

## ISLAMIC BUSINESS LEADERSHIP MODELLING FOR SUSTAINABLE DEVELOPMENT

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### ABSTRACT

This paper explores the importance of the social dimensions of business modelling for sustained growth and profitability by highlighting the potential of the Islamic economic framework. It examines common business models and identifies those areas of strength and weakness conducive to sustainability. In this, the potential of the Islamic system is highlighted. The paper argues that the Islamic system is largely socially oriented but that this should not be misunderstood as a compromise in profitability. Rather, that sustainable growth is not a single person (or firm) journey, but a gradual, yet lasting, cooperation with society for achieving sustainable growth to the mutual benefit of all parties. By this, it is hoped that the value of social entrepreneurship is highlighted.

**Keywords:** Business Modelling, Islamic Leadership Model, Sustainable Development, Islamic Entrepreneurship Model, Sustainable Entrepreneurship.

### INTRODUCTION

Researchers frequently introduce business models and modelling based on economic gain. However, social and environmental protection runs parallel to business entrepreneurship and are indispensable for sustainable growth, as all kinds of enterprises play a vital role in economic development and creating employment whilst spurring social development (Cravoy et al, 2009). With this background, this article seeks to conceptualize a model based on Islamic values that integrates the economic, environmental, and social factors. The paper scrutinizes the distinctive features of Islamic leadership and clarifies its universal aspects in the context of business modelling for sustainable development.

From an Islamic perspective, the economic ambitions of a good Muslim leader should be sustainable. In so far as any notion of Islamic management is concerned, the following should be considered:

1. It consists of strong normative traits embodied in a vast number of Islamic restrictions and constraints.
2. Islam recognizes management as a sacred task, a part of worship (*Ibadah*) and the indication and practice of the vice-regent of Allah on earth. As such, management in Islam consist of many strict requirements including labour rights, accountability, and responsibility to the public and externality problem. Islamic principles governs every managerial process such as distribution of resources and profit, the goal and results.
3. Islam encourages people to generate wealth for the society. It stimulates Muslim imagination to create and find new knowledge and techniques to improve and facilitate a healthy lifestyle, thereby innovation and leadership are at the core of Islam.

## **THE CONCEPT OF SUSTAINABILITY**

### **Historical prospective of sustainability**

In the neo-classical standpoint, business organization is considered as a profit-maximizing entity which is assumed by an ample number of unrealistic constraints and conditions, including perfectly-informed producers, perfect price (determined by the equilibrium point of demand and supply curve, and efficient firms). Hence, market conditions are the determinant of equilibrium point, price, revenues, and consequently risk, and competition. unpredictability and randomness, which is the inherent character of market conditions. It leads to losing the opportunity for a firm to strategically manoeuvre on other competitors.

In order to address this shortcoming, Austrian economists presented an economic system within which the choice of the firm's entrepreneur is the main determinant of the competition. The disequilibrium in the market results in market imperfection, which creates opportunities. The entrepreneur needs to be quick on the draw exploiting the opportunities. Accordingly, the need of "creative destruction" would be clear. (i.e. inefficient resources will be replaced by new ones). Opportunities has been defined by Patzelt and Shepherd as "situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than their production" (Patzelt and Shepherd 2011, p. 632). These opportunities arise when the demand and supply pattern change, which in turn leads to different business environments. In addition, market imperfection in Austrian economies can be caused by creative destruction. Creative destruction connects innovation and new technologies to production, causing change in the pattern of supply and eventually demand curve, which should lead to economic gain.

To introduce the criteria for social and environmental gain some factors including increased child survival, life expectancy, education, equal opportunity, social equity, human rights, poverty and the environmental gains address issues such as pollution, deforestation, quality or foods and drinking water can be examined. The effect on and the link between economic wealth, inclusive of technological advancement, employment, and productivity is undeniable.

## **SUSTAINABLE DIMENSIONS OF ISLAMIC LEADERSHIP**

### **Perspective of Islamic finance**

Unlike the Austrian and neoclassical schools, Islamic finance considers money a tool, not the main goal in as much as money, itself, cannot be valued.

In terms of banking system, the economic aspects can be completely understood through the channel of Islamic attitudes toward ethics, wealth distribution, social and economic justice, and the role of the state. What is more, in terms of the business aspect of Islamic banking, encouraging risk sharing, individual rights and duties, property rights, and the sanctity of contracts all form the foundation of the Islamic banking system. In this matter, several microfinance dimensions are compatible with the broader goals of Islamic banking.

In regards to advocating entrepreneurship and risk sharing, there is evidences that 14 centuries ago Islam was promoting sustainable development. The belief that all socio-economic classes, including the poor, should participate in financial, banking, and all economic activities, is the best example. The severe disagreement over slavery, the high interest rest for borrowing money (Nozol), and putting social gain, instead of individuals benefit, as the main axle of economic gain, can be mentioned as well. Islamic banking and

microcredit programs may complement one another in both ideological and practical terms. This close relationship would not only provide obvious benefits for poor entrepreneurs who would otherwise be left out of credit markets, but investing in microenterprises would also give investors in Islamic banks an opportunity to diversify and earn solid returns.

### **The green principles of the Islamic finance System**

Islamic finance, more precisely termed ‘Shariah’, can be explained as the body of Islamic religious law governing economic, social, political, and cultural aspects of Islamic societies. It frames the value system of Islam, which emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. Shariah originates from the rules dictated by the Quran and its practices, and explanations rendered by the Prophet Muhammad (PBUH).

The basic principles for an Islamic financial system can be summarized as follows:

- 1) Prohibition of Interest (riba): Conventional interest on loans or savings, as a fixed return without sharing any risk, is considered unjust and accordingly is not allowed. There is a deep meaning inside this prohibition related to sustainability. More precisely, the social gain is prior to the individual benefit. Based on this rule, the possibility of inequity increase is controlled.
- 2) Risk Sharing: Because interest is prohibited, suppliers of funds become investors instead of creditors. The provider of financial capital and the entrepreneur share business risks in return for shares of the profit. Here, again, there can be a wide concept of sustainability in the parallel line with this system. The explanation is that when the risk is shared, therefore both the gained profit and the loss will be divided between the shareholders, thus the team spirit rises in the society, which can eventually lead to fairer and equal income distribution.
- 3) Prohibition of speculative behaviour: An Islamic financial system discourages hoarding and prohibits transactions featuring extreme uncertainties, gambling and risks. All these prohibitions pave the way for sustainable development. Hoarding will raise the cost of maintenance, while the society needs the commodity. The price of the hoarded goods will increase or remain higher than the society welfare, which decreases social welfare.
- 4) Sanctity of contracts: Islam upholds contractual obligations and the disclosure of information. In sales contracts, the product or service that is bought or sold must be clear to both parties. This feature is intended to reduce the risk of asymmetric information and moral hazard.
- 5) Shariah approved activities: Muslims cannot profit from activities considered immoral. Only those business activities that do not violate the rules of the Shariah qualify for investment. For example, investing in businesses dealing with alcohol, gambling, casinos, pornography, or weapons of mass destruction is not allowed.

### **A GLANCE AT ENTREPRENEURSHIP**

#### **The definition of entrepreneurship**

Bob Reiss, successful entrepreneur and author of *Low-Risk, High-Reward: Starting and Growing Your Small Business With Minimal Risk*, says: "Entrepreneurship is the recognition and pursuit of opportunity without regard to the resources you currently control, with

confidence that you can succeed, with the flexibility to change course as necessary, and with the will to rebound from setbacks"( Hupalo, 2007).

A key factor in Reiss' definition is that entrepreneurs undertake opportunities regardless of the resources the entrepreneur currently controls. Many of history's greatest entrepreneurs like Michael Dell did not start rich and successful. They ended rich and successful. Entrepreneurs find ways to acquire the resources they need to achieve their goals. One of those resources is capital. "Entrepreneurial" is often associated with venturesome or creative. They should be creative in acquiring the resources they need to build and grow their business. They think outside the box thereby improving their chances of acquiring what they need to succeed (Hupalo, 2007).

### **Entrepreneurship in Islam**

Entrepreneurship is an important part in the Islamic foundation. There are many Muslims that can be introduced as successful entrepreneurs. Islam has always encouraged all Muslims to be innovative and productive. Entrepreneurship is a strategic and dynamic area. Historically, entrepreneurship has played an essential role in the formation of the Islamic civilization from the time of the Prophet (PBUH). An entrepreneur's behaviour is bound by Shariah. The conduct of a Muslim entrepreneur is different from his non-Muslim counterpart as his or her main objective of involving in business is to be submissive to Allah, the Almighty God in every single action taken in business transaction. More precisely, entrepreneurship is an integral part of Islam. Muslim entrepreneurs are "Khalifah" and have the responsibility to develop prosperity. They view business as part of "Ibadah" or good deeds. Islam encourages Muslims to venture into business. Prophet Muhammad (PBUH) expounded that nine out of 10 sources of sustenance derives from business.

Islamic entrepreneurship should operate within the domain of the Islamic economic system and act as the vehicle towards global acceptance of that system. The guiding principles of Islamic entrepreneurship is the al-Quran and al-Hadith via the exemplary conduct of Prophet Muhammad (PBUH) (Mohd Adib Abd Muin, Islamic Business School (IBS))

### **CONCEPTUALIZING TWO PATHS OF BUSINESS MODELLING FOR SUSTAINABLE ENTREPRENEURSHIP**

There are two possible trajectories for an entrepreneur to enact opportunities for sustainable entrepreneurship. First, a firm that is established around an opportunity for social and environmental gains forms the first one and enters into market to serve disadvantaged, disfranchised people by addressing a recognized social or environmental problem. The business model of such a business inherits sustainable entrepreneurship and revolves around adjusting and honing its way of converting solutions into more competitive gains.

The evolutionary path of this firm is inherited and business modelling is path-dependent. That is, history of the firm defines how it adjust its business models. We posit that business modelling for sustainable entrepreneurship in this case involves a set of minor adjustments to the main business model of the firm. This path-dependency also helps entrepreneurs find and analyse new ways of expanding the boundaries of their firm and attract new buyers and investors. Firms that are operating in green energy, renewable energy and new recycling technologies exemplify this case. These firms are established in response to a pressing demand for clean energy and reduce environmental impacts of biofuels. They co-evolve with

new technological advancements and introduce new solutions to a wide array of environmental issues with global appeal. Through their business modelling and business model adjustments and refinements, they improve the quality of their solutions and increase their own legitimacy, which in turn leads to new investments and market opportunities.

The second trajectory is followed by firms that transform, reinvent, or metamorphose their existing or primary business model to capture opportunities for sustainable entrepreneurship. Firms that are established around opportunities with economic gain rather than social and environmental values are likely to go through this path. Particularly when these businesses are positioned in changing markets and are forced by market and industrial transitions to adopt new business models, entrepreneurs take radical actions to make major adjustments to their business model. These changes might bring enormous challenge to the firm but in many cases, they will eventually have rewarding social and environmental gains for the firm. Examples could be multinational firms operating in low-income countries that embark on massive research and development, invest heavily in new methods of production and establish entirely new businesses to develop innovative products such as the world's cheapest car, the world's cheapest laptop, etc. in order to serve disfranchised people (Anderson and Markides 2007; Markides and Sosa 2013; Markides 2008).

These strategically innovative businesses differ substantially from the established ways of doing business and adopt entirely new business models. They are essentially path-creating endeavours that illustrate how established firms can, and do, engage in social and environmental innovative activities by adopting new business models to connect disenfranchised individuals and communities with opportunities that foster social, environmental and economic gains (George, Mcgahan and Prabhu 2012). Business modelling in these firms is mainly based on the adoption of radically new business models and creating new path. As a result, in a majority of cases this strategy is utilized by large firms who benefit from high R&D capacities and financial competencies (Anderson and Markides 2007; Cespedes, Dougherty and Skinner III 2013). Business modelling for sustainable development forms is a core element of such firm's corporate entrepreneurship (Wolcott and Lippitz 2007).

To sum up, a business model can be used for sustainable entrepreneurship from the inception or it can be redirected towards opportunities for sustainable entrepreneurship. Both inherited and adopted paths require continuous adjustments and refinements as value-creating and capturing capacity of business models are constantly reduced by market changes and competitive imitation of competitors. We also contend that, developing business models for sustainable entrepreneurship is a very active field. Its dynamism is exponentially increased as social and environmental issues in the global ecosystem such as international treaties about pollution, ozone depletion, carbon footprints and institutional forces and mandates such as the United Nations Millennium Goal to reduce child death by two thirds (Patzelt and Shepherd 2011) are attracting attention. These issues, on the one hand, indicate opportunities for developing and adopting business models for sustainable entrepreneurship and on the other hand show an intensifying global competition and an influx of disequilibrating forces that threaten existing business models.

In both scenarios, business modelling is a strategic tool in the hand of entrepreneurs and, we believe, the most important growth option which enables small and large, young and established firms to move beyond traditional market efficiency philosophy towards a more social and environmental equity philosophy (Young and Tilley 2006). At a broad level, this

study makes an important step toward a dynamic appreciation of this phenomenon and its essence. In order to pave the way for research in this important yet under-studied field, we present several research directions. It is our hope that these suggestions will motivate future research directed toward a richer and deeper understanding of how business models for sustainable entrepreneurship are managed and led.

## **TOWARD A RESEARCH AGENDA**

We organize our research agenda around four directions: 1) conceptual modelling and systematic reviews. 2) Quantitative theory testing or hypo-deductive examinations. 3) Qualitative theoretical extensions and developments, and 4) mixed-methods investigations. Each direction has methodological advantages and challenges that should be fully recognized and utilized in design of future studies targeted at different questions about this field in order to develop a cumulative body of knowledge about various aspects of business modelling for social entrepreneurship. It is our contention that, progress will be made in this area of research only when some consensus is reached about how business modelling for sustainable entrepreneurship can be rigorously studied.

As an emerging line of research, linking sustainable entrepreneurship and business modelling requires fine-grained conceptualizations, conceptual enrichments and refinements. Researchers are encouraged to conceptualize and refine both development of business models and adjustment of business models for a richer picture of where, why and how this phenomenon takes place. Since business modelling is about linking opportunities to resources and reconfiguration of organizational activities, research on the nature of opportunities (here for social and environmental gains) (Sarasvathy et al. 2003) and resource-structuring (Sirmon, Hitt and Ireland 2007) offer important starting points. Similarly, conceptualizing business modelling from the perspective of the competence-based theory of competition (Freiling, Gersch and Goeke 2009) can reveal important insights to the typology and taxonomy of core or key competencies possessed by successful sustainable entrepreneurs. It can also address questions such as what makes some individuals or firms more competent in pursuing sustainable entrepreneurship and what advantageous attributes/features business modelling of such firms/individuals have.

Quantitative studies, on the other hand, can examine and test various causal relationships among various set of variables that are involved in forming and reshaping business models for sustainable entrepreneurship. Measuring design aspects of business models and (Zott and Amit 2007; Zott and Amit 2008) their capacity to capture opportunities for social entrepreneurship. Measuring entrepreneurs' beliefs in social and environmental opportunities (Shepherd, McMullen and Ennings 2007) or the speed at which they adjust their beliefs (Parker 2006) to redirect their business models and relating it to various business modelling behaviours is also a fruitful research direction. Similarly, measuring different strategic consequences of business modelling for sustainable entrepreneurship such as social and environmental wealth creation and its impacts on the communal environments through large-scale surveys could offer important benefits for scholars and policy makers. Finally, developing specific scales and measures for different aspects of this phenomenon helps scholars develop and test new theories in this field.

Qualitative investigations are, unlike quantitative examinations, more exploratory in nature. As a field in its formative stage, literature in business modelling for sustainable entrepreneurship can benefit from context-specific single or multiple case studies of

entrepreneurs who have embarked on this survey. Their stories can illuminate and inspire others and pave the way ahead of researchers and theories in this domain.

Multiple-case studies are specifically important as they can lead to important grounded theories and testable propositions for theoretical developments (Eisenhardt and Graebner 2007). Qualitative theoretical extensions and phenomenological methods (Cope 2005) are also beneficial as they offer rich insights into how business modelling in specific social entrepreneurial contexts occur and what theoretical perspective can explain and justify their occurrence and success/failure.

Finally, scholars in social sciences (Tashakkori and Teddlie 2003) increasingly use mixed-methodology designs or multi-method investigations. This approach permits the research to use a pluralistic view and create more pragmatic inferences for complex phenomena by simultaneously benefiting from advantages of qualitative and quantitative paradigms while minimizing their methodological limitations (Creswell 2002). Business modelling for sustainable entrepreneurship is a complex multifaceted phenomenon. Subsequently, combining qualitative and quantitative design as discussed in previous sections within a mixed-methodology framework can address a broader range of questions and would lead to deeper understandings of mechanism involved in and factors surrounding business modelling for sustainable entrepreneurship. In particular, nested, parallel and sequential mixed-method designs (Creswell 2002) enable scholars to adopt different contextual and temporal perspectives in order to explore and explain the interactions between emergence and dynamism of opportunities for social entrepreneurs and corresponding business modelling behaviour undertaken by the entrepreneur.

We hope these directions stimulate further investigations into exploring and explaining why, how and under what conditions business models for social entrepreneurship come to existence, evolve with markets and result in social, environmental and economic gains. We also hope that, our research directions encourage scholars to investigate why some entrepreneurs and countries are more successful than others, in recognizing the value of business models for social entrepreneurship.

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