

THEORY OF ISLAMIC ENTREPRENEURSHIP: A CONCEPTUAL PAPER

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ABSTRACT

The prime objective of this paper is to propose a new conceptual model on the theory of Islamic entrepreneurship in which the influence of Islamic laws plays a significant role in shaping Islamic entrepreneurial activity. The proposed theory has not been tested empirically and the rubrics of it is fundamentally based on three basic models of the theory of planned behaviour (TPB), the theory of bounded rationality and the theory of social entrepreneurial intentions.. The theory proposed five hypotheses to test the cohesion of the variables included in the model. The theory suggests future studies to test it empirically collating filed level data.

Keywords: Theory of Islamic Entrepreneurship, Empathy, Moral Judgment, Self-Efficacy, Perceived Social Support, Nyayah-Worshipful Intention.

Abbreviations: TPB: Theory of Planned Behaviour, PBH: Peace be Upon Him, TIE: Theory of Islamic Entrepreneurship, TBRPB: Theory of Boundedly Rational Planned Behaviour, SN: Subjective Norm, PBC: Perceived Behavioural Control.

JEL Classification: G11, DO1, DO2, DO3, M21, M31.

INTRODUCTION

The root of Islamic entrepreneurship is entrenched in Islamic tenets which can be traced back in Quranic passages interpreting and encouraging entrepreneurship as: When the prayers are ended, disperse and go in quest of Allah's bounty. Similar pro-entrepreneurial statements are also available in the Prophet Muhammad's (peace be upon him-PBH) traditions which uphold the position of a businessperson in Islam as: On the Day of Judgment, the honest, truthful Muslim merchant will rank with the martyrs of the faith; the trustworthy merchants will sit in the shadow of the throne of God on Judgment Day (Musa, 2002). In reality, Islamic economics, emerged in the early 1970s, is fundamentally different from other western economic thoughts (Hassan & Hippler, 2014). However, all of the thoughts including neoclassical economics, except behavioural economics, can broadly be characterized by a generalized assumption of 'economic man' which connotes that human beings are unboundedly rational and limitlessly selfish (Simon, 1955). And behavioural economics assumes that human rationality is subjective, bounded and limitedly selfish (Simon, 1957; 1986).

Interestingly, behavioural economics is very similar to Islamic economics which assumes that human beings are selfish as well as altruistic (Khan, 1994). This means that human rationality in Islamic economics is guided by moral obligation outlined by Islamic principles (Khan, 1994; Hassan & Hipler, 2014). Nevertheless, Islamic economics is entirely different from all other schools of economics in terms of its functionality. Islamic economics is founded on the profit and or loss sharing system, while all other schools are based on interest or

usury which is strictly prohibited by Islamic laws (Hassan & Hippler, 2014). Besides, property or asset ownership patterns are also different in Islamic economic system. Owing to these reasons, Islamic entrepreneurship is in no way as same as conventional notion of entrepreneurship. The history of Islamic entrepreneurship is as old as Islam itself. It is well-known that the Prophet of Islam (PBH) was actively involved in his uncle's business in his early age. In his youth, the Prophet (PBH) was also employed as a manager of the business belonged to a rich Lady Khadijah who became his wife afterward. In similar fashion, many of his companions were successful entrepreneurs. In fact, Islam encouraged entrepreneurship which is thus uniquely regarded as an integral part of Islamic culture and civilization (Hassan & Hippler, 2014). It is a well-known teaching of the Prophet (PBH) that nine out of ten sources of sustenance and economic well-being of an individual remains in business (Ullah et al., 2013). Thus, entrepreneurship in Islam should be seen as a moral obligation to carry out good deeds that adhere to the fundamental teachings of Islam. In this sense, the main goal of Islamic entrepreneurship is concerned not only with financial prosperity and well-being, but also with the means by which the business is carried out. As long as the means are not legal from the view point of Islamic principles, this type of entrepreneurship is forbidden in Islam (Hassan & Hippler, 2014).

METHODOLOGY

The prime goal of this article is to propose a new model of Islamic entrepreneurship, which is considered nowadays as an alternative paradigm to western capitalistic concept of entrepreneurship (Hoggarth, 2016). This outcome is thought to be the result of long persistence of sluggish economic recovery in almost all western economies. Keeping a close adherence to this reality, the last British Prime Minister David Cameron announced in his inaugural speech delivered in the 9th World Islamic Economic Forum in 2013 that:

Already London is the biggest centre for Islamic finance outside the Islamic world. But today our ambition is to go further still. I don't just want London to be a great capital of Islamic finance in the Western world. I want London to stand alongside Dubai and Kuala Lumpur as one of the great capitals of Islamic finance anywhere in the world (Ashraf, 2018).

This new model conceptually depends on the previous studies done by Ashraf (2018), Hockerts (2017); Mair & Noboa (2006) who identify boundedly rational intention and its antecedents to predict actual behaviour based on Ajzen (1991, 2002a).

RESULTS AND DISCUSSION

As the present paper is a conceptual article, it has formulated a theoretical framework of Islamic entrepreneurship based on the previous literature supports. As a result, the paper constructs five research hypotheses which would be tested collating an empirical data set in the future research endeavours. In doing so, this paper has delineated ample numbers of empirical research on the pertinent subjects of the constructs and model.

Islamic Entrepreneurship: An Overview

The influence of Islamic laws plays an important role in shaping Islamic entrepreneurial activity. Islam is the only religion on earth which emphasises on the significance of involving in economic activities that address the overall ends of society and many of the restrictions imposed on Muslim entrepreneurs are intended to censure many activities that can harm society. There

have been certain activities that are forbidden by Islamic laws and are considered detrimental from a moral perspective, such as drinking alcohol and taking part in gambling. Nevertheless, many other activities stress the importance of preserving a steady, just and balanced economy. Such restrictions also discourage to take unnecessary risks and to involve in speculation. The recent financial crisis can be mentioned as such risks which unearth many of the risks linked with the relatively unlimited economic endeavours of Western economies (Hassan & Hippler, 2014).

There is a perception that the Islamic religion does not encourage entrepreneurial behaviour which is inaccurate. In reality, involving in productive or entrepreneurial activities is immensely encouraged and even demanded in the teachings of Islam (Kayed & Hassan, 2011; Adas, 2006). Islam puts substantial importance on prayer, but equal importance is as well placed on halal (legitimate by Islamic laws) earning for a living in order to provide sustenance for oneself, one's family and society. According to Islamic principles, every Muslim is obliged to seek for making a living which is earned on a halal way. One such way of earning a productive living is through taking part in economic activities that provide for the real economic needs of society. Thus, by taking part in entrepreneurial activities, Muslims can fulfil their religious obligation to please Almighty God.

In the Islamic religion, one must be involved in any type of business activities that ought to be focused foremost on pleasing Almighty God. All business activities have to be accomplished consistent with the moral and ethical standards of Islamic practices. This means that all Muslims are obliged to fulfil their religious obligations and contribute to the overall Islamic goal of benefitting society as a whole. Observing this fact, Hassan & Hippler (2014) put forward that in a truly Islamic entrepreneurial framework, religion and economic activities are inseparable, and, as a result, the set of economic behaviours are guided not simply by secular, legal, and ethical guidelines, but by religious guidelines as well.

As fulfilling religious obligation is a prime inducement for Muslim entrepreneurs, the measures used to evaluate their success are also different from the mainstream economic rationality of conventional entrepreneurs who typically judge successes by the financial gains reaped by the business venture (Hassan & Hippler, 2014; Kaed & Hassan, 2011). Nonetheless, the religious essence of Islamic entrepreneurship connotes that success is measured not only by mundane financial success, but also by how well religious obligations are fulfilled, which may cater the entrepreneur with rewards in the life after death. As a matter of fact, this perspective is fully consistent with the conventional idea of neoclassical economic rationality that Islamic entrepreneurs maximize their utility; but, that utility is also derived through fulfilling religious duty that is not directly associated with amassing mundane financial wealth (Hassan & Hippler, 2014; Campante & Yanagizawa-Drott, 2013; Kaed & Hassan, 2011).

Theory and Past Research

The theory of Islamic entrepreneurship (TIE) has been framed based on the structure of Ajzen's (1991, 2002a) theory of planned behaviour (TPB) (Figure 1), which Ashraf (2018) had recently modified to the Theory of Boundedly Rational Planned Behaviour (TBRPB) (Figure 2) and theory of social entrepreneurial intentions (Mair & Noboa, 2006) (Figure 3). TPB is based on a generalized assumption of mainstream economics (neo-classical economics) that human beings are generally rational and infinitely selfish. This assumption is under attack by the critics of behavioural economics who put forward that human beings are subjective and boundedly rational (Simon, 1957), which is popularly known as the theory of bounded rationality.

Capitalizing this assumption of behavioural economics, Ashraf (2018) adapted TPB to TBRPB at the heart of which rational intention had been modified to boundedly rational intention toward actual behaviour. As is well-known, there have been three antecedents to intention variable such as attitude, subjective norms (SN) and perceived behavioural control (PBC) to predict concerned behaviour.

Hockerts (2017) worked on a model proposed by Mair & Noboa (2006) who were the first to advance theoretical propositions about four antecedents of social entrepreneurial intentions which they suggested to predict social entrepreneurship activity. In their model, they brought in entrepreneurial intention theory (Hockers, 2017; Krueger et al., 2000); specifically, TPB (Ajzen, 1991), which theorized that generalized rational intentions were reliable and true predictors of actual behaviour (Ashraf, 2017; Hockerts, 2017). Based on Ajzen (1991), several studies drew on entrepreneurial intentions such as Carsrud & Brännback (2009), Krueger (2009); Fayolle & Liñán (2014).

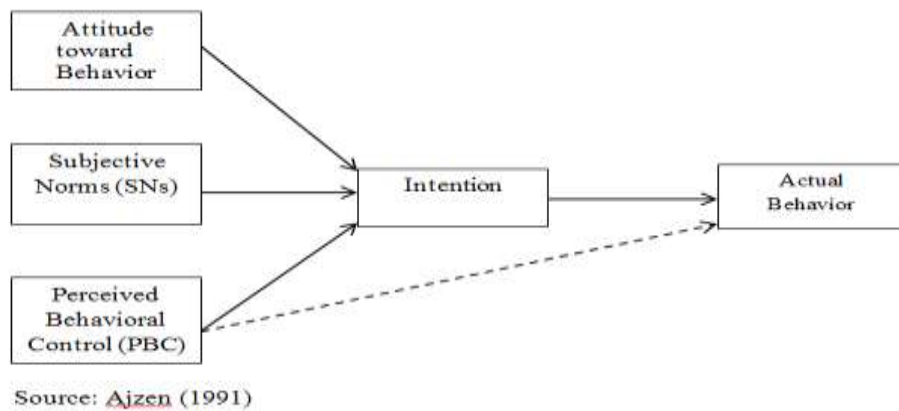


FIGURE 1
THEORY OF PLANNED BEHAVIOUR (TPB)

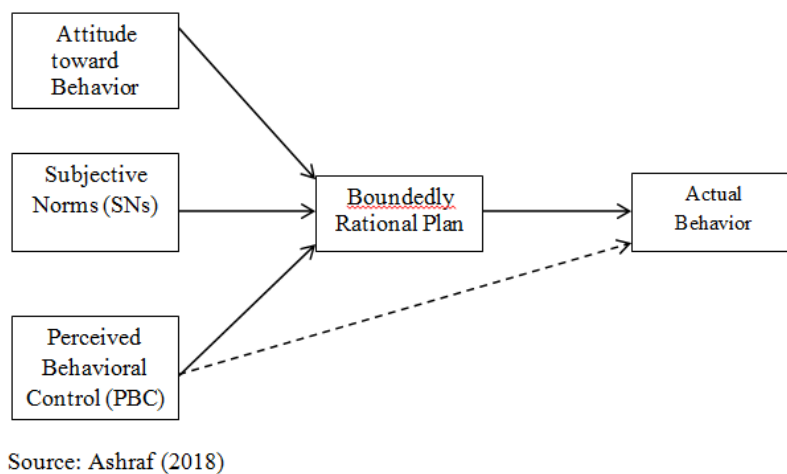
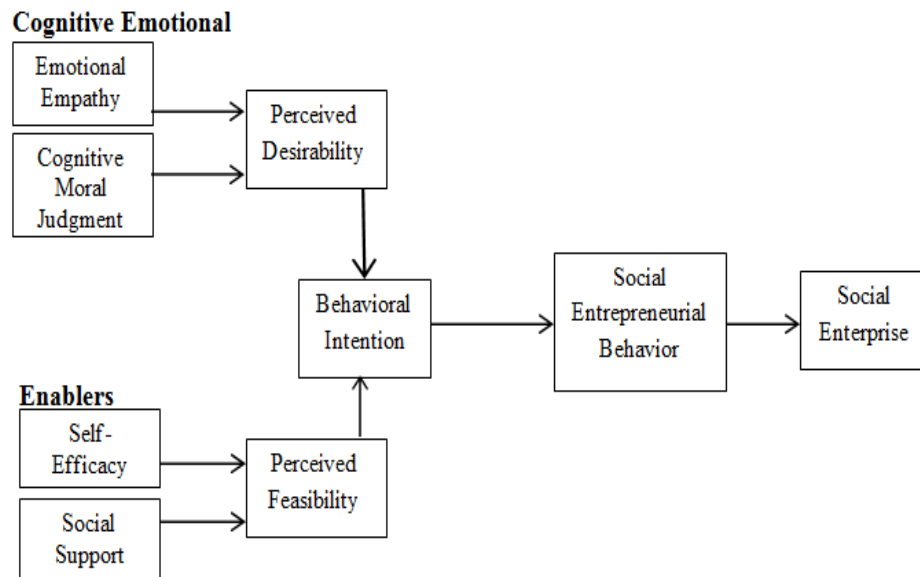


FIGURE 2
THEORY OF BOUNDEDLY RATIONAL PLANNED BEHAVIOR (TBRPB)



Source: [Mair and Noboa \(2006\)](#)

FIGURE 3
SOCIAL ENTREPRENEURSHIP INTENTION MODEL

As a general theory, TPB had been used and tested in various circumstances including entrepreneurship research to predict about rational intention and actual behaviour (Kautonen et al., 2015). In the theory, intentions were predicted by an individual's beliefs about attitude, subjective norms (SNs) and perceived behavioural control (PBC) toward actual behaviour which Ajzen (2002a) dichotomized into two separate constructs - internal and external control. Internal control was typically equated with a person's self-efficacy, whereas external control referred to a person's beliefs about the support or opposition she or he would find in the environment (Hockerts, 2017).

Mair & Noboa (2006) worked on the context of social entrepreneurship and argued that there had been several distinctive aspects of the social entrepreneurial environment which required an adaptation of the traditional measures employed in TPB and entrepreneurial intention model (Hockerts, 2017). These authors suggested adapting the antecedents put forward by Ajzen (1991, 2002a) as:

1. Empathy as a proxy for attitudes toward behaviour,
2. Moral judgment as a proxy for social norms,
3. Self-efficacy as a proxy for internal behavioural control, and
4. Perceived presence of social support as a proxy for external behavioural control (Hockerts, 2017).

Tukamushaba et al., (2011) expounded a theoretical discussion of Mair & Noboa's (2006) model and replicated it to an international context. So far, few attempts had been made to test the model. Forster and Grichnik (2013) had applied it in the context of corporate volunteering using traditional measurement scales which provided support for the model. Similarly, Hockerts (2017) tested it in the context of social entrepreneurial intentions in the international environment and provided full support for the ideas put forwarded by Mair & Noboa (2006).

However, Ernst (2011) applied TPB to social entrepreneurship research for the first time to check the intentions of social entrepreneurs. In this research the author indirectly tested the Mair & Noboa (2006) model based on traditional TPB survey items adopting from Ajzen (2002b); Liñán & Chen (2009). Findings of this study indicated that there was a partial support for the applicability of TPB to the context of social entrepreneurship. Nonetheless, some of the propositions advanced by Mair & Noboa (2006) model demonstrated contradictory results. For instance, empathy was found to negatively influence attitude toward social entrepreneurship (Mair & Noboa, 2006).

Interestingly, Hockerts (2017) has extended the Mair & Noboa (2006) model by including prior experience of individual human being with social organizations as a new variable of social exposure to influence the antecedents of social entrepreneurial intentions. In fact, Hockerts (2017) employed four independent variables (such as empathy, moral obligation, self-efficacy and perceived social support) of Mair & Noboa's (2006) model as to mediate the effect between social entrepreneurial experience and entrepreneurial intentions of the social entrepreneurs.

However, Hockerts abstained from adopting traditional approach of other studies that employed the one-size-fits all style of using scales of the items selected in the questionnaire which was developed for other empirical contexts (Bandura, 2006). Rather, in his study, he used the item scales that have been developed explicitly for usage in the context of social entrepreneurial intentions and social entrepreneurship (Hockerts, 2015). This approach, based on Bandura (2006), ensured Hockerts' (2017) analysis to be appropriate and accurate in terms of preserving explanatory and predictive value of the model.

Proposed Model and Hypotheses Development

So far, we have discussed about three basic models provided by Ajzen (1991, 2002a), Ashraf (2018); Mair & Noboa (2006) in previous discussion. Based on these models, this article aims to propose a new model of TIE retaining same antecedents of boundedly rational intention toward Islamic entrepreneurial activity. To this end, five sets of hypotheses have been developed. As mentioned earlier, the theory is primarily based on Ajzen's (1991, 2002a) TPB in which only general rationality has been modified to boundedly subjective rational intention toward actual behaviour in Ashraf's (2018) TBRPB retaining all three antecedents of TPB namely attitude toward behaviour, SN and PBC. Now in the model of TIE, those three antecedents, bounded rationality and actual behaviour of TPB have been replaced by empathy, moral obligation, self-efficacy and perceived social control, *nyyah* (worshipful intention formed with Islamic values), and Islamic entrepreneurship respectively having based on Mair & Noboa, (2006) (Figure 4).

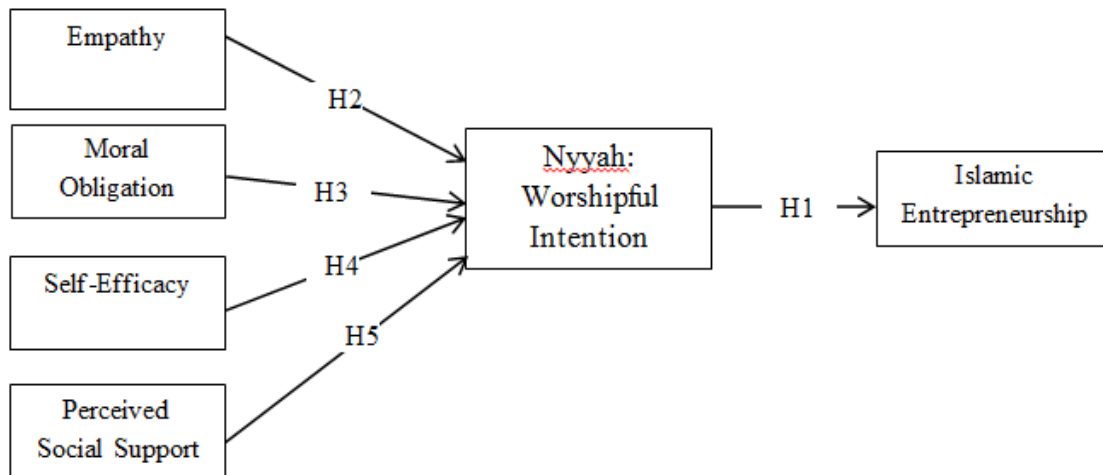


FIGURE 4
PROPOSED THEORY OF ISLAMIC ENTREPRENEURSHIP (TIE)

Nyyah (Worshipful Intention) and Islamic Entrepreneurship

Nyyah is the Arabic term which we translate into English as intention. Etymologically, nyyah means the pit of a date or a fruit kernel or stone from which something proceeds or grows. Thus, it signifies a core or centre or nucleus. In this sense, Nyyah originates in human heart where it germinates into the seeds from which the actions grow. These actions include the conceptions of minds, the speeches of tongues, and the willful sensory perceptions, gestures, and movements of bodies toward certain conceived ends. In Islam, nyyah can be translated in Arabic as worshipful intention which has a profound significance in human behaviours. It is regarded as the gist of all types of behaviours including religious duties and obligations. For this reason, the first narrative recorded in the most authentic book of the Prophet's sayings, Al-Bukhari is: Innamala'malo bin-nyyah meaning actions (behaviours) are determined by intentions. In other words, intentions precede actions. However, actions or behaviours are observable, whereas intentions are unobservable and remain subtle in the heart. For instance, the proclamation of faith of Islam is merely an utterly behaviour. It could be the solemn offering of an act of pure worship intended only for pleasing the Almighty or merely for a deliberate mundane motive which can be termed as crass hypocrisy. Hypocrisy, in this example, means that nyyah or worshipful intention has no link between belief and behaviour. This inert meaning of nyyah in Islam is, thus, the gist of the theory of Islamic entrepreneurship and the motive for which must be dictated by personal as well as societal well-being. Hence, worshipful intention can be termed here as an engine that propels a person to an exact deed of Islamic entrepreneurship.

As pointed out earlier that Islamic entrepreneurship is embedded in Islamic economics which is defined by Khan (1994) as: Islamic economics aims at the study of human falah achieved by organizing the resources of the earth on the basis of cooperation and participation. This definition embraces three key concepts: falah, resources, and cooperation and participation. The term falah is Arabic word which means success, happiness and well-being. In fact, it is difficult to find a single equivalent for this term in English language (Khan, 1994). Nevertheless, it is applicable only to Islamic contexts which comprehensively include both-worldly lives: the

life in this world as well as the life in the hereafter. According to the Scripture of Islam revealed to the Prophet (pbuh), actions such as conforming to almighty God's commands, establishing the Zakat (charity tax) and other types of donations, prohibiting ribah (interest) and instead introducing profit and/or loss sharing system, not taking intoxicants and not gambling, all lead to falah (Khan, 1994).

In the context of this worldly life, falah is a multi-dimensional concept which implies both for individual behaviour (micro-level) as well as for collective behaviour (macro-level). In the context of the life hereafter, it stands for eternal survival, eternal prosperity and everlasting glory. In Islamic views, the ultimate goal of human life is the achievement of falah in the hereafter, but it would be a great reward for one's deeds during his stay in this world. In gist, Islamic economics encompasses individual as well as collective social well-beings.

There are four categories of conditions of well-being: Spiritual (individual), Economic (individual and social), Cultural (individual and social practices) and Political (justice and security for all). From these strands of Islamic values, every individual is obligated to perform personal as well as social duties some of which are regarded as rights of her or his fellow-citizens including family, neighbours, relatives and all members of the community as a whole. In essence, Islamic economics is a normative and behavioural science. In this sense, behavioural economics is similar to Islamic economics apart from the association of interest element with it. In the present model of TIE, nyayah or worshipful intention is used in the place of generalized rational intention in Ajzen's (1991, 2002a) TPB and boundedly rational intention in Ashraf's (2018) TPRPB. Here, nyayah or worshipful Islamic entrepreneurial intention formed with Islamic values as well as Islamic entrepreneurship is thus intended not only to personal prosperity but also to social or collective well-being ensuring social justice in terms of socio-economic and political activities. Based on these arguments, empathy, moral obligation or social normative values and internal and external control can be regarded as Islamic values that may control Islamic entrepreneurial intention to influence the outcome variable of actual entrepreneurship activity which is termed here in this paper as Islamic entrepreneurship. Thus, it can be formulated that:

H1: Nyayah or worshipful intention formed with Islamic values is positively related to Islamic entrepreneurship.

Empathy

Empathy has been proposed in Mair & Noboa's (2006) model as a proxy for attitude toward actual behaviour (Hockerts 2017). This is reasonable, since attitude toward behaviour refers to awareness of an individual about an outcome of a behaviour for which an individual has either a favourable positive or unfavourable negative judgment in performing the actual behaviour (Schlaegel & Koenig, 2014). Generally empathy is perceived as a capacity of understanding and experiencing the feeling of another either in the past or present without having communicated that feeling in an objective manner. This feeling can be held in someone's imagination (Person et al., 2007, 584), or in emotion or in compassion (Niezink et al., 2012; Goetz et al., 2010). In several studies, empathy has been identified as an intuitive predictor of social entrepreneurial intention such as Hockerts, (2017); Dees (2012); Groch et al., (2012), Miller et al., (2012); Wood, (2012); London (2010).

As this study is concerned with Islamic entrepreneurship, it would be duly apposite to include cognitive empathy (the ability to assess another person's emotional state) and affective

empathy (the propensity to react to another person's emotional state) like Hockerts (2017). According to Zahn-Waxler & Radke-Yarrow (1990), affective empathy includes empathic concern which is defined by Niezink et al., (2012) as: an emotional response of compassion and concern caused by witnessing someone else in need. As one of the motivations of Islamic entrepreneurship is to improve the livelihoods of underprivileged and disadvantaged group of people of society in addition to self-improvement, intention ought to be formed with this type of inspiration that is devoted only to Islamic causes. Thus,

H2: Empathy should positively influence nyyah or worshipful intention formed with Islamic values toward Islamic entrepreneurship.

Moral Obligation

Moral obligation is one of the core values of Islam as well as Islamic economics and so as to Islamic entrepreneurship. In this study perceived subjective norms, second predictor of intention in TPB of Ajzen (1991), have been by replaced by moral obligation to influence nyyah or worshipful intention formed with Islamic values toward Islamic entrepreneurship based on Mair & Noboa (2006). According to Cialdini et al., (1990), these perceived subjective norms are actually the perceived normative beliefs about persons in an individual's environment which can also be referred to as injunctive norms, since these norms are supposed to exert social pressure that can strengthen or weaken intention (Schlaegel & Koenig, 2014). For this reason, subjective norms can be denoted as an individual's beliefs about expected and accepted behaviour (Forster & Grichnik, 2013).

However, Kaiser (2006); Ravis et al., (2009) put forward that behaviours are significantly influenced by perceived moral beliefs which is regarded as one of the cornerstones of Islamic moral standards. Thus, these can be considered as another determinant of nyyah toward Islamic entrepreneurship. In the social entrepreneurship literature, Yiu et al. (2014); Koe et al., (2010); Hemingway (2005) all find personal moral values as essential attributes of social entrepreneurs. Following similar adherence of these moral values to Islam, it can be deduced that they can also equivalently be important attributes of nyyah or Islamic entrepreneurial intention toward Islamic entrepreneurship activity.

Hockerts (2017) criticized Mair & Noboa (2006) for proposing Kohlberg's stages of moral judgment (Kohlberg, 1981) as their proxy for subjective social norms. He mentioned two points:

First, it tends to measure the reason why a person feels morally obliged but not the extent of that obligation. Second, Kohlberg's hierarchy suggests self-selected moral principles as the highest form of moral judgment, which is at variance with the TPB's view that intentions are formed by perceptions of external social norms.

For these reasons, Hockerts (2015), therefore, refers to Haines et al. (2008), who posits a belief of moral obligation between the act of moral judgment and the formation of moral intent. Following this fashion, Hockerts (2017) employs moral obligation in the place of subjective social norms rather than Kohlberg's (1981) moral judgment. This present study perceives moral obligation as one of the important determinant of nyyah or Islamic entrepreneurial worshipful intention toward Islamic entrepreneurship activity. Thus, it can be hypothesized that

H3: Moral obligation to help the disadvantaged people is positively related to nyyah or worshipful intention toward Islamic entrepreneurship.

Islamic Entrepreneurial Self-Efficacy

Based on Ajzen's (1991) predictions, Mair & Noboa (2006) refer self-efficacy as a measure of internal PBC in their model of social entrepreneurship. According to Bandura (1977), self-efficacy refers to a personal ability to perform an intended behaviour. Several studies have identified self-efficacy as a significant predictor of pro-social behaviour such as blood donation (Giles et al., 2004) and entrepreneurial behaviour (Zhao et al., 2005).

Based on Bandura's (2006) argument, Hockerts (2017) proposed self-efficacy as a predictor of social entrepreneurship. Despite many social challenges, in the studies of Mair & Noboa (2006); Simth & Woodworth (2012), strong confidence in one's ability has been proposed to be a determinant of social entrepreneurial intention. Following this argument, the present study has also theorized self-efficacy as an antecedent of nyayah or worshipful intention toward Islamic entrepreneurship activity. Hence:

H4: Self-efficacy is positively related to nyayah or worshipful intention toward Islamic entrepreneurship.

Perceived Social Support

Based on Ajzen's (2002a) model, Mair & Noboa (2006) theorized that perception of external control of an individual is an important determinant of intention. It draws on the degree of intensity of the beliefs of a person which determines the will of the individual to a particular context of behaviour. So, Mair & Noboa (2006) have postulated this to be determined by the support an individual expects to receive from societal environment. This support can be in terms of financial back up or of technological skills which an entrepreneur can have for entrepreneurship. This support is equally important for an Islamic entrepreneur for organizing an Islamic entrepreneurship. Thus:

H5: Perceived availability of social support is positively related to nyayah or worshipful intention toward Islamic entrepreneurship.

CONCLUSION

The elegance of Islamic economics, finance and banking has already been proved its worth during the last almost fifty years since it started its journey in the early 1970s (Tahir, 2017). Owing to the inability of conventional capitalistic economic system to solve the persisting sluggish economic recovery of prominent western economies, several scholars proposed Islamic economics, finance and banking as a potential alternative paradigm to solve those existing problems and to revive economic emancipations. This model is one of such endeavours which can also be viewed as a trial of recent movement of social business or entrepreneurship advanced and promoted by several economists and social activists including Nobel laureate Muhammad Yunus (Mair & Marti, 2006). This model is named as the theory of Islamic Entrepreneurship proposed as in its conceptual framework. Future research can be done collating the field level information with this framework to examine its cohesion between different variables included in the model. It is my own conjecture that this model would provide a vital framework to disclose the reality of human behaviour within the paradigm of Islamic entrepreneurship.

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