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A CASE STUDY ON MUSLIM BUSINESS OWNERS IN SACRAMENTO

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Access to Capital in the Absence of Religiously
Appropriate Financial Products: A Case Study on
Muslim Business Owners in Sacramento

By

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THESIS

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ABSTRACT

Religious law prohibiting the use of interest presents a particular challenge for Muslim business owners all across the United States. Recently, Islamic financing in America has gained much attention as it offers alternatives to the growing Muslim market in America. Little research exists, however, that assess the challenges (and their implications) that Muslim business owners face in accessing financial resources. This thesis addresses the question of how business owners have accessed capital in the absence of religiously appropriate financial products. The study investigates the role of religious commitment in shaping the decisions of a subset of Muslim business owners and offers a means to understand what factors best indicate one's predisposition to use Islamic Financing Products.

To explore these questions, 19 small business owners within the Sacramento area, (identified via purposive, snowball sampling) were surveyed and interviewed. Overall, the sample demonstrated a high level of religious commitment and surprisingly the level of religious commitment did not necessarily correspond with past borrowing practices nor did it equate to one's openness toward Islamic financing products.

Even though a large portion of my sample was found to have utilized non-interest bearing financing, a market of Islamic Financing Products was identified. Those who had used conventional products in the past or had experienced problems in obtaining financing seemed more inclined to such products. Additionally, a distinguishing characteristic of businesses willing to consider Islamic financing products were those that noted a religious influence on their product line, possibly uncovering a more religiously motivated decision than financing itself.

PREFACE

This thesis represents the culmination of my graduate school experience in Community and Regional Development at the University of California, Davis. I enrolled in the inter-disciplinary graduate program at Davis in the Fall of 2004 with a general interest in economics. It was not until taking a Community and Economic Development course with the late Dr. Ted Bradshaw that a real passion for local economic development took hold within me. In this course, graduate students participated in a project in which we offered practical strategies for local development for the Capay Valley Region of California.

Following this project, I had the opportunity to intern at a Community Development Financial Institution (CDFI), California Capital, in Sacramento, California. Through my internship I discovered an interest in the sociological dimension of economic development – specifically, how culture influences the different processes of community and economic development. That is, the target market for California Capital’s programs was (and remains) underserved communities, in particular, low-to-moderate income individuals, ethnic minorities, and recent immigrants. During my internship, an issue that frequently arose was the possible presence of overlooked cultural barriers within these communities. We were faced with practical dilemmas at the interface of sociology and economic development – for example, did Latino immigrants feel uncomfortable addressing financial literacy topic, such as budgeting and savings, in a classroom setting? Or, did African Americans feel mistrustful towards mainstream banks? Faced with these questions, I could not help but look inward. As the child of Muslim immigrants from the Middle East, what challenges had individuals like my parents faced in accessing capital? What nuances had religious dictates added to these challenges? Would Muslim business owners be interested in culturally appropriate financing products? What follows is my determined attempt to answer these questions.

CHAPTER 1: INTRODUCTION AND RESEARCH QUESTION

In seeking to achieve an economic system based upon fairness and justice, Islam dictates the prohibition of interest. This religious law against the use of interest presents a particular challenge for Muslim business owners all across America. While many case studies and explanatory theories have been written about minority-owned businesses and immigrant entrepreneurs and their experiences in the United States (Light and Bhachu 1993; Portes and Rumbaut 1996; Light and Gold 2000), little research exists that describes the challenges Muslim business owners face in accessing financial resources in a capitalistic, interest-based economy. In this thesis, I seek to meet this deficiency. Specifically, I aim to describe the economic character of Muslim-owned businesses and their ownership in a specific metropolitan area, Sacramento County, and learn how these businesses have accessed capital in the absence of religiously adequate financial products. The overarching question to be addressed, therefore, is: How have Muslim business owners accessed capital in the absence of religiously appropriate financial products?

Small Businesses

Enduring over time and through economic shifts, small businesses have long been the hallmark of America's economy. From the early 1830s, French writer and social commentator Alexis de Tocqueville noted "What astonishes me in the United States is not so much the marvelous grandeur of some undertakings as the innumerable multitude of small ones" (Tocqueville 1835, as cited in Blackford 1991:1). Over a century later, President Ronald Reagan asserted that a "strong small business record" should be "a national priority" – for only through the continued development of small enterprises could "all Americans who wish...turn ideas and dreams into businesses and jobs" (United States 1988, as cited in

Blackford 1991:1). From the founding of the first colonies in the 1600s to the present day, small businesses have been integral to the economic, political, and cultural development of the United States. On a more personal level, it has been said that Americans have a love-affair with small businesses. Ownership is seen as an integral part of both the economic development and the “American dream.” “From the time of Thomas Jefferson to the present, many Americans have seen the owners of small businesses as epitomizing all that is best about the American way of life”(p. 8).

Historically, small businesses have created opportunities for women, minorities, and immigrants, serving as an essential mechanism by which millions have entered the economic and social mainstream. Such a contribution holds true even today. Reports, both statewide and nationally, indicate that small business numbers are on the rise. Experts say that this continuing wave of new entrepreneurs is fueled by two classic factors: a poor job market and low-interest rates (Pulley 2004). Immigrant and ethnic families dominate most of the emerging business market. Peter Siegel, a principal at California Businesses for Sale, says that “immigrants now comprise roughly 75% of all small businesses statewide” (Pulley 2004).

In Sacramento, California, this diversity expands beyond the small business market and into the region’s population. In 2002, *Time Magazine* named Sacramento as “America’s Most Diverse City” (Stodghill and Bower 2002). With such diversity, one would expect a large number of minority-immigrant-owned businesses throughout the region. Many local business leaders, however, claim that “Sacramento is lagging in minority-owned businesses,” (Flores 2006: 32) especially given its diverse population.

Muslims in America

Why, with Sacramento's diverse population and possibly lagging small business market, focus on the Muslim population? This research is significant in the economic, political, and social realms. Since the September 11th attacks on the United States and the subsequent "War on Terror," a deeper understanding of Muslims in America, their experiences and their communities has become all the more crucial. Additionally, in today's increasingly interconnected global society, growing economic, political, and cultural interdependence reemphasizes this direly needed understanding. Today, Islam is among the fastest growing religions in the United States and on the verge of becoming the country's second largest religion (Afridi 2001). There are between 6 million and 12 million people in the United States that call themselves Muslim. As a whole, it has been said that the US has the most ethnically diverse community of Muslims in the world.

One estimate places 20% of U.S. Muslim population in California (Leonard 2003: 52). In fact, Sacramento is home to one of the oldest Muslim communities in America. It has the oldest mosque west of the Mississippi River, and eight additional mosques, "several Islamic schools, and a Muslim cemetery" (Magagnini 2001). It is also has a large and diverse population of Muslims. "Community leaders estimate 35,000 Muslims live in the Sacramento Area" (Magagnini 2001).

Islamic Finance

Common to the worldwide community of Muslims is the religious ruling against the use of interest in finance. Theoretically, all Islamic financial products share one trait, the absence of interest – either assessed or paid. Although historical circumstances have seen challenges to this fixed rule, there has been a recent resurgence of interest in Islamic finance. Why? According to Dickerson, “Islamic finance, a touchstone of Muslim life for 14 centuries, withered under colonial rule as Muslim countries bowed to Western laws and business practices. The system has made a dramatic comeback in the last 20 years, fueled by independence, revolution, oil wealth, and Islam’s emergence as the world’s fastest growing-religion, with more than 1 billion followers worldwide” (Dickerson 1999). Domestically, circumstances differ. “Banks have been slow to respond to the needs of mainstream Muslim investors because they are either unable or unwilling to appreciate the huge potential of the retail market in the West,” said Hasnita Hashim, one of the founders of Islamiq.com, the world’s first Internet portal offering financial services that follow strict Islamic principles (Wall 2001). Increasingly, however, banks are now competing for a slice of this market, especially as America’s Muslim population continues to surge.

Such a trend is encouraging, especially given its nonexistence a mere two decades ago. However, the trend transcends beyond simply offering a product or service that has been unavailable in the past. Its implications are significant – presenting alternatives so that a community is not left jeopardizing religious commitment and practices due to lack of options. In the realm of small business development, opening a business is a challenge in and of itself. Beyond worrying about location, paperwork, and inventory, owners may be left with the unnecessary burden of consciously worrying about whether they have violated their religious principles in pursuit of entrepreneurship and the American dream.

Moreover, in “the age of capitalism, the strength and sovereignty of a community is largely determined by the resilience of its business sector. Across the value chain of business, Muslim businesses are still among the youngest and most undercapitalized” (Khan 2005). Little information is available that captures both aspects of religious law and the actual lived experiences of Muslim businesses and their owners. My research question offers an opportunity to examine where the Sacramento Muslim small business owners stand today in relation to the larger small business arena. Furthermore, the research on the experience of Muslim business owners facilitates a clearer understanding of how Muslims behave in the real world and “how marriage between theory (religious law) and practice can be accommodated” (Dar and Presley 1999:8). In addressing this question, a subset of smaller questions focusing on owners’ financing decisions and the role of religion will also be posed: What does *Shari’ah*-compliant financing mean for small businesses? What have owners done without Islamic financing alternatives? Would they have preferred another method? What challenges do business owners face in opening and running their businesses? Has the absence of religiously appropriate products presented additional obstacles to opening a business? What indicators or business characteristics best predict one’s inclination toward Islamic financing products? How do the experiences of Muslim business owners compare to those of immigrant entrepreneurs?

Research Implications

Through this study, I aim to understand the role of religious commitment in shaping the decisions of a subset of Muslim business owners. For instance, can one expect that the more religious an individual claims to be, the less likely he or she would employ interest-based financing? What role does religious commitment play in their decision-making? And,

is the availability of religiously appropriate products the easy solution to the specific challenge Muslim business owners face in America? These questions and the overall study are of particular importance to the Muslim community as it provides a lens to understand the central question of their assimilation and integration into American society through the pursuit of economic self-reliance. The Muslim community in America has been noted as “one of the most diverse communities in America” (Haniff 2003:309). This diversity provides additional insight on the interaction of various ethnic and cultural dynamics in the process of business owner’s preferences and avenues utilized. “As the community is becoming more visible and making headway in its efforts to move into the mainstream” (Afridi 2001:2) and as organizations slowly emerge all over the nation to address the U.S. Muslim community’s unique financial needs, it is all the more necessary as well advantageous to both the consumer and provider to understand the interaction of the religion, ethnicity, and culture. And, in light of recent world events, a new dialogue about Islam in America is of utmost importance. Through this study, I seek to contribute to this dialogue.

In the broader small business development field, by addressing the challenges faced by Muslim business owners in an interest-based economy, this study represents a step towards understanding the larger question of the need for culturally accommodating programs and services. As Bradshaw and Blakely point out in *Planning Local Economic Development: Theory and Practice*, “Business development is the most important component of local economic planning because the attraction, creation, or retention of business activities is the best way to build and maintain a healthy local economy” (2002:217). Mainstream financial institutions have long been criticized for neglecting the needs of the minorities and low-income populations. Understanding the role of culture in financing decisions provides a means to amend this historic neglect. Additionally, America has a long-standing reputation

of being the “land of opportunity.” Small businesses have historically been an avenue for disadvantaged minorities to achieve upward social and economic mobility in the United States. This thesis is one approach to understand obstacles that often limit economic development and may potentially force potential entrepreneurs to compromise their religious or cultural practices.

To my knowledge, this thesis is the first to bring together these topics and issues under one study.

This thesis begins (Chapter 2) with a description of the key concepts my research encompasses – specifically, small business ownership with an emphasis on immigrant entrepreneurship, Islamic finance, and the present-day demographics of Muslims in America. Next, in Chapter 3, I discuss the methodology and tools I utilize in addressing my research question and selecting my sample. In Chapter 4, I then describe the characteristics of my sample, comparing these characteristics with data available on the larger population of small business owners and Muslims in America, and present the main results of my interview questions. Chapter 5 includes a discussion of main findings and their implications. Lastly, I conclude with the summary of my research limitations along with identifying possible next steps in gaining a deeper understanding of the dynamics inherent in the diverse American Muslim community.

CHAPTER 2: LITERATURE REVIEW

This chapter builds on the diverse set of concepts that were briefly introduced in the opening chapter. I begin with a discussion of the many aspects of small business ownership and the interaction of a variety of personal and societal factors in shaping the experiences of immigrant entrepreneurs. I then address the prohibition of interest in Islam, the parameters of this restriction, general attitudes within the community, and contemporary financing practices. Lastly, I conclude this chapter with a general description of Muslims in America.

SMALL BUSINESS OWNERSHIP

The following section addresses small business ownership, this study's unit of analysis. Since my research instruments incorporated certain questions as a means to understand the ownership experiences of my sample, it is important to address the factors that shape the experiences of small business owners in general. Understanding these factors provides a point of reference for comparison. As such, a brief discussion follows on business owners' motives for going to business and the common challenges they encounter. The role family members often play in business ownership is also addressed in general and as it relates to the experiences of immigrant entrepreneurs. Additionally, given that roughly two-thirds (64%) of the United States Muslim population is foreign born (Haniff 2003:308), a significant portion of this section is devoted to immigrant entrepreneurship. Specifically, I focus on their presence in the small business market and general theories on their pathways to business ownership. It is worth noting here that the members of my sample, Muslims in America, are minorities twice over, in that they are both immigrants and members of a religious minority.

Motives of Business Owners

When asked how an owner decides to go into business, there exists a plethora of reasons that are often unique to each individual's circumstances. Generally speaking, experts on motives for self employment note "career histories and specific career trajectories tend to push or pull someone into self-employment" (Renzulli, Aldrich and Moody 2000:530). In short, push factors force, whereas pull factors entice. Some studies point to unemployment as a major push factor. On the other hand, research indicates that the majority of new owners tend to have full-time employment prior to ownership (Reynolds and Whilte1997; Carter 1997; Aldrich, Renzulli and Langton 1998; Manser and Picot 1999 as cited in Renzulli et al. 2000) which suggests that self-employment is more a matter of choice, linked perhaps to pull factors. Pull factors often identified in literature include "personal freedom, independence gained from being one's own boss, personal satisfaction, a less rigid, more flexible lifestyle, and greater job satisfaction" (Brush 1992; Birley and Westhead 1994; LeCornu et al. 1996; Losocco 1997 as cited in Walker and Brown 2004: 579). And while economic factors, such as making money, are most likely extremely important, less tangible pull factors are equally motivators for the self-employment. A study by Fielden and colleagues has indicated that even though a large portion of their sample, 88%, did list money as a motivator, a comparatively equally large portion, 71%, mentioned that job satisfaction, greater independence, creating opportunities, encountering new challenges, and pursuing one's own interests were also criteria of real importance to the sample of business owners (Fielden et al. 2000 as cited in Walker and Brown 2004: 579). Such findings demonstrate how small business ownership is a rewarding experience that many aspire to. Despite all the anxiety and stress that goes hand-in-hand with both opening and operating a

small business, most small business owners derive a great degree of satisfaction from being “their own decision maker, rather than the recipient of decisions made by others” (p. 579).

Role of Family in Small Businesses

With small businesses often shaping a significant portion of a business owner’s personal life, family involvement (in one form or another) seems to be an essential component of many small businesses. Even prior to opening one’s own firm, studies have found that entrepreneurs are more likely to come from families which a parent or close relative owned a business (Cooper and Dunkelberg 1986).

Family involvement or participation in a small business can range from co-ownership to formal employment to daily unpaid practical support (Baines and Wheelock 1998: 23). Their level of support at the start-up phase of a business is seen to be even more critical as found in a study that investigated the extent entrepreneurs capitalized on resources embedded in the family. Critical forms of support at the initial stages were to “help promote the entrepreneurial concept and help with opportunity identification, especially the provision of finance” (Anderson, Jack, and Dodd 2005: 148). In fact, the relationship of the entrepreneur’s family to the new enterprise can be a determining factor in either “making or breaking” a business. Oftentimes, the initial capital to fund a venture generally comes from personal and family assets, “thus the family’s willingness to support the venture financially is a critical variable” (Dyer and Handler 1994: 73). And, family involvement can transcend beyond the financial aspect as they can provide other resources such as access to markets, sources of supply, and technology.

The Challenges

Opening and running a small business can be a daunting endeavor. From the initial investment to ensuring a sustainable, profitable venture, to juggling work and personal life, business owners encounter many challenges throughout the operation of their firms. One of the most challenging aspects of starting a business is the initial financial investment the firm demands. In the case of small businesses, scholars have repeatedly shown that for half a century, “small business start-ups depend more heavily upon owner’s savings rather than upon bank loans” (Light 1972 as cited in Light and Gold 2000: 85). The US Census Bureau 1987 Economic Censuses: Characteristics of Business Owners (CBO), which has historically been a principal source for many studies focusing on business survival, found that “70% of all ethnoracial groups [Hispanic, Black, Asian, Women, and White males] did not borrow money in order to start their own businesses (U.S. Census Bureau 1987 as cited in Light and Gold 2000: 85). Of the 30% who did borrow, “as many borrowed from family, friends, and kin as borrowed from banks” (p. 85). A more recent U.S. Census Bureau’s Survey of Business Owners: CBO (in 2002¹) found that “more than 6-in-10 of the nation’s small businesses reported using money or assets of their own or from families to start or acquire a business.”

In *Ethnic Economies*, Ivan Light and Steven Gold attribute the phenomenon of business owner dependence on personal finances for start-up financing to “banks for historically ignoring the capital needs of small business owners of every ethno-racial background” (2000: 86). Small business start-ups, therefore, have always depended most upon savings of owners and secondarily upon the loans from family and friends. This

¹ 2002 is the most recent year for which the Survey of Business Owners data is available.

dependence has certain implications, however, for immigrant populations who may lack the resources for an accessible stash of savings or the presence a strong family network.

Presence of Immigrants in Small Business Arena

How, then, do the experiences of Muslim business owners compare to those of immigrant entrepreneurs? First, it is important to note that the rate of entrepreneurial activity among immigrants is significantly higher than that among the native-born population, 35% to 27% (Fairlie 2007:4), a trend that, in and of itself, has generated much research and debate (Portes 1995:25). Given both the historic trend and high saturation of immigrants in the self-employment sector, business enterprise has long been identified as an important tool that contributes to the incorporation of immigrants into American society. It would not be possible however, to discuss this concept without a broad discussion on the contemporary theories on their modes of incorporation as they relate to their pathways to entrepreneurship.

Over the past twenty-five years, there have been several conceptual and analytic shifts in the study of immigrant incorporation in the United States. The main shifts are outlined in Table 2.1 on the following page and a discussion of the various theories on immigrant's incorporation processes follows.

Conceptual and Analytic Shifts in Study of Immigrant Incorporation in the US	
<i>Shift in focus from</i>	→ <i>To focus on:</i>
<ul style="list-style-type: none"> ▪ Immigrants and their efforts to adapt to their new environments 	Interaction between immigrants and the structure of American society
<ul style="list-style-type: none"> ▪ Cultural variables 	Structural/economic variables (i.e. the conditions of labor markets and skills of immigrants)
<ul style="list-style-type: none"> ▪ Single model identifying various steps or stages in the process of incorporation (i.e. assimilation) 	Coexistence of several models, a variety of conditions and possible outcomes
<p><i>Source: Heisler, Barbara; "The Sociology of Immigration From Assimilation to Segmented Integration, from the American Experience to the Global Area"</i></p>	

Table 2.1: Conceptual and Analytic Shifts in Study of Immigrant Incorporation

Immigrant Incorporation Processes

Portes and Zhou (1992) define assimilation as a “mechanism for socializing culturally diverse groups into common normative expectations so that they can join the mainstream” (cited in Light and Gold 2000: 57). Although assimilation theory continues to evolve, it still proclaims that economic self-interest prompts immigrants to acculturate and assimilate, meaning that in order to obtain well-paid jobs in the general labor market, adults abandon their childhood ethnic attachments, including their native language (p. 57).

In the past, assimilation has often been noted as an overarching terminology for the process of immigrant incorporation. It continues, however, to be a topic of much debate as many social scientists reject the terminology “as imposing ethnocentric and patronizing demands on minorities” (Clark 2003: 12). In fact, proposing a modification to the classic assimilationist generalization, Light and Gold label the theory as “overstrong” (Light and Gold 2000: 57). In at least some cases, they have found that in reference to immigrant self-

employment, they now realize that “ethnic ownership economies² render slow assimilation more lucrative than fast, and non-assimilation more lucrative than assimilation.” Rather than the motive of economic self-interest and mobility promoting acculturation, they argue that it can also work in the opposite direction, leading to the retention of ethnic cultural heritage and circumvention of the economic mainstream.

Influencing Factors in Pathway to Immigrant Entrepreneurship

Whether business ownership is truly the means by which many immigrants enter into the “mainstream” or on the other hand, if self-employment serves as an avenue to retain cultural heritage is still debatable. Nevertheless, many scholars have analyzed the strong presence of immigrants in the small business sector as a doorway to understand the interaction between the foreign-born and the broader American society. In *Ethnic Entrepreneurs: Immigrant Businesses in Industrial Societies*, Roger Waldinger, Howard Aldrich, Robin Ward, and Associates hypothesize that some immigrants are predisposed to business and that they are able to draw on informal ethnic resources that give them a competitive edge (1990). Waldinger and colleagues emphasize the fit between immigrant firms and the environment in which they function. This environment includes economic and social conditions as well as the unique historical conditions encountered at the time of immigration. They propose that the mere process of immigration – leaving one’s home to take up a life in a new society – is self-selective, i.e. immigrants that have successfully navigated this transition are more likely to be risk-takers. This process enables immigrants

² Ivan Light and Steven Gold (2000) define “ethnic ownership economy” as an ethnic economy made up of self-employed, employers, unpaid family workers, and coethnic employees. An ethnic economy consists of business owners and their coethnic helpers and workers (p. 24).

to be “more able, better prepared, and more inclined toward risk than those who stay home” (1990: 32).

In the past, immigrant entrepreneurship was originally attributed to the discrimination faced by newcomers in the American labor market, forcing many to seek alternative means for survival. As noted earlier, motives for going into business vary from each individual. Specifically for the immigrant entrepreneur, “subsequent research has shown that the motivations for engaging in independent enterprise are manifold and the results are not limited to a simple escape from destitution” (Portes 1995: 25). Waldinger and his colleagues organize the conditions that influence the self-employment process into three temporal categories (1990: 41). They note that no single characteristic will in and of itself determine the level of self-employment. Rather, the critical factor will be how the identified characteristics interact with one another and with opportunities available at the local level.

The first category is pre-migration characteristics and encompasses the skill level of the immigrant, language, and experience in business – basically skill sets that may foster entrepreneurial attitudes (Waldinger et al. 1990: 41). This category would identify with the business background explanation that asserts that “the penchant for self-employment shown by certain immigrant groups is due to a concentration within these groups of individuals with business backgrounds in the country of origin” (Cobas 1986: 104). Self-employment in the country of destination is then the outcome of the ability of individuals to transfer their business background from their country of origin.

The second category identified is circumstances of migration and their evolution (Waldinger et al. 1990: 42). This would include conditions under which immigrants leave their country of origin (voluntarily or involuntarily) and whether they see themselves as temporary workers or permanent settlers in their new destination. The sojourner hypothesis,

for which Bonacich is the main proponent, explains the high concentration of immigrants in small businesses by their intention to not settle permanently in the host society. They come on a mission to make money fast and for that reason, enter into easy-to-liquidate lines, such as trade (Cobas 1986: 103). Many argue, however, against this theory and even note that the hypothesis may be flawed (Cobas 1986 and Waldinger 1990). On the contrary, Waldinger and his colleagues found that when immigrants have the mindset of permanently settling in the host country, they tend to be “more self-assertive than temporary migrant groups” and “more deliberate in their quest for economic progress” (1990: 43) – again, further predisposing them to entrepreneurship.

The third factor in influencing the self-employment process is post-migration characteristics (Waldinger et al. 1990: 44). This includes characteristics of economic and occupational positions and discrimination (or the lack thereof). Is the newcomer able to transfer his or her educational background and degree into a related occupation? As previously mentioned, discrimination has historically been a factor perceived as a push factor into self-employment – but it is not the only factor. Human capital barriers, such as unfamiliarity with the new native language or limited occupational experience, have been linked to compelling immigrants into self-employment particularly in fields “open to those with little specialized training” (Reeves and Ward 1984 as cited in Cobas 1986: 103).

Immigrants’ Access to Capital

Given the critical role social contexts play in shaping immigrant experience and economic success, it is important to explore the institutional barriers an immigrant entrepreneur may face in accessing capital. Immigrant entrepreneurs are often faced with certain legal and institutional obstacles. Many times they are still able to survive despite

these obstacles; however, their success may be limited given the inherent resistance they encounter. Light and Gold believe that the American financial system poses such barriers, writing “while the American financial system delivers credit effectively to the mainstream, it has consistently failed to deliver basic savings and credit outside the mainstream. For at least a century, banks have neglected low-income customers, small businesses, inner cities, immigrants, non-whites, and even women” (2000: 213). This neglect ranges from inconvenient service to high costs to institutional unwillingness to issue small business loans. While many policies have been implemented to encourage lending to specific target populations, this deeply rooted neglect has repercussions that prevent the growth and expansion of many small business endeavors, leading to a system that has often been “in opposition to the economic development of the neediest and most vulnerable sectors of American society” (p. 214).

As previously mentioned, the historic neglect of banks toward the capital needs of business owners has led many business owners to depend more heavily on savings and loans from family and friends. For immigrants, this phenomenon has certain implications as their ability to borrow from family heavily depends on the cultural norms toward philanthropic lending. Obviously, “some cultures encourage lending while others do not... and the larger the family unit, the larger the pool of people from whom small entrepreneurs might borrow” (Portes 1987 as cited in Light and Gold 2000: 86). For instance, Bates (1997) found that Asians borrowed from kin and friends three times more frequently than white Americans (as cited in Light and Gold 2000: 87). Nevertheless, family itself plays a huge role in shaping the immigrant’s experience and opportunities. Portes (1995) ascertains that “the basis of successful immigrant adjustment is often seen to lie with the family. Oftentimes, the widespread use of family-based strategies of economic adjustment occurs because the family

may be the only resource available to those who come with few material assets and with low levels of skills” (p. 69). Research has shown that even for immigrants with more educational and financial resources to utilize, “family members are still likely to represent the most trustworthy and the least costly collaborators in business” (p. 70). Family members tolerate sacrifices, like working without pay in a family business, because they see the “bigger picture” the business can “contribute to the general welfare and future of the family” (p. 70).

ISLAMIC FINANCING

Building off the discussion of small business ownership and the recognition of the interaction of both micro- and macro-level factors in shaping an immigrant’s pathway to business ownership, I now turn the discussion to a second layer of my research question, Islamic finance. Given my research focus on a very specific segment of small business ownership, i.e. Muslim business owners and the particular challenge they face due to the religious prohibition on the use of interest, the following section discusses the prohibition of using interest in Islamic doctrine, the available Islamic and institutional financing alternatives, general attitudes toward this prohibition in the community, and noted trends that have arisen in the absence of large-scale institutional alternatives.

Prohibition of Interest

Islamic jurisprudence, *Shari’ah*, has its root in the *Qur’an*, the Muslim’s Holy Book. *Shari’ah* considers details of required duties and outlines all types of human interaction. “It essentially constitutes what elsewhere would be considered criminal, personal, and commercial law” (Jeanet and Hennessey 1992 as cited in Uddin 2003: 24). In *Shari’ah*, there are two kinds of rulings – worship (*ibadat*), which governs the relationship between man and

God, and mutual dealings (*mu'amalat*), which dictates relationship between men (Iqbal and Molyneux 2005: 6). The general principle of *mu'amalat* or mutual dealings is that “everything is permitted unless otherwise prohibited by God.”

There are very few kinds of activity that are prohibited. The purpose of prohibitions is mainly “to protect the interests of weaker parties, to ensure justice and fairness, to ensure mutual benefit for the parties as well as society at large, and to promote social harmony” (Iqbal and Molyneux 2005: 6). One key prohibition in Islam is the prohibition of interest (*riba*, the Arabic term meaning “an increase”). This prohibition is explicitly expressed in the *Qur'an* in four different areas. The first verse revealed concerning *riba* (Rabbani 2006) indicates the lack of blessing in it and discourages the practice of imposing it, “and whatever *riba* you give so that it may increase in the wealth of people, it does not increase with God” (30:39, The Holy Quran with English Translation). Clear prohibitions are also stated, such as in Chapter 3, verse 130 “O you who believe, do not eat up *riba* doubled and redoubled...”

Throughout Muslim history, *riba* has been understood as being equivalent to interest paid on a loan. The prohibition of *riba* “essentially implies that the fixing in advance of a positive return on a loan as a reward for waiting is not permitted by the *Shar'iah*. There is no differentiation on whether the rate charged is big or small, fixed or variable, an absolute amount to be paid in advance or on maturity, or a gift or service to be received as a condition for the loan” (Iqbal and Molyneux 2005: 7). Also, the reasoning behind obtaining the loan, whether for consumption or business purposes, does not change the ruling against the use of interest.

Reasoning behind Prohibition

Through my research on this subject matter, I learned that this prohibition of interest is not exclusive to the Islamic religion. It is an “issue concurred upon by all revealed religions of the world and the majority of ancient philosophers” (Ayub 2002: 25). For example, in Christianity, “the reported saying by Jesus to ‘lend freely, hoping nothing thereby’ (Luke 6: 35) is taken by many commentators as a condemnation of interest (Iqbal and Molyneux 2005: 12). The Old Testament states “Thou shall not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury” (Deuteronomy 23: 19).

The underlying logic as to why historically many religions, including Islam, have prohibited interest is that “it exerts disastrous effects on human societies by reinforcing the tendency of wealth accumulation in the hands of a few” (Ayub 2002: 25). Islam is opposed to exploitation in every form and stands for fair and equitable dealings among all human beings. “Among the most important reasons that have been emphasized by most writers is unfairness (*ẓulm*)” (Iqbal and Molyneux 2005: 10). A contract based on interest involves injustice to one of the parties, sometimes to the lender and other times to the borrower. From the borrower’s side, interest is unjust because if one takes out a loan and uses it in his or her business, there is an unknown element of whether such a person would end up with a profit or a loss. If the person, say a business owner, experiences a loss due to labor, in addition to his or her loss, the person is still obligated to pay the interest and capital to the lender. Because the lender ends up receiving his or her money in addition to the interest, irrespective of the borrower’s loss, the transaction is seen as unjust.

On a larger scale, interest is seen to have many adverse consequences for the economy as it can lead to inefficient allocation of society's resources, and thereby contribute to the instability of the system. In an interest-based system (i.e. our present day economy), the main criteria for lending decisions is "the credit-worthiness of the borrower" (Iqbal and Molyneaux 2005: 10). In contrast, a risk-sharing system (the system in which Islamic financing is rooted in), the productivity of the project is the main focus of the lending decision, leading to the allocation of resources to more productive projects and ultimately, making the system more efficient. In such a model, the benefit of lending is not only to the lender, but to both parties in the transaction, and ultimately, to society at large.

In this discussion on interest, it is worth mentioning that the prohibition of interest is a controversial issue within the Muslim populations in the United States and internationally. To this day, *riba* is still a debatable issue both in terms of interpretation (definition) and implication (permissible financing avenues). Many argue that since interest is so ingrained in the economic system (nationally and internationally), it cannot possibly be what was intended by the original Quran'ic prohibition. Islamic scholars are split on this issue. Some scholars are of the opinion (and have issued nonbinding legal rulings or *fatwas*) stating the permissibility of present-day interest, bolstering their arguments with past religious rulings that gave Muslims permission to use interest in non-Muslim lands or in cases of extreme need or necessity (Usmani 1999). Other, more traditional scholars are adamant that the prohibition refers to all interest, paid or imposed, in all circumstances.

Islamic Financing Alternatives

Irrespective of scholarly debate, essentially all Muslims are aware of the prohibition against the use or imposition of interest. Because interest is so deeply ingrained into our economic system, it is difficult to imagine how one would successfully circumvent it and creative efforts are often required to do so. Through offering financial products and services that conform to Islamic law, the relatively new field of Islamic finance is poised to meet this need. Most generally, it is based on a profit and loss structure rather than a lender-borrower arrangement. The risk associated with the joint venture between lender and borrower entitles the financial provider to profit from the transaction without circumventing the *Shariah*.

Islamic Finance Products

- *Murabaha*: Buy-sell arrangement; financial institution purchases the desired asset for the customer and then sells it to the customer in monthly installments at the acquisition price plus an agreed profit rate.
- *Ijara*: Lease to purchase; financial institution purchases a desired asset and then leases it to the customer over an agreed period. Customer then has the option of purchasing the asset in its entirety during or at the end of the leasing period.
- *Musharaka*: Declining balance or shared equity purchase; financial institution provides percentage of capital desired by customer. Financial institution and customer proportionately share in profits and losses in accordance with a formula agreed upon prior to the transaction.

Source: Chiu, Newberger, and Paulson, "Islamic finance in the United States: A small but growing industry" Chicago Fed Letter. 2005.

Table 2.2: Description of Islamic Finance Products

Specifically, Islam permits the fixing of profits in percentage terms, such as “share 10% of the profits with me every month” but forbids profits in absolute terms, i.e. “give me \$100 of your profits every month” (Khan 2005). The difference between the two is that the first is linked to the performance of the business or project while the latter is not linked to

anything and the business owner would have to pay the set dollar amount no matter if the business succeeds or fails.

Three of the common Islamic finance products are *Murabaha*, *Ijara*, and *Musharaka*. These are briefly described in the Table 2.2 on the previous page. Many advocate that due to the sharing in risk, Islamic finance is akin to contemporary venture capitalism (Khan 2005; Kuran 1995). For example, Murat Cizakca, a Turkish professor of economics, believes that “the stated principles of Islamic banking are precisely those of venture capitalism” (Kuran 1995: 171). Like venture financiers, Islamic banks are supposed to participate in the risk of the firms they finance. So, while the scale varies from what is traditionally perceived as venture capitalists, “the transaction dynamics remain largely the same—an investor takes a stake in a business for a share of the business’s profits, undertaking commensurate levels of risks”(Khan 2005).

Institutional Availability

While relatively new to the United States, the concept of Islamic finance has been widely practiced internationally. In a Chicago Fed Letter on Islamic finance, Chiu and colleagues point out that “in Egypt, Indonesia, Malaysia, Sudan, and the Gulf States, Islamic banking coexists with conventional banking. And, in some countries, such as Iran and Pakistan, Islamic banks are the only mainstream financial institutions” (Chiu, Newberger, and Paulson 2005). Up until 1997, “there was no bank or bank branch in the United States that offered formal Islamic financing that was both publicly approved by a U.S. regulatory agency and sanctioned by a board of Islamic scholars (a *Shariah* board)” (Ibid).

With the lack of institutional products, many religious leaders admit that a good number of Muslims in America have turned to traditional, mainstream banks and finance

companies because there simply are not enough workable alternatives. This practice is frequently justified. Indeed, “some prominent scholars have defended this practice for Western-residing believers, citing a tenet of Islam that permits Muslims to break some religious laws out of necessity” (Dickerson 1999).

Some American Muslims have formed informal, no-interest loan pools in their communities to help members buy houses, purchase cars, or start businesses. The dynamic of pooling together financial resources in the absence of culturally appropriate financing is not exclusive to Muslims in the United States. “Various ethnic groups have historically developed financial practices intended to meet communal needs” (Light and Gold 2000: 116) from eastern European Jewish immigrants creating a Hebrew Free Loan association to Mexican women relying on rotating savings and credit associations (*tandas*). Such informal alternatives offer a means for members of a specific ethnic group to acquire funds in a socially acceptable way without shaming themselves or incurring awkward obligations to others. “These institutions transform the isolating act of accepting a loan into the socially approved and social capital building endeavor of joining a network marked by trust and shared confidence” (p.117). Through my research, however, the existence of such informal networks seemed somewhat scarce among the Muslim communities in the United States, compared to other ethnic groups. One reason for this may be the relative youth of Muslim communities in the United States compared to ethnic populations who have settled in America in large numbers since the early 1900s.

At the same time, in the absence of Islamically appropriate loan products, many Muslims simply do without homeownership or business entrepreneurship until they can save up enough money to pay cash for them, assets that indicate economic success that many consider essential components of the “American dream.” Saving to buy a home in cash is a

rather prohibitive venture given average home prices across the country. It has been documented that many Muslims can rent for at least ten years in an effort to save enough cash to purchase their own homes.

Recent Trend

With a lack of community pooling of resources to mitigate the absence of Islamic finance products (as historically demonstrated by other ethnic/minority groups) and with a

Islamic finance providers in the U.S.			
Name of Institution	Location	Type of Institution	Islamic financial products offered
LARIBA Finance House	Pasadena, CA	Finance house	Home, auto, and business financing
Guidance Financial Group	Reston, VA	Finance house	Home financing
Devon Bank	Chicago, IL	Bank	Home financing and business financing
University Bank	Ann Arbor, MI	Bank	Interest-free deposits, home financing
HSBC	New York, NY	Bank	Interest-free deposits, home financing
Neighborhood Development Center	Minneapolis/St. Paul, MN	Nonprofit	Small business financing and training
World Relief	Nashville, TN	Nonprofit	Small business financing
SHAPE Financial Group	West Falls Church, VA	For profit wholesaler/consultant	Home financing, savings accounts, and consulting
Reba Free	Minneapolis/St. Paul, MN	For profit wholesaler/consultant	Small business financing models and consulting

Table adopted from: Chiu, Newberger, and Paulson, "Islamic finance in the United States: A small but growing industry" Chicago Fed Letter. 2005

Table 2.3: Islamic Finance Providers in the U.S.

stronger, growing presence of Muslims in America, focus is now shifting to formal organizations to provide the much needed Islamic finance products. There is a more recent, encouraging trend in which a number of entities in the US have begun offering formal Islamic financing products.

Currently, there are about 9 formal institutions that offer such products (listed in table 2.3 on the previous page). These organizations serve a diverse socioeconomic customer base, ranging from Muslims in professional occupations to refugee communities, tending to offer home financing as their primary source of business (Chiu et al. 2005).

MUSLIMS IN AMERICA

The demographics of Muslims in American suggests that it is an affluent population, one with an increased familiarity with banking institutions, and therefore more open to American-based Islamic finance products (Chiu et al. 2005). The following section presents the demographics of Muslims in America, a segment of America's population that is gaining increasing political attention.

Demographics

John Esposito, founding director for Muslim-Christian Understanding at Edmund Walsh School of Foreign Service at Georgetown University, notes, "Islam in America is a mosaic of many ethnic, racial, and national groups – the majority are first-or second-generation immigrants or African-American converts (1998: 4). There are, unfortunately, no official statistics on the Muslim minority population. Authors therefore tend to draw from a number of sources, including the American Religious Identification Survey by the City University of New York, the Department of Homeland Security, the U.S. Census Bureau's *Current Population Survey (CPS) March Supplement*, and the Council on the American-Islamic Relations' Mosque Study Project (Chiu et al. 2005).

The Current Population Survey shows 2.1 million Muslims in the United States, close to the 2.2 million identified by the American Religious Identification Survey (Chiu et al. 2005). These figures, are, are however at the lower range of published estimates as industry experts, academics, and national Muslim leaders cite a figure closer to 5 to 7 million Muslims in the United States.

Currently, the State Department estimates that the majority of Muslims in the United States are immigrants and their descendants (Chiu et al 2005), with immigrants (foreign born) constituting about 64% of the whole Muslim population (Haniff 2003: 308). Non-immigrant Muslims, which account for more than one-third population, are mostly African Americans, off-spring (third and fourth generations) of immigrants, and a large group of converts.

“Judging by congregations at mosques, Muslims probably constitute one of the most diverse communities in America” (Haniff 2003: 309). As noted in Sam Afridi’s “Muslims in America: Identity, Diversity, and the Challenge of Understanding, “if one wants to see the wide interplay and dizzying range of Muslim cultures, experts suggest two places. One is the holy city of Mecca, where Muslim pilgrims gather from every corner of the globe to fulfill a sacred duty. The other is the United States” (Afridi 2001: 2). Altogether, Muslims in the United States are from 80 distinct nationalities and many more ethno-cultural groups. Three of the largest ethnicities, which combined account for roughly 80% of the Muslim community in America, are South Asians, Arabs, and African Americans, (Project MAPS and Zogby International 2004: 6). This diversity is only expected to increase over the years, for as the U.S. State Department notes, “Islam is one of the fastest growing religions in the U.S” (Chiu et al. 2005).

Overall, the American Muslim population is considered relatively young. Among all religious groups in the United States, the Muslim population has the highest proportion of adults under 30. Estimates indicated that 74% of the population is under the age of 49, compared to 61% of the general population (Haniff 2003: 308). And, even though the Muslim world has one of the lowest rates of literacy, national datasets indicate that American Muslims, especially immigrants and their children, have relatively high levels of education. An estimated 59% have at least a college degree (Project MAPS and Zogby International 2004: 6), compared with 37% of the general public (Haniff 2003:308). Accordingly, Muslims in America report an overall high level of income, with median income levels closer to those of natives than to those of immigrants. Many attribute this relative affluence to the higher levels of education, with 33% of Muslims reporting an income level over \$75,000 compared to 17% of the general public (Project MAPS and Zogby International 2004: 8). The high level of education documented within the American Muslim community is also associated with higher levels of religious participation. “Living in one of the most religious Western Societies, American Muslims consider religion to be important to them in their daily lives (79% versus 63% of the general public)” (Haniff 2003:309). Religiosity and community participation will be further discussed in Chapter 4 as it relates to my interview results.

Muslim Community in Sacramento, California

Due to the absence of official numbers on the American Muslim community, it is difficult to cite specific demographics for the Sacramento, California area. Based on the Association of Religion Data Archives, in the year 2000, California was ranked the highest among the top 20 states with the highest estimated Muslim population (at 259,7620). As previously mentioned in Chapter 1, Sacramento is home to one of the oldest mosques west

of the Mississippi. This mosque was established by immigrants of Indo-Pakistani origin that were said to have arrived in the early part of the twentieth century. To date, Sacramento is home to about nine mosques and several Islamic schools, with community leaders estimating a population of 35,000 Muslims (Magagnini 2001).

In summary, this chapter described motivations and challenges inherent in small business ownership along with factors that color the immigrant entrepreneurial experience. This chapter also addressed the reasoning motivating the formulation of Islamic finance, its current status, and briefly described the demographic characteristics of Muslims in America. The following chapter, Chapter 3, will discuss the research methodology employed in seeking to understand how Muslim business owners have accessed capital in the absence of religiously-appropriate financing products. How the factors and trends identified in this chapter relate to my research sample will be further addressed in Chapters 4 and 5.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter will discuss the research tools and sampling techniques utilized in conducting this study as well as the data collection and analysis processes employed. The chapter is divided into two sections, research tools and procedures. A brief discussion on why certain techniques were chosen in this study is also integrated throughout the chapter.

RESEARCH TOOLS

In his book, *Learning from the Field*, Whyte states, “if we want to study the attitudes, beliefs, and values of an aggregate of subjects, then clearly a questionnaire or survey is the method of choice” (1984: 277). This study consisted of cross-sectional surveys and semi-structured interviews—both of which were administered orally.³ The surveys consisted of both qualitative and quantitative elements. Surveys were chosen as the method of data collection because they typically serve one of three main objectives—“description, exploration, or explanation” (Babbie 1990: 51). In this study, the survey of business owners served two purposes—description and exploration. The face-to-face surveys provided a strong foundation for a descriptive study of how a sample of Muslim business owners in the Sacramento area access financing capital. Additionally, they were exploratory in two ways; first, in that they presented a window on the meanings and interpretations business owners associated with mainstream financial products, and second, in that they helped assess the feasibility of doing such a study on a larger, perhaps national, level. In this sense, the surveys served as a vehicle for revising research tools and strategies for a future study.

Survey

³ See Appendix A for survey and interview questions.

The written survey questions were organized in the 3 sub-categories: business information (such as type of business and number of employees), religious practices, and owner demographics (such as ethnicity and education level). They provided an excellent means to ask sensitive questions, such as business profitability and income levels, in a convenient, close-ended format while simultaneously reducing data size and response time.

In assessing religious practices and community involvement, I utilized an existing survey—the second national American Muslim Poll, conducted by Zogby International to “document the role and contributions of the Muslim community in the American public life” (Project MAPS and Zogby International 2004: 3)—as a guide. In particular, I adopted aspects of this survey pertaining to individuals’ relationship with the mosque and the importance of religion in daily life in my own written survey.

Interview

The oral semi-structured portion of the survey, or interview, was designed to further capture the lived experiences of Muslim business owners in obtaining capital to both start and run their businesses. Accordingly, this portion consisted of open-ended questions to facilitate the collection of in-depth, rich details. Questions included:

- How did you come to open this business?
- What were the two largest challenges you faced in opening your business?
- How large of an initial investment did you need to start your business?
- How were you able to finance it?

These questions served as a guide to the conversation (hence “semi-structured”) while offering an opportunity for the gathering of additional information that owners wished

to include about their business ownership experience. To assure that I was asking questions during the interview that directly related to my research question—how Muslim business owners have accessed capital in the absence of religiously appropriate financial products—I divided the interview questions into five categories:

- 1- Motivations for opening business
- 2- Business financing
- 3- Perceived alternatives
- 4- Challenges encountered
- 5- Influence of religious commitment

These instruments, written and oral surveys, were chosen because of the high degree of internal validity they provide when used in tandem. Specifically, since I was both physically present and asking open-ended questions, I was able to better capture the lived experience of the research participants in their own words. In contrast, surveys that are exclusively written and/or administered via mail risk the loss of internal validity to the constraints imposed by limitations in time, space, and expression.

These research methods did, however, emphasize internal validity at the expense of some reliability. This is so because many of the survey questions were open-ended, presenting a challenge for responses to be either consistent or consistently grouped together over a period of time. Had the questions been primarily close-ended, survey responses would have been repeatable independent of the administrator.

Sampling

Because the definition of “small business” varies by county and industry, the criteria used in the present study is that stated in California Assembly Bill 2505, which establishes a clear, uniform definition of small businesses for use in the state’s small business programs. The requirements are as follows: “an independently owned and operated business,” “not dominant in its field of operation,” “principal office is located in California,” “officers are domiciled in California,” “business is either a service, construction or non-manufacturing business with one hundred of fewer employees and annual gross receipts of ten million dollars or less over 3 previous years or a manufacturer with hundred of fewer employees.” Based on the US Census Bureau’s Survey of Business Owners, in 2002, California had the highest number of small business firms in the country (2.9 million or 12.7% of the nation’s small businesses). According to the 2005 US Census Bureau Sacramento’s top three small business sectors were: (a) retail trade, (b) professional, scientific, and technical services, and (c) construction.

These definitions and local characteristics helped distinguish which businesses fall within the sampling frame for this project. The population of interest for this research was Muslim-owned small businesses in Sacramento as of January 1, 2006. Islamic religious affiliation was assessed by the business owners’ willingness to participate in the study. Each owner served as the “unit of observation” as he provided the primary data about the unit of analysis – the business.

In terms of the sampling frame, if an up-to-date, comprehensive list of all Muslim-owned businesses in Sacramento County were readily available, random or stratified sampling could have been employed to select businesses to survey. However, businesses are rarely organized or classified by the religious affiliation of their owners, so such a list did not,

to my knowledge, exist. Since I was most interested in rich, in-depth, data that captures the diversity of experience in financing Muslim-owned businesses, Becker's suggestion for sampling seemed most relevant to my research—"choosing carefully, rather than ritualistically" (1998: 86). As such, random sampling, designed to equalize the chance of each case, seemed inappropriate.

Non-probability sampling methods, more specifically purposive and snowballing sampling, were used for identifying businesses owners to participate in the study as these techniques are typically employed when one is most interested in "obtaining an idea of the range of responses of ideas that people have" (De Vaus 1990: 77). Additionally, these techniques best addressed the issue of little available data or limited access to the target population. While it is true that this sampling technique limits the generalizability of my findings, the results of my research, the first of its kind, I feel are still useful for descriptive and exploratory purposes. Calling attention to Muslim business owners' challenges, regardless of generalizability, is the first step to adequately addressing the needs of this ever-growing thread of the American tapestry. Furthermore, even if characterized by network bias, the snowballing sampling approach offered the best means to gaining access—especially given recent security issues within Muslim communities across America and heightened feelings of distrust towards outsiders. Purposive and snowball sampling served as vital tools for establishing credibility and building trust among my sample population.

RESEARCH PROCEDURE

Pilot Study

In order to ensure that the survey includes questions necessary for assessing the economic character of Muslim-owned businesses, a small pilot study was conducted in Davis, California. By surveying a handful of owners in Davis, I was able to better generate an “informal base of preliminary knowledge, in preparation for a survey research project” (Rea and Parker 1997: 142). In this pretest, I employed a non-probability sampling strategy, purposive and snowball sampling, as in the actual research project. I first approached business owners known to be Muslim through prior interaction and experience (purposive sampling). Then, after explaining the study and arranging a time for an oral interview, I asked for further references of other Muslim owners in either Davis or Sacramento (snowball sampling). From these sampling techniques, I compiled a list of six Muslim-owned businesses in Davis.

Fieldwork for this step was administered over a two-week time frame in early March 2006. Over a three-day period, all six business owners were approached regarding this study. At the point of initial contact, two expressed interest in participating in such a study and immediately set up appointments for interviews, while one owner declined to participate.

From this pretest, I realized areas within my written and oral survey that should be revised to improve clarity. More specifically, two of the written survey questions were reworded to improve clarity. Most importantly, I realized after conducting the interviews, that it may be invalid to simply compare owners’ religious commitment with financing measures. This is especially true since I did not specifically mention religious law prohibiting

the use of interest. From the pilot study, I decided to incorporate two interview questions related to the influence or role of religious commitment on business decisions.

In addition to modifying my research tools, the pilot study also provided an adequate representation of how long the survey took to conduct (approximately two hours), which is especially important in terms of response rate and given the limited amount of time small business owners often have. This gave me a better idea of how much time to allocate per interview when addressing my true sample pool. Furthermore, writing up my field notes took an additional two hours per interview.

Data Collection

Prior to sampling from the Sacramento area, I obtained UC Davis's Institutional Review Board's (IRB) Certification in March of 2006 and received the Board's approval in April 2006 to ensure that the research subjects, i.e. the business owners and their businesses, were adequately protected.

Before scheduling interviews within my area of study, I first met with the Executive Director of the Council of American-Muslim Relations (CAIR) of the Sacramento Valley Region – Basim ElKarra in December of 2006. CAIR is a national organization with chapters all over the nation sharing a mission of “enhancing the understanding of Islam, encouraging dialogue, protecting civil liberties, empowering American Muslims, and building coalitions that promote justice and mutual understanding” (CAIR website 2008). Among the Muslim community, CAIR is a reputable and respected organization, as it has been advocating and promoting awareness of American Muslim issues for over a decade. I met with Basim ElKarra to discuss my research project and to request assistance in obtaining a

list of possible businesses that he may be aware of in the Sacramento area (i.e. purposive sampling).

Basim initially provided me with a list of 9 businesses, from which he contacted a total of four as a means to gain initial entry, i.e. inform them that I would be contacting them soon. I conducted the interviews over a two-month time-frame, from April to May 2006. From the initial list of nine businesses, I received a total of 38 new referrals, 30 of which I contacted (over the phone), for an ultimate study sample of 19 interviewees. From the remaining referrals, six business owners expressed interest in being interviewed, however, I was unable to schedule an interview within the timeframe of my project, three businesses declined to be interviewed⁴, and the majority of the remaining businesses (16) were not contacted. Appendix B includes a diagram illustrating the referrals received from snowball sampling. Since I directly contacted the majority of my research sample, I asked to speak with the owner of the business over the phone and briefly introduced myself and the project.

Once the owner agreed to participate, I then scheduled a time to conduct the interview. All of the interviews were carried out at the business site, as “relaxed and open discussion is facilitated by familiar surroundings” (Hill et al. 1999: 75, O’Donnell et al. 2001: 756, as cited in Anderson, Jack, and Dodd 2005: 144).

The interviews typically spanned one to three hours. In order to increase the comfort level of the respondents, I began each meeting with the first section of the written survey, the business information portion. This section asked the least personally sensitive questions, focusing on the actual business in question. After completing this section, I then went through the interview questions. Next, I asked questions regarding religious practices

⁴ Reasons cited for declining to participate were often due to lack of time, which is understandable for small business owners.

and lastly, owner demographics, concluding with the most sensitive question on household income level. Following the completion of the interview and survey questions, I then asked business owners if they knew of any other businesses that they could refer me to and if so, a description of what their relationship was to them. With the exception of one business referral, all business owners felt comfortable with me contacting their referrals directly and mentioning the source for which I received their names and number.

Prior to collecting my data, I anticipated that most of the business owners were male and I was hesitant to approach the owners, most of whom I had previously never met or interacted with. I was worried that, as a female, many of the business owners would be uncomfortable responding directly and honestly in an oral survey. My entire research sample was composed of male business owners; however, I found my gender to be more of an advantage than a disadvantage to my data collection. First, as an identifiable Muslim, I possessed the “convert stance,”—one that could potentially assist in eliminating some issues of distance and unfamiliarity. Furthermore, I noticed that all the business owners felt rather comfortable sharing personal information due to the perceived anonymity my gender provided. Since many Muslim social events are separated by gender, the chances of running into an owner at a social or religious function are very slim. All of them astonished me with their generosity, offering drinks and meals during the interview, and seemed to greatly appreciate the opportunity to share their business ownership experiences. I observed that they enjoyed process of the interview and felt as if they contributed to a worthwhile effort. Many seemed excited of the prospect of mainstream financial institutions finally addressing the needs of Muslims in America.

I concluded the data collection step (and contacting the remaining referrals) once I felt that I had reached a point of theoretical saturation—I started to notice the same

responses and attitudes among business owners and as the Lofland et al. describe, “nothing seemed new” anymore (2006: 76). At this point, I felt the need to shift from being immersed in fieldwork and to devote my attention entirely to analyzing the feedback received.

Data Analysis

Since two tools were used in collecting data, a close-ended survey and a more open interview, the data gathered from each tool was initially organized for analysis purposes separately.

Each response to the written survey questions, primarily quantitative—from number of employees to income levels, was coded and then classified by business (assigned identification numbers from 1-19). This data was mainly used for purposes of describing the respondents within my research sample—their ethnicities, business sectors, level of religious commitment, etc. As described below, some of the survey response categories were used in establishing contexts for the interview responses.

Coding and memoing, the heart of the process of developing analysis, colored my data analysis (Lofland et al. 2006). At the end of each week during my fieldwork, I typed the responses from each interview question and organized them by business owner. While typing these responses, I also documented initial codes/themes that stood out from the interview, such as “dissatisfaction with Muslim community” or “acknowledgement of forgone revenue,” that I would notice by asking general questions that typically shape the process of initial coding, as noted in Lofland et al. such as “What is this? What does it represent? What is this an example of?” (p. 201).

From this process alone, I quickly realized that my research process was fairly iterative-necessitating a process of going back and forth between data collection and analysis as I collected more information. After typing up all interview responses, I followed Hill et al.'s technique of physically cutting and pasting each response and organizing all the responses from each question in separate piles (Hill et al. 1999 as cited in Anderson et al. 2005:144). Once I grouped the responses by question, I once again documented all codes and emergent themes that I saw at face value among all the sample respondents.

Next, I embarked on more focused coding, using my initial codes "as a basis for asking more focused and analytical questions" (Lofland et al. 201: 2006). While grouping responses together, I made notes on ideas that came to mind given my various coding categories, i.e. memos, such as what other elements from the interview I should analyze with each response group, like size of initial investment with means of financing or willingness to consider Islamic loans with level of religiosity or involvement with Muslim community (from survey).

The initial coding, results from more focused coding, and memos were documented as I then went back question by question and stated the code groups for each question, with the number of respondents within each code, as well as their relationships, if any, to other interview responses. These were then all summarized in a way that illustrated the major themes and relationships between them. The following chapter will describe the results from the analysis of the business owner's responses. While the techniques discussed in this chapter have some inherent limitations, they served as a means to achieve more depth at the expense of generalizability on my research topic. It is my hope that this increased understanding will serve as a valuable contribution in an under-researched area of study and, on the larger scale, an increasingly growing and important American community.

CHAPTER 4: RESULTS

This chapter consists of four main sections. The first part describes the demographics of the sample of business owners as it compares to the larger Muslim population. Second, a brief summary of the background of the businesses in relationship to many small business ownership trends follows. The third part describes the business owners' financing strategies and barriers encountered. The information discussed in this section summarizes the results of interview questions devoted to assessing the sample's access to capital in light of the religious prohibition on interest. In the final section, the role of religion is addressed in order to illustrate the religious dimension to the business owners' experiences

DEMOGRAPHICS OF SAMPLE

Table 4.1 (on the following page) lists the personal characteristics of the owners that were collected during the written survey questions. Each category (ethnicity, years in the U.S., education level, and income level) is organized by sub-category, from highest to least number of businesses. Overall, the sample demonstrated many traits that were fairly consistent with information regarding the broader American Muslim community as discussed in Chapter 2, and in some cases, the Sacramento population.

All of the business owners I interviewed were male and they were all born in countries other than the United States, indicating their immigrant status. Over half of the sample reported being in the United States for over 15 years.

Demographics of Sample	
Total of 19 respondents	# of businesses
<i>Ethnicity</i>	
Indian Sub-Continent	9
Arab	8
South-East Asia	1
Other	1
<i>Years in the United States</i>	
20-29 years	8
30-39 years	5
10-19 years	3
1-9 years	2
More than 40 years	1
<i>Education Level</i>	
College Degree	8
Post Graduate Degree	4
Some College	3
High School Degree	2
Associate Degree	1
Other: Currently Enrolled	1
<i>Income Level</i>	
\$90,000 and above	6
\$30,000 and under	4
\$75,000 and under	4
\$60,000 and under	3
\$45,000 and under	1
Not reported	1

Table 4.1: Demographics of Sample

Furthermore, in reference to the ethnic composition of the small business sector, the high number of Pakistani business owners, for which all Indian Subcontinent respondents cited as their country of origin, is also a statewide trend, as this particular ethnic group has

Ethnically, the business owners predominantly identified themselves as either from the Indian Subcontinent or as Arabs. The ethnic composition of my sample, specifically the high concentration of Pakistanis and Arabs, is consistent with information on the Islamic population in the United States. Based on the poll conducted by Zogby International in 2004 on a nationwide sample of the American Muslim population, the largest ethnic group of Muslims in America was South Asian, with Arabs as the second largest ethnic group (2004: 5).

recently been considered active in the small business arena. Based on the U.S. Census Bureau's 2002 Survey of Business Owners, California and New York accounted for 36.7% of all Asian-Indian owned firms. Sacramento is no exception, as the 2002 Survey of Business Owners for the Sacramento County region indicated that Asians (encompassing Asian-Indians) owned the highest number of small business firms of all minority ethnic groups.

In terms of the highest level of education attained, all of the respondents completed high school, with only two owners (slightly more than 10%) not continuing their education beyond high school. The remaining business owners displayed a wide range of educational backgrounds. Roughly two-thirds of the sample (12) reported receiving at least a college degree. These characteristics support the evidence that higher levels of education tend to increase rates of entrepreneurship (Bates 1997 as cited in Light and Gold 2000: 87).

Furthermore, as previously mentioned in Chapter 2, the American Muslim population is considered to possess an overall high level of education and the results of the present survey support this observation.

Lastly, the income levels reported appear loosely correlated to both the educational attainment of the business owner and the number of years within the United States. The majority of the business owners (14) reported an income level of at least \$45,000, with the largest number of respondents falling within the highest income range of \$90,000 and above. Much like the other demographic characteristics of the sample, the income levels reported is fairly consistent with the nation-wide poll of Muslims in America, as over half of the poll's sample fell within the \$75,000 or more range (Project MAPS & Zogby International 2004: 8).

BACKGROUND OF BUSINESS

Business Characteristics

Table 4.2 lists the characteristics of the businesses within the sample, information that was also gathered via written survey. Each category (ownership structure, business sector, years in operation, number of employees, and owner's draw) is organized by sub-category, from highest to least number of businesses.

Characteristics of Businesses	
Total of 19 respondents	# of businesses
Ownership Structure	
Sole Proprietorship	8
Partnership	8
Limited Liability Corporation	2
Other	1
Business Sector	
Services	8
Retail Trade	6
Retail Trade & Services	4
Other	1
Years in Operation	
1-3 years	8
More than 15 years	6
4-6 years	3
Less than 1 year	1
7-9 years	1
Number of Employees	
<i>(Full-time, part-time, family members)</i>	
1-5	11
11-15	3
6-10	2
More than 20	2
16-20	1
Owner's Draw	
1-10%	9
11-20%	5
21-30%	3
0%	2

Table 4.2: Business Characteristics

The majority of businesses within the sample were either sole proprietorships or partnerships. All of the businesses within the sample fell into the retail trade or services sector, with 8 businesses in services, 6 involved solely in retail trade, 4 in both, and 1 in retail and wholesale trade (listed as "other" in table).

The nature of the businesses demonstrated a heavy concentration in the food retail/services industry, ranging from delis to groceries and convenience stores to restaurants. Five businesses fell in the non-food retail/services division.

These included health and fitness services, security and patrolling, and a cell phone service provider and accessory store. The high saturation of businesses within the retail and

service sector may represent an outcome of my snowball sampling approach, as owners are most aware of the other businesses (and possibly potential competitors) serving similar markets. This clustering of businesses in the retail sector may also simply local economic trends. Indeed, the 2005 US Census Bureau's Business Patterns report ranked the retail trade sector with the highest number of establishments in the Sacramento Metropolitan Statistical Area (MSA).

The businesses sampled were evenly split between those open for less than 3 years and those open for more than 4 years. In reference to the number of employees, business owners were asked to include the number of full-time and part-time employees as well as any family members in the total employment count. Over half of the businesses reported an employee base of 1-5. Similar to the sector specific information, this range is also consistent with the employee size class documented by sectors in the 2005 U.S. Census Bureau. For the retail trade sector, accommodation and food services, and other services, the 1-4 employee range had the highest number of establishments in the Sacramento MSA (U.S. Census Bureau 2005). The other businesses in the sample were fairly evenly distributed among the other employment ranges, as shown in the Table 4.2.

Lastly, when owner's draw was described to the business owner as the annual percentage of revenue remaining after business expenses are covered, responses varied broadly. This variation can be attributed to many factors, but no so tightly as the number of years in operation. Businesses open for less 3 years consistently reported lower levels of owner's draw, as had just overcome initial expenses or were just starting to "break even."

Family Role in Business

Two survey questions and one interview question were incorporated into the study to understand the relationship of the owner's family to his business venture, in terms of business ownership, operation, and support. This understanding is particularly important given the research discussed in Chapter 2 on the role of the family in the owner's business. The relationship of the family to the business provides context to the owner's background and experiences, especially in reference to financing strategies, which will be discussed in the subsequent section of this chapter.

Roughly half of the 19 businesses within the sample were both family-run (meaning a large portion, if not all, of the employees are family members) and family-owned (typically a partnership with at least one other family member). The remaining half were either only family-owned, family-operated, or neither. The survey question results are illustrated in Figure 4.1.

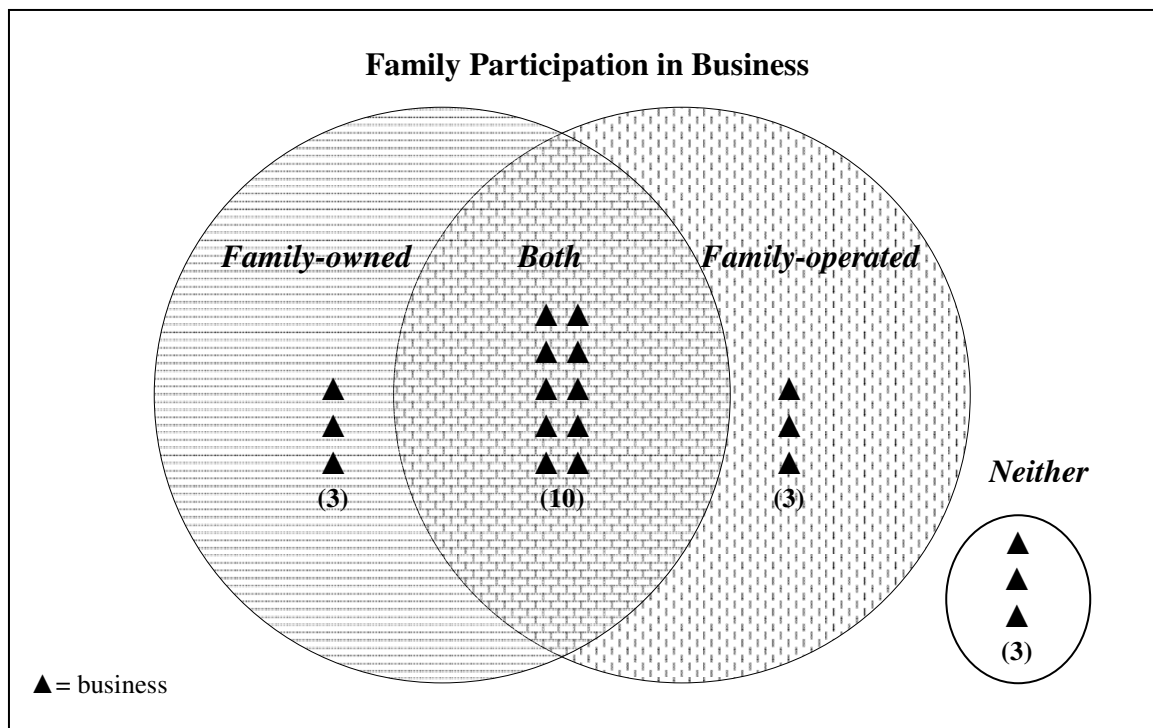


Figure 4.1: Family Role in Business

In another survey question, business owners described the amount of support they received from their extended family in starting or running their business venture. Respondents were provided a scale of categories, ranging from “great deal of support” to “no support.” Over half of the businesses (11) reported receiving a great deal of support from their extended family.

The concept of family support was further addressed through an interview question in which owners were asked to describe the amount of support they received from their family as a means to understand the relationship between the existence of family support network and the financing avenues utilized. Responses to the interview question included: financially, physical/initial labor, employment, moral support, and training in the business field. These responses all share one characteristic – a certain amount of support during the initial phases of a business, ranging from financial to emotional support. This is consistent

with Dyer and Handler's findings regarding family support and involvement during the start-up phase of a business as critical to the firm's success (1994).

Nine businesses reported receiving financial support and a total of 7 businesses reported non-financial means of support – such as moral, employment, initial labor to set up the business space, and business training prior to ownership. Three businesses responded with “not applicable.” After comparing the level of support described in the survey with the description of support and the family's role in the business, I noticed a wide variation in responses, indicating to me that “family support” has different connotations to different individuals. For instance, some may have conceived of family support only in financial terms, while others may have understood it more broadly.

At any rate, based on the years of operation of the businesses, many of the firms were approaching or exceeded their fifth year of operation, which is often cited as the survival benchmark or threshold for small businesses (Dennis and Fernald 2001: 75). The level of family support described and their active roles in the business is an attestation to the significance of the family in successful immigrant adjustment (as explained in Chapter 2).

Reasons for Going into Business

Reasons cited for going into business are also worth including in this section as it helps establish the background of the business. Three reoccurring reasons cited for opening the business were pre-ownership familiarity with the business (through family members), a preference for self-employment, and to meet a perceived community or market need.

The pre-ownership familiarity cited by some business owners (5 businesses) was often due to the owner having a close family member, such as a father or uncle, in the same line of business, which corresponds with Waldinger's and his colleagues' description of pre-migration characteristics that references the presence of entrepreneurial skills prior to migration (1990: 41). Light and Gold identify this pre-ownership training as a form of cultural capital through which individuals can access the culture of entrepreneurship (2000: 93).

Those who cited a preference for self-employment, three businesses, noted in their responses that they realized this preference only after unsteady employment or lack of work in their field which small business literature would identify as a "push" factor, or an unsatisfying job situation, i.e. a "pull" motivation factor. Again, such economic situations would correspond with Waldinger's post-migration characteristics category that may increase immigrants' propensity to pursue small business ownership.

For the owners who went into business to meet a perceived community need or market (6 businesses), all of them offered products specific to the Muslim community, such as *halal* (similar to "kosher" in Judaism) meat products. The business practice of offering products specific to one's ethnic group or religious affiliation is a phenomenon that has received attention in literature on immigrant entrepreneurship and may indicate one's preference to retain their cultural heritage within the host country. Waldinger and his

colleagues express that the initial market for many immigrant entrepreneurs typically arises within the immigrant community itself because the community “has special needs and preferences that are best served, and sometimes, can only be served by those who share those needs and know them intimately” (Waldinger et al. 1990: 21). Muslims do have specific dietary guidelines, that are both restrictive, prohibiting the use of pork and alcoholic products for example, and proscriptive, as is the case with halal meat. Many of the sample members were offering products catered to meet the previously inadequately met dietary needs of the Muslim community.

Other additional reasons included the desire to move into a more religiously-appropriate business or an informal business that grew over time into the present establishment.

FINANCING STRATEGIES AND BARRIERS

This section of the chapter discusses the financing strategies utilized by the members of my research sample and barriers and challenges they have experienced. Many of the responses discussed in this chapter are considered in the context of financing mechanisms utilized by the business owners. This helps establish context for the owners’ responses and fosters a deeper understanding of the extent to which the financing decisions both shape and are shaped by the individual’s ownership experience.

Financing Method

Business owners within the sample financed their initial investments through savings, family and friends, or institutional loans, with the two most reported financing mechanisms consisting of savings and loans. Overall, a total of 12 out of 19 businesses (approximately

63%) financed their initial investment through savings, family and friends, or a combination of both. The remaining 7 businesses financed through loans.

Setting aside religious restrictions for a moment, this characteristic of my sample is consistent with borrowing trends among small business owners nationwide. As stated in Chapter 2, the US Census Bureau 1987 Characteristic of Business Owners found that 70% of business owners within all ethnoracial groups did not borrow money to start their own businesses (U.S. Census Bureau 1987 as cited in Light and Gold 2000: 85). Lastly, the propensity of firms in both the retail and services sector to finance their businesses independently was also noted in the 2002 Characteristics of Business Owners study. Food accommodation and services and retail trade, the sectors with the highest concentration in my sample, were two of the top four industries nationwide with the largest percentage of self-made firms.

Returning to the research question at hand, to analyze the feedback, I divided the responses into two main categories: non-interest bearing financing and interest-bearing financing. Twelve business owners financed through non-interest bearing means, while seven employed interest-bearing avenues.⁵ Table 4.3 (on the following page) is organized by level of the owner's initial investment.^{6,7} Within each investment group, the financing avenue is listed and ordered from non-interest to interest-bearing financing, as the last column of the table indicates whether the financing employed included interest charges.

⁵ I included the business owner that financed with credit card and savings in the interest-bearing financing category. This is due to the fact that credit cards typically have financing charges attached to them and in the interview, the owner stated that it took him 3 years to pay off his initial investment.

⁶ Small initial investment category ranged from \$10,000-\$50,000, medium ranged from \$51,000 to \$100,000 and large ranged from \$101,000 and above.

⁷ The miscellaneous category includes one business that I did not ask his initial investment and another business for which the owner did not require an initial investment.

As one can see from the table, the majority of the businesses with either a small or medium investment level financed through non-interest bearing means. Those with a larger level of investment were more evenly split between interest and non-interest financing sources. Interest-based financing may have been more likely to be utilized by business owners within the large initial investment category to possibly accommodate the larger dollar amount needed to start their businesses. Moreover, those using interest bearing products supports the phenomenon noted in Chapter 2 – that many Muslims have turned to traditional mainstream products in the absence of religious appropriate financing.

Business ID #	Financing Avenue	Interest-Bearing
<i>Small initial investment</i>		
3	Savings	
5	Savings	
8	Savings; family; friends	
17	Savings	
19	Bank loan	✓
<i>Medium initial investment</i>		
11	Savings	
14	Friends; family	
15	Family	
6	Home equity loan	✓
<i>Large initial investment</i>		
9	Savings	
10	Savings; family	
13	Savings	
2	Savings; credit card	✓
4	Bank loan	✓
7	Bank loan	✓
16	Home equity loan	✓
18	Bank loan	✓
<i>Miscellaneous</i>		
1	Savings	
12	Family	

Table 4.3: Investment Size and Financing

Additionally, the respondents that cited family financial support during the interview tended to be more concentrated in the small to medium levels of investment. Most of these businesses (6 out of 9) financed through non-interest based means. The businesses within the large initial investment category were more evenly split between non-interest and interest-based financing.

Even among the business owners that utilized interest bearing financing and noted family financial support, family members assisted them in the initial down payment for the loan. The interaction, therefore, between family financial support, the initial financial input into a business, and the financing mechanism employed may suggest that perhaps the existence of family support or the lack thereof influences both the size of the initial investment and the financing avenue utilized.

Problems Encountered and Other Methods Considered

To help assess subsets of the research question, i.e. has the absence of religiously appropriate products presented additional obstacles to opening a business (and the corollary - would business owners prefer another method), business owners were asked about their experience in obtaining financing.

Eight businesses reported not having any problem for reasons cited such as “good credit” and “business experience.” An equal number, eight, responded with “not applicable” due to not seeking financing or “not needing it.” Lastly and most importantly, three business owners stated that they encountered problems in securing financing, describing reasons ranging from not wanting to go through banks because of the interest issue to encountering a long (and possibly discriminatory) processing period to complete the loan paperwork.

Within each response category, I looked into how each business owner financed his initial investment. For the businesses that reported “no problems,” three financed through savings and family (non-interest bearing means) and five financed through loans. Within the group of business owners that did encounter problems, one financed through a loan and the other two financed through savings and family loans. Those who felt this question was not

applicable to their experience at all (with the exception of one business that financed through savings and credit card) financed through savings, family, and/or friends. Based on these results, a majority of the businesses questioned did not feel as if they experienced problems in obtaining financing. The ones that reported no problems had a higher proportion of businesses that financed through interest-bearing means – further indicating that the majority of the businesses that utilized this avenue did not experience problems.

To further understand how comfortable business owners felt with their financing decisions, I inquired as to whether there were other ways or mechanisms they would have preferred to finance their businesses and why. The feedback I received is summarized in Table 4.4 below.

Other Preferred Methods	Total # of Businesses	# that used Interest-Bearing Financing
Satisfied	6	3
Not Applicable	5	1
Bank Loans/SBA	5	1
Family/Friends	2	2
"Without Interest"	1	0

Overall, a variety of responses were received on this question, some indicating a possibly different interpretation of the interview question than I originally intended.⁸

Table 4.4: Other Cited Preferences

Nevertheless, the sample responses indicated a comfort level with borrowing and dealing with interest among some business owners, and the presence of a sense of a “necessary compromise” in religious belief to obtain financing, among others. When one

⁸ For instance, I realized that most of the owners thought of conventional loans as a viable avenue available to business owners in general or a good business strategy to help establish credit. In contrast, their business decisions, as described in the interview, indicate that, personally, they would not take out conventional interest-bearing loans for religious reasons. Therefore, some may have interpreted the question as “other ways to finance in America” and not necessarily as “are you happy with how you financed; do you wish you had financed another way; or if you could do it again, would you finance in the same way?” The second interpretation listed was the original intent of the question.

compares the nature of financing utilized (interest vs. non-interest bearing), a total 12 businesses were either satisfied by not taking out interest-based loans or suggested non-interest bearing financing as a preference, demonstrating the strong preference to stay away from interest-based financing. The remaining seven businesses were either satisfied with using interest-based financing (4) or suggested other preferred means due to their experiences of either paying back family, difficulty in obtaining a loan, or preference to not “go through anybody.”

Challenges Faced in Opening and Running Business

In an effort to provide further context on whether the absence of religiously-appropriate financing presented additional obstacles, the business owners were asked two interview questions regarding challenges they encountered with respect to opening and running their businesses (i.e. aside from initial financing).

Whereas many owners cited nonspecific challenges to opening their businesses including long hours, strenuous physical demands, and difficulty in attracting and retaining customers, others cited very specific challenges including financing difficulties and disappointment with their prospective clientele, namely the broader Muslim community.

More specifically, four businesses cited financial issues as their greatest challenge, commenting, for example, that “financing is always a challenge for us (Muslims).” One of the four businesses acknowledged that Muslim business owners in general have the “hardest time with financing because they probably prefer to not deal with banks.” Even though he stated that he was able to receive financial support from this family, he noted that many others he knew did not have this kind of support network. The remaining three businesses that cited the financial challenge due to their own personal experience had a small initial level

of investment (less than \$20,000). Two of these three businesses financed initially through savings and family in order to circumvent the interest issue. These two businesses experienced tremendous business growth and expansion over the years, which may have caused them to “struggle” more with the interest issue than other business owners. One business financed with a bank loan, one that not coincidentally took an exceptionally long time to process, and wished that he had been presented with other options.

Disappointment with the Muslim community was also noted by owners that started their firms to offer a product specific to the Muslim population (such as *halal* meat). Two businesses, in particular, expressed their frustration with the lack of support by the local Muslim community, one going so far as expressing that he no longer relies on Muslims as customers and, in fact, dislikes dealing with them. It is perhaps not surprising that a business owner’s aversion to dealing with members of his own minority group is a phenomenon common to many ethnic, racial, and even religious communities. One reason cited for this phenomenon is that “it is difficult to pursue commercial roles within a community that is close-knit and stresses a norm of mutual help and obligation” (Portes 1995: 147).

In terms of challenges in running a business, many cited common small business obstacles such as customer satisfaction and managing employees. Six businesses specifically mentioned the small customer base they have by offering products specific to the Muslim community. Two businesses spoke of instances of slow business, vandalism, and verbal abuse immediately following the September 11th attacks.

ROLE OF RELIGION

This chapter began with a description of the personal demographics of my sample, progressed to a description of the businesses and the role of the family in the owner's firms, and then described the financing mechanisms employed as well as the general challenges encountered by the business owners. This last section of the chapter discusses the religious dimension of my sample's business decisions and helps address another subset of the research question: what indicators or business characteristics best predict one's inclination toward Islamic financing products?

Religious Commitment of Sample

In assessing the religious devotion of my sample, I employed a three-part strategy, assessing communal involvement, personal devotion, and the centrality of religion in daily life. Table 4.5 (below) lists the responses for these survey questions. Each sub-category is

Community Involvement and Religious Commitment	# of Businesses
<i>Mosque Attendance</i>	
Once a week for Jum'ah (Friday congregational service)	10
More than once a week	6
Once or twice a month	2
For 'Eid (religious holiday)	1
<i>Involvement in Mosque Activities</i>	
Somewhat involved	8
Very involved	5
Not very involved	3
Not involved at all	3
<i>Prayer Habits</i>	
Pray all five prayers daily	8
I make most of the five prayers daily	6
I occasionally pray	4
I only make 'Eid prayers	1

Table 4.5: Community Involvement and Religious Commitment

organized by the highest to least number of businesses. Overall, the sample demonstrated a high level of religious commitment, which is further described in the following pages.

In terms of community involvement, most business owners attended the mosque for prayers at least once a week. In reference to communal involvement, in a typical Muslim community, mosque activities typically range from fundraisers, to outreach events, to community festivals and celebrations. Over half of the business owners were somewhat (8) to very (5) involved in activities in the mosque.

In terms of personal devotion, prayer is the second pillar of the Muslim faith and observant Muslims pray five times a day. One of the survey questions asked the prayer habits of the business owners to help assess the personal level of religious devotion of the sample. Again, over half of the business owners either prayed all 5 daily prayers (8) or prayed most of their daily prayers.

Finally, centrality of faith in daily life was assessed in the last two questions of the survey which asked that business owners to rank the level of importance of religion/spirituality as well as the role of religion in their daily decisions. Table 4.6 lists the results from the last two survey questions. With the exception of one owner, all respondents expressed that religion/spirituality was “very important” to them personally. Additionally, over half of the business owners expressed that religion was “very important” in their daily decisions.

Importance and Role of Religion			
	<i>Very important</i>	<i>Somewhat important</i>	<i>Not very important</i>
Importance of religion or spirituality	18	1	0
Religion's role in daily decisions	15	3	1

Table adopted from MAPS and Zogby, "Muslims in American Public Square," 2004.

Table 4.6: Importance and Role of Religion

A possible limitation, however, of this portion of the survey may be the context in which the owners were approached and selected. The mere fact that business owners were willing to participate in a study that was introduced as a survey of Muslim business owners may have been a predisposition for a religiously committed sample (i.e. they were comfortable enough with their religious affiliation that others knew them to be Muslim). For this reason, religion may have been ranked proportionately higher than possibly other research studies where the sample selection criteria may not have been solely based on religious affiliation.

Consideration of Islamic Loans

Business owners were asked if they would consider Islamic loans for their business if the option was available. In terms of Islamic business financing, such a product would typically be in the form of *musharaka* (declining balance or shared equity purchase), as defined in Chapter 2. This question and its timing within the interview itself also offers an avenue to differentiate if owners even perceived an Islamic loan as an option before being directly asked. As noted in the previous section of this chapter, only one business owner

Consideration of Islamic loans	<i>Response Categories</i>		
	Yes	Skeptical	No
# of businesses	9	3	5
# that used interest-based financing	3	2	1

responded to the question regarding other preferred financing options with “without interest.” In essence, this would constitute an Islamic loan.

Table 4.7: Consideration of Islamic Loans

Responses to this question included yes, no, and a group of businesses that seemed skeptical or in between⁹, and are summarized in Table 4.7 (above).

The skeptical business owners (3) were not convinced that such an option would work in the United States, commenting “its not as easy as it sounds,” there is still “too much red tape,” and “all banks need to make money somehow.” The businesses within this category did not seem like they fit comfortably in either the yes or no category as many of them demonstrated attitudes like “I have to see it first to believe it.”

The businesses who were opposed to the idea (5) did not seem to trust such an option (due to preferring not to deal with Muslims in financial matters), saw no difference between it and other loans, or were opposed to the principal of taking out any sort of loan, Shariah-compliant or not.

When one analyzes the responses received in reference to the financing avenue employed and the owners’ financing experiences, there was to a stronger association between openness to Islamic products and a previous history of either use of conventional products or difficulty in securing financing. For the businesses that would not use such a product, the majority (4) financed through non-interest bearing means. It is worth noting that those opposed to Islamic financing products were not less religious, for as previously noted, the sample overall demonstrated a high level of religious commitment. It can therefore be concluded that for these businesses, their response seemed grounded in a phenomena or understanding other than Shariah-compliance. Chapter 5 will discuss my speculation regarding this observation.

⁹ For two interviews (out of the 19), this question was not part of the interview at the time. For this reason, the number of businesses in Table 5.3 only adds up to 17.

Influence of Religious Beliefs on Financing and Business Decisions

For the final portion of the interview, business owners were asked how religious beliefs influenced their product lines and financing and business decisions. Figure 4.2 below summarizes the responses received from the question. Business owners either stated that their religious beliefs and practices either had a positive effect on their businesses and product lines (+), or had no effect whatsoever on them ().

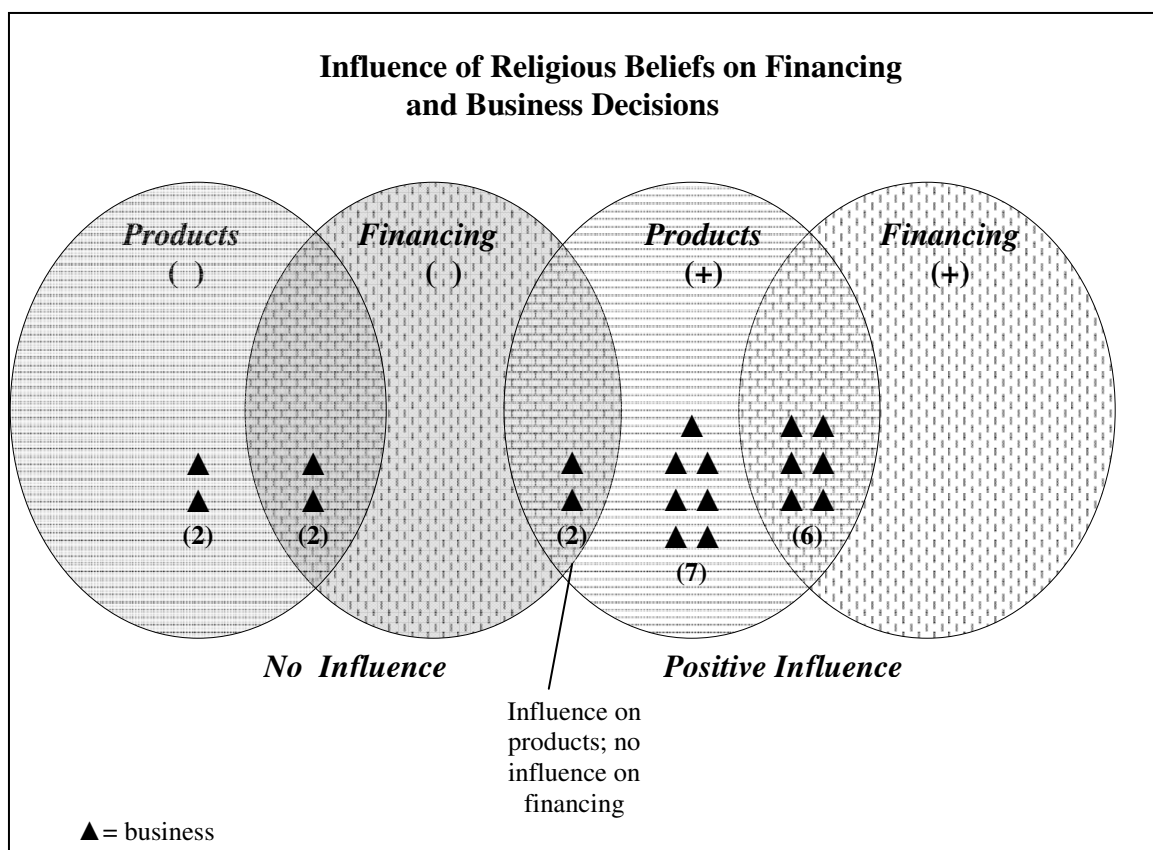


Figure 4.2: Influence of Religious Beliefs on Financing and Business

As one can see in the diagram, the category with the highest number of businesses is the one for which owners stated that religion played an important role in shaping the product line (and no specific influence on financing). This may indicate that the choice of what products to sell or services to provide (in relation to compliance with Islamic law) may

have been a more religiously motivated decision than financing. Additionally, when analyzed with the owner's attitude toward Islamic financing products, there seemed to be a higher correlation between those who noted religious influence on their product line and their willingness to consider Islamic loan products. This correlation will be further elaborated in Chapter 5.

A total of four respondents noted no religious influence on either products and/or financing. In reference to financing, business owners made comments such as "no Islamic options exist," or "there is no other source to finance this type of business." It is worth pointing out that all of these businesses carried items that were not in compliance with universally accepted tenets of Islamic law, e.g. alcohol and pork products.

To further elaborate on the feeling toward the impact of religion on financing, business owners often described their attitude toward financing as "a last resort" or spoke of the difficulties involved in making financing decisions. Those expressing difficulty described the hardship encountered as "having to go an extra step for everything" or "feeling stuck in the capitalistic system." Some owners noted that they felt comfortable or satisfied, and as might be expected, most of these owners did not deal with interest or perceive religion as a financial setback or barrier in their business practices. Those who noted some room for flexibility perceived religion to be flexible and accommodating, possibly indicating a more contemporary perspective on the prohibition of interest.

Overall, the majority of the businesses displayed consistency when addressing the question on the impact of religion on financing between their other responses and previously cited preferences. Those that expressed difficulty tended to be more experienced business owners (in terms of number of years in operation) and may have increasingly

experienced the challenge of not working with interest – especially for the business owners that either expanded their businesses or who owned more than one business at a time.

In conclusion, this chapter consisted of four main questions based on the information solicited during the survey and interview portions of my study. To summarize, the sample demonstrated many personal traits that were fairly consistent with demographics of the larger the American Muslim community. Generally speaking, the business owners demonstrated an overall high level of religious commitment. As previously mentioned, all the business owners were male and immigrants. Business ownership characteristics within my sample also seemed consistent with small business trends on both the local and national levels. Among almost all of the businesses, some level of family support or involvement in the business was identified.

It is important to keep in mind that many of the business owners within the sample financed their businesses without interest-bearing means. For this reason, in analyzing my data, I strove to discern the motivations for this avoidance, always seeking to answer whether such decisions were religiously grounded. Based on this feedback, I also attempted to focus my attention on those who did finance through conventional loans and how their past decisions would shape their consideration toward Islamic loan products. Both those who had used conventional products in the past or had experienced problems in obtaining financing seemed to be more inclined toward Islamic financing products, indicating some level of dissatisfaction with the products or options available. I also noticed the significance of the product line in the business owner's decisions.

Chapter 5 elaborates on these findings, including a deeper discussion of the interaction and implications of many of the demographics, business characteristics, and experiences identified in this chapter with the influence of religion.

CHAPTER 5: FINDINGS AND IMPLICATIONS

At the outset of my thesis, I sought to understand the fundamental challenges faced by Muslim immigrant entrepreneurs in starting and running their own businesses. Many respondents within my sample spoke of the challenges in terms of religious prohibitions, even if they themselves did not encounter them. Through detailed surveys and semi-structured interviews, I was able to understand owner's past financing decisions and identify a core market for Islamic Financing products in a significant metropolitan locality (Sacramento, CA). Attempting to avoid oversimplifying the market demand for Islamic financing products, I sought out distinguishing factors and past business decisions that would provide insight into how business owners have accessed capital in the absence of religiously-appropriate products. Simultaneously, I was able to gain a firmer grasp on the potential market for Islamic financing products among these small business owners and others like them. While exploring this dynamic, I discovered shared mentalities among my members of my sample that are potentially representative of the attitudes and perceptions shared by other business owners and individuals in the Muslim community. What follows, then, is a summary of these primary findings – a summary of what I have uncovered through this research project and a discussion of their implications for the broader Muslim community and beyond.

MAIN FINDINGS

Most fundamentally, my case study illustrated past mechanisms utilized by business owners for their capital needs, revealing that there is indeed a market for Islamic financing products (IFPs) amongst Muslim business owners in the Sacramento area. Over one-half of

the sample was open to considering such products. This was true even among the business owners who did not initially use conventional financing to start their businesses. Given this potential market, what factors best indicate or predict one's predisposition to use IFPs? Since this study focused on a group of business owners who shared the same religious affiliation, I first sought to understand the role religious commitment played in individual inclination towards IFPs. I had initially predicted that religious commitment would correlate with openness to IFPs, and, given that my sample demonstrated an overall high level of religious commitment, I had expected an overall predisposition towards the notion of Islamic loans. In this light, the diversity in attitudes and preferences toward IFPs among a fairly religious sample led me to conclude that religious commitment, as previously assumed, does not necessarily equate to one's openness to Islamic financing products. In short, not all Muslim business owners are interested in Islamic loans products and the level of religious commitment does not necessarily correspond with openness to IFPs. A corollary finding follows – those not interested or opposed to such products were not necessarily less religious.

To help organize my research findings and to facilitate future utility, the following subsections are arranged in the context of a market assessment.

Predisposition to Islamic Financing Products

If not religious commitment, which indicators best predicted inclination to IFPs? My study sample revealed that those most open to IFPs were (a) owners of general businesses who had used conventional financing products in the past or had experienced difficulty in securing any type of funding in the past, and (b) owners of Shariah-compliant-businesses.

First, I noticed a stronger inclination among the business owners who had either previously financed through conventional products or had encountered financing problems in the past. This was surprising as I initially anticipated that those who had never utilized interest in their businesses would be the primary proponents of Islamic loan products. The interest of those who previously financed with conventional products in IFPs most likely demonstrates a sense of discomfort or remorse with previous decisions due to the lack of alternatives. At the same time, this noted inclination among those who previously used conventional products presents an avenue to reach potential users of Islamic financing products – mainstream financial institutions. Since, however, this noted inclination is based on the proportion of owners within each financing group (interest vs. non-interest based financing), a larger more representative sample may further indicate the real “location” of the core market.

Second, those more open to IFPs tended to note religious influence on their business decisions – especially in reference to the product line of their business. That is, since most of the businesses in the sample were concentrated within retail trade or food services, many business owners were confronted by the question of offering products that are commonly found in other grocery stores and restaurants, but that do not comply with universally accepted tenets of Islamic law (e.g. prohibition of alcohol, gambling, and pork). Out of the 19 businesses, only five businesses carried items conflicting with religious law, ranging from lottery tickets to wine to ham and other pork products. In this regard, a distinguishing characteristic of businesses willing to consider Islamic financing products was a specifically-cited religious influence on business product line. This religious influence was demonstrated by the fact that such businesses did not sell alcohol or other prohibited products and by the assertions of those businesses’ owners of the religious influence on their

business decisions. In short, owners of such businesses, considered Shariah-compliant based on their product lines, were more interested in IFPs. The converse was not necessarily true. That is, initial financing method did not dictate the Shariah-compliance of the business's product line. In other words, a business owner may have utilized conventional, interest-bearing loans for his business that was free of Islamically "unacceptable" products, and business owners who avoided conventional loans were found selling alcohol and pork products.

While designing my research instrument, the product line was not a topic I previously thought to include. During my interviews, I found that business owners explicitly stated that they carried such products and provided a justification in the interview for their product line or mentioned the forgone profit for not offering such products. As previously mentioned in Chapter 4, the interview question regarding the influence of religious beliefs on financing and business decisions was always addressed in terms of the product line offered through the business – and, more specifically, either a justification or description of the firm's products. Since the topic seemed to reoccur, I felt it was significant to address and later saw the role of the product line in other decisions (i.e. cited preferences regarding financing).

This discussion – of the importance of religious commitment in determining the Islamic character of business product line – uncovered a perhaps more religiously motivated decision than financing – whether the business owners would carry the classical restaurant/grocery store products expected by mainstream society. This seemed to be the decision that was most grounded in religious devotion – more so than past financing methods – as it was discussed across the board by all of the owners without being

specifically asked. In this manner, Shariah-compliance of product line may prove to be a reliable and specific predictor of interest in IFPs.

Mentalities

In addition to gaining a deeper understanding of the core market for IFPs, my research revealed common perceptions within my sample, opening a window onto the larger realm of Muslim minority attitudes toward assimilation and dominant societal practices. Such findings serve as a lens through which potential consumer preferences and behaviors can be viewed, and, from a sociological standpoint, provide insight on an important, yet understudied, minority community.

First, as previously mentioned, those expressing opposition or indifference in IFP's were not less religious. In fact, the business owners within this group typically indicated a higher level of personal religious commitment. At face value, many would assume that those who had utilized other means of financing, such as personal savings and family, had found alternatives to their capital needs (needs that at some point may have added an additional obstacle to business ownership). Literature previously cited indicates that such borrowing behavior is not necessarily exclusive to Muslim business owners. Rather, it is statistically fairly common in the small business arena (Light and Gold 2000). Furthermore, within my sample, I noticed that those who had relied on non-conventional financing did not perceive such actions as a setback, even taking into account religious restrictions. Instead, what was interesting was that their opposition to conventional products was less religiously-grounded and more based on a personal aversion to borrowing money. At least on this point, religious commitment informed but did not dominate their business decisions. I found myself reflecting that it is usually easier to look to religion as a "straight-jacket" to explain individual

or even societal behavior, and forget that it is often one of but many fibers that compose the tapestry of everyday life. Ultimately, this aversion to borrowing money is not unique to Islam, but is a phenomenon found within various cultural, religious, and even generational groups, all of which should be taken into consideration when identifying the market or demand for culturally or religiously specific financing products (Light and Gold 2000; Portes 1995).

A second finding, perhaps more reflective of deeply-rooted perspectives, was business owner compliance with universally accepted Islamic principles in everyday business operation. Two divergent views were evident in verbal justifications provided in reference to the role of religion in business decisions and financing. More specifically, these consisted of either:

1. Resistance to dominant practices and concomitant acknowledgement of foregone financial opportunity.
2. Incorporation of dominant practices: “Go with the flow – This is America.”

On one side, certain business owners spoke of the financial opportunity they personally decided to forego to uphold and maintain (or not compromising) their religious beliefs. In response to this question, many of them spoke with a hypothetical frame of mind, commenting “I would be making more money if I owned a gas station, but I would have to sell liquor,” or as a jewelry shop owner stated, “I could be making more money if I also offered a bond shop.” Even a health and fitness business owner stated “If I went after profit and money, I would have chosen to open those stores they call ‘mom and pop’ and I would have to sell liquor.” Many owners further explained their actions by acknowledging the sacrifice of financial gain in exchange for reward in the “hereafter.”

On the other side, the predominant attitude among business owners was an indifference to the role of religious influence on financing decisions or on product line. These businesses tended to demonstrate a “go with the flow” attitude and a willingness to financially gain from any “legal activity.” This group of businesses was more comfortable incorporating society’s dominant practices, whether by means of interest- based financing or offering products that contradicted universally accepted religious law. For those selling un-Islamic products, they justified their actions and products as a necessary means to achieve customer satisfaction and personal success – the absence of which seemed to them financially ruinous.

It is also worth noting that among the businesses that cited and demonstrated no religious influence on their product line were restaurant franchises, a gas station, and small convenience store. Such business types may influence business owners’ attitudes and ability to select products for their customers. All of these businesses have a certain expected product line and their target market tends to be the general public rather than the Muslim community. These businesses may therefore be less “independent” than the other businesses within the sample and may demand a higher degree of religious devotion to refrain from selling the religiously-unacceptable yet commercially-expected product lines. Because this decision is so stark, the product line dilemma and the manner in which a “compromise” is reached seemed better indicators of the owner’s interpretation and personal understanding of how religious law should be personally applied than financing practices alone.

These mentalities – of either resistance to or incorporation of dominant societal practices – are especially important in light of the fact that the business owners were all immigrants. One might assume that such divergent mentalities indicate a continuum of

assimilation or reflect duration of residence in the U.S. That is, it might be assumed that those resisting such products demonstrate a less significant degree of assimilation to mainstream cultural practices or have resided here for a shorter length of time. However, this association (between degree of assimilation and incorporation of dominant, non-Islamic practices) is tenuous or incomplete at best – entrepreneurs who justified their un-Islamic product lines never stated that they personally consumed them. Rather, their decisions were described as a means to financial success in their host country, a question of economic viability separate from individual morals. Moreover, these business owners have lived in the United States between 8 and 36 years, a range that does not differ significantly from the remaining business owners.

If degree of assimilation and duration of residence do not explain selective incorporation of dominant social practices, what other factors do? As noted earlier in Chapter 2, Waldinger and colleagues suggest that circumstances of migration play a prominent role in determining immigrant pathways to entrepreneurship (1990: 41). Although a detailed analysis of this topic is beyond the scope of the current research project, important questions to answer would be whether migration was voluntary or involuntary, or, for example, whether it was motivated by the pursuit of higher education, or solely for financial gain.

Ultimately, further sociological research on such mentalities can serve as a powerful tool for organizations and institutions seeking to reach out and meet the growing needs of an increasingly important Muslim minority.

FURTHER IMPLICATIONS

Assessing the Demand for Islamic Financing Products

Because my sample was highly concentrated in a specific sector of small business, primarily service and retail trade, it is important to point out how my findings relate to previous work on the topic. In a Chicago Fed letter, Shirley Chiu and colleagues describe a method similar to the one utilized in the study – assessing the demand for IFPs through the degree of religious affiliation (2005). They note that experts have identified three distinct levels of observance in the Muslim community and the corresponding level of market demand. These are illustrated in Figure 5.1

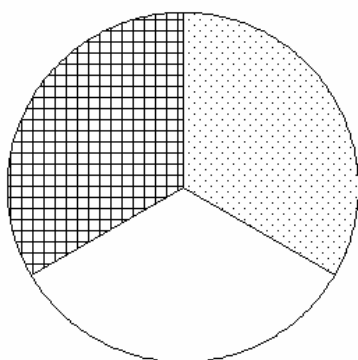





Figure 5.1: Levels of Religious Observance and Corresponding Market Demand for IFPs

 **1** The first one-third represents the most observant Muslims who do not use conventional financing products. This group presents the core market for Islamic financing arrangement.

 **2** The next one-third of Muslims consists of those who currently use conventional financing, but may switch to Islamic financing if it became more widely available.

 **3** The final one-third consists of those who currently use conventional financing and may continue to do so even if a religious compliant alternative were readily available.

Source: Chiu, Newberger, and Paulson, "Islamic finance in the United States: A small but growing industry" Chicago Fed Letter. 2005.

Based on my own findings, I propose a modification to this market assessment. First, I would begin by noting that personal religious probity does not necessitate interest in IFPs (e.g. they may elect not to borrow at all based on a personal aversion to debt). Second, my research indicates that group 2 may actually most accurately represent the true market for IFPs, as such individuals have more experience with financing products in general and may

be more open to switching to IFPs than those who have not used any financing products in the past. Lastly, group 3 and predictions made about it are most consistent with my findings, as some respondents within my sample that had previously employed conventional financing displayed skepticism and distrust toward such products.

The Role of Immigrant Status in Consideration of Islamic Financing Products

Since my sample was entirely composed of immigrants, it is important to also mention how immigrant status may affect the propensity to consider IFPs. As previously noted, the circumstance of migration was not directly explored in my research and as such, I am unable to ascertain the influence or role of such circumstances in one's propensity to utilize IFPs in a detailed analysis. However, as described in Chapter 4, I found a certain degree of skepticism within my sample towards IFPs leading me to question whether their hesitance and mistrust were brought with them from abroad.

This observation echoes a finding in a recent Los Angeles Times front page article, in which author Marla Dickerson describes the deeply rooted skepticism among the immigrant population based on the history of Islamic finance in the Muslim world (Dickerson 1999). According to Samuel Hayes, professor in the Harvard Business School and expert on Islamic finance, "Muslim consumers have been hurt in the past. Egyptian investors sustained huge losses in the 1970s at the hands of fraudulent 'Islamic' investment companies" (Dickerson 1999). Based on my findings, there is no question that many of these attitudes, especially among Arabs, are often carried over into the United States, leading to much hesitance regarding the genuineness of Islamic banking efforts. How universal and enduring this mistrust is, however, remains in question. Why? Even though immigrants do make up the largest segment of the American Muslim community, the second largest group

of American Muslims consists of third and fourth generations as well as a large group of converts (Afridi 2001:3). As the immigrant population continues to age, it is important to assess whether the increasingly growing population of their offspring remains skeptical or opens up to IFPs.

In fact, according to Eric Meyer, a Connecticut-based operator of the Shariah Capital hedge fund, “there is a younger generation of Muslims who grew up during the last 20 years to 30 years that have a reawakened sense of nationalism and religious pride that motivates them to invest according to their faith” (Freed 2006). Some commentators have gone so far as to attribute this awakened sense of identity to the tragic events of September 11th, 2001. “Frankly, with 9/11, as with any tragedy, there was a silver lining. One of the silver linings...was a revival by Muslims to look inward to how they can be more compliant (with the Islamic faith). As a result, American Muslims have become better educated about alternatives to Western financial products,” states Rushdi Siddiqui, director of the Dow Jones Islamic Index Group, which tracks Shariah-compliant investments (Smith 2005).

Within my sample, many owners felt that the only alternatives to the loans utilized were ones that were interest-based, and therefore just as religiously unfavorable as the ones they had taken. Until specifically asked, many owners displayed attitudes of simply “making do” with what’s available within the US financial system as Islamic financing alternatives were not readily perceived among most of my sample. The offspring of the immigrant population, however, may have a greater sense of agency and motivation in moving beyond the mainstream conventional financing products and exploring alternatives that are in harmony with their religious beliefs. As such, the market for IFPs, while slowly gaining momentum now, may be much larger further down the line.

Given this dynamic, it may be that a more accurate assessment of the market for such products may be realized by moving away from generalizations derived from simple measures of personal religious observance and moving toward more nuanced analyses of identity and agency.

Moving Beyond the Muslim Population

Despite its name, Islamic finance is not a market exclusively for Muslims – rather it is a burgeoning field generating international interest among individual investors and financial institutions alike. Reasons cited for this trend include the fact that Islamic finance offers a means to invest in a socially responsible manner. Prohibiting interest, for example, promotes a sense of equity and steers clear of exploitation of the poor. A concern with equity is not exclusive to Islam, as Blake Gould, executive director of the Institute of Halal Investing, states that “this concern binds people of all faith” (Deakin 2007). Here, it might be added, that it binds all people of moral conscience.

Beyond providing a means for a more socially responsible means of investment, research points to the mainstream financial institutions’ neglect of the low-to-moderate income and minority populations in the U.S. In the opening chapter of this thesis, Sacramento was described as somewhat lagging in the number of minority-owned small businesses, further indicating the need for culturally accommodating programs and services to amend historic neglect by mainstream institutions. By “leveling the playing field,” IFPs may offer a means by which communities can maximize the potential of their local economies. As previously noted, under such a model, institutions share the risk of the investment, much like venture capitalism. This model presents a means for lending to be less burdensome on the individual, enabling a small business owner to focus more

wholeheartedly on his or her business venture rather than feeling overwhelmed by debt payments, especially in the initial stages of the firm. In this manner, IFPs offer an effective tool for poverty alleviation.

The relevance and need for such products therefore should not be viewed as an exclusive product for Muslims. While there is a market for these products among the Muslim population, they serve as an attractive alternative to many groups, transcending religious affiliation. As Ross Mohamad Din, the director of HSBC's Islamic division in Malaysia notes, "Islamic banking isn't just for conservative or radical Muslims. It's mainstream business now" (Shameen 2005).

In summary, this chapter described the core market for Islamic Financing products identified within my research sample and the mentalities that may shape individual inclinations toward these products. Implications of my sample's characteristics were also discussed along with other potential factors that can be incorporated into future market assessment research on these products. The following chapter will conclude this thesis by briefly addressing the limitations of this study, in terms of research methodology, sample characteristics, and institutional barriers, and will note further research areas that present opportunities to enrich the current dialogue on the topic of Islamic finance in America.

CHAPTER 6: LIMITATIONS AND CONCLUDING REMARKS

Islamic financing is gaining increasing recognition as a viable and, indeed, profitable way of doing business both in the United States and abroad. The rapidity with which Islamic financing products (IFPs) have hit the market in Western society makes understanding them all the more crucial. Several recent publications have described this phenomenon – notably, the New York Times (Arnold 2007), UK Reuters (Bases 2008; Abbas 2007), and the Federal Reserve Bank of Chicago (Chiu et al. 2005). These works, and many others like them, have helped elaborate the challenges of integrating a Shariah-compliant financing system with the complexities of the modern capitalistic infrastructure on a macroeconomic or global scale. Missing from the broader literature, however, is a microeconomic perspective – a thorough analysis of the individuals, small business owners, who would make up a large segment of this market. This thesis took up this challenge, by helping to address critical questions. For example: Should we assume that all Muslim business owners are interested in Islamic financing products? If not, why not? If so, whom amongst them are interested and why? What role has religious commitment played in their past decision-making?

This study was descriptive in the sense that it provided a narrative on a segment of business owners in the Sacramento area – their backgrounds, their motives for going into business, how they financed their business ventures, and how comfortable they felt with the avenues they utilized. It was also exploratory in that it offered an opportunity to explore the sample's interpretations of religion in the realm of their business decisions and practices. The study also helped assess the feasibility and possible future modifications for such a project conducted on a wider scale (e.g. state- or nation-wide).

Limitations of this study have been touched upon throughout the preceding chapters. A brief discussion on the overall limitations of this project is included below. This chapter concludes with a summary of possible next steps in furthering the research on culturally accommodating programs and services.

LIMITATIONS

Limitations of this study are organized into three main areas: research methodology and tools, sample characteristics, and institutional barriers.

Research Methodology and Tools

Since the data was gathered via purposive and snowball sampling, the findings described are not directly applicable to all Muslim business owners. As such, this study was limited its generalizability and characterized by network bias. On the other hand, by using semi-structured interviews, I was able to probe in more detail into meanings and associations among my sample. As such, I sacrificed some generalizability and reliability to obtain a more detailed narrative of the Muslim business owners' experiences (i.e. depth rather than breadth). Since this study was a pioneering effort, an initial small scale study that explores a variety of issues under the realm of religious influence and small business ownership facilitates the understanding of key issues and questions that can then be incorporated into a wide-scale study. Furthermore, since the study was mainly qualitative, the value of such a research design "lies in its capacity to provide insights, rich detail, and thick description (Gertz 1973 as cited in Anderson et al. 2005:144) and to produce a grounded model that can generate hypotheses for future testing" (Larson 1992 as cited in Anderson et al. 2005:145).

While conducting my interviews, I noticed that aspects of my questions were initially interpreted differently some interviewees. This presented a challenge for analyzing my data, as the members of the sample responded to the same question from a variety of perspectives. For instance, in reference to the questions regarding family support (a critical component of small businesses); I realized that “family support” means different things to different people. Oftentimes, those who were trained by family members cited a lower level of family support than sounded reasonable. The feedback I received on this point was also noteworthy in that it raised the question – how can one theoretically differentiate between moral, financial, and physical support? It may have been less ambiguous to simply list several options by which family typically offer assistance and have the respondents check all the categories that apply to their experience.

I noticed a similar limitation on a survey question regarding owner’s draw. Since businesses were varied in sector, size, and age, the responses to this question did not necessarily reflect how successful the business was at any given point in time. Furthermore, owner’s draw may have been an unfamiliar term, especially in terms of how it compares to “net profit.” Also, some business owners preferred to specify a particular point in time (e.g. year of operation) for which they finally broke even while others answered the question more generally, based on the businesses’ overall net gain . In retrospect, it may have been more informative to pose a sub-question: “At what point (within the years of business operation) did you break even?”

While collecting my data, I also noticed questions that may have been limited in their ability to arrive at the desired level of detail. Interview questions I noticed fell under this category included the: size of initial investment, challenges encountered by business owners, other preferred financing methods, and the consideration of Islamic loans. For example, I

asked business owners about the size of their initial investment as a doorway to understand their capital needs and options. Depending on the type of business, however, the initial investment may not have necessarily been the largest investment over the course of the business. Some members of my sample started their businesses informally, with a modest initial investment, and experienced tremendous business growth that presented a financing challenge further down the line.

In reference to challenges encountered, it may have been more effective to provide businesses with a list of challenges and have them rank the ones that presented the greatest obstacles. This would have fostered a deeper understanding of the relationship of the financing challenge to other struggles business owners encountered and facilitated comparisons between businesses.

Lastly, in reference to one's openness to considering Islamic loan products (a key question in ascertaining the market demand for IFPs) more information could have been assessed by following up with a hypothetical question such as, "How do you imagine your business or level of profit to be different if you had access to Islamic loans?" This may have assisted in arriving at a quantitative account on the impact of the lack of religiously accommodating alternatives.

Sample Characteristics

Chapter 4 described the characteristics of the sample. After gathering my data, I realized some limitations in reference to analyzing the interaction of different aspects of the respondents' characteristics. For instance, my sample consisted of first time business owners along with those who simultaneously owned other businesses or for which the business in question was their second business. With a relatively small sample, it was difficult to fully

assess how the experiences of first time business owners compared and contrasted with those advanced in their business ownership tenure. Moreover, some business started as one structure, such as a partnership, and later evolved into another structure. This presented a challenge in terms of which business should serve as their point of reference. In such cases, interviews were typically conducted in reference to the individual's overall experience as a business owner.

As previously noted, all the sample respondents consisted of immigrants. While a spectrum of mentalities was identified, other aspects of the immigrant incorporation process were not addressed. Chapter 5 described the deeper context that could have been obtained by asking questions regarding circumstances surrounding and reasons for migration. Additionally, under the realm of immigrant entrepreneurship, much literature is devoted to the role of social networks and the ethnic/immigrant community in the immigrant incorporation processes (Portes 2005; Heisler 2005). In the data gathered, social networks were only assessed through referrals obtained from business owners and the community role was addressed in regards to support for the business (or the lack thereof). Very little information, however, was gathered on how the business owner became aware of the ownership opportunity – was it through other members of their community, for example? Were their employees of the same ethnic/religious background?

Furthermore, Portes developed a systematic model regarding immigrant's mode of incorporation (Portes 1995). One key element that is seen to play a role in the long-term economic adaptation of immigrants is the government policy (receptive, indifferent, or hostile) at the time of migration. Since September 11th and the government's response to it, most would attest that experience of Muslims in America is very different than a mere decade ago. This shift in both the government and general public's perceptions of modern

day Muslims was only discussed in light of obstacles business owners faced following the attacks – slower business or vandalism. The shift from a more receptive or indifferent government policy toward Muslim immigrants to a more restrictive and often unwelcoming approach has ramifications that will invariably color the experience of Muslim business owners for years to come.

Institutional Barriers

This thesis addressed the capital needs of Muslim business owners and the avenues utilized to meet such needs. It also uncovered characteristics (both personal and business related) that indicate one's propensity to use Islamic financing products. My research, however, did not address the organizational or institutional perspective of offering such products. Chapter 2 listed a handful of nationwide entities that offer Islamic financing products. What have been these organizations' experiences in offering products to the Muslim community? Do these organizations encounter the skepticism and distrust noted in my sample? What have they noticed in terms of factors (educational background, occupation, etc.) that shape the community's inclination toward such products and how do these characteristics compare to my findings?

Additionally, much literature on the topic of Islamic financing identifies a range of institutional barriers that present obstacles to offering IFPs nationwide. State and federal regulations add another dimension to creating products that conform both to Islamic religious doctrine and lending regulations. As an example, Chiu and her colleagues describe the National Bank Act of 1864 which “prohibits banks from the purchase, holding of legal title, or possession of real estate to secure any debts to it for a period exceeding five years” (2005). This would stand in the way of many Islamic home financing products. As Islamic

financing is gaining increasing attention, many policy makers are building their knowledge in this field, thereby noting specific IFPs that would be an exception to existing regulations.

Similar to the challenge of developing and marketing any new product, another institutional barrier to offering IFPs must include the cost involved. Such costs can span research to develop creative methods of financing, the design and production of new financial documents to accompany products, consultation with religious and regulatory experts, and the training of staff on different lending structures (Chui et al. 2005).

Lastly, another challenge faced by proponents of Islamic financing is unresolved theoretical issues (Iqbal and Molyneux 2005: 111). As stated in Chapter 2, the prohibition of interest itself is still a controversial issue within Muslim scholarly circles, both nationally and internationally. This lack of consensus in terms of the interpretation of the prohibition and its practical implications presents both an obstacle to achieving adequate institutional support for launching these products via more mainstream financial institutions.

CONCLUDING REMARKS

Throughout the preceding and present chapter, I made note of the following modifications for a larger-scale study – revising research tools and data collection strategies and incorporating a wider range of business sectors as well as ensuring representation of immigrants and second-third generation business owners. These modifications will further foster a deeper understanding in the role of religion and culture within a significant sector of today's present-day economy – small businesses. Second, further research on aversion to borrowing among small business owners in general and their access to capital would enhance the findings of this project by providing a point of comparison for the described phenomenon within my sample. Third, I believe one of the next steps of this research

project would then be addressing the institutional barriers to offering such products – how can current regulations be modified to accommodate financing preferences of other minorities (whether religious or ethnic) in America? Lastly, expanding this research project beyond the small business sector into the larger Muslim community offers a means for greater advocacy for the needs of Muslims in America.

While many limitations were described in the previous section, I see this thesis as a starting point in understanding the interface between theory (religious law) and practice. I also see this research endeavor as a lens to bring issues relevant to the fields of Islamic finance and its implementation in the setting of small businesses in the United States in sharper focus. Ultimately, I hope that this research has contributed to the dialogue of Islam in America in a manner that transcends religious affiliation and can be incorporated in assessing obstacles that stand in the way of building sustainable, vibrant communities.

APPENDIX A: SURVEY AND INTERVIEW QUESTIONS

SURVEY OF MUSLIM BUSINESS OWNERS

As a UC Davis graduate student in Community and Regional Development, I greatly appreciate your willingness to participate in this study. Your responses and feedback are critical for assessing and better addressing the needs and experiences of Muslim business owners in America. I would like to first gather some information regarding your business. I will then ask some questions regarding your involvement with the Muslim community and your background. Your participation is voluntary. Feel free to decline to answer any question.

All information gathered will be completely confidential and will be used for analyses purposes only. The final report will not use real names of people or businesses interviewed or any data that could reveal the identity of the participants in the study.

BUSINESS INFORMATION

1. Which category would best describe the ownership characteristics of this business?
(please check one)
 - Sole proprietorship (individually owned)
 - Partnership
 - Please state the number of additional individuals who own this business _____
 - Limited liability Corporation
 - Other, please describe _____
 - Family-owned/ -run? _____

2. What sector does this business fall under:

<input type="checkbox"/> Agriculture	<input type="checkbox"/> Services
<input type="checkbox"/> Construction	<input type="checkbox"/> Transportation and Warehousing
<input type="checkbox"/> Finance and Insurance	<input type="checkbox"/> Utilities
<input type="checkbox"/> Information	<input type="checkbox"/> Wholesale Trade
<input type="checkbox"/> Manufacturing	<input type="checkbox"/> Other, Please specify _____
<input type="checkbox"/> Real Estate and Rental Leasing	
<input type="checkbox"/> Retail Trade	

3. How many years has this business been open? (round to the nearest year)
 - less than a year
 - 1-3 years
 - 4-6 years
 - 7-9 years
 - 10-12 years
 - 13-15 years
 - more than 15 years

4. How many (full-time and part-time) employees work here (including family members):
- 0
 - 1-5
 - 6-10
 - 11-15
 - 16-20
 - More than 20
 - o How many, if any, of the employees are family members?
5. Which percentage best describes the annual amount of *owner's draw* (revenue after business expenses are covered) of this business? Please check one:
- 0
 - 1-5%
 - 6-10%
 - 11-15%
 - 16-20%
 - 21-25%
 - 26-30%
 - more than 30%
6. Please check the category that best describes the amount of support you received from your extended family in starting or running your business venture.
- Great deal of support
 - Some support
 - Little support
 - No support
 - Not relevant/No extended family

RELIGIOUS PRACTICES

The next set of questions is regarding your religion and how it impacts your daily life.

7. On average, how often do you attend the mosque for *Salah (Namaḥ)* and *Jum'ah* Prayer?
- More than once a week
 - Once a week for *Jum'ah*
 - Once or twice a month
 - A few times a year
 - For *'Eid* prayers
 - Never
 - Not sure
8. Excluding *Salah (Namaḥ)* and *Jum'ah* Prayer, how involved are you in the activities in the mosque?
- Very involved
 - Somewhat involved
 - Not very involved
 - Not at all involved

Not sure

9. Concerning daily prayer or *Salah* (*Namaz*), which category would best describes your prayer habits?

- I pray all five prayers daily
- I make most of the five prayers daily
- I occasionally make *Salah* (*Namaz*)
- I only make 'Eid prayers
- Never Pray
- Not sure

10. How important is religion or spirituality to you personally?

- Very important
- Somewhat important
- Not very important
- Not important
- Not sure how important

11. How important is Islam in your day-to-day decision-making?

- Islam is very important
- Islam is somewhat important
- Islam is not very important
- Islam is not important
- Not sure how important

OWNER DEMOGRAPHICS

12. How would you identify yourself in racial or ethnic terms? (Please check one)

- North American
- European
- Latin American
- African-American
- Arab
- Indian Sub-Continent
- South-East Asian
- Sub-Saharan African
- Other, please specify _____

13. Please state your country of origin _____

o If other than the US, how long (years) have you lived in the US? _____

14. If foreign born, please describe your status.

- U.S. citizen
- Permanent Resident
- Other status, please state _____

15. Please indicate the highest level of education you completed.

- Some high school or less
 - High school graduate
 - Some college
 - Associate degree or junior college degree
 - Four-year-college graduate
 - Postgraduate Degree
 - Other form of education, please describe
-
-

16. Please check the category that best represents your total annual household income, before taxes.

- under \$15,000
- \$15,000 and under \$30,000
- \$30,000 and under 45,000
- \$45,000 and under \$60,000
- \$60,000 and under \$75,000
- \$75,000 and under \$90,000
- \$90,000 and above

Contacts

- 1- Can you think of names of other business owners or partners that you could refer me to?

- 2- What is their relationship to you?

Interview Guiding Questions

Introduction: This portion of the survey is about your experience starting and running your business as well as your access to resources. I am hoping this information can be used in the near future to assess the needs of Muslim business owners across the United States, and possibly be incorporated to guide and structure economic development organizations' programs and services. All and any information provided will be kept strictly confidential.

Background of the business and financing

- 1- How did you come to open this business?
- 2- How large of an initial investment did it require to get the business up and running?
- 3- How were you able to finance this initial investment? *(Well known that one of the most difficult barriers owners face when starting a business is the start-up costs)*
- 4- Please describe the amount of support you received from your family. Did you receive any financial support from your family? If so, how much?

Financing barriers and strategies

- 5- Did you or have you ever encountered any problems in receiving financing?
- 6- Looking back, what would you say are the greatest challenges you encountered in opening this business?
- 7- What are some other ways you might have preferred financing this business? Why was this preferable?
- 8- If you had the option, would you consider Islamic loans for financing your business?
- 9- Aside from financing and opening your business, what are the largest challenges you face in running your business?

Influence of religious commitment

- 10- How did your religious beliefs influence your financing and business decisions?
- 11- How do you feel about the impact of your religion on financing?

Other

We discussed the background of the business and financing, barriers you experienced in financing the business, and the influence of religious commitment.

- Is there any other barrier or challenges you experienced that you would like to add to your responses?

- Any additional information/considerations you would like to provide about demands of your business?

- Feedback on questions?

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