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ENTREPRENEURIAL ETHICS – EVIDENCE FROM GCC

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Abstract

The globalization had a major impact in relocation of the investments across the world. GCC, due to many factors, represent an attractive business environment. Entrepreneurial ethics in GCC is a topic which is almost not covered in specialized literature. This study used purposive sample and aims to analyze the entrepreneurial perspectives from Islamic ethics point of view for three the most representative countries is GCC: UAE, Qatar and Oman. The research methods used in this analysis are in depth interviews and open-ended surveys along with literature review. Ethical standards seems to vary from country to contry (in this case, UAE, Qatar and Oman). From our research, it is clear that ethical standards play an integral role in the success of businesses. Entrepreneurs face various challenges in their quest to establish business. In nations that have adopted the Shari' a law, there are basic requirements that the business are required to adhere to so as not to violate the Islamic business standards. One factor that features prominently among the employees is the focus on labor laws. The business owners are required to focus on ways of ensuring that their employees are well remunerated. In terms of the entrepreneurs, the major problem relates to adherence to the regulatory and administrative issues across all three nations under consideration.

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1. Introduction

The liberalization of the market has necessitated the creation of various forms of business establishments (Acs et al., 2009). Individuals from across the globe have been able to develop different forms of businesses to fill the market niche (Hanson, 2015). The use of technology has also facilitated access to information, and as such, business enthusiasts have been in a position to collect information relating to specific needs of the market (Staniewski, Slomski & Awruk, 2015).

Ethics refers to adherence to the expected values of business operations (Andersson & Djeflat, 2013). These are the principles that guide the performance of firms within a given environment. All business ventures are required to adhere to such rules in their operations (Acs et al., 2009). Among entrepreneurs, there is an increasing need to comply with all the requirements of business establishments (Peng & Peng, 2014). However, they face various challenges due to the dynamic nature of the business environment (Ramady, 2012).

In this research, the major focus is on entrepreneurial ethics in three countries in the Gulf Cooperative Council (GCC). The countries under consideration include Oman, Qatar, and the United Arab Emirates. The survey will be based on these three countries to identify the ethical standards among the entrepreneurs and the challenges that they face in their quest to start new business ventures (Peng & Peng, 2014). The three GCC countries have been selected because they have integrated Islamic principles in the business environment. As such, the analysis of their operating environments will identify the role of religion in influencing the ethical practices in entrepreneurship.

According to Hanson (2015), an entrepreneur faces substantial challenges in his/her quest to comply with the standard values of operations. The emergence of the Small and Medium-Sized Enterprises (SMEs) has been at the forefront in promoting the development of new ethical frameworks that business establishments are required to adhere to (Hanson, 2015). Entrepreneurship forms an engine that fuels economic growth of both the developed and the developing nations (Ali, 2015). It is also taken as a remedy against high rates of unemployment across the globe as well as being a measure for the generation of employment opportunities (Staniewski & Szopinski, 2013). Other values of entrepreneurship can be attributed to the increased standards of living due to its ability to secure social security, and the prevention of social marginalization (Harris, Sapienza Bowie, 2009).

In the GCC countries, ethics plays a significant role in the growth of economic activities (Staniewski & Szopinski, 2013). One important factor that is taken into consideration is the dismal labor participation rates in most of the countries (Jennings, 2014). As a result, the GCC states have embarked on an ambitious framework with the primary aim of ensuring that the situation is resolved (Ali, 2015). One way to accomplish this issue is by increasing the share of the nations' citizens in the workforce (ISCW) (Harris, Sapienza, & Bowie, 2009). Such initiatives are known as "Qatarization," "Omanization" and "Emiratization" (Jennings, 2014). The government establishments have passed laws that require firms operating within their boundaries to employ a particular number of local employees at any given time (Staniewski, Slomski & Awruk, 2015). These are some of the ethical practices that entrepreneurs are required to take into consideration when establishing new business units (Hanson, 2016).

There are various challenges that the entrepreneurs in Oman are likely to face in their daily operations. One major challenge is the regulatory and administration issues (Aldrich & Martinez, 2001).

There are numerous licensing restrictions that potential entrepreneurs are likely to face in the Omani industry. The country is also ranked last among the GCC nations in terms of the ease of doing business. Other factors that limit the entrepreneurial ventures in Oman include macroeconomic and market conditions. Despite a massive increase in the country's GDP between \$110 million in the 1970s to \$60.3 billion in 2009, the country still lags behind in terms of exports. Therefore, the major ethical issues affecting entrepreneurs in Oman are labor regulations, ways of raising capital and adherence to the export laws in the country. The underground economy massively influences the operations of the economy in Oman. Known as *Tassatur*, the policy relates to instances whereby a foreigner (99% Indians and Pakistani) take a business license from Omani, Qatari or Emirati, and do business in their names.

For Qatar, there are regulations that are related to the code of ethics. Such policies are mostly practiced in the Qatar petroleum industry. The ethical factors in entrepreneurship include duties of entrepreneurs in terms of the general obligations, conducts, and the decision making process. The code of ethics encompasses the concept of compliance with laws and regulations, and other factors such as equality and elimination of discrimination in the business environment. There are various prohibited deeds that entrepreneurs should be made aware of when operating in Qatar. They include issues relating to confidentiality, preferential treatment and sexual harassment. The business owners are also required to show a certain level of accountability. This is in regard to disciplinary accountability and disciplinary action.

The United Arab Emirates is one of the emerging markets in the world. It is the largest populated country in the GCC and has the second highest GDP after Qatar. Like many other countries in the GCC, its main source of revenue is oil production. The country has undergone massive changes in the past. Entrepreneurs in this country are required to adhere to specific levels of ethical practices. The laws established by the emirs are binding to all of the residents. One major issue in this country is the slack labor laws.

Discussions on Islamic ethics massively depend on Shari'ah laws. Such regulations determine practices that are permissible (*halal*) and those that have been prohibited (*haram*) according to the teachings of Allah (Chau & Siu, 2000). One factor that features extensively in this case, is the Islamic law of contracts (*fiqh muamalat*). *Shari'* principles are integrated into all the aspects of transactions being conducted in Islamic banks, *takaful*, investment banks, and mutual funds (Staniewski, Slomski & Awruk, 2015). The universality can be attributed to the fact that the principles are derived from both the Quran and Sunnah. The law of *tabi'* on the other hand advocates for efficiency in the financial system. As such, despite the Shari'ah laws advocating for an equitable aspect of the Islamic financial market activities, the principle of *tabi'* indicates that the other dimensions of the market activities do not rely on explicit divine guidance. *Tabi'* in this case, refers to nature since such values are universal and are used by individuals across the globe irrespective of their faiths. In this case, the market players are encouraged to apply the knowledge based on reason and experience to understand how the market operates (Koellinger & Thurik, 2012).

There are various principles that must be taken into consideration when determining the Shari'ah legitimacy of the revenues derived from Islamic financial transactions. Some of the principles include that of risk taking (*ghorm*) and the principle of work (*kasb*) (Staniewski, Slomski & Awruk, 2015). In addition to this, the system also advocates for the inclusion of the principle of liability, accountability and

responsibility (*daman*) in determining the compliance of transactions to the Shari'ah law. Therefore, the three essential components of trading and commerce (*al-bay'*) as enjoined by the Holy Quran over usury (*riba*) include responsibility (*daman*), risk (*ghorm*) and work (*kasb*) (Chau & Siu, 2000).

Ghorm involves the concept of allowing capital to appreciate and depreciate according to the market forces (Koellinger & Thurik, 2012). This means that all forms of manipulation of the economic variables, so as to unethically benefit from the market fluctuations are prohibited. *Kasb* on the other hand, refers to the value-addition that can be imparted in the process of knowledge and skills that are essential to the business process (Staniewski, Slomski, & Awruk, 2015). *Daman* identifies the responsibility that each party to a contract is meant to fulfill. It may involve the provision of warranties on the products sold to clients (Koellinger & Thurik, 2012).

In addition to these values, the principle of equivalence counter value (*'iwad*) is also introduced into the discussion. *'Iwad* advocates for the inclusion of ethics and morals when engaging in Islamic financial transactions (Koellinger & Thurik, 2012). It promotes a sense of justice as contained in the Holy Book of Quran. It also plays an important role in ensuring that only quality products are available in the market. This is because the principle of *Iwad* assists individuals in taking a second look at the products that are regarded as Shari'ah compliant thereby playing a significant role in controlling the potential duplication of interest-bearing products that have an Islamic label (Chau & Siu, 2000).

Numerous financial practices are condemned by Islam. One such principle is *Riba*. It is defined as the unjustified increment in money borrowed or lent to an individual or an institution (Koellinger & Thurik, 2012). It is the amount paid in kind above the loan and can also be used to refer to the unwarranted increment gained by either the seller or buyer in case the goods exchanged in kind were of different quantities. According to Islamic teachings, exchanging goods of the same kind may lead to *riba*. As such, the Prophet advised all traders to use money during transactions involving the exchange of goods as a means of avoiding *riba* (Chau & Siu, 2000).

2. Problem Statement

Globalization of the economy has resulted in the increased spotlight on the role of ethics. Maintaining a strict moral code of conduct is necessary for the business (Harris, Sapienza, & Bowie, 2009). Entrepreneurs are likely to face various hurdles in their quest to adhere to the values of business operations (Andersson & Djeflat, 2013). Ethics applies in various areas in the growth of business organizations. Moreover, it determines the decisions made by the management with regards to the daily operations of the firm establishments (Peng & Peng, 2014). This paper will analyze the ethical challenges facing the entrepreneurs by taking into consideration both the personal and business factors (Andersson & Djeflat, 2013). The research focuses on three GCC nations namely Qatar, Oman, and the United Arab Emirates, and identifies the influence of the Islamic business process in the adherence to the norms (Hanson, 2015).

3. Research Questions

The following will be the major research questions in the paper:

- a. What is the impact of ethics in the business operations in Qatar, Oman, and the United Arab Emirates?
- b. What are the ethical factors that entrepreneurs should take into consideration?
- c. Are the ethical requirements universal?
- d. What is the role of Islamic business Ethics in the growth of firms in the GCC?

4. Purpose of the Study

The study mainly assesses the ethical challenges facing entrepreneurs in their quest to develop business organizations that adhere to the standards norms. It, therefore, contributes to the field of ethics since it focuses on the performance of new firms (Metcalf & Mimouni, 2011). The paper will identify the impact of ethics on the operations of businesses in Oman, Qatar and the United Arab Emirates (Harris, Sapienza, & Bowie, 2009). In addition to this, the study will identify the ethical factors that entrepreneurs must take into consideration when starting their commercial establishments (Staniewski, Slomski, & Awruk, 2015). With the use of Shari'a laws in the GCC countries, the paper will identify the ethical practices that apply universally and those that are influenced by the Islamic law (Aldrich & Martinez, 2001). Finally, it will determine the role of Islamic business ethics in the growth of Small and Medium-sized Enterprises (SMEs) in the GCC (Acs et al., 2009).

5. Research Methods

5.1. Sampling

Purposive sampling technique will be used in this paper. This sampling procedure will be able to capture a broad range of perspectives on the topic of study. This sampling technique provides identification of common themes across study participants. Considering the purpose of the research questions, the available time for the research and the resources available resources, this is the appropriate sampling technique for the research. Each country under consideration will have distinct sample sizes. From the United Arab Emirates, the research involved 23 entrepreneurs and 18 employees. Oman had 27 entrepreneurs and 21 employees in the survey. Finally, Qatar contributed 20 entrepreneurs and 14 employees.

In regard to the selection of participants, the researcher used heterogeneous or maximum variation sampling (which assures the selection of participants with diverse characteristics). This process was applied to ensure the presence of maximum variability within the primary data.

5.2. Philosophical Orientation

This research focuses on the development of a social aspect of ethics and business success. With the use of the open-ended in-depth questionnaires, the research will be asking open-ended questions that do not limit participants to answering. The managers will be asked regarding their experiences and some

of the ethical challenges that they face on a daily basis. The employees who are involved in the daily operations of the business operations will be required to identify specific areas where they witnesses violation of the ethical standards. We acknowledge the sensitivity of the research topic as well.

5.3 Data collection Methods

This will be a mixed research and as such, it will seek to obtain both qualitative and quantitative analysis. The information from the entrepreneurs will be from interviews and open-ended questionnaires. This study will use primary data to ensure that the research collects firsthand information from both the business owners and their employees.

To gather the entrepreneurs' individual perspectives and experiences, primary data will be collected from in-depth interviews and open-ended questionnaires. The detailed questionnaires that will be used will be unstructured in nature. Additionally, based on geographical dispersion of the sample groups, not all interviews will be conducted through face to face meetings. Technological factors will be integrated into the process and as such various platforms such as IMO and Skype will be used to conduct the interviews. In other instances, the interviews will be conducted through telephone.

6. Findings

There were diverse response rates in the countries that participated in the research. Among the entrepreneurs 93%, 95%, and 98% responses were obtained for Oman, United Arab Emirates, and Qatar respectively. The results obtained from the research can be divided into two major sets. One section of the outcomes relates to the employees of smallest companies in the three nations. The second part will analyze the responses of the entrepreneurs.

For entrepreneurs starting small businesses, there is a need to get assistance from employees in managing the business. The decision on the number of staff was highly influenced by the size of resources within the business organization and the customer base. 73%, 78% and 67% of responses from Oman, Qatar, and United Arab Emirates respectively established that there were similarities in the responses issued by the entrepreneurs. The primary challenge was established to be based on the relationship with families. Since most of the new ventures took between forty and sixty hours per week, most of the entrepreneurs declared that they had a problem in maintaining families. Entrepreneurs from Oman (87%), United Arab Emirate (81), and Qatar (73%) acknowledged that they had experienced family disputes as a result of their entrepreneurial decisions.

Another issue that was raised by the respondents related to the ownership of intellectual property rights (Baron, 2007). The entrepreneurs felt that due to their movement from one company to the other depending on the expected returns, they were likely to commit intellectual property fraud. Of the respondents from Oman, 67% felt that indeed intellectual property rights affected their operations. The number was significantly lower for United Arab Emirates (35%). Finally, 46% of the responses from Oman believed that intellectual property fraud inhibited their growth.

Funding was also identified as a challenge among the entrepreneurs and some of them had to lie to the financiers. The deceit could have been necessitated by the desperate need for the venture capitalists. 2%, 8%, and 5% of the participants from Oman, Qatar, and United Arab Emirates respectively declared

that they had lied at one point in order to attract financiers. The number was relatively higher in the case of entrepreneurs who were seeking venture capitalists in order to launch their products. As such, they had engaged in practices that were considered as *halal* according to the Islamic faith. When entering into agreements in Islamic business, it is essential to consider the Islamic law of contracts (*fiqh muamalat*). This influences the nature of transactions conducted by banks, *takaful*, investment banks, and mutual funds

The workers in the small companies (between two and twenty-four workers) gave a series of insights regarding their experiences. Of the total employees involved in the research on ethical perspective, 36%, 38% and 26% from Oman, Qatar, and the United Arab Emirates respectively stated that they had observed misconduct in their daily operations within the business establishments.

The ethical standard seemed to vary per country. Oman had the highest average of employees who believed that their organization had strong ethics learning cultures. She was followed by United Arab Emirates and finally Qatar. The outcomes were 98%, 93% and 89% respectively. The employees also considered a majority of the ethical violations to be isolated cases. Other employees identified misconduct as one of the factors that affected the operations of the company. However, most agreed that the management were committed to ethical standards.

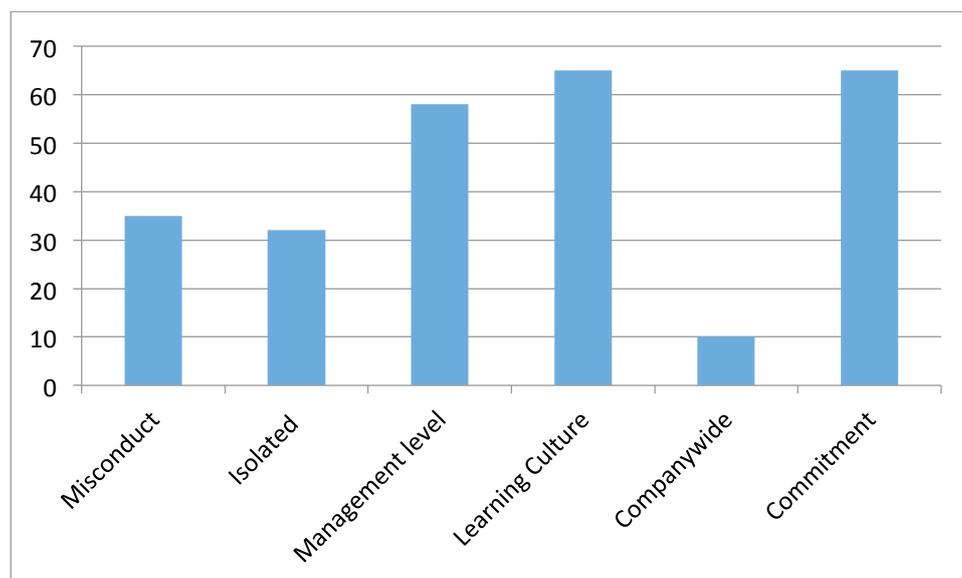


Figure 01. Opinions on unethical practices by employees

The research also identified the common forms of misconduct within the organizations. 15% of the responses indicated that the unethical practices were in the shape of anticompetitive practices. On the other hand, 13% believed that lying to employees amounted to unethical practices. 12% and 10% were associated with abusive behavior and lying to customers respectively. 10% of unethical practices were also caused by conflicts of interest. Finally, the violation of health and safety regulations also amounted to 10% of the most common unethical practices within the entrepreneurial ventures.



Figure 02. Forms of unethical Behavior

7. Conclusion

From the above research, it is clear that ethical standards play an integral role in the success of businesses. Entrepreneurs face various challenges in their quest to establish business. In nations that have adopted the Shari' a law, there are basic requirements that the business are required to adhere to so as not to violate the Islamic business standards. The entrepreneurs should also take into consideration the existing Islamic financial products when seeking to start new business ventures. This is especially the case where business organizations come into a partnership such as in Musharakah.

The entrepreneurial ethics in countries are affected by various factors. In this case, Oman has a long way to go in order to match other countries in terms of the implementation of policies. However, with the implementation of various strategies, it is making the necessary strides towards achieving efficiency. One factor that features prominently among the employees is the focus on labor laws. The business owners are required to focus on ways of ensuring that their employees are well remunerated. In terms of the entrepreneurs, the major problem relates to adherence to the regulatory and administrative issues across all three nations under consideration.

From the above analysis, it is evident that ethics plays a significant role in the operations of business organizations. To begin, the ethical standards govern the business activities by emphasizing the need to focus on laws and regulations within the corporate environment. Additionally, through the formulation of ethics, consumers are shielded from exploitative individuals. Some of the ethical practices taken into consideration by entrepreneurs include adherence to labor laws, social corporate governance, and implementation of the fair competition practices within a given industry. Some of the ethical practices are universal and all entrepreneurs must take them into consideration when engaging in business operations. For example, the International Labor Organization (ILO) is mandated with ensuring that all its signatories are in complete adherence of its conventions and resolutions.

However, for the GCC nations, there is an added framework of operations. This is in reference to the need to integrate Islamic business ethics in their operations. As such, not only do they have to comply

with the normal ethical practices, but they also ensure that all decisions made are in line with the Shari‘a laws. Based on this analysis, it is evident that the research attained its primary objective. The research outcomes identified the impact of ethics in business operations in Oman, Qatar, and the United Arab Emirates. Additionally, the employees identified some of the ethical factors that influenced the business operations. Finally, the survey results identified various Islamic concepts that had to be taken into consideration by the entrepreneurs when establishing their businesses.

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