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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

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“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.

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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.