the strong positive feelings held by Saudi entrepreneurs towards Islamic entrepreneurship, Islamic entrepreneurship in Saudi Arabia remains unfamiliar and virtually unpractised. The main challenge for Islamic development remains operational in nature. How can the Islamic entrepreneurship model be transformed into working policies and enabling institutions? Furthermore, how can any Islamic business ethics be operationalised in the context of the contemporary business environment in order to reap the benefits of Islamic entrepreneurship? These basic questions raise the legitimate question of whether or not the behaviour and performance of Islamic entrepreneurship can be judged in the absence of a true "Islamic state where the whole realm of socio-economic human behaviour is engineered according to Islam".⁷⁷

⁷⁷ Aziz (1999) raised the same question in the context of the "Islamic economic system" while discussing the views of Muhammad Baqir Al-Sadr on the Islamic perspective of political economy.

CHAPTER TEN

CONCLUSIONS

It can often seem that a single overriding factor is responsible for failure (though this is frequently erroneous), whereas success must be the result of several factors working together and it is hard to distinguish the most significant.

Cusworth and Frank (1993, p. 11)

The purpose in this thesis was to explore the trajectory of entrepreneurship development from an Islamic perspective within the Saudi Arabia context. Specifically, in the thesis I sought to investigate the role of Saudi cultural values and religious beliefs in developing the Saudi entrepreneurship sector and whether or not these values and beliefs have been matched with an enabling institutional framework that allows culture to demonstrate its authority.

I began this thesis by surveying various entrepreneurship definitions and theories and established the existence of a positive correlation between the level and the quality of the entrepreneurial activity and development. I also explored the concept of Islamic entrepreneurship and argued that Islam is an entrepreneurial religion, and accordingly I devoted particular attention to the building of an Islamic entrepreneurship-based “well-being” model. The fieldwork, on the other hand, addressed key issues such as the attitudes and approaches of Saudi entrepreneurs to Islam in business and entrepreneurship, and examined the role of some Islamic values as well as Saudi cultural traditions in entrepreneurship development. In the thesis, I also explored the level of awareness and the extent of commitment among Saudi officials and Saudi intellectuals with an interest in Islamic development and/or entrepreneurship, to the promotion of entrepreneurship, especially from an Islamic perspective. In addition, I examined the role of the state’s policies and institutions (mainly, financial and educational) in the entrepreneurial process. Consequently, I briefly addressed the prevailing realities of the Saudi entrepreneurship sector and the contributions it renders to the well-being of the country.

A standardised survey questionnaire was used to probe the characteristics and the demography of Saudi entrepreneurs and establish their attitudes to Islamic and Western entrepreneurship. The fieldwork also involved in-depth face-to-face semi-structured interviews with three distinct groups of stakeholders: Saudi entrepreneurs, Saudi officials and Saudi intellectuals (mainly academics). The fieldwork was conducted in Riyadh, the political and the commercial capital of Saudi Arabia, during the months March - July 2004. Quantitative as well as qualitative methods were employed to analyse the primary and secondary collected data. Descriptive statistics were used to establish the profiles and attitudes of the Saudi entrepreneurs. On the other hand, data provided by the interviewees were utilised in developing the various case studies, clarifying responses given to attitudinal questions, explaining disparities between attitudes and practices of Saudi entrepreneurs and in establishing the existing role of the state polices and institutions in the (development) of Islamic entrepreneurship in the Kingdom.

In this chapter, I seek to put forward qualified answers to the research questions and to highlight the significance of the research key findings relative to the research objectives as delineated in Chapter 1. The chapter is organised in four sections: the first section presents a summary of the research key findings and an analysis of their implications. The implications of the research findings for the Saudi policy environment are discussed in the second section. The third section presents some suggestions and recommendations for future research opportunities. The thesis concludes with a broad discussion on the implications of the study and the contributions it renders to the body of knowledge and the potential role of Islamic entrepreneurship in development.

RESEARCH KEY FINDINGS

While the findings of this study do not provide categorical endorsement to the arguments held by either the 'Culturalists' or the 'Institutionalists', they nevertheless signify the importance and the complementary nature of the relationship between both perspectives in advancing the cause of entrepreneurship. The findings furthermore underscore the strength of culture and suggest that cultural traditions and local customs are far stronger than thought to be, and their influence is profound even in a religiously based society such as that of Saudi Arabia.

Islamic entrepreneurship: The Saudi setting

Entrepreneurship has been credited for its ability to create jobs and for the valuable contributions it renders to the socio-economic well-being of various nations across the globe by means of competitiveness, creativity and innovation. However, it has consistently been argued in this thesis that entrepreneurship in Islam is more than a developmental issue, and Islamic entrepreneurship has been promoted as being more than a means of securing *halal* income, putting more individuals into employment, creating wealth and promoting economic development and growth. Islamic entrepreneurship is rather an instrument for spiritual salvation and socio-economic well-being, based on the wider divine principle of the “unity of God” with all its entitlements such as the precedence of spirituality and the priority of the common welfare over self-interest. Whether or not such a construction has materialised in the practices of the Saudi entrepreneurs and manifested in the socio-economic development of the country is highly contested. Discussions in the previous chapter, however, clearly indicate that such an Islamic perspective of entrepreneurship was not visible in the existing Saudi entrepreneurship environment.

Consistent with the conclusions of Olsen (1988), this study did not produce tangible evidence that enables the researcher to claim or even to suggest that Saudi Arabia has built its development model on religious foundations. There is no visible role of Islam in the Saudi development process. When reference to Islam in terms of development is made, it usually reiterates that Saudi Arabia is committed to preserving its Islamic values while pursuing development. However, it fails to explicitly define these values, elaborate on how it intends to safeguard them, and how to employ them in development. More importantly, it evades the question of whether preserving Islamic values means the promotion of Islamic-based development or the occasional accommodation of some Islamic principles in the development process. Evidence produced by this study suggests that little effort, if any, has been exerted to create a business environment that is conducive to Islamic entrepreneurship or that places Islam at the heart of its developmental equation.

If the definition of entrepreneurship is confined to innovation and creative imitation as delineated by classical theories of entrepreneurship, then the findings of this research would confirm that entrepreneurship in Saudi Arabia, as is the case for most developing countries, does not rise to the level of entrepreneurial distinction. The Saudi scholar, Sheikh Salman Al Odeh, quoted in one of his lectures that only a small

percentage (9%) of Saudi entrepreneurs saw in entrepreneurship a path for creativity and innovation (Al Odeh, 2004, p. 11). Compatible with this quoted figure, the finding of this study indicated that only (11%) of respondents saw in entrepreneurship an opportunity to be creative and identified the purpose of starting their businesses with innovation and creativity. Practicality, therefore, stipulated the adoption of an extended working definition of entrepreneurship that accounts for all business undertakings regardless of their motives, sizes, line of business or level of originality.

The findings of this study have conclusively demonstrated that the Saudi entrepreneurship sector is frail and vulnerable. Entrepreneurship in Saudi Arabia did not prove to be a viable developmental strategy or even an economic development tool; it did not create the expected level of jobs (for Saudis); its contribution to the GDP of the country was by no means in proportion to the size of the small business sector it has created. Furthermore, Saudi entrepreneurship did not add economic value nor did it expand the productive output of the national economy. Most importantly, it failed to assume its intended Islamic role as an alternative strategy leading to the well-being of the Muslim *ummah*. Such a finding should not come as a surprise considering the misunderstanding and the neglect that this sector has endured and the many hurdles in the path of Islamic entrepreneurship development in Saudi Arabia in particular. This finding therefore emphasises the need for establishing an independent 'entity' that is fully recognised as the voice of Saudi entrepreneurship and small businesses. A primary objective of such an entity would be to ensure the availability of the Islamic means of financing and the inclusion of entrepreneurship education, especially from an Islamic perspective, in the educational system and the higher educational institutions. Furthermore, the proposed new agency should act as an intermediary between the research community and policymakers to ensure that appropriate entrepreneurship policies are adopted. Most importantly, this entity should have the proper authority to oversee the implementation of adopted policies, thus it must be linked directly to the Council of Ministers.

Islamic values

Despite the suggestions of modernisation theories of development that the religiously based Saudi culture would be the foremost obstacle in the way of cultivating a dynamic entrepreneurship class in Saudi Arabia, the findings of this study suggest otherwise. There is no evidence of incompatibility between Muslim values and entrepreneurship. The Saudi entrepreneurship predicament in general and Islamic-oriented

entrepreneurship in particular, is by no means the product of religious impediments. In fact, Saudi entrepreneurs were definite that their Islamic culture is one of the very few positive pro-entrepreneurial ingredients that the Kingdom embraces. Therefore, the lack of entrepreneurship in the Kingdom could be explained in any, except religious, terms, while the search for development models must be based on religious foundations. The findings of this study also demonstrate the power of cultural values and lend support to Hofstede's (1991) argument that despite the strong influence of religion on culture, religion alone does not shape culture, even in the conservative and religiously based society of Saudi Arabia. There is a grey area where religious beliefs and traditional customs are often confused. One, therefore, must be mindful not to mix the religious values and beliefs with synthetic customs and behaviours and so view both aspects of culture as "Islamic culture".

The findings of this study identified three major obstacles that hinder the development of a vibrant Saudi entrepreneurship sector: intrusive traditions and erroneous perceptions; frosty state policies and vacuity in institutional support; and structural and other external impediments.

Traditional wisdom and local customs

The negative attitude of Saudis towards certain business activities, which are perceived inferior and degrading, can by no means be blamed on Islam. Saudis' keenness to be employed in the public sector, or in what they consider respectable and prestigious businesses, is largely caused by intruding customs, habits and behaviours that have no religious reference or inclination. Giving preference to quick returns in the short term over long-term investment and business build-up cannot be explained by, or justified on, religious grounds. The Saudi affection for a quick profit is the outcome of inherited attitudes and learnt business practices that have been facilitated in recent years by the prevailing oil-based reward structure. In fact, it is not surprising that such an attitude should emerge and spread in a rentier economy. Furthermore, some local customs and traditions tend to view certain types of the (hands-on) businesses as substandard and shameful, thus discouraged and averted large segment of the Saudi population from being associated with them: as employees or business owners.

These findings are in line with the findings of another study that was recently carried out in Saudi Arabia and confirmed the existence of negative relationship between Saudi traditions and a range of business activities (Al Muqbili, 2004). The study

revealed that 63% of Saudi business owners considered local customs and traditions to have a profound and decisive role in preventing Saudis from joining the private sector. Furthermore, the study indicated that 36% of the remaining 37% of Saudi 'entrepreneurs' admitted that such traditional, not religious, values, have (to a certain degree) adverse implications for the employment in the private sector.

The marginalised role of Saudi women in the economy and their limited participation in entrepreneurial activities are classical examples of the negativity of local culture being blamed on religion or explained in religious terms. Saudi women entrepreneurs were positive in their conviction that it is cultural traditions, not Islamic teachings that stand in the way of their entrepreneurial aspirations.

The over-emphasis on the role of culture in entrepreneurship development carries the risk of diverting attention away from other equally important factors. The variations between the attitudes and the behaviours of Saudi entrepreneurs towards Islamic entrepreneurship and the poor showing of the entrepreneurship sector cannot be explained in isolation from their immediate environment that is, institutional, and structural issues.

The passive role of the state

The findings of this study draw attention to the state's failure to think of entrepreneurship as an alternative development strategy and to integrate it within its overall development strategy. The apparent lack of interest on the part of the state in entrepreneurship development is evidenced by: the "policy of indifference" towards entrepreneurship; addressing entrepreneurship through the small business sector; the failure of recent reforms to account for entrepreneurship; and by the absence of a state-sponsored central authority to promote entrepreneurship and safeguard the interests of new enterprises.

Despite the acknowledgements and repeated statements of intentions to promote the small business sector, Government initiatives and programmes, if and when available, were shallow and fragmented. They have ignored the entrepreneur and failed to account for the basic needs of small enterprises. The state did not undertake any special supportive policy measures, nor did it create specialised institutions committed to promoting entrepreneurship and providing preferential treatment for small

businesses. On the contrary, Saudi entrepreneurs believed that adopted policies were unjust and in many instances discriminated against small businesses. By espousing a “hands-off policy”, the state was under the illusion that entrepreneurship and the small business sector would benefit from the generic policies aimed at uplifting the economy –given that both entrepreneurship and small businesses were viewed within the small business context.

The majority of Saudi policymakers, as well as Saudi intellectuals and entrepreneurs, did not differentiate between ‘entrepreneurship’ and ‘small businesses’ and largely used the terms interchangeably. The subject of the few studies that dealt with the Saudi small business sector and the few scattered pieces of literature I was able to review mostly examined the problems facing this sector and highlighted the potential economic value of small firms. In contrast, I was unable to cite a single empirical and systematic research project that explored the Saudi entrepreneurship sector with the aim of fostering entrepreneurship culture and creating more and better quality entrepreneurs.

The absence of a single independent institution or authority committed to the cause of entrepreneurship and responsible for the welfare of small enterprises has disadvantaged this sector and deprived it of the opportunity to make its presence felt and its voice heard within policymaking circles. Saudi entrepreneurs complained that they do not know where to go to obtain soft assistance such as information and advice, or the tangible help they need. The problem was acknowledged by Saudi officials who were optimistic that the planned restructuring of the Saudi Credit Bank (SCB) –*Bank Al-Taslif* would make a difference, and have a really positive impact on development and the performance of the small business sector.

The pertinent items of the fourth article of the SCB’s charter confirm that the bank would be the official state authority responsible for guarding the interests of the small business sector. Firstly, the SCB would assume the responsibility of drafting and coordinating policies and programmes designed to promote and develop the small business sector. Secondly, it would extend interest-free loans to new and existing small firms and to Saudis with craftsmanship and vocational qualifications to encourage them practise their professions and become self-employed (Bank Al-Taslif, 2004).

It seems that the long awaited reforms had approached the issue from a small businesses perspective rather than placing it within its wider entrepreneurial context.

More importantly, the projected reforms also failed to emphasise the importance of *mudarabah* and *musharakah*, as two viable Islamic financial and developmental instruments. The public's reaction to the idea that the SCB assumes the responsibility for the well-being of the SMEs has been mild. Those who objected to the proposal took into account that people will always link the bank with finance. It would be difficult to change the perceived image of the bank and portray it as the caring institution that would offer the small business sector more than financial assistance. Another shortcoming of the proposed plan is that the bank will not be fully devoted to the welfare of small businesses. In fact, it is expected that the bank would perform many other major functions outside the domain of SMEs –raising the possibility of a conflict of interest. Furthermore, it is important to bear in mind that the development of a productive entrepreneurship sector requires more than a source of finance, despite its paramount importance to the entrepreneurial process.

The SCB's solution copes with the symptoms without engaging in serious assessment to deal with the syndrome. "What the government is doing is like a failing doctor who is giving a dose of painkiller to a dying cancer patient", remarked a Saudi entrepreneur. The consecutive five-year development plans underscored the viability of SMEs to the Saudi economy. This acknowledgment underpins the need for genuine, sweeping and more dramatic changes in the approach of Saudi policymakers towards developing a productive indigenous entrepreneurship sector able to have a presence and so compete in the global economy.

The missing role of institutions

As the findings of this study highlight the serious shortcomings in supporting policies, they also underscore the lack of functional Saudi institutions⁷⁸ aimed at promoting entrepreneurship in general, and from an Islamic perspective in particular. The fundamental flaw in the institutional framework that enfolds the majority of Saudi business activities is evident by the lack of conformity between the existing institutions and the value system of the Saudi society. On the one hand is the Saudi Islamic-based culture with its positive outlook towards ethical and productive entrepreneurship. On the other hand is the state with its various institutions that hardly correspond with the local culture or extend meaningful support to the development of indigenous entrepreneurship. While Saudi entrepreneurship suffers from a lack of economic,

⁷⁸ This study did not examine of the role of the Saudi legal institutions in entrepreneurship development.

political, legal and social institutional support, the problem is more ingrained in the financial and the educational institutions.

Financial institutions

Commercial banks continue to play an uncooperative, and even an obstructive, role in the promotion of entrepreneurial activities. Only 5% of the entrepreneurs managed to mobilise needed financial resources through commercial banking. The role of Islamic financing, which is destined to be a powerful instrument for the creation of new enterprises, was found not to be of any significance in this study. Strikingly, none of the entrepreneurs who took part in this study was able to form a single partnership agreement with any Islamic-based financial institution.

“Saudi banks are amongst, if not, the most profitable and least pragmatic banks in the world”, commented a Saudi intellectual. Citizens deposit huge sums of money in various local financial institutions and the majority would not accept interest on their deposits on religious grounds. Saudi banks and other financial institutions usually re-invest these deposits in Western economies and financial institutions, depriving the local economies of a vital source of funding for entrepreneurial activities. Local Saudi banks do not extend financial assistance to those seeking to start their own businesses. Instead, they make their financial facilities available to established businesses and to those who do not really need such services. Loans, when given, are usually designed and intended to encourage personal consumption. It is virtually impossible for a young entrepreneur, unable to meet the bank’s tough security demands, to secure a loan to start a new business or to improve an existing one. Commercial banks view small businesses as being high-risk investments; hence, they are usually unwilling to share the risk by means of forming partnership agreements with potential entrepreneurs and extending their facilities to them.

The following observation made by a Saudi entrepreneur conveys the negative perception held by a large proportion of Saudis of conventional banking. “If I could go back in time and have the opportunity to enrol in a masters programme, my thesis surely would examine the destructive role that the Saudi commercial banking system is set to perform within the socio-economic blend of the country” (Alyami, 2004). Saudi commercial banks are recruiting inexperienced young Saudis and offering them very attractive packages in their attempts to transform the attitudes and the perceptions of the public of commercial banking, and to promote commercial banking as legitimate

and moral. Thus, Saudi commercial banks have, directly or indirectly, encouraged the spread of interest-based financing, promoted consumerism behaviour, and played a counterproductive role in the entrepreneurial equation.

Although the principles of Islamic financing date back fourteen centuries, it is only in the past three to four decades of modern history that Islamic banking has been seriously debated as a possible alternative to the conventional banking system. The banking institutions of the majority of Islamic economies are still operating in accordance with Western financial principles. Only Iran, Pakistan and Sudan have transformed their banking systems to be entirely based on the Islamic mode of finance, while other Muslim countries, including Saudi Arabia, are using both means of finance in concert⁷⁹.

The findings of this study have shown that Saudi entrepreneurs hold a positive attitude towards Islamic banking, and at the same time they have failed to establish a meaningful and business-productive relationship between entrepreneurship and Islamic banking. As much as Saudi entrepreneurs were positive in their attitude towards the principles of Islamic banking, they were cynical about the actual role that Islamic banking is playing in the development of local entrepreneurship.

Islamic financial facilities, as an alternative to commercial banking, did not prevail in this study. Saudi entrepreneurs explained the insignificant role of the Islamic banking system in entrepreneurship development by the absence of true Islamic banking facilities. They further described the role of the state in promoting Islamic financing to be marginal. Some even considered the absence of Islamic banking from the Kingdom to be deliberate.

Many entrepreneurs believe that the requirements and conditions imposed by Islamic financial institutions on the potential entrepreneur far exceed those required by conventional interest-based financial institutions. This is evidenced by the very few partnership agreements between Islamic financial institutions and potential

⁷⁹ To protect their market share, commercial banks in the Kingdom have established internal units to accommodate the increasing public demand for Islamic interest-free banking facilities. These units were supposedly operating according to Islamic financial principles. However, many entrepreneurs doubted the soundness of their practices and claimed that in many cases their behaviours do not differ from those of interest-based commercial banks. Differences, they argue, were limited to the form rather than the substance -such as the renaming of "interest" to be called "administrative fees" to give the impression that business is being conducted in accordance with Islamic financing principles.

entrepreneurs. The reason, some argue, is that Islamic banks are extra cautious to protect the investments of their clients by taking minimal or virtually no risk. This justification is rejected because it does not give credit to Muslim investors who demand that their savings are invested in accordance with Islamic financial principles that is, in productive and socially desirable activities such as entrepreneurship. In fact, Muslim investors would rather invest in risky but *halal* and productive businesses than in a guaranteed profitable but *haram* business activity.

The fact remains that neither commercial nor Islamic banks assume a constructive role in stimulating economic activities either by offering easy loans or by entering into partnership agreements with potential entrepreneurs. Risk sharing by means of *musharakah* and *mudarabah* as promoted by Islamic entrepreneurship is a concept that many potential Muslim entrepreneurs are still eager to exercise.

While the combined investment of all Islamic financial institutions in the development of new and existing businesses, by means of the *musharakah* arrangement, is approximately \$1 billion a year, American venture capital institutions provide annually more than \$25 billion in equity financing for entrepreneurial activities. This peculiar fact prompted Saleem (2005, p. 2) to claim, "In spirit and in real terms, United States financial institutions offer more *Shari'ah* compliant financing and investment than that provided by all the Islamic banks combined".

The lack of state-sponsored Islamic financial institutions in Saudi Arabia and the scarcity of Islamic financing for Saudi entrepreneurs are hard to explain and harder to comprehend. A Saudi entrepreneur explained that should the state sponsor some Islamic financial institutions, it implicitly would be admitting that other existing institutions are un-Islamic—an implication that the state is neither willing to accept nor is proud to be associated with (Entrep-12, 2004). Another entrepreneur explained that the state believed that it was in the national interest to maintain the current system for the time being (Al Fadel, 2004). Interestingly, Saudi intellectuals were cautious not to be drawn into the debate by articulating definite answers; instead, they made the observation that even the Saudi conventional banks are increasingly becoming more involved in "Islamic banking".

The institution of *Zakah*

Likewise, the institution of *Zakah* did not fulfil its entrepreneurial role; the Saudi Authority of *Zakah* and Income fell short in meeting its obligations towards the deprived and poor potential entrepreneurs. It failed to employ a portion of the *Zakah* fund to guide this underprivileged segment of society to self-sufficiency and productivity through self-employment and entrepreneurship⁸⁰.

Educational institutions

Formal education systems in Arab countries, including Saudi Arabia, are traditional in their contents, methodologies and approaches. Their role is limited to providing students with information and they expect them to memorise information instead of teaching them how to find, access, interpret and comprehend the implications of information. Formal education, as it is currently, does not provide students with a quality education that promotes positive thinking and creative reasoning, which are crucial for entrepreneurship development, nor does it provide them with basic training and skills necessary if one is to enter the job market with confidence. Learning by relying on memorisation without further emphasis on personal development, individual initiatives and problem solving competencies will not enable Saudi youth to be self-assured and competitive in this global era.

The lack of creativity, innovation and new business ideas among Saudi entrepreneurs is mainly the result of an improper and deficient educational system that has failed to nurture such entrepreneurial qualities among Saudis. Likewise, the lack of awareness and the low level of entrepreneurial activity could be attributed, along with other factors, to the exclusion of entrepreneurship education from the formal education system at school and university levels. Saudi graduates aim at being government officers in the public sector or officials in large private corporations in part due to their lack of awareness of the viability of entrepreneurship as a better option to employment. Neither the theoretical nor the practical training they receive prepares them to think independently and in a creative way –a condition for entrepreneurship development.

⁸⁰ Businesses are required to produce a current certificate confirming that *Zakah* dues have been paid as a pre-condition to entering into a business relationship with the public sector. However, the state did not put in place a coherent mechanism for the collection and distribution of *Zakah* at the "individual/personal" level.

The failure of the educational system to adopt a modern approach based on information technology, rationality and entrepreneurship has been at times unfairly blamed on the religion of Islam. However, if truth be told, the discourse and certain practices of some Muslim religious groups and establishments provide justification for such a perception. This is despite the fact that seeking and applying modern knowledge and technology are obligations on all Muslims, independently as individuals and collectively as an *ummah*, in order for them to be productive, self-sufficient and affluent.

The findings of this study also lead one to question the state's commitment to promoting Islamic entrepreneurship. Furthermore, they underscore the deficiency of the educational system at school and university levels for the lack of emphasis on the concept of entrepreneurship in general and from an Islamic perspective in particular. Therefore, this study calls on the state to have a holistic view of the educational message and to invest heavily in the quality of education in order for it to carry out its crucial role including developing an entrepreneurship culture and enterprising individuals.

Pro-entrepreneurship institutions

Despite the many attitudinal, cultural, institutional and structural obstacles in the way of the emergence of a thriving Saudi entrepreneurship sector, the findings of this study suggest that the Saudi culture is enriched with two invaluable pro-entrepreneurship institutions namely: religion and family. Previous discussions have emphasised the importance of exploiting the strong religious feelings amongst Saudis in the promotion of Islamic entrepreneurship, best achieved through proper explanation of the Islamic perspective on, and attitude towards, entrepreneurship.

Entrepreneurial religion

The findings of this study clearly show that Saudi entrepreneurs hold a strong positive attitude towards their Islamic-based culture and the role of Islamic business ethics in entrepreneurship development. The wisdom and prominence of entrepreneurship in Islam thus did not inflame any controversy among Saudi entrepreneurs. To them, how Islam regards entrepreneurship is a settled issue. The challenge, therefore, would be

how to activate, mobilise, and employ this positive entrepreneurial attitude to serve the cause of Islamic entrepreneurship in Saudi Arabia and in other Islamic countries.

Despite the fact that Islam praises and encourages entrepreneurship, such direct and obvious praise virtually does not exist in the informal social or in the formal education process. Informal religious institutions such as the mosque, Friday sermons, religious schools, public speeches, study circles and other religious activities could play a crucial role in promoting entrepreneurship by raising awareness of, and explaining, entrepreneurship from an Islamic perspective. Formal and informal institutions individually and collectively can advance the cause of Islamic entrepreneurship and help in creating an Islamic entrepreneurship culture.

Muslim scholars are failing to attend to contemporary issues relevant to the well-being of the Muslim *ummah*. They have focused their efforts on *ibadat* at the expense of *muamalat*. While there are a very few *sheiks* who occasionally address contemporary developmental issues in their lectures and public speeches, the majority keep espousing settled topics time after time. While conducting the interviews, a Saudi entrepreneur handed me a classy brochure that contained the names of about 300 highly educated and outspoken religious scholars and *Ulama*. He noted that only two of them are actively engaged in educating the public that being self-sufficient and productive is as important as performing other religious duties. The failure of Muslim scholars to be active participants and advocates for productivity and progress is costing the *ummah* dearly. Those scholars are highly regarded in their communities and well respected by the diverse segments of the Saudi society, and their guidance and advice are usually well received and taken with little questioning. Hence, they are urged to broaden the scope of their discourse and attend to the current problems facing the *ummah*, especially at the socio-economic level, and suggest the coherent Islamic alternatives and solutions to confront such challenges.

Unconditional family support

Equally important is the role of family in entrepreneurship development. The findings of this study suggest that the Saudi family has a profound influence in fostering entrepreneurial tendencies and qualities, shaping the attitudes of young Saudis towards entrepreneurship, and in their decisions to pursue the path of entrepreneurship and consequently on their success as entrepreneurs. The commitment and contribution of families to their young entrepreneurs and to newly established businesses is

invaluable. Family input is extended beyond passing on experiences, utilising social and professional association and extending moral support, to providing financial and physical support. Facts from the field show that three out of four Saudi entrepreneurs come from families with links to entrepreneurship and 88% relied on personal savings, and on help from family and friends to finance the starting of their businesses. A large proportion of respondents who stated having inspirational role models prior to starting their businesses nominated an immediate or extended family member as their motivational figure.

Structural, external and other obstacles

Historically, the strategic location of the Arabian Peninsula gave it a distinct importance with respect to trade routes between the different ancient civilisations surrounding it and as a convenient freeway to southern Asia and Africa. Such a geographic attribute undoubtedly affected the life of its inhabitants and their orientation towards business and trade. The geography of the place partially explains the traditional link between Arabs in general, and the dwellers of the Arabian Peninsula in particular, and their passions for trade. The people of the Arabian Peninsula traditionally were identified by the businesses they were in rather than by the titles they held. But, as one might expect, their business activities were largely conducted in a tradesmen-ship rather than in an entrepreneurship manner, and they were recognised beyond the boundaries of the Arabian Peninsula as outstanding merchants and traders.

A historical reading of the Saudi business profile prior to oil discovery reveals that Saudis were “opportunistic businesspeople” who aimed at exploring business opportunities and exploiting them in a profit-seeking manner. Their emphasis was on short-term gains with little attention being paid to long-term investments and businesses build up. Focusing on high turnover and pursuing quick profit with minimum reinvestment in the business are still widely the practices of the typical Saudi entrepreneur. Oil rents have done little, if anything, to revise such attitudes and steer Saudis towards the path of entrepreneurship. On the contrary, the reward structure created by the oil economy largely played against the spirit of entrepreneurship in the Kingdom of Saudi Arabia.

The policy of inclusion and exclusion

Against expectations, the findings of this study indicate that Saudi entrepreneurs place great emphasis on structural factors and on the Western policy of inclusion and exclusion as key obstacles in the way of development in Muslim countries, including Saudi Arabia. Saudi entrepreneurs also explained the lack of entrepreneurship and development in the majority of Muslim countries by the many decades of occupation and imperialism imposed on them by Western colonisers:

Box 10.1 We are disqualified!

...The other cruel challenge facing the Arab/Muslim development predicament, in addition to their flawed political establishments and outdated educational systems, is an external challenge; we are being drawn into an unequal, unjust and mismatched brawl with Western powers. We were fought when we tried to manufacture a portion of our natural resources for export. America and other Western countries have put numerous barriers in the way of our exports, i.e., plastic industry.

We are not allowed to have a real productive economic base. We are meant to be consumers and by no means a producing nation. Although it might not be officially declared, this Western policy is a reality that we feel and experience every day. Below are some contemporary examples:

- A friend has cultivated a shrimp farm at the Red Sea with an annual production capacity of 1000 tons, which is fairly substantial, considering that the largest similar farm in South East Asia produces roughly 200 tons per year. Despite the pre-signed agreements with some European countries to buy its produce, once production started, these countries returned all shipments with little or no explanations. New sets of unrealistic trade terms and conditions were instantly imposed.
- The southern region of the Kingdom produces a certain type of flower two months ahead of its competitors in Holland. Somehow, and under some pretext, we were denied our right to export.
- Saudi wheat is known for its quality and for being one of the finest types of wheat. We were not even allowed to donate some of our wheat to our brothers in Pakistan. Our ships were intercepted in the middle of the sea and were forced back home.

Our purchase orders for certain types of machineries to be used in productive industries are usually declined. We are excluded, we are not allowed and if we pretended otherwise, we would only be deceiving ourselves and misleading our people. We are allowed to import large rolls of tissue papers and cut them into smaller rolls and repackage them, but we cannot buy the machine that makes them.

Another important point is that our markets are always flooded, with more of what we really do not need. Thanks to the "free trade" and to the WTO, they are turning the majority of the world population into working machines to exclusively serve their selfish interests.

Back to your question, the lack of entrepreneurship and development in Saudi Arabia by no means is due to religious impediments or cultural barriers. Our government bears a share of the responsibility.

Source: Extracts from a personal interview with a Saudi entrepreneur (Entrep-8, 2004)

Western direct and indirect colonisation, domination, and exploitation of Muslim resources, which were made possible by Muslims deserting their religion, deprived the majority of Muslim countries of the economic and political will to embark on the path of productivity and entrepreneurship. The American control over the Saudi oil industry right through to 1973 deprived the economy of a fair share of its most valuable resource and meant that little industrial development has taken place in the Kingdom. The discovery and the marketing of oil in a commercial volume did not help to change the perceptions or attitudes of Saudis towards business activity. The government, which had total control over oil revenues, did little to promote entrepreneurship and develop an entrepreneurial culture in Saudi Arabia. On the contrary, it can be argued that the government has played a counterproductive role in promoting entrepreneurship among a large segment of society, evidenced by the “welfare system”, the “culture of entitlements” and employment in the public sector. The Saudi entrepreneur has continued the pursuit of business opportunities with immediate returns.

Saudi business activities mainly take the form of “buy/sell” arrangements, replication of what seems to be a successful business initiative, agency representation, and the license to distribute certain products and services⁸¹. However, activities within the productive sector (industry) remain limited. The inevitable outcome has been the reaffirmation of the tradesman-ship culture at the expense of developing indigenous entrepreneurs capable of building viable and competitive businesses.

The oil factor

It has been argued in this thesis that the Saudi oil wealth was both a blessing and a curse to the Saudi economy for the all reasons discussed earlier in the thesis. However, findings from the field suggest that the incentive system created by the oil culture rendered entrepreneurship, with the associated risk of starting a business, an unattractive activity compared with the benefits of being employed in the public sector. It also enforced the tradesman-ship orientation and the hunt for opportunities with quick returns instead of building enterprises for growth.

⁸¹ Although these attributes are not considered entrepreneurial, they are by no means anti-entrepreneurship. With some guidance, direction and focus they could be transformed into productive entrepreneurial qualities. Institutions, particularly education, bear exceptional responsibility in transforming such attitudes towards entrepreneurship.

Moreover, the (hasty) and poorly planned and administered social welfare system, which emerged in the 1970s, as the aftermath of the oil boom, and continued during the first half of the 1980s, had a negative impact on productivity and entrepreneurial drive. Oil rents also created a culture of dependency on the state and led to unrealistic salary expectations among new Saudi jobseekers, thus limits their chances of finding employment in the private sector. The private sector, which largely operates according to economic rationality, undoubtedly, favoured the cheaper and more efficient alternative, (foreign labour) over the Saudi labour.

Economic and cultural globalisation

Saudis have come to accept that globalisation is a fact that they cannot afford to reject or ignore. Despite being excluded from the debates and having no access to meaningful and systematic information on the subject, Saudi entrepreneurs have formulated their attitudes based on their intuition and perceptions. They were not sure of the probable impact of globalisation and the joining of the (WTO) on the country's social fabric and on the course of its economic progress. Thus, they showed mixed feelings towards both phenomena. Once again, findings of this study were contrary to expectations; Saudi entrepreneurs are more alarmed by the impact of the economic dimension of globalisation than by its influence on their culture. This outcome could be explained by the fact that Saudi entrepreneurs, after all, are business-oriented individuals, who are more concerned with their self-interest and the well-being of their businesses. If this rationalisation is accepted, then such an attitude could be seen as a further indication that Saudi Arabia is a society in transition towards materialism and individualism. Alternatively, this outcome could be interpreted as a reflection of the Saudi entrepreneurs' strong confidence in their culture, and of the view that their Islamic values can defy the negative implications of cultural globalisation. However, It would be interesting to contemplate whether the outcome would be different had the attitudes of the Saudi public, rather than Saudi entrepreneurs, been surveyed.

The role of the media

Although the role of the media in entrepreneurship development was not specifically addressed in this study, some entrepreneurs raised the issue and voiced their concerns over the passive role of the Saudi media in promoting an entrepreneurship culture. My personal observations from the field, as captured by the research journal, confirm the legitimacy of such concerns. Furthermore, the president of the Saudi

Organization for Information and Communication, Dr. Ali Al Qarni, pointed out that the role of the Saudi media in promoting entrepreneurship, if it exists, is very limited and ineffective⁸².

The popular media play a major role in shaping the general perceptions of reality (Tuchman, 1978). Featuring successful and socially responsible entrepreneurs and profiling their vision and struggle to achieve are certain to motivate and to inspire others to pursue their dreams to a promising end. Positive portrayal of the entrepreneur could also arouse the positive attitude of the investor, the banker, the customer, the public servant and the ordinary citizen towards the entrepreneur and the entrepreneurial activity. Such a positive attitude would be seen as a crucial step to nurturing an entrepreneurship culture in the Kingdom.

It is evident that Saudi Arabia did not mobilise the power of the media to create awareness, foster positive attitudes and to advance the profile of entrepreneurship in general, and Islamic entrepreneurship in particular, among Saudis. The entrepreneur is not featured on prime television. Success stories are seldom reported. The businessperson of the year and small business awards are not celebrated. The entrepreneur is not portrayed as an inspirational national champion. Articles and editorials in specialised and widespread circulations that profile local entrepreneurs and explicate the importance of their entrepreneurial activities to the regional and national economies are uncommon.

POLICY IMPLICATIONS

Research aiming at promoting entrepreneurship in various countries has overwhelmingly concluded that each country is a unique case study in development and entrepreneurship, which are the products of each society's cultural background, environmental conditions and historical account. Thus, "one should not expect entrepreneurship to converge across societies" (Dana, 1999, p. 210); each country should adopt fitting entrepreneurship policy that promotes its own brand of entrepreneurship, derived from the findings of its own home-based empirical research.

⁸² In the proceedings of a seminar on the role of Saudi professional organisations with regard to Saudi Business-youth, organised by RCCI May, 11, 2004, and attended by the researcher.

Saudi entrepreneurs expressed their genuine concern that “entrepreneurship” was largely excluded from the state’s policy debates and, as a result, entrepreneurship was not promoted and potential entrepreneurs were undermined and prevented from having access to basic support entitlements. The question “Why has entrepreneurship been neglected by Saudi policymakers?” is a legitimate question that deserves a convincing explanation. Many factors, individually and/or jointly, have diverted or prevented the state from adopting pro-entrepreneurship policies in general and, in particular, extending its support to Islamic forms of business practices.

In line with the prevailing global attitude of the 1970s (which coincided with the “rediscovery” of oil in Saudi Arabia), “While small might be beautiful, bigger, nevertheless is better”, Saudi development planners followed this worldwide trend and perceived in large firms the symbols of power and success. Consequently, state policies were true reflections of this attitude, evidenced by the many state owned and run larger enterprises such as ARAMCO and SABIC. In the midst of its focus on larger firms, the state overlooked the small business sector and failed to pay due attention to nurturing indigenous entrepreneurship, thus largely excluding entrepreneurship from the Saudi long-term development strategy.

Saudi officials and policymakers generally lack a proper understanding of the concept of entrepreneurship and what it entails to be a Muslim entrepreneur. This lack of understanding is coupled with a lack of awareness amongst policymakers of the valuable potential contribution of entrepreneurship to the well-being of the Muslim *ummah*, even when viewed purely from an economic perspective. Saudi policymakers have a fuzzy picture of the true meaning and purpose of entrepreneurial activity and thus they fail to regard Islamic entrepreneurship as being an alternative development strategy and subsequently to integrate it within the overall national development strategy.

This misreading of the concept and the role of entrepreneurship was nourished firstly by a traditional educational system that gave little regard to entrepreneurial activity and thus failed to nurture entrepreneurial qualities and create an awareness of its significance, particularly amongst the youth. Secondly, the religious establishment failed to understand and hence to assume its socio-economic responsibilities. Religion has been neither employed to motivate and teach the young how to be Muslim entrepreneurs, nor to inform policymakers that, in Islam, entrepreneurship is a religious duty. Thirdly, the Saudi underdeveloped research environment has thus failed so far to

include the term “entrepreneurship” in its terminology, or make any tangible contributions to addressing the policy question.

State intervention in the promotion of entrepreneurship is warranted on moral and economic as well as on religious grounds. In discussions in Chapter 4 it was argued that “the visible hands of the Saudi state” were far reaching; they were extended to manipulate the market dynamism and virtually gave the state great control over the economy, through a string of interdependencies, which (arguably) it had created. In the midst of such policy ambiguity and state affection for larger enterprises, entrepreneurship development was not only overlooked, it was also hampered. The state, therefore, is morally obliged to readdress the needs of this vulnerable sector, by including entrepreneurship development in its structural reforms package. State intervention is also justified on socio-economic grounds. The contributions that entrepreneurship, manifested by small businesses, is potentially capable of delivering are being threatened by internal weaknesses, such as the fragility of the Saudi small business sector, and external challenges, such as increased competition, particularly after Saudi Arabia’s accession to the WTO in December 2005.

The findings of this thesis suggest that Saudi Arabia lacks an entrepreneurship culture and consequently it is faced with a shortage in the supply of quality entrepreneurs. Muslims largely regard entrepreneurship as being a collective obligation (*fard kifayah*) that must be performed by ‘an adequate’ number of quality entrepreneurs, in order to meet the needs of the Muslim *ummah*. Should the private sector fail to fulfil this obligation by its own means, the state would be obliged to assume a more active and responsible role in developing this sector. The fact that entrepreneurship in Islam has a religious dimension compels the Saudi government to take an affirmative attitude towards entrepreneurship and to be actively engaged in entrepreneurship development.

The many failings of the Saudi entrepreneurship sector bring about the need to rethink the current official approach to entrepreneurship, and underscore the need to formulate an entrepreneurship policy with defined aims and objectives. The solution to the problem of the low level of quality entrepreneurial activity in Saudi Arabia undoubtedly requires the intervention of the state, most likely through a combination of directive as well as facilitative policies. The primary objective of such interventions would be the development of skilled and competent entrepreneurs, who are capable of creating viable enterprises. However, the exact form, scope and nature of government

intervention should be mapped in line with the findings of future research to be designed specifically for policy purposes. This is because policy research demands answers and generally aims at finding “how to”, while trusting academic research to find answers to the questions of “what” and “why”.

Policies, presumably, are designed to serve the overall development strategy of individual countries consistent with each country’s own vision of “development”; thus, policies vary in their objectives, contents and means of delivery. It was neither the intention nor the objective to conclude this thesis with a set of defined and workable policy recommendations. Therefore, policy suggestions and implications are presented in broad terms, and are primarily aimed at creating an awareness of the need for adopting coherent entrepreneurship policies based on further policy-focused research considering the Islamic reading into the entrepreneurial activity as illustrated in Figure 9.2.

Among the many factors that influence the nature and the type of entrepreneurship policies are: how entrepreneurship is perceived and understood. How does entrepreneurship fit into the overall national development strategy? What is the main function that entrepreneurship is set to perform? Moreover, what are the major contributions that entrepreneurship is most likely to render to the well-being of the country?

Discussions thus far clearly indicate that the predicament of Islamic entrepreneurship, as manifested by the Saudi experience, requires the immediate attention of Saudi planners and policymakers at the highest echelon. In the absence of an entrepreneurship policy, an appropriate starting point would be recognising the need to have such a policy in accordance with the following guidelines: firstly, to ensure that the national development strategy reflects the overall developmental vision of the country, while emphasising the Islamic foundations of the Saudi development process. Secondly, to redefine the role of entrepreneurship in development as being an integral part of the national development model. Thirdly, develop an entrepreneurship strategy compatible with the defined role of entrepreneurship in the development equation. Fourthly, to devise an enabling entrepreneurship policy based on comprehensive and focused local research. Policy is to be regarded as a developmental tool rather than a reactionary measure to be triggered when the need arises. An explicit statement of policy objectives and targets should be made clear and in precise terms because such a statement of policy will determine the policy approach.

A preliminary analysis of the conditions and the reality of the Saudi entrepreneurship sector has identified the following themes as being relevant policy areas: the regulatory environment and the transparency and efficiency in public services, especially as they relate to new business initiatives; the institutional environment and its sensitivity and adaptiveness to Saudi Islamic values and beliefs; the availability of *halal* financing for entrepreneurs through partnership agreements (*musharakah*) and the accessibility to interest-free loans (*Al qard Al hussan*) and grants for research and innovation; the theoretical as well as the practical contributions of education to entrepreneurship development; the role of media in general and religious media in particular in fostering entrepreneurship culture; and targeting the vulnerable and underprivileged groups such as women and the unemployed university graduates. The broad objectives of such policy programme would be to:

- Create more awareness of entrepreneurship and understanding of the potential role that entrepreneurship could play in realising the well-being of the *ummah*;
- Explain the Islamic view of the entrepreneurial phenomenon and promote Islam as an entrepreneurial religion;
- Develop a positive entrepreneurial attitude as a first step towards nurturing an enterprising culture;
- Revisit the existing role of Islamic financing in entrepreneurship development;
- Emphasise the role of education in general and entrepreneurship education in particular in developing an entrepreneurship culture and enterprising individuals, and
- Highlight the eminent role of the university in entrepreneurship development by advocating a combination of sound academic theory and contemporary business practices.

Data from the field indicate that the absence of the state's involvement in entrepreneurship development could be partially explained by the lack of awareness and the paucity of credible entrepreneurship research available to policymakers. This finding underscores the need to educate policymakers and public officials about the enormous benefits of entrepreneurship and the positive link between entrepreneurship expansion and the well-being of the country. It is anticipated that such knowledge, if supported with credible research findings, would encourage policymakers to have a more constructive attitude towards entrepreneurship and motivate them to focus on

drafting supportive policies and establishing specialised institutions aimed at promoting entrepreneurship.

FUTURE RESEARCH DIRECTIONS

“It is not a sign of ignorance not to know the answers. But, there is great merit in facing the questions” (Mamet, 1999, p. 127). In the search for answers to key questions regarding Islamic entrepreneurship within the Saudi Arabia context, this study has raised many more questions. However, succeeding in creating awareness of the relevance of the issue, identifying areas for future research and instituting a baseline for accumulative future research are indispensable contributions in their own right.

The Saudi context

At times, the researcher felt that he had to compromise while trying to balance the depth against the breadth of the investigated issues. Therefore, it is argued that each of the eight stated objectives of this study could be addressed separately and pursued as worthy research theme. Due to time and resources limitations, case studies featured in Chapter 7 were mainly developed based on information produced by a one-hour, semi-structured, face-to-face interviews with Saudi entrepreneurs. Therefore, it is highly recommended that one or more of these case studies are revisited and explored in more depth and over time to account for and explain any changes in the attitudes and practices of Saudi entrepreneurs. More importantly, the main objective of the suggested longitudinal research would be to capture the essence of Saudi entrepreneurship and measure the prevalence of Islamic values in the practices of Saudi entrepreneurs.

The literature review established that the field of entrepreneurship research in Saudi Arabia, especially when approached from an Islamic perspective, is laden with opportunities for keen researchers. Amongst the most pertinent themes of research, with important policy implications, that this study has identified are: the role of Islamic education and Islamic banking in entrepreneurship development, the impact of recent economic reforms and the joining of the WTO on the rate of new business formation, the relationship between entrepreneurship and the unemployment predicament, and the role of Saudi women entrepreneurs in development.

Future studies need to focus on finding ways to integrate Islamic pro-entrepreneurship values into the country's entrepreneurship model, and on defining a mechanism to transform some Saudi cultural aspects that are deemed impediments to productivity and entrepreneurship. The suggested research should also address the crucial role of the religious institutions in promoting entrepreneurship by explaining the Islamic vision and emphasising the positive attitude and the high status that Islam holds for entrepreneurship. In fact, the religious establishment with its formal and informal institutions could capitalise on the high influence of religion in Saudi society to promote productivity through entrepreneurship.

It is widely accepted that entrepreneurship is most likely to thrive in an environment where the entrepreneur and the entrepreneurial activity are valued and respected. Therefore, it is strongly recommended that further research with a larger and more inclusive population base should be conducted to examine the level of awareness, the general attitude and the behaviour of a cross-section of the population towards entrepreneurship in general, and Islamic entrepreneurship in particular. Research should focus on providing policymakers with primary data to develop appropriate policies and programmes in order to create an entrepreneurial culture and to promote Islamic entrepreneurship.

Entrepreneurship policy-oriented research is also needed in order to create awareness amongst Saudi officials and provide policymakers with meaningful data to consider when debating and considering developing appropriate policies. Research and subsequent policies should differentiate between entrepreneurship and small business. Distinction should also be made between macroeconomic policies aimed at supporting the whole economy as such policies might, at times, impede entrepreneurship and cause harm to small businesses, and targeted policies aimed at promoting entrepreneurship and extending support to small businesses.

It is widely acknowledged that the unemployment dilemma is one of the most alarming challenges facing the socio-economic well-being and political stability of the country. Although few might contest the viability of entrepreneurship as a job creation instrument, the findings of this study indicate that Saudi authorities lacked the focus and the tenacity to combat unemployment through entrepreneurship. Thus, Saudi entrepreneurship has failed to deliver basic benefits to the national economy, not the least being the creating of employment opportunities for young Saudi jobseekers.

Therefore, there is a real need to examine the relationship between entrepreneurship development and job creation, probably through a longitude study approach.

More than one half of surveyed Saudi entrepreneurs failed to form an opinion regarding economic globalisation. They were largely insecure and troubled by the probable impact of "free trade" on their businesses as well as on the national economy. However, Saudi Arabia has just successfully negotiated its membership to the WTO, opening its economy for many opportunities and many more threats. It would be, therefore, a rewarding undertaking to embark on (a long-term) research project to examine the impact of this new economic reality on the Saudi entrepreneurship sector

Saudi women are rich, educated and they account for one half of the population. However, their participation in the economy is minimal, and often impeded by a string of cultural constraints and traditional thinking. The high rate of unemployment especially among university graduates and the recent interest shown by the state to involving women in the economy could open a window of opportunity for women to embark on the path of entrepreneurship. This development underscores the need for further research addressing the particularities and the challenges of being a woman entrepreneur in Saudi Arabia, and the contest between religious values and cultural traditions in determining the level of entrepreneurship among Saudi women. The modest participation of women entrepreneurs in this study, despite the few compromises in the methodological approach that the researcher made, is an indication of the difficulties that male researchers face when wishing to carry out research among Saudi women. Therefore, it is highly advised that a woman researcher undertakes such research in order to ensure the participation of an acceptable number of Saudi women.

Recent Saudi economic reforms have spanned a variety of economic activities; more relevant to this study is the impact of privatisation on the Saudi entrepreneurial process. It has been argued that privatisation would motivate the return of substantial Saudi private deposits from Western and American financial institutions, and stimulate foreign investment in the country. However, the fundamental question remains as to whether privatisation, as introduced, would encourage entrepreneurship and stimulate the investment of the returned wealth in productive new businesses and the expansion of existing ones, or would the investments be confined to buying a slice of the privatised public assets? The Saudi reform process is still in its early stages and the government has stated its resolve to press ahead with the reforms despite the current

sharp increase in oil prices. Therefore, it is highly recommended that further research be carried out to assess the implications of the recent economic reforms for entrepreneurship development in order to provide policymakers and other stakeholders with consequential feedback to consider in future reform initiatives.

Beyond Saudi Arabia

The adoption of the triangulation method in this study demonstrates the complementary relationship between qualitative and quantitative research methodologies. Combining qualitative and quantitative methods in a single study is not only possible but, when appropriate, is necessary to gain an inclusive account of the phenomenon under investigation. However, the inconclusive findings of this study regarding the prevalence of Islamic entrepreneurship and the role of Islamic values in development highlight the need for further in-depth qualitative research to be undertaken in order to expand the boundaries of existing knowledge on practical aspects of Islamic entrepreneurship. Therefore, it is suggested that methodical qualitative field research be carried out to explore business practices of Muslim entrepreneurs over time and across Islamic countries.

Islamic banking and Islamic entrepreneurship education are considered pre-conditions for any form of Islamic entrepreneurship to emerge and succeed. The Saudi experience has shown that neither the financial system nor the educational process is performing its developmental role, underscoring the need for further relevant studies within broader Islamic context.

Although Islamic banking is increasingly attracting the attention of scholars and economists, this growing global interest is not equally matched with systematic research initiatives, particularly in the area of Profit and Loss Sharing (PLS) contracts and their implication for entrepreneurship development. Islamic banking through *musharakah* is being promoted as a cure for the ills of conventional banking and an opportunity for entrepreneurs regardless of their whereabouts to share, rather than to bear, the risk of starting new businesses or expanding existing ones. However, this study has shown that despite its soundness, the PLS concept remains challenging at practical level, and the promise to take the economies of Islamic countries to new levels was not fulfilled. Islamic banking in reality is being operated, more or less, in the same mode of the conventional banking system.

The findings of this study seriously question the developmental role that Islamic banking is assuming in promoting entrepreneurship and in developing the economies of various Islamic countries. Further empirical research, therefore, is needed to examine the relationship between Islamic banking and entrepreneurship development in variety of Islamic countries. A comparative study that engages a range of Islamic countries, to assimilate their experiences with Islamic banking and entrepreneurship would have twin-objectives: on one hand it would provide a conceptual explanation for what seems to be a conflicting account between the potentials of Islamic banking and the very limited success, if any, that it has achieved in promoting Islamic development through entrepreneurship. The second objective of the suggested research could be linked to its practical implications for policy environment.

The role of education in entrepreneurship development is another area where further research is crucial. Participants in this study emphasised the significance of the early exposure to the entrepreneurial process through different means, most notably the educational system. A longitudinal study amongst diverse groups of Muslim students in different Islamic countries is needed to capture their perceptions and views of entrepreneurship and their attitudes towards being in business before and after their exposure to principles of Islamic entrepreneurship. Such research undertakings would provide policymakers and educational authorities with valuable information to consider while drafting policies and designing curriculum aiming at promoting Islamic entrepreneurship.

EXTENDING THE LANGUAGE AND THE PRACTICE OF DEVELOPMENT

Development is largely criticised for its lack of cultural sensitivity and often rejected because of its Euro-centric focus and approach. Alternative theories of development, on the other hand, have been recognised for their relative tolerance and inclination to account for other than quantifiable variables in the development equation. This approach to development signifies a departure from the rigid attitude ingrained in the orthodox theories of development. However, it seems that “alternative development” and “other developments” speak the same language of development, thus provoking Crush (1995) to ask whether

“Is there a way of writing (speaking or thinking) beyond the language of development? ... Can we get around, what Watts calls, the ‘development gridlock’? Can, as Escobar puts it, the idea of ‘catching up’ with the West be drained of its appeal” (Crush, 1995, p.18)?

Although post-development theory strongly urges for “alternatives to development”, it has failed to offer any alternatives or even an inclusive account to what might such alternatives to development involve. This thesis has attempted to speak and think beyond the language of development, thus it did not seek to add a new definition to the more than seven hundred already existing definitions of development (Staudt, 1991). It rather sought to re-construct the concept of development; not by introducing an ‘alternative development’ but by suggesting an ‘alternative to development’ based on the Islamic inclusive concept of human well-being in this life and in the hereafter.

Entrepreneurship is recognised as being a key component of the comprehensive Islamic well-being model, and thus has been defined in this study in religious terms. The philosophy underlying the construction of the Islamic entrepreneurship model is simply based on the logic that was best articulated by Dr. Sopiie when he eloquently stated, “Certainly, it is easier to be rich and happy than to be poor and happy, but wealth – in itself – is not a sure indication of happiness”⁸³, a view later confirmed by the findings of the HPI survey⁸⁴. The aim, therefore, is to be happy, that is, to attain the state of well-being (*falah*) through spiritual salvation, which is a pre-condition to the achievement of socio-economic justice and not vice versa. Together, spiritual salvation and socio-economic justice form a winning formula for *falah* in this life and a step towards the *falah* in the hereafter. The first implication of this study therefore could be linked to its contribution to the post-development debate (speaking beyond the language of development) and to the well-being model it has promoted (thinking beyond the language of development) while searching for alternatives to development.

The work of Max Weber and other scholars, as discussed earlier in the thesis, merely examined the impact of certain religion(s) on the entrepreneurial drive at certain points in time, such as the relationship between *The Protestant Ethic and Spirit of Capitalism*. Moreover, the increasing voices that emerged demanding the integration of spirituality into development studies used much of the same development discourse. Thus, by

⁸³ Dr. Noordin Sopiie, Director General of the Institute of Strategic Studies in Malaysia, speaking at the 1996 Annual Summit of the Emirates International Forum. Retrieved August 23, 2003, from: www.alshindagah.com/december/rich.htm

⁸⁴ For more information on the HPI, please refer to relevant discussion and to footnote (12) on page 26 of this thesis.

giving religious meaning to the economic activity and basing development models on religious tenets, this thesis ventured to uncover the 'alphabets' of 'the other language'.

The implications of this study therefore present a multiple challenge to conventional wisdom: firstly, the censuring of Islamic values for lack of socio-economic development in the majority of Muslim countries must be rejected. Secondly, more emphasis must be placed on the importance of integrating these values into the Islamic entrepreneurship model. More importantly, the Islamic model is promoted as being a credible alternative to the existing Western development model in realising the well-being of the Muslim *ummah*. The failure of the Islamic form of entrepreneurship to prevail in the Saudi environment is by no means a sign of malfunction on the part of the model, or lack of piety on the part of the entrepreneurs. It simply indicates that the development of Islamic entrepreneurship is a long-term evolutionary process that requires time for maturity and the right conditions (assumptions underlying the construction of the model), such as political, educational and religious will and commitment for success.

Having a homegrown model for development, though important, is not a guarantee that development will occur. The model needs to have internal harmony between its diverse components, a fertile environment in order for it to evolve, and political commitment to ensure its proper implementation. A lesson to be learnt from this study is that once an indigenous developmental model is deemed appropriate for a society, then the model should be adopted on its merit in order for it to yield results. The model, however, cannot enjoy the luxury of being half Eastern and half Western, or having Islamic cultural values and Western institutional structure. Otherwise, how can a model that promotes PLS through *musharakah* as being a main source of financing entrepreneurial activities succeed in a financial environment that does not offer the entrepreneur such an option!

The Saudi Arabia experience clearly demonstrates the importance of taking a holistic approach to entrepreneurship development and emphasising its key role in the overall national development strategy. This highlights the need to create an environment wherein policy and research can work together and be more sensitive and responsive to the current and future requirements of Islamic entrepreneurship. Most importantly, this thesis has led to the conclusion that the concepts of entrepreneurship, development and well-being cannot be identified in religious terms and pursued

otherwise. For instance, if it is believed that 'work is *ibadah*' then it must be practised like *ibadah* too, with all that that entails.

Another lesson for development (theory and practice) that can be drawn from this study is that of context. Just as there is no one-way or best way to pursue development, there is no one best model of entrepreneurship germane to all nations. As with development, "entrepreneurship is embedded in society, and the latter is affected by historical experience and cultural values" (Dana, 1999, p. 210), therefore entrepreneurship must be promoted utilising contextual approaches sensitive to the social, economic and cultural distinctiveness of each society.

The question why entrepreneurship as a scholarly discipline and as a practical developmental instrument thus far has been left out of the sphere of development studies is worth asking. Evidently, the answer could be read through the lenses of the mainstream theories of development, which emulate the values of the conventional economic theory. Swedberg (2000, p. 11) explained that the few economists who took an interest in researching entrepreneurship "have either had to invent some way of fitting the entrepreneur into a conventional model or they have had to develop an alternative model for how the economy works". This thesis underscores the relevance and the significance of the relationship between entrepreneurship and development, regardless of whether development is defined in purely economic, socio-economic and/or religious terms. Thus the other lesson that could be learnt from this study is that entrepreneurship as an empowering phenomenon warrants the attention of development theorists and practitioners, and ought to have a central place in development studies.

APPENDICES

Appendix 1

Standardised questionnaire

Thank you for taking the time and the effort to participate in this study. Please kindly note that this survey questionnaire is to be completed by the **Saudi entrepreneur** him/herself and its completion requires approximately 30–40 minutes.

Working definitions:

Entrepreneur: this study defines “the entrepreneur” to be an individual who identifies/discovers a business opportunity, mobilises needed resources and independently starts a business regardless of the motive being opportunity or necessity-driven. The owner founder maintains a strong presence and is actively involved in the daily operation of the business.

Entrepreneurship: is the process by which the individual(s) identifies/discovers and pursues a business opportunity through the mobilisation of needed resources to create a new business entity.

Small businesses: a business is considered small if its total workforce does not exceed twenty employees.

Section 1- The Profile of “the Saudi Entrepreneurship”

- I am a Saudi: male entrepreneur female entrepreneur

1. What year did you start your business? _____

2. How many employees did you have at the time you started your business (including relatives and family members)? _____

3. How many employees do you have now (including relatives and family members)? _____

For each of the following questions/statements, please tick [✓] in the appropriate box(es)

4. Your age group is:

- Less than 25 years 25 – 34 35 – 44 45 - 54
 55 years and above

5. Your age group at the time you started your business was:

- Less than 25 years 25 – 34 35 - 44 45 - 54
 55 years and above

6. The highest level of education you have achieved was:

- | | | |
|---|--|---|
| <input type="checkbox"/> No formal education | <input type="checkbox"/> High school | <input type="checkbox"/> Undergrad. Diploma |
| <input type="checkbox"/> Bachelor Degree from: | <input type="checkbox"/> Arabic/Islamic University | <input type="checkbox"/> Western University |
| <input type="checkbox"/> Master Degree from: | <input type="checkbox"/> Arabic/Islamic University | <input type="checkbox"/> Western University |
| <input type="checkbox"/> Doctorate Degree from: | <input type="checkbox"/> Arabic/Islamic University | <input type="checkbox"/> Western University |

7. Did you have any entrepreneurship education throughout your educational journey?

- Yes No

8. Have you ever been employed in a small firm prior to starting your own business?

- Yes No

9. Did you have an entrepreneurial role model(s) prior to starting your business?

- Yes, Who.....
 No

10. Please, indicate whether members of your **family** are involved or have been involved in **entrepreneurial activities**. (You may tick more than one if applicable).

- Immediate family member(s); parent(s), spouse, brother(s)/sister(s)
 - Extended family member(s); uncle/ aunt, in-laws
 - More than one family member
 - None
-

11. Please, indicate the **sector** that best describes your firm's line of business. (You may tick more than one if applicable).

- Manufacturing & Industry
 - Engineering & Information Technology
 - Construction & Contracting
 - Retailing & Wholesaling
 - Services
 - Others (please specify) -----
-

12. Please, state whether you had any business **experience** prior to your undertaking the business venture.

- Experience in the same field of venture
 - Experience related to (please specify) -----
 - No prior business experience
-

13. What was the main **source of initial capital** you have assembled to start your business?

- Personal savings
 - Commercial financial institution
 - Other sources (please specify) -----
 - Family and friends
 - Islamic-based financial institution
-

14. What is the **main obstacle** you perceive that prevents a Saudi (potential) entrepreneur from starting a business venture?

- Finance/ source of capital
 - Government regulations
 - Lack of advice and information
 - Islamic values
 - Others (please specify) -----
 - Lack of ideas / opportunities
 - Cost involved
 - Cultural constraints
-

15. In which of the following forms of **Network** activities are you involved?

Please tick [√] all relevant boxes.

- Family and friends
- Ex- colleagues
- Professional association (formal network)
- International link with similar type of venture
- Network of private and public organizations
- Religious associations
- Other associations (please specify) -----
- Not involved in any networks

16. The main **motive** for starting your own business was:

- Economic necessity
- Life style/ enjoyment
- Independence
- Social status
- (Partisan) motive; to participate in the development of the country
- (Religious) motive; to spread the word of Allah
- Others (please specify) -----
- Exploit a commercial opportunity
- Make more money
- Unemployment/ threat of unemployment
- (Altruistic) motive; to help others
- Create employment

17. What does **success mean to you**? How do you perceive success –with relation to motives?

- Personal satisfaction
- Good reputation of the business
- To cover cost
- Employing: Saudis Muslims Others
- Very profitable business
- Advancement of the developmental status of the country
- The fulfilment of a religious duty
- The emergence of a moral and ethical entrepreneurial culture free of corruption and greed
- Others (please specify) -----
- Control of one's own life
- Loyal customer base
- Business growth

18. How do you rate the **level of success that you have achieved** compared with the level of success you **aspire to**?

- High
- Low
- Moderate or acceptable
- No success has been achieved

19. The most **fulfilling reward** of owning and running one's own business is:

- Making money
- Attaining self-fulfilment
- Contributing to the development of the country.
- Helping others by creating employment opportunities.
- The spiritual feeling of fulfilling God's command
- Others (please specify) -----
- Gaining social achievement
- Being one's own boss. (Independence).

20. Which of the following two statements best reflects your attitude towards **risk-taking**?

- No risk, no loss
- No risk, no gain

21. What percentage (on average) of your net profit do you annually **re-invest** in your business?

- Above 80%
- 60% - 79%
- 40% - 59%
- 20% - 39%
- Less than 20%

Section 2- Cultural Values and the Saudi Entrepreneur

Please indicate your level of agreement with each of the following statements/questions. There are no right or wrong answers to these questions. After each statement, please fill-in the box with the number that best expresses your feelings towards the given statement according to the following scale:

Strongly disagree =1
 Disagree =2
 Not sure =3
 Agree =4
 Strongly agree =5

No.	Statement	Scale
1.	I reject Westernisation and cultural standardisation.	
2.	I reject the explicit and/or the implicit suggestion that Westernisation is the only path to modernisation.	
3.	I embrace indigenous, home-based modernisation.	
4.	The Saudi Islamic-based culture is superior to the Western secular culture.	
5.	Saudi national culture places special emphasis on individual profit making.	
6.	In the Saudi society, one achieves power through privilege and position rather than through merit and knowledge.	
7.	The individual Saudi is primarily identified based on his / her membership of social groups.	
8.	SA can be modernised while preserving its cultural values and religious beliefs.	
9.	SA should build upon its Islamic values to advance the cause of its development.	
10.	The main objective of entrepreneurship is to maximize profit and personal gain.	
11.	To succeed in business, Muslim entrepreneurs must adopt Western business practices.	
12.	Being a successful entrepreneur also means adopting Western values.	
13.	Cultural transformation towards individualism is a must in order for SA to embark on the path of modernization and entrepreneurship.	
14.	In general, Westerners are (better) entrepreneurs than Muslims.	

Section 3- Islam and Entrepreneurship: the Attitudes of the Saudi Entrepreneur

Please indicate your level of agreement with each of the following statements/questions. There are no right or wrong answers to these questions. After each statement, please fill in the box with the number that best expresses your feelings towards the given statement according to the following scale:

Strongly disagree =1
 Disagree =2
 Not sure =3
 Agree =4
 Strongly agree =5

No.	Statement	Scale
1.	I consider myself to be a good and devoted Muslim.	
2.	Entrepreneurship gives me the opportunity to spread the word of Allah through my deeds and actions.	
3.	The analogy between being a Muslim and being an entrepreneur is that "both strive to succeed to the limit of their abilities".	
4.	There is a religious dimension to my decision to start my own business.	
5.	Entrepreneurship is the ideal means by which one expresses his/her dutiful relationship to Allah Almighty.	
6.	The moral restrictions imposed by Islam on the process of wealth creation and wealth distribution have negative implications on entrepreneurship development in Muslim countries.	
7.	Entrepreneurs are likely to be more religious than the rest of population.	
8.	The Level of religious observance would be lower among entrepreneurs, because entrepreneurs do not have time to practice religion.	
9.	The Muslim entrepreneur optimises social benefits rather than maximises profit generated by entrepreneurial activity.	
10.	Islam places priority and more emphasis on productive activity (entrepreneurship) over employment	
11.	Islam puts in place a comprehensive system that is conducive to entrepreneurship development.	
12.	There is a contradiction between being a good Muslim and being a successful entrepreneur.	

13.	Islam is a static religion that lacks the compatibility with Western innovative thinking; hence, it hinders development and impedes entrepreneurship.	
14.	The main cause of the economic underdevelopment of majority of the Muslim countries is due to the conflict between faith (religion) and reason (science).	
15.	By its emphasis on “the hereafter”, Islam discourages Muslims from creating and accumulating wealth hence de-motivates them from embarking on the path of entrepreneurship.	
16.	Satisfying the many physically demanding religious obligations such as prayers five times a day, fasting during the month of (<i>Ramadan</i>) and taking part in the annual pilgrimage (<i>Hajj</i>) rituals will have a negative impact on productivity and leaves the entrepreneur with fragmented time to practice entrepreneurship.	
17.	I consider the welfare of society to be the prime objective of my entrepreneurial activity.	
18.	The Muslim entrepreneur creates a new business primarily to help others enter business and share in the success.	
19.	I strive to reach a balance between my personal gain and the welfare of society.	
20.	The balance between spiritual security and material gain is a core factor that distinguishes Islamic entrepreneurship from the Western style of entrepreneurship.	
21.	It is a compulsory duty to learn all business rules, laws and ethics from an Islamic perspective.	

Section 4- Islam and Entrepreneurship: the views and the behaviours of the Saudi entrepreneur

Please indicate your level of agreement with each of the following statements/questions. There are no right or wrong answers to these questions. After each statement, please fill in the box with the number that best expresses your feelings towards the given statement according to the following scale:

Strongly disagree =1
 Disagree =2
 Not sure =3
 Agree =4
 Strongly agree =5

No.	Statement	Scale
1.	The earth resources ought to be utilized carefully considering the needs of future generations.	
2.	People are trusted with wealth hence they should use it accordingly.	
3.	It is a given right for mankind to exploit the earth's resources in order for him/her to maximize material gain.	
4.	Through entrepreneurship, Individuals create wealth for themselves and add value to society.	
5.	A Muslim considers that entering into a business is consistent with the <i>sunnah</i> that a business is a prime source of livelihood.	
6.	In addition to its legality, entrepreneurial activity must be performed within defined moral boundaries and social responsibilities.	
7.	Successful entrepreneurs have a moral and social responsibility to give back to their communities and to their country at large.	
8.	In addition to its materialistic manifestations, entrepreneurship has a spiritual dimension.	
9.	The challenge facing the Muslim entrepreneur is how to strike a balance between the pursuit of profit and the fulfilment of spiritual needs.	
10.	I always conduct my business according to the laws of <i>Shari'ah</i> .	
11.	I always walk the path of honesty and morality even when corruption is close by.	
12.	I do not misrepresent my products or services to customers at all.	

13.	I work hard to cut my overhead costs in order to charge reasonable prices and work on reasonable profit margins.	
14.	I work hard to cut my overhead costs in order to maximize my profit margins.	
15.	I allow my employees reasonable time to fulfil their religious obligations, especially <i>Salaah</i> (prayer) and the <i>Hajj</i> (pilgrimage).	
16.	Islamic work ethics have a positive impact on my entrepreneurial conduct and my daily business practices.	
17.	Practicing Islamic work ethics have positively contributed to the success of my business.	
18.	My firm has lost many of what would be profitable business opportunities because of adhering to Islamic work ethics.	
19.	Sometimes I feel that I am under pressure to engage in unethical business behaviour.	
20.	I admit that I have been in a business situation where I had to compromise my values and act against my basic beliefs.	
21.	I am well aware of other Islamic financial avenues as alternatives to the conventional financial institutions.	
22.	I have an adequate understanding of the theoretical and mechanism of the Islamic financial facilities.	
23.	I conduct my personal and business financial transactions in accordance with the principles of Islamic financing.	
24.	The partnership arrangements between the potential entrepreneur and a reliable Islamic financial institution based on <i>halal</i> financing and risk sharing definitely leads to more entrepreneurship.	
25.	The benefits of a partnership between the “entrepreneur” and the “Islamic financial institution” go beyond benefiting both the entrepreneur and the investor to benefit society at large.	
26.	The attitudes of Islamic banks towards new entrepreneurs are not different from those of commercial banks.	
27.	My association with Islamic banking is (would be) primarily motivated by religious convictions that reject dealing with interest-based financing.	
28.	My association with Islamic banking is (would be) primarily motivated by the good performance and attractive results of their financial activities	

29.	I would like to see more emphasis on Islamic entrepreneurship education in our schools and universities.	
30.	Including a comprehensive module on entrepreneurship from an Islamic perspective in the school curriculum will motivate younger generations to consider self-employment and productive entrepreneurship.	

Section 5- Entrepreneurship and Globalisation

Please indicate your level of agreement with each of the following statements/question. There are no right or wrong answers to these questions. After each statement, please fill in the box with the number that best expresses your feelings towards the given statement according to the following scale:

Strongly disagree =1
Disagree =2
Not sure =3
Agree =4
Strongly agree =5

No.	Statement	Scale
1.	"Free trade" is always "free".	
2.	"Free trade" is "fair".	
3.	Personally, I see economic opportunities in "free trade" and consider globalisation to be an opportunity rather than a threat to my business.	
4.	Globalisation benefits and stimulates the Saudi national economy.	
5.	Globalisation presents Saudi entrepreneurs with valuable opportunities to compete globally.	
6.	Saudi Arabia will benefit by joining The World Trade Organisation (WTO).	
7.	Saudi Arabia should compromise and show flexibility in accepting the terms for joining the WTO	
8.	In a global economy, small firms –especially from developing countries- are in no position to effectively compete and make a difference.	
9.	No single country or economy can stand-alone and achieve prosperity.	

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Please kindly indicate your willingness to further participate in an approximately one-hour face-to-face semi-structured interview with the researcher at a time and place convenient to you. The purpose of the proposed meeting is to have more in-depth discussions on raised and relevant issues.

Yes, I am willing to take part in the interviews.

Name:.....

Phone No.:.....

No, I am unable to participate in the interviews.

Once again, thank you for your time and effort in completing this questionnaire. The researcher or one of his assistants will call-in to your premises within ten days to collect this document in the attached unmarked envelope.

Appendix 2

Semi-structured face-to-face in-depth interviews with:

(A) Saudi entrepreneurs

Q1: Please tell me briefly about yourself as an entrepreneur and about your entrepreneurial experience such as the origin, the motive, the start-up, the development and the direction of your business activity.

Q2: What influence did Islam have on your decision to become an entrepreneur?

Q3: Do you think that Saudi Arabia has an adequate supply of quality entrepreneurs? If not, what would be the reason(s)?

Q4: How do you explain the differences in the level of technological achievements and economic performance between Western and Muslim countries? Can such differences be attributed to differences in their value systems?

Q5: Do you make any distinction between the Western and the Islamic form of entrepreneurship? Please elaborate.

Q6: How do you compare the personality, the function and the role of the Muslim entrepreneur with his Western counterpart?

Q7: In what ways does Islam manifest itself in your everyday business activity?

Q8: How do you perceive the Islamic attitude towards entrepreneurship development and promotion?

Q9: As an entrepreneur, do you perceive the Saudi culture to be 'pro' or 'anti' entrepreneurship? Please elaborate.

Q10: What are the major Saudi cultural values that you consider to be entrepreneurial?

Q11: What are the main Saudi cultural values that you perceive to be anti-entrepreneurial?

Q12: Can you think of specific policies/programmes undertaken by the Saudi government to promote entrepreneurship in general, and to encourage Islamic entrepreneurship in particular?

Q13: Does the Saudi government undertake any initiatives to actively encourage forms of Islamic entrepreneurship?

Q14: Are you aware of any official policies or certain attitudes (explicit and/or implicit) that might discourage the development of Islamic entrepreneurship in the kingdom?

Q15: Have you had any business-related experience with Islamic banking? How do you rate such experience compared with other forms of conventional banking?

Q16: Should you have your say, what role do you think that the Saudi government should assume in the development and promotion of entrepreneurship in general and Islamic entrepreneurship in particular?

External/structural issues

Q1: How do you assess the impact of the oil boom on the entrepreneurial spirit in the kingdom?

Q2: Conservative estimates put the unemployment rate among Saudi nationals at about 15-20%. This is despite the fact that around six million expatriates (including their families) fill employment opportunities at all levels and in all sectors of the Saudi economy. How would you explain this paradox?

Q3: As an entrepreneur, do you personally see economic opportunities in globalisation for your business? Furthermore, does globalisation benefit and stimulate the Saudi national economy, how?

Q4: As a Muslim entrepreneur, would you explain Muslims' low profile approach to globalization to be driven by the fear of competition that globalisation entails, or is it likely to be based on the anticipated negative impact that globalisation may have on their culture?

Q5: There is an ongoing debate within Saudi policymaking circles regarding SA joining the World Trade Organisation (WTO). It is understood that in order for the kingdom to be granted membership of the WTO, it has to compromise and show flexibility in accepting WTO conditions. Do you believe that joining the WTO would be beneficial to SA? What issues do you consider to be "off limits" that SA will not and should not compromise under any circumstances as a pay-off for joining the WTO?

(B) Saudi officials and (policymakers)

Q1: Is entrepreneurship development part of the state's overall development strategy? Please explain in terms of statement of policy, policies, institutions and supporting programmes.

Q2: Did the state adopt special policies designed to extend direct support to entrepreneurial activity or does it have the attitude that entrepreneurship will benefit from the macro-economic policies and initiatives aimed at stirring the whole economy such as investing heavily in upgrading the country's infrastructure, adopting friendly regulatory policies and cutting taxes across the board?

Q3: Is the state involved in any specific policies and/or certain action-plans to cultivate, develop and promote entrepreneurship culture in the kingdom of Saudi Arabia? Please be more specific.

Q4: Please name key initiatives (policies and programmes) undertaken by the government to promote entrepreneurship and facilitate the creation of new firms.

Q5: Please name key institutions/agencies that are fully dedicated to or in part involved in Saudi entrepreneurship development.

Q6: Did the state consider adopting special policies to increase the level of entrepreneurship, especially amongst special and disadvantaged groups such as women, unemployed individuals under the age of 25 or among the socially excluded, to limit the impact of the alarming high unemployment rate in the kingdom?

Q7: Does the national economic policy differentiate between policies directed towards entrepreneurs and policies towards enterprise support? Please explain how and why.

Q8: Despite the universal consensus of the importance of entrepreneurship education, preliminary findings of this research indicate that entrepreneurship education is almost excluded from the Saudi formal education system. Is there any coordination, underway or planned, between policymakers and education specialists to attend to this issue? Please explain.

Q9: How do you generally perceive the role of Islam in the overall development of SA and through the promotion of Islamic entrepreneurship in particular?

Q10: Did the state undertake any policies or exert any efforts to promote “Islamic entrepreneurship” such as the promotion of Islamic banking and the inclusion of Islamic entrepreneurship education within its schools and higher educational curriculum?

Q11: How would you describe the relationship between policy and action with regard to entrepreneurship development in SA? Are policies usually implemented? If not, why?

(C) Saudi academics and education officials

Q1: -How do you perceive the relationship between education in general and level of entrepreneurial activity in any given country?
- How do you perceive the relationship between entrepreneurship education and level of entrepreneurial activity in any given country?
- How do you assess the role of education in general and entrepreneurship education in particular with the level of entrepreneurship activities in the kingdom of Saudi Arabia?

Q2: -Do you think that entrepreneurship education is adequately covered in the Saudi educational systems?
-At what levels is entrepreneurship being taught in the Saudi educational institutions?
-Do you share the view that entrepreneurship education should be incorporated in the school curriculum and be taught as a compulsory subject at the early stages and at all levels? Please elaborate.

Q3: -Do you think that entrepreneurship education should target society as a whole rather than targeting only (potential) entrepreneurs?
-What role does the Saudi educational system assume in cultivating and developing entrepreneurship in Saudi society, especially among the youth, i.e., transforming the Saudi way of thinking from a “take-a-job” to a “create-a-job” attitude?”
-Are the Ministry of Education and/or the Ministry of Higher Education taking or considering any practical initiative to ensure that such a shift in attitudes is materializing?

Q4: Entrepreneurship literature tends to categorize entrepreneurship education into three categories:

- Education about enterprise: creating awareness and understanding of the entrepreneurial activity and developing a positive attitude towards entrepreneurship.
- Education for enterprise: developing enterprise skills and providing training for existing and new entrepreneurs.
- Education through enterprise: linking educational institutions with communities and the private sector and involving entrepreneurs in the education process through real life practical projects.

How do you assess the status of Saudi entrepreneurship education with respect to each of the above categories: in terms of attitudes, approaches and delivery mechanism (education infrastructure)?

Q5: In your assessment, do Saudi universities maintain positive relationships with the private sector? Do Saudi universities keep an open and active line of communication with the labour market to identify and respond in a timely manner to emerging market requirements?

Q6: Is there such a thing as “Islamic entrepreneurship”? What is your perception and understanding of Islamic entrepreneurship? Does the Islamic concept of entrepreneurship differ from the Western perspective...in what ways? Can Islamic entrepreneurship be integrated within the Western model of entrepreneurship? Alternatively, do the differences justify the call for the construction of an Islamic entrepreneurship model?

Q7: -Do you feel that Islamic entrepreneurship should be taught? If yes, at what levels and in what ways should it be taught?
-How do you explain the apparent lack of Islamic entrepreneurship education in Saudi schools and universities?
-What are the obstacles preventing the kingdom from promoting Islamic entrepreneurship among its citizens through education?
-Are there any action plans or initiatives being considered by Saudi educational authorities and policymakers to revisit the status of entrepreneurship education in the kingdom?

Q8: How do you assess the current state of coordination between education officials and policymakers with regard to entrepreneurship education? Are there any concerns you would like to stress or issues you would like to raise concerning the nature, level and /or effectiveness of this relationship? Please be specific.

Appendix 3

INFORMATION SHEET

Islamic entrepreneurship: A case study of the Kingdom of Saudi Arabia

Researcher:	Rasem N. Kayed
Contact details (New Zealand):	Institute of Development Studies School of People, Environment & Planning Massey University Phone/Fax: 64-6 356 8093 E-mail: K_rasem@hotmail.com
Contact details (Saudi Arabia):	PO Box 491 Phone: 00966 1 478-5771 Mobile: 051 921 748 E-mail: K_rasem@hotmail.com
Supervisors:	Dr. Donovan Storey (Chief supervisor) Phone: 64-6-356 9099, ext. 2014 E-mail: D.Storey@massey.ac.nz Prof. John Overton (Co-supervisor) Phone: 64-6-356 9099, ext. 2504 E-mail: j.overton@massey.ac.nz Prof. Alan Williams (Co-supervisor) Phone: 64-6-354 7827 E-mail: A.Williams@massey.ac.nz
Massey University Ethics Committee	Phone: 64-6-356 9099, ext. 6171

The purpose of this information sheet is to introduce the researcher and the research topic and to explain the rights and the obligations of the participants. Participant in this study have the option to sign the attached consent form or to give a verbal consent showing their understanding and awareness of the nature and the purpose of the research. Alternatively, by completing the questionnaire and attending the interviews, participants would be giving their explicit informed consent.

Introduction

My name is Rasem Kayed. I am currently enrolled in a PhD programme in Development Studies at Massey University, New Zealand. I am undertaking this research project as an integral part of my study programme and I would like to invite you to be part of it.

The aim of my thesis is to explore the relationship between Saudi cultural values and belief system and the development of its entrepreneurship sector. The thesis, therefore, will examine the attitudes and the approaches of Saudi entrepreneurs towards entrepreneurship and development, as well as the impact of Islamic values on the course of Saudi entrepreneurial activity. The fact that Saudi Arabia is the spiritual capital of the Muslim *ummah*, coupled with its economic weight makes it the ideal site for conducting my field research. A primary objective of my research is to explore the visibility and viability of building an indigenous alternative entrepreneurship model that is based on Islamic principles and appropriate to the Saudi cultural value system, as an alternative to the Western model of entrepreneurship.

I am confident that the findings of this research will not only be of a theoretical interest but also have practical positive implications for the cause of Islamic entrepreneurship development in the Kingdom of Saudi Arabia and other Islamic societies.

Although this research is endorsed by and carried out under the supervision of Massey University, I would like to underline the genuine interest that King Saud University (KSU) has shown in this research. Their extended support made a difference. It is hoped that this project will further the co-operation between both institutions.

Please read carefully this information sheet for a wider view of the project and its purpose before you decide whether or not to participate. If you decide to take part in this study, I would very much appreciate your support and value your cooperation.

Should you have any questions or concerns regarding any aspect of this research, please feel free to contact me personally or any of my supervisors (please refer to cover sheet for contact details).

Project description and justification of the study

Saudi Arabia (SA) is faced with many challenges: most notably is the attitude of Saudis towards work in general and entrepreneurship in particular. The implications of such attitudes are evident by the low rate of participation by Saudi citizens in productive economic activities and its adverse outcome on the economic development of the country. Being an oil-based economy that relied on oil revenues for the past thirty years to finance its development projects, Saudi Arabia has come to realize the importance of diversifying its sources of income, and becoming less dependent on oil revenues. This study argues that entrepreneurship is a viable diversification strategy for SA to adopt since it creates jobs, encourages creativity, promotes competitiveness and contributes to the “three goals of development (economic growth, more equitable distribution of national income and autonomy)”.

However, it has been suggested that reforming the economy and freeing the markets in order to engage the private sector in entrepreneurial activity is problematic. The religiously based Saudi cultural values are not always compatible with the Western perspective of entrepreneurship, and cultural transformation to achieve such compatibility is not a viable option. Most entrepreneurship literature has Western origins and carries Western values and that is because Western scholars within Western environment undertake the vast majority of entrepreneurship-related research. This Western viewpoint suggests that entrepreneurial activity flourishes were values such as individualism; risk-taking, wealth making, competition, self-interest and low power distant are prevalent in society. However, the assumption that such values are universal is unsubstantiated and unwarranted.

Scholars drew attention to the lack of culturally based entrepreneurship research in a non-Western context. They further warn non-Western nations against relying on

“prescriptions” hailed in the Western entrepreneurship literature as remedies for their economic ills. The transferability of Western-based research and theories to non-Western countries is not trouble free or a straightforward application. The difficulty is more evident especially where differences in value systems between countries exist and have a predominant impact on other social, economic and legal systems as in the Saudi case. It has been argued that any development model that is not culturally based is most likely to be counter productive, and might result in ‘de-development’.

Against this background, this study aims to explore Saudi entrepreneurship in terms of the level of Saudi participation in business activity, the attitudes and the approaches of Saudi entrepreneurs towards entrepreneurship and development. What is the impact of Islamic values on the course of Saudi entrepreneurial activity? The mission is to build or –at least- to make a contribution towards the building of an indigenous alternative entrepreneurship model, based on Islamic principles, and which accommodates Saudi cultural values. To achieve this goal, the study will employ distinct but complementary research methodologies; library research, survey questionnaires, and multiple case studies designed to collect qualitative as well as quantitative data from Saudi entrepreneurs, Saudi officials and policymakers and from Saudi intellectuals with a special interest in entrepreneurship and/or Islamic development

Ethical issues

Researcher’s responsibilities and obligations

The researcher will exercise his best efforts to ensure that:

- Information obtained in the course of this research will mainly be used for the production of the thesis and its publication and for future publications and presentations. A summary report of the research findings will be prepared and made available to interested participants.
- No personal information concerning any participant (in any form or shape) will be disclosed or passed on to a third party.
- Information provided by participants will not be shared with others without prior permission.
- Data collected will not identify anyone by name or by business association.

- Names of participating individuals and/or organizations will not be revealed unless the researcher has explicit authorization of the concerned participants.
- Data analysis will be performed and reported in such a way that information cannot be directly linked to any person.
- Honesty, truthfulness and accuracy in data analysis and presentation shall be maintained.
- All relevant materials such as notes, questionnaires, consent forms and any other relevant information will be kept in a secure place accessed only by the researcher and destroyed when no longer needed for the study (after the compilation and analysis of the data and as per university regulations).

Participants' rights

As a potential participant, you have the right to agree or decline to participate in this research. Should you agree to participate, you have the right to:

- Refuse to answer any particular question(s) without having to give an explanation.
- Withdraw at any time without incurring any penalties or bearing any responsibilities.
- Raise any questions regarding the research at any time throughout your participation.
- Provide information willingly and voluntarily to the researcher.
- Refuse permission for the tape-recording of the entire or part of the interview.
- Be anonymous unless you agree otherwise.
- Be assured that the data and information you provide will be kept confidential as long as they are needed, and then the researcher will destroy them.
- Access a summary report of the study findings upon its completion.
- Not to be deceived.
- Not to be harmed.

What are participants asked to do?

Your participation in the study requires you to allocate approximately 40 minutes of your time to:

- Complete the enclosed survey questionnaire at your own time and space.
- Indicate your willingness to further participate in the research. Further participation involves a one-hour in-depth interview designed to generate richer and more

comprehensive information regarding the perception, attitudes and approaches of Saudi entrepreneurs towards entrepreneurship and entrepreneurial activity.

You will be invited to tell/talk about yourself, your business and your association with entrepreneurship. Some questions will seek to examine your perceptions, your attitudes and your approaches to entrepreneurship.

As a participant in this study, you will be given the option to sign a consent form that demonstrates your understanding and awareness of what the project involves and to confirm your acceptance to participate in the interviews. Alternatively, your completion of the questionnaire and participation in the interviews will be considered as an implicit consent on your part.

INFORMED CONSENT

Islamic entrepreneurship: A case study of the Kingdom of Saudi Arabia

1. I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.
2. I understand that taking part in this project is voluntary and I have the right to decline to answer any question(s) without having to give an explanation. Further, I understand that I have the right to withdraw from the study at any stage without incurring any penalties. If I decide to withdraw from the study, materials collected will be destroyed or returned to me.
3. I agree to provide information to the researcher on the understanding that such information will not identify me, my job or the department of my employment. In addition, I understand that my name will not be used without my explicit permission.
4. It is also my understanding that information I provide will be used only for the purpose of this research and the possible publications/presentations as a result of this research project.
5. I understand that all relevant materials such as notes, questionnaires, consent forms and any other relevant information will be destroyed by the researcher after the compilation and analysis of the data.
6. I agree/do not agree to the interview being audio taped. I also understand that I have the right to ask for the audiotape to be turned off at any time during the interview.
7. I have no objections to the findings of the research being shared with relevant government authorities in the form of a set of recommendations.
8. I know how to contact the researcher if I have any queries regarding this project.

After having had enough time to consider whether or not to take part I hereby agree to participate in this study under the conditions set out in the Information Sheet.

Appendix 4

Interviews timetable

(A) Saudi entrepreneurs				
No.	Questionnaire code	Participating entrepreneurs	Date of interview	Selected case studies
1.	O109	Entrep-1	May 4, 2004	Al-Jasim Engineering Case study #1
2.	S102	Entrep-2	May 11, 2004	
3.	G110	Entrep-3	May 12, 2004	
4.	L110	Entrep-4	May 15, 2004	
5.	I102	Entrep-5	May 16, 2004	Alyami Contracting Case study # 2
6.	I114	Entrep-6	May 18, 2004	Shabanah Trading Case study # 3
7.	E101	Entrep-7	May 19, 2004	
8.	G113	Entrep-8	May 19, 2004	
9.	Z130	Entrep-9	May 23, 2004	The Software House Case study # 4
10.	U104	Entrep-10	May 26, 2004	
11.	R110	Entrep-11	May 29, 2004	
12.	W110	Entrep-12	June, 5, 2004	Al- Fadel Marketing Solutions Case study #5
13.	T101	Entrep-13	June 9, 2004	
14.	W106	Entrep-14	June 12, 2004	
15.	T109	Entrep-15	June 14, 2004	Dr. Khamis Case study # 6
16.	X101	Entrep-16	June 17, 2004	
17.	A117	Entrep-17	June 19, 2004	

(B) Saudi officials

No.	Organization/ institution	Participating officials	Date of interviews
1.	Riyadh Chamber of Commerce and Industry (SMEs development Center)	Official-1	June 6, 2004
2.	Ministry of Industry and Commerce	Official-2	June 7, 2004
3.	General Organization for Technical Education & Vocational Training	Official-3/1 {group Official-3/2 discussion} Official-3/3	June 8, 2004
4.	Council of Saudi Chambers of Commerce and Industry (SMEs development Center)	Official-4	June 13, 2004
5.	Ministry of Economy and Planning	Official-5	June 15, 2004
6.	Bank Al- Tasleef (Credit Bank)	Official-6	June 16, 2004
7.	Saudi Arabian General Investment Authority	Official-7	June 16, 2004
8.	Council of Saudi Chambers of Commerce and Industry (Research and Economic Studies)	Official-8	June 19, 2004
9.	Industrial Development Fund	Official-9	June 20, 2004
10.	Human Resources Development Authority	Official-10	June 21, 2004
11.	Authority of Zakah and Income	Official-11	June 26, 2004
12.	Ministry of Labour	Official-12	June 30, 2004

(C) Saudi intellectuals and development specialists

No.	Organization/institution	Participating intellectuals	Date of interviews
1.	King Saud University (KSU) Business Administration	Intellect-1	June 13, 2004
2.	(KSU) Department of Economics	Intellect-2	June 13, 2004
3.	(KSU) College of Administrative Science	Intellect-3	June 14, 2004
4.	(KSU) College of Islamic Studies	Intellect-4	June 15, 2004
5.	(KSU) Islamic Culture/Education	Intellect-5	June 22, 2004
6.	Islamic Development Bank	Intellect-6	June 23, 2004
7.	King Fahd University of Petroleum and Minerals (KFUPM)/ Dhahran	Intellect-7	Via Fax
8.	Imam Muhammad bin Saud University / Riyadh	Intellect-8	June 26, 2004
9.	Islamic Scholar/ Public figure	Intellect-9	June 27, 2004
10.	Ministry of Education Deputy Minister (Educational development)	Intellect-10	June 28, 2004
11.	Ministry of Education (Consultant)	Intellect-11	June 28, 2004
12.	Ministry of Higher Education	Intellect-12	June 29, 2004
13.	Saudi Management Association	Intellect-13	June 30, 2004

Appendix 5

Relevant entrepreneurship research around the globe

A partial list of relevant entrepreneurship literature in different parts of the world

Country	Scholar(s) and Date	Title
Albania	Dana, 1996	Albania in the Twilight Zone
Angola	Gray & Allison, 1997	Microenterprise in a Post-Emergency Environment
Argentina	Dana, 1997	A Contrast of Argentina and Uruguay
Australia	Carstairs & Welch, 1982	Licensing and Internationalisation of Smaller Companies
	Cavusgil, 1994	A Quiet Revolution Among Australian Exporters
	Dana, 1987	Entrepreneurship and Venture Creation – An International Comparisons of Five Commonwealth Nations
	Holmes, 1998	Small Business Research
	Meredith, 1984	Small Enterprise Policy and Programme Development: the Australian Case
Austria	Dana, 1992	A look At Small Business in Austria
Bangladesh	Nehrt, 1987	Entrepreneurship Education in Bangladesh: A Beginning
	Sarder, Ghosh & Rosa, 1997	The Importance of Support Services To Small Firms in Bangladesh
Brazil	Quesada & Mello, 1987	Empirical Observations on the Social Entrepreneurship in Brazil
Brunei	Wimalatissa, 1996	The Emerging Class of Businesswomen and Women-Owned Business Firms in Brunei Darussalam
Burkina Faso	Camilleri, 1997	The impact of Devaluation on Small Enterprises in Burkina Faso

Canada	Dana, 1990	Towards a Integrated Needs-Related Policy on Entrepreneurship
	Dana, 1993	A Goods and Services Tax (GST) and the Small Business Sector: Some Canadian Reflections
	Dana, 1996	Self-Employment in the Canadian Sub-Arctic
The Caribbean	Dana, 1995	Public Policy and Entrepreneurship in the Caribbean: Nine Styles of Policy
China	Chau, 1995	The Development of China's Private Entrepreneurship
	Dana, 1999	Small Business as a Supplement in the People's Republic of China
	Dandridge & Flynn, 1998	Entrepreneurship: Environmental Forces Which Are Creating Opportunities in China
	Fan, chen & Kirby,	Chinese Peasants Entrepreneurs: An Examination of Township and Village Enterprises in Rural China
	Siu, 1995	Entrepreneurial Topology
	Williams and Li, 1993	Rural Entrepreneurship in the People's Republic of China
	Liao, D. & Sohmen, P., 2001	The Development of Modern Entrepreneurship in China
	Lee & Peterson, 2000	Culture, entrepreneurial orientation, and global competitiveness
	Zapalska, A. & Edwards, 2001	Chinese entrepreneurship in a cultural and economic perspective
Croatia	Martin & Grbac, 1998	Small and Large Firms' Marketing Activities as Responses to Economic Privatisation
Cuba	Dana, 1996	The Last Days of the Companero Model in Cuba
Czech and Slovak Rep.	Rondinelli, 1991	Developing Private Enterprise in the Czech and Slovak Federal Republic
The Czech Republic	Sacks, 1993	Privatisation in the Czech Republic
Egypt	Brockhaus, 1991	Entrepreneurship Education and Research Outside North America
Estonia	Liuhto, 1996	The Transformation of the Enterprise Sector in Estonia

Fiji	Meredith, 1989	Successful Small Agro-enterprises as Catalysts for Small Enterprise Development in the Pacific: a Fijian Case Study
France	Pache, 1996	The Small Producer in French Food Distribution Channel
Germany	Dana, 1994	Entrepreneurship, Innovation and Change in Former East Germany: An Ethnographic Account
	Simon, 1992	Lessons From Germany's Midsize Giants
	Simon 1996	Hidden Champions
Ghana	Dana, 1992	Entrepreneurship, Innovation and Change in Developing Countries
Great Britain	Gibb, 1986-7	Education for Enterprise
	Ward, 1987	Ethnic Entrepreneurs in Britain and in Europe
Greece	Dana, 1999	Small Business in Greece
Guyana	Raghunanda, 1995	Entrepreneurial Survival Skills in the Midst of Economic Chaos
Honduras	Befus, Mecon, Mescon & Vozikis, 1988	International Investment of Expatriate Entrepreneurs
Hong Kong	Chau, 1993	Hong Kong: A Unique Case of Development
	Yu, 1993	Entrepreneurship and the Economic Development of Hong Kong: An analytical framework
	Yu, 1995	Kirznerian Entrepreneurship and the Economic Development of Hong Kong
	Yu, 1997	Entrepreneurship and Economic Development of Hong Kong
Hungary	Hisrich & Fulop, 1995	Hungarian Entrepreneurs and Their Enterprises
	Hisrich & Vecsenyi, 1990	Entrepreneurship and the Hungarian Transformation
	Noar, 1985	Recent Small Business Reforms in Hungary
	Webster, 1993	The Emergence of Private Sector Manufacturing in Hungary

India	Gadgil, 1959	Origins of the Modern Indian Business Class
	Hazlehurst, 1966	Entrepreneurship and the Merchant Gates in a Punjabi City
	Patel, 1987	Entrepreneurship Development Program in India and Its Relevance to Developing countries
	Rutten,	The study of Entrepreneurship in India; In Need of a Comparative Perspective
Indonesia	Geertz, 1963	Peddlers and the Princes: Social Development and Economic Change in Two Indonesian Towns
	Tambunan , 1992	The Role of Small Firms in Indonesia
	Van Dierman, 1997	Small Business in Indonesia
Ireland	Walsh & Anderson, 1995	Owner-Manager Adaptation/Innovation Preference and Employment Preference
Japan	Dana, 1998	Small But Not Independent: SMEs in Japan
	Morita & Oliga, 1991	Collective Global Entrepreneurship
Kazakhstan	Dana, 1997	Change, Entrepreneurship and Innovation in the Republic of Kazakhstan
	Taylor, M., 1997	The business culture in Kazakhstan
Kenya	Dana, 1993	The Trade Facilitation Model: Towards the Development of an Indigenous Small Business Sector in the republic of Kenya
Laos	Dana, 1995	Small Business in a Non-Entrepreneurial Society: The Case of the Lao People's Democratic Republic
Latin America (Mexico, Chile, Peru, Venezuela, and Brazil)	Mueller & Thomas, 2000	Culture and entrepreneurial potential: A nine country study of locus of control and innovativeness
	Tiffin, S. (ed.), 2004	Entrepreneurship in Latin America
Lesotho	Dana, 1997	Voluntarily Socialist Culture and Small Business in the Kingdom of Lesotho
Macedonia	Dana, 1998	Waiting for Direction in the Former Yugoslav Republic of Macedonia

Malaysia	Dana, 1987	Industrial Development Efforts in Malaysia and Singapore
	Sloane, 1999	Islam, Modernity and Entrepreneurship among the Malays
Mexico	Grabinsky, 1996	Crises in Mexico: Its Effects on Family Owned Businesses
	Silva-Castan, Prott & Angola-Rojas, 1997	An Innovative Program in Entrepreneurship Development at a Mexican University
	Lee & Peterson, 2000	Culture, entrepreneurial orientation, and global Competitiveness
Moldova	Dana, 1997	Stalemate in Moldova
Mozambique	Dana, 1996	Small Business in Mozambique After the War
Namibia	Dana, 1993	An Analysis of Strategic Interventionist Policy in Namibia
The Netherlands	Bijmolt & Zwart, 1994	The Impact of Internal Factors on the Export Success of Dutch Small and Medium Firms
	Boissevain & Grotenberg, 1987	Ethnic Enterprising in the Netherlands: The Surinamese of Amsterdam
New Zealand	Ghosh & Taylor, 1995	Marketing Practices
	Cameron & Massey, 1999	Small and Medium Enterprises – A New Zealand Perspective
	Cameron & Massey, 2002	Entrepreneurs at work
Nigeria	Anyansi-Archibong, 1987	The role of entrepreneurship in Economic Development
Northern Ireland	Hisrich, 1998	The Entrepreneurship in Northern Ireland
	Jenkins, 1984	Ethnicity and the Rise of Capitalism in Ulster
Norway	Weaver, Berkowitz & Davies, 1998	Increasing the Efficiency of National Export Promotion Programs
Panama	Dana, 1995	An Ethnographic Account of the Environment for Entrepreneurship in the Republic of Panama
Papua-New Guinea	Ojuka-Onedo, 1996	Interventionist Policy in Enterprise Development Using the Rural Poor in Agrarian Developing Countries

Peru	Dana, 1988	More Small Business is Not the Answer for Peru
The Philippines	Chen, 1997	The Sari-Sari Store
Poland	Arendarski, Mroczkowski & Sood, 1994	A Study of the Redevelopment of Private Enterprise in Poland
	Zapalska, 1997	A Profile of Woman Entrepreneurs and Enterprises in Poland
	Zapalska, A. 1997	Profiles of Polish entrepreneurship
Russia	Bruton, 1998	Incubators and Small Business Support in Russia
	Hisrich & Gratchev, 1993	The Russian Entrepreneur
Saudi Arabia	Sabri, 2001	Royal Entrepreneurship
Scotland	Kinsey, 1987	Marketing and the Small Manufacturing Firm in Scotland
St. Martin	Dana, 1990	Saint Martin/Sint Maarten: A Case Study of the Effects of Politics and Culture on Economic Development
Singapore	Dana, 1987	Industrial Development Efforts in Malaysia and Singapore
Slovakia	Ivy, 1996	Small Scale Entrepreneurs and Private Sector Development in Slovak Republic
South Korea	Dana, 1990	The Increasing Role of Entrepreneurship and the Small Business Sector in South Korea
	Lee, 1998	Quality Management by Small Manufacturers in Korea
Soviet Union (former)	Lee & Peterson, 2000	Culture, entrepreneurial orientation, and global competitiveness.
Spain	Dana, 1995	Entrepreneurship in the Basque Country: An Ethnographic Account
Swaziland	Dana, 1993	Towards Internationalisation of Entrepreneurship: Two Models in Eastern Africa
Sweden	Holmquist & Sundin, 1988	Women as Entrepreneurs in Sweden
	Johannison, 1987	Towards a Theory of Local Entrepreneurship

Taiwan	Dana, 1994-1995	A Comparison of Policy on Entrepreneurship in Taiwan and South Korea
	Lin, 1998	Success Factors of Small and Medium-Sized Enterprises in Taiwan.
Tanzania	Van der Land & Uliwa, 1997	Applying Sub sector Analysis in Tanzania
Togo	Dana, 1992	Entrepreneurship, Innovation and change in Developing Countries
The Ukraine	Ahmed, Dana, Anwer & Beidyuk, 1998	The Environment for Entrepreneurship and International Business in the Ukraine
Uruguay	Dana, 1997	A Contrast of Argentina and Uruguay
Venezuela	Dana, 1996	Devaluation, Entrepreneurship and Change in Venezuela
Vietnam	Dana, 1994	A Marxist Mini-Dragon? Entrepreneurship in Today's Vietnam
Yugoslavia	Dana, 1994	The Impact of Culture on Entrepreneurship, Innovation and Change in the Balkans: The Yugopluralist Model
Zimbabwe	Neshamba, 1997	A Transition of enterprises from informality to formality

Source: Dana (1999, p. 1-2) and various entrepreneurship literature

Appendix 6

Descriptive data: The Saudi entrepreneur and the Saudi enterprise

(A) The demography and the characteristics of Saudi entrepreneurs

Table 6.1 Gender distribution of respondents

Gender	Count	Percentage
Male	89	91.75
Female	8	8.25
Total	97	100

Table 6.2 Age distribution of respondents

Age group	At the start (Valid percentage)			Currently (2004) (Valid percentage)		
	Male (M)	Female (F)	M & F	Male (M)	Female (F)	M & F
Under 25	27.58	12.5	26.3	3.45	---	3.2
25 – 34	52.87	87.5	55.8	17.24	25.0	17.9
35 – 44	8.05	---	7.4	36.78	62.5	38.9
44 – 55	9.20	---	8.4	24.13	12.5	23.2
55 /Over	2.30	---	2.1	18.40	---	16.8
Total	100	100	100	100	100	100

Table 6.3 Respondents' formal educational achievements

Qualification	Frequency	Valid Percent	Arabic/ Islamic University	Western University
No formal education	6.0	6.3	---	---
High School Diploma	28	29.5	---	---
Undergraduate diploma	14	14.8	---	---
Bachelor Degree	39	41.0	30.5	10.5
Master Degree	6.0	6.3	2.1	4.2
Doctorate Degree	2.0	2.1	---	2.1
Total	95	100	32.6	16.8
No response	2.0			
Totals	97			

Table 6.4 Respondents' exposure to entrepreneurship education

Item	Frequency	Percentage
Entrepreneurship education	28	29.9
No entrepreneurship education	69	71.1
Totals	97	100%

Table 6.5 Role models and the Saudi entrepreneur

Item	Frequency	Valid Percentage
Role model	44	45.8
No role model	52	54.2
Total	96	100
No response	1	
Totals	97	

Table 6.6 The involvement of family member(s) in entrepreneurial activities

Family in entrepreneurship	Frequency	Percentage
Immediate family member(s)	37	38.5
Extended Family Member(s)	14	14.6
More than one family member	26	27.1
None	19	19.8
Total	96	100
No response	1	
Totals	97	

Table 6.7 Entrepreneurs' prior business experience

Experience	Frequency	Percentage
Related experience	54	55.70
Un-related experience	15	15.50
No prior business experience	28	28.90
Totals	97	100%

Table 6.8 Entrepreneurs' prior employment in SMEs

Employment in SMES	Frequency	Percentage
Prior employment in SMEs	42	43.30
Never been employed in SMEs	55	56.70
Totals	97	100

Table 6.9 Age of participating firms

Central tendency	Age (years)	Starting year
Mode	6	1998
Median	10	1994
Mean	13	-----

Table 6.10 Business sector

Sector	Male (M)		Female (F)		Overall % (M) & (F)
	Count	%	Count	%	
Manufacturing & Industry	16	13.45	2	18.18	13.85
Engineering and IT	16	13.45	----	----	12.31
Contracting & Construction	20	16.80	1	9.09	16.15
Retailing & Wholesaling	30	25.21	3	27.27	25.38
Services	21	17.64	4	36.37	19.23
Others*	16	13.45	1	9.09	13.08
Totals**	119	100.00	11	100	100

*Majority of reported activities under this category could be enlisted under the service sector.

** Multiple entries are allowed

Figure 6.1 Age of participating firms

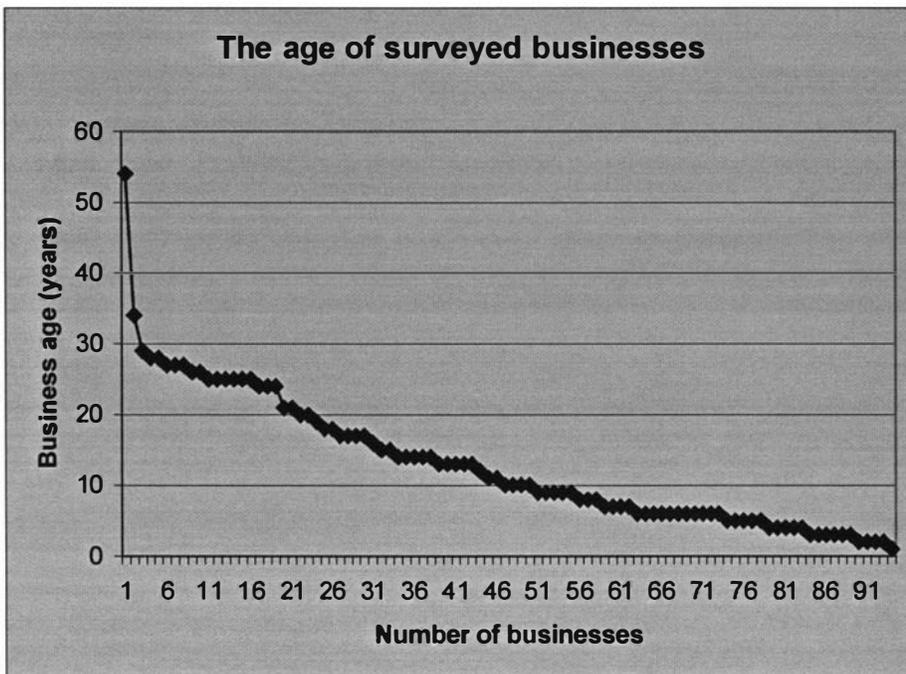
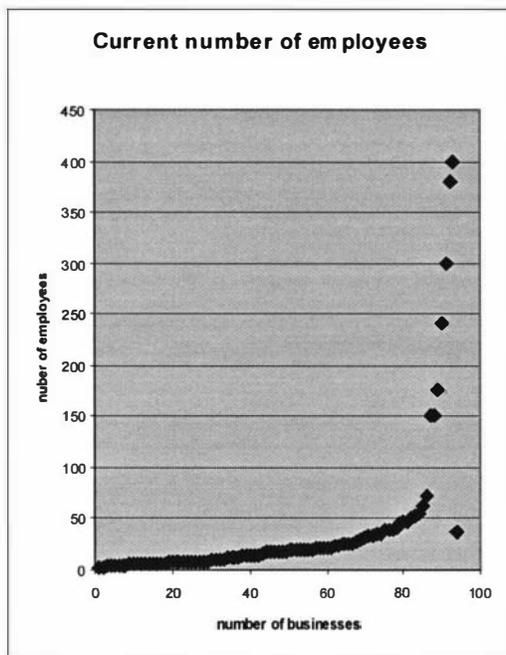
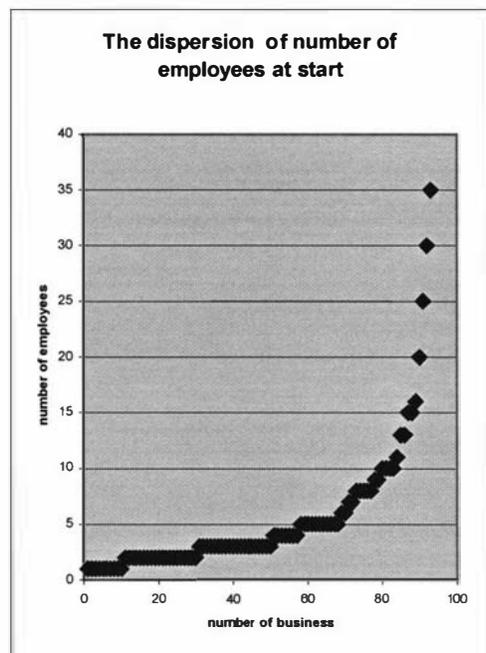


Figure 6.2 Current size of participating businesses (May, 2004)



Mode = 5 Median = 17 Mean = 40

Figure 6.3 Number of employees at the time of starting the business



Mode = 2 Median = 5 Mean = 5.5

(B) Key elements of the Saudi enterprising process

Table 6.11 The motives of the Saudi entrepreneurs

Motive	Count		Percentage		Percentage
	Male (M)	Female (F)	Male (M)	Female (F)	Overall (M) & (F)
Economic Necessity	8	1	9.0	12.5	9.3
Business opportunity	18	---	20.2	---	18.6
Life style	6	1	6.7	12.5	7.2
Make more money	30	---	33.7	---	31.0
Be creative	10	1	11.2	12.5	11.3
Independence	9	5	10.1	62.5	14.4
Unemployment	---	---	0	---	---
Partisan (national) motive	3	---	3.4	---	3.1
Social status	3	---	3.4	---	3.1
Create employment	1	---	1.1	---	1.0
Religious motive	---	---	0	---	---
Others	1	---	1.1	---	1.0
No response	---	---	---	---	---
Totals	89	8	100	100	100

Table 6.12 Barriers to entrepreneurship

Obstacle	Count		Percentage		Percentage
	Male (M)	Female (F)	Male (M)	Female (F)	Overall (M) & (F)
Finance	27	3	30.7	37.5	31.3
Lack of ideas/ opportunities	16	1	18.21	12.5	17.7
Government regulations	11	---	12.50	---	11.5
Cost involved	2	---	2.30	---	2.1
Lack of advice and information	20	---	22.70	---	20.8
Islamic values	---	---	---	---	---
Cultural constraint	9	4	10.24	50.0	13.5
Others	3	---	3.40	---	3.1
Total	88	8	100	100.0	100
No response	1	---	---	---	---
Totals	89	8			

Table 6.13 Sources of finance

Source	Count		Percentage		Percentage
	Male (M)	Female (F)	Male (M)	Female (F)	Overall (M) & (F)
Personal savings	4	2	52.8	25.0	51
Family and friends	31	5	34.8	62.5	37
Commercial financing	4	1	4.5	12.5	5
Islamic financing	0	0	0	0	0
Other sources	7	0	7.2	0	7
Total	89	8	100	100	100
No response	0	0			
Grand totals	89	8			

Table 6.14 Saudi entrepreneurs' networks

Network	Frequency	Percentage
Family and friends	45	33
Ex-colleagues	25	18
Formal/professional association	16	12
International link with similar type of business	14	10
Network of private and public organizations	8	6
Religious associations	1	1
Other associations	1	1
Not involved in any	26	19
Totals	136*	100%

* Multiple entries are allowed
 Figures represent both male and female entrepreneurs

Table 6.15 Saudi entrepreneurs and risk-taking

Risk-taking	Frequency		Percentage		Percentage (M) & (F)
	Male	Female	Male	Female	
No risk, no loss	37	3	41.6	37.5	41
No risk, no gain	52	5	58.4	62.5	59
Totals	89	8	100%	100%	100%

Table 6.16 Level of Saudi entrepreneurs' re-investment in business

Annually re-invested proportion of profit	Count		Percentage		Percentage
	Male (M)	Female (F)	Male (M)	Female (F)	Overall (M) & (F)
Above 80%	14	1	15.9	12.5	15.6
60 - 79%	12	1	13.6	12.5	13.5
40 - 59%	19	2	21.6	25.0	21.9
20 - 39%	20	3	22.7	37.5	24
Below 20%	23	1	26.1	12.5	25
Total	88	8	100	100	100
No response	1	0			
Totals	89	8			

Table 6.17 Success as viewed by Saudi entrepreneurs

Success	Frequency	Percentage
Personal Satisfaction	36	37.90
Control of one's own life	19	20.0
Good reputation of the business	7	7.37
Loyal customer base	1	1.05
Covering cost	6	6.32
Business growth	9	9.47
Employing Saudis	0	0
Employing Muslims	1	1.05
Employing others	0	0
High profitable business	7	7.37
Contributing to the development of the country	5	5.26
Fulfilling of religious duty	1	1.05
The emergence of moral and ethical entrepreneurship	1	1.05
Others	2	2.11
No response	2	
Totals	97	100

Table 6.18 Achieved level of success

Level of success	Count		Percentage		Percentage
	Male	Female	Male	Female	Overall (M) & (F)
High	23	2	25.8	25.0	25.8
Moderate	48	2	53.9	25.0	51.5
Low	14	4	15.7	50.0	18.6
No success	4	0	4.5	0	4.1
Totals	89	8	100	100	100

The typical Saudi entrepreneur

Data presented in Appendix 6 indicate that the typical Saudi entrepreneur is a male in his mid-thirties to mid-forties who regards himself to be a true and devoted Muslim. It is most likely that he started his business within the last 10 to 15 years, mainly motivated by the prospect of making more money. He is well educated and likely to hold a diploma or a university degree from an Islamic/Arabic university. Entrepreneurs with post-graduate qualifications are most likely to be educated in the West. The line of his business activity is most likely to be in the retailing, contracting or service sectors and not necessarily related to his previous personal business experience.

The typical Saudi entrepreneur comes from a family where one or more of its members have link to entrepreneurial activities. His role model could be a family member, a national figure or a successful international personality. Securing needed capital to start the business is the main obstacle in the way of his entrepreneurial endeavour. Hence, he relies heavily on his social capital and personal connections, such as family members and friends, for financing and promoting his business undertaking. Saudi women entrepreneurs regard cultural constraints to be the main barrier in their quest to prove themselves as serious entrepreneurs.

The Saudi entrepreneur has mixed feelings towards risk-taking, and his re-investment pattern in the business does not reflect long-term growth-orientation. He views success to be a personal achievement, which is frequently expressed in economic terms. He considers the level of success he achieved (in relation to his definition of success) to be moderate and acceptable.

Appendix 7

Islam and productivity: Evidence from the Holy Qur'an and the noble *Sunnah*

The claims discussed in (Chapter 3, pp. 84-86) which argued that Islam is an anti-developmental religion provided a valuable source for the survey questionnaires and interview questions. Nevertheless, the researcher felt that it would be appropriate to present an overall brief response to counter these claims purely from the Holy Qur'an and the noble *Sunnah*:

Firstly, the significance of work and the high regard for productivity in Islam are clearly demonstrated by the Qur'anic verse where The Almighty Allah addressed Mary at the time of giving birth to Jesus (PBUH). "And shake towards thyself the trunk of the Palm-tree: It will let fall fresh ripe dates upon thee" (Qur'an, 19, 25)¹. It is a fact that the hard work of a number of strong men shaking the trunk of a palm tree would not cause dates to fall. Yet, Allah Almighty ordered Mary to exert an effort despite the fact that her action (shaking the palm tree) would not yield any results on its own. The lesson to be learned from this symbolic motion is that all are expected to put forth their utmost efforts at all times. Moreover, while this Qur'anic verse highlights the importance of productivity and enforces the principle of 'being productive', it sets the rule that no rewards are to be expected without exerting due effort.

It has been narrated that the Prophet (PBUH) said "Earning a lawful (*halal*) living is an obligation (*fard*) after obligatory worship" (al-Tabarani; al-Baihaqi). The Prophet (PBUH) emphasised the importance of productivity and urged Muslims to be positive and dynamic to the end "if the moment of the truth (the end) arrives while one of you has a little plant in his hand, he should go ahead and plant it if he can"². In this authenticated hadith, which is filled with optimism and hope, the Prophet (PBUH) gave the most comprehensive response to those who claim that Islam is a religion solely

¹ Cited Qur'anic verses are referenced according to the chapter's (*surah*) number followed by the verse's (*ayah*) number. Thus the reference (Qur'an, 2, 143), for instance, refers to Verse 143 of Chapter 2.

² The cited Prophetic traditions are referenced by including the name(s) of the Muslim scholar(s) who narrated the Hadith, (in brackets, separated by ;) right after each Hadith.

focuses on the next life, and that it is short on motivation and lacks regard for this worldly life.

Secondly, Islam is the religion of moderation, even in fulfilling religious duties. “Thus have we made of you an *ummah* justly balanced” (Qur’an, 2, 143). The Prophet (PBUH) observed a man frequently spending much time in the mosque at times other than prayer times. The Prophet approached him, and asked him why he was spending so much time in the mosque, and whether he had a family to care for, “Yes Allah’s messenger”, replied the man. “Who provides for their needs”, asked the Prophet (PBUH). “My brother”, answered the man. “Your brother is more pious and devout than you are”, said the Prophet (PBUH).

Thirdly, it suffices to point out that the first Qur’anic revelation to the unlettered Prophet (PBUH) was

“Iqra” – “Proclaim! Or “Recite in the name of thy Lord and Cherisher Who created – Created mankind out of A (mere) clot of congealed blood: Proclaim! And thy Lord is Most Bountiful, He who taught (the use of) the pen, taught mankind that which he knew not” (Qur’an, 96, 1-5).

Such a revelation presents Muslims with an ongoing and an open challenge that goes beyond reading and writing, study and research to include all disciplines of knowledge (Ali, 1983). “Those truly fear Allah, among His Servants, who have knowledge” (Qur’an, 35, 28). This verse unambiguously refutes the implicit and/or explicit claim that a fundamental contradiction between Islam and reason exists. Knowledge occupies a higher prominence in Islam and constitute legitimate basis for exaltation “Allah will exalt those who have Faith amongst you, and those who have knowledge to high ranks” (Qur’an, 58, 11). The Prophet Muhammad (PBUH) also stressed the critical role that knowledge and reason play in the well-being of individuals and societies alike. “If a son of Adam dies, his good deeds come to an end except for three: charity that keeps providing benefit, knowledge that people still benefit from, and a pious child who supplicates for him” (Muslim).

Islam endeavours to build a dynamic open-minded nation based on knowledge in all facets of life. “... O my Lord! Advance me in knowledge” (Qur’an, 20, 114); “Are the possessors of knowledge equal with those who possess not knowledge? It is the possessors of understanding that are mindful” (Qur’an, 39, 9). The Prophet (PBUH) not only advised but also commanded all Muslims to seek productive and positive

knowledge “seek knowledge from the cradle to the grave”, because “seeking knowledge is an obligation upon every Muslim” (Ibn Majah; Muslim). He further demanded that acquired knowledge must be put at the service of the *ummah* because everyone will be asked at the Day of Resurrection about five matters: “on what he spent his years, in doing what he made his youth pass away, where he acquired his property from, what he spent his money on, and what he did with his knowledge (al-Tirmithi).

It is evident that Islam exploits every opportunity to emphasise the importance of pursuing and practising useful knowledge; seeking knowledge is an ongoing activity that is not bound by physical boundaries or time restriction. Acquiring beneficial knowledge including, but not limited to, religious knowledge, has a high priority in Islam. The purpose of acquiring beneficial knowledge is to employ it for the good of the *ummah*. The rewards of pursuing good knowledge are two-fold: it contributes to the well-being of the *ummah* and brings ongoing benefits to the Muslim scholar even after his worldly life ceases to be.

Fourthly, Islam is an empowering religion. It aims at creating a productive society with positive attitudes towards the hereafter without discounting the moral delights of this worldly life:

But seek, with the (wealth) which God has bestowed on thee, the Home of the Hereafter. Nor forget thy portion in this World: but do thou good, as God has been good to thee, and seek not (Occasions for) mischief in the land: For God loves not those who do mischief” (Qur’an, 28, 77).

Islam does not impose any limits on what one might achieve. Muslims are always challenged to strive to realise their full potential and reach new horizons, while preserving their identity and conforming to their value system. In his explanation of the implications of the Qur’anic verse that “a person can have nothing but what he/she strives for” –through labour (Qur’an, 53, 39), Ansari (1977, p. 374) pointed out that this verse “lays down the law that value lies in labour”, emphasising the high regard that Islam holds for productive work. A golden rule that guides Muslims through their striving to reach a balanced attitude towards his worldly life and the hereafter is for them to “prepare for their worldly life as if they are going to live forever, and prepare for the hereafter as if they are dying tomorrow”.

The majority of researchers who have attempted to investigate the impact of Islam on the attitudes and behaviours of Muslims towards economic progress overlooked a simple but a fundamental fact; the notion of development in Islam takes on a different meaning, a meaning that does not validate the Western perspective of 'development'. Islam considers economic development (economic well-being) to be a natural outcome of the realisation of spiritual well-being, hence economic development, while important, is not the overriding ambition of development from an Islamic perspective. Therefore, when development in an Islamic country is measured against Western standards, the outcome is predictable; Islam, at its best, is not a developmental religion. Furthermore, Western thinkers read Islam through the actions of (some) Muslims and justifiably assume that Muslims as individuals and states truly live out Islam, whilst the reality – as demonstrated through the accounts of Saudi entrepreneurs in Chapters 6 and 7 – does not always conform to the expectations.

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