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Egbert, Henrik

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Entrepreneurial Advantages and Disadvantages of Belonging

Henrik Egbert

Abstract: The article analyzes the influence of religious network structures on entrepreneurial success. Members of the religious community of the Bohras in Tanga, Tanzania are contrasted with entrepreneurs of other ethnic origins. It is shown that the religious network provides, through a loan scheme, the opportunities to start and run a business successfully. In this respect, the importance of the Islamic business ethic is underlined. Finally, the macro-economic effects of the network are outlined.

Introduction

The aim of the research was to analyze the positive and negative effects of social networks on the economic success of entrepreneurs and their enterprises, respectively. In the process of economic development I consider the entrepreneur as a central figure. The developed and developing countries in Europe, North America and Asia have shown that the entrepreneur is the agent of economic development. He is 'embedded' (Granovetter, 1985, 481) in social contexts. He may partly instrumentalize his belonging to an institution but, on the other side, his belonging may also turn to be a major constraint, both for himself and for his enterprise.

This article focuses on the influence of the structures of a religious network on entrepreneurial success. I will try to answer two questions: a) which underlying social and economic structures make one group of entrepreneurs more successful than others, and b) which are the macro-economic effects of the described network. The examined group of entrepreneurs is the Bohras. They are a segment of the Asian population in East Africa.

Research Methods and Sampling

The criteria of including entrepreneurs in the sample were: they had to be of non-European origin, i.e. 'Africans', 'Asians' and 'Arabs'. They had to be owners of an enterprise. Managers were only additionally interviewed. The minimum size of the enterprise was five employees in 1997. The enterprise had to be in the production or service sector. Questionnaires, structured and open interviews were used. Research was conducted during two stays in the Tanzanian coastal city of Tanga in May 1997 and from August to December 1997.

First, I will briefly outline the historical and religious background of the Bohra community. Second, the Bohra entrepreneurs in the town of Tanga will be discussed. Based on interviews and the analysis of literature, the structures of their network economy will be interpreted. Third, quantitative analysis will be used to show that Bohra entrepreneurs are economically more successful than other entrepreneurs in the city. Fourth and last, the importance of the concerned network structures for the macro-economic level will be discussed.

Historical and Religious Background

The split of the Shi'a after the death of the Prophet Mohammed was only the first of many schisms within the Shi'a. Questions concerning the succession of the Imam were the main reason. After the death of the sixth Imam (765), the Isma'ilis (7er Shi'a) split from the more orthodox Ithna'asharies (12er Shi'a). During the reign of the Fatimid Caliphate, again a schism occurred about the Imam's succession (1094). The two Isma'ili groups of the Nizari Isma'ili and the Mustalian Isma'ili formed. After the destruction of the Fatimid Caliphate, the latter group was established in Yemen. Since 1167 the Mustalian from Yemen promoted the conversion of the population in Northwest India, namely in the Gujarat. The conversion was especially successful among the Bohras, a traditionally Hindu trading community.

The head of this community is the Da'i-al-Mutluq¹. He represents the Imam in seclusion and is for the Bohras the highest religious authority on earth. Moreover, for the Bohras he is also the highest authority in all social matters (Abdulhussein, 1995b, 238).

However, the succession of the Da'i did not remain unquestioned. Repeatedly schisms occurred among the Bohras. With the growing importance of the Asian presence in the community - especially in economic affairs - the residence of the Da'i was transferred from Yemen to Ahmedabad in 1567. After the death of the 26th Da'i (1588) the community split into the Da'udi Bohras (living in Gujarat) and the Sulmanii Bohras (living in Yemen). From then on, both sects followed different lines of Da'is (Amiji, 1975, 28-33; Daftary, 1990, 257-61; Lokhandwalla, 1955; 117-24). In the following, I refer only to the Da'udi Bohras because only followers of this group live in Tanga. The Da'udi Bohras are the largest group among all Bohras and their number world-wide is estimated between 0.5 Million (Daftary, 1990, 314) and 1 Million (Abdulhussein, 1995a, 225).

In history, the Bohra community suffered persecution. The Bohras often had to practise their religion secretly. Additionally, esoteric elements in their religion are the ground for estrangement from other Muslim religious groups. Both points are reasons for a kind of exclusiveness of the group and a tightly knit network among its members. This does not remain without influence on the economic development of the community.

In the following, the terms 'Bohras' and 'Bohra community' are used for the Bohras in general, i.e. the world community. When I refer to the part of the Bohra community which lives in Tanga, I use the term 'local community'.

Bohras in East Africa

Bohras were among the first Asian merchants who periodically made trading expeditions to East Africa. In order to coordinate their trade activities more efficiently, they established permanent

¹ From now on I will refer to him as Da'i.

settlements in the East African coastal towns at the beginning of the 19th century. Famine in the Gujarat probably contributed to a considerable emigration process. The increasing importance of the Indian Ocean for the world economy and the shift of political interests of European states towards this region at the middle of the 19th century had a stimulating effect on the Bohra settlements. "Bohra settlements received great impetus in the middle of the nineteenth century as a result of the southward shift of economic interest in the Indian Ocean trade area, first with Omani Arabs and later by British, American and German merchants." (Amiji, 1975, 35). The establishing of a British consulate in Zanzibar (1841) and the shift of the residence of the Sultan Seyyid Said from Muscat to Zanzibar in 1840 promoted the economic activities of the Asians through improved security: as British subjects the Asians had protection by the colonial authorities as well as by the Sultan who guaranteed religious freedom for Hindu and Shiite traders and financiers. The Sultan needed the financial capital of the Asians to extend and to consolidate his power in East Africa. After the establishing of a local Bohra community in Zanzibar as the entrepôt for East Africa, Bohras started to settle in all coastal towns - and among these was Tanga. Amiji (1975, 39) writes: "Most of the Bohras in Tanga came from Kathiawar. In 1875 Sir John Kirk noted twenty-two Bohra families and six Hindus in Tanga. The number of Bohras was much larger because each household consisted of wife and family while the Hindu lived alone."

An economic advantage for the Asian communities was that they settled in separate regions so that each region was economically dominated by one community. Through this separation of spheres, competition between the communities was avoided and made the exploitation of local monopolies possible.

When the Arabic influence was pushed back during the German colonialism, the Germans were also dependent on the Asian merchants as middlemen to the African population. The Germans used the existing economic structures dominated by the Asians to establish and extend their power in German-East-Africa. "During the German era, 1884-1918, Bohra businesses (...) acted as agents for leading German firms and missionaries." (Amiji 1975, 39). After the end of the First World War the Asian emigration from Gujarat to East Africa stopped. Since the 1950s more and more Bohras have left East Africa. Especially after completing their studies in Great Britain, Canada and USA they settle there. Migration takes also place in East Africa. Bohras from Tanga, for instance, migrate to Arusha, Nairobi and Mombassa. The number of the Da'udi Bohras in East Africa is stated to be 15,000. Amiji refers to a census of the local communities in 1967 (1975, 27). Daftary (1990, 314) speaks about 20,000 Bohras. The Tanga community consists today of about 300 families or about 1,350 people. This is equivalent to 1/3 of the Asian population of the city or about 0.5% of the total population. After Dar-es-Salaam, Mombassa and Nairobi, presently it is the fourth largest Bohra community in East Africa.

Traders and Producers

In the economy of Tanga, the businesses of the local community have an important role. It is noticeable at first glance that many shops are run by Bohras, since their clothing, the way of

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hairdressing and other symbols indicate their belonging to the community. In fact, trade is the most common entrepreneurial activity among them but some are additionally active in the production sector. An etymological meaning of the word 'Bohra' comes from an old Gujarati meaning, i.e. *to trade* or *trader* (Daftary, 1990, 298). This explanation is also given by the Bohras in Tanga. Principally, within the Bohra community there exists a positive attitude toward entrepreneurship. Self-employment is regarded as a value and as an aim to achieve. Bohras strive to own a business, often a shop. Wage-employment is regarded as dependence on other (non-Bohra) people. It is only accepted if the employer is a family member, or if one's own business already exists and a wage-employment brings additional income.

The present 52nd Da'i of the Bohra community, Sayyidna Muhammad Burhanuddin, who is residing in Mumbai, exercises intensive influence on the entrepreneurial activities of the community's members. He emphasizes an Islamic business ethic whose essence is in rejecting interests and in supporting communal loan schemes. Because of this rejection of interests, the Bohras refrain from taking bank loans. An alternative to loans provided by banks are loans from the religious community itself. These loans are interest-free (Abdulhussein, 1995b, 237). Those who take them have to follow the strict social obligations of the community.

The Institutionalized Loan Scheme

According to non-Bohra, the economic success of the Bohra entrepreneurs is due to the possibility to receive interest-free loans from their community. The decision whether an applicant will receive a loan or not depends on two community committees. One committee deals with loans below 1 million Tanzanian Shillings (about 1,500 USD in 1997), the other with sums above 1 million Tanzanian Shillings. The borrower has to meet certain conditions in order to receive the loan. He has to prove his trustworthiness, i.e. two bailsmen have to sign the application form and to deposit a cheque with the committee (every community member can only be a bailsmen for two other members). The borrower must have an account at the committee in which he has deposited half of his previous yearly profits. Finally, he has to announce the reason for what purpose he will use the loan. The committees provide loans preferably for launching a new business. For the enlargement of an already established company, loans are rather difficult to obtain. It seems that in the present economic crisis of the country this loan scheme has reached its limits because the demand is high.

The possibility to receive loans - provided that a bailsmen is available - has advantages in trading. For instance, Bohras can obtain credits for business transactions in cities other than their own in case that a local community member functions as a bailsmen. For the acquisition of products this bears advantage in competition with businessmen who do not operate within a similar national (and international) network.

What are the sources of the funds? The yearly profits which are saved on accounts at the committee are the basis of the funding. Besides, there are voluntary payments to the community,

as well as religious payments (Amiji, 1975, 46). Additionally, the *zakat* as a tax on the profit has to be paid to the community. The *zakat* is 2.5% of the yearly profit. The local representative of the Da'i, the Amil, collects the *zakat* from those families of the community which are running an enterprise. In case that the enterprise makes a loss, the Amil checks the business accounts and the owner does not have to pay the *zakat*. However, he is expected to give voluntary contributions to the community. It could be surmised that the Amil and the businessmen arrange lump sum payments since it is highly problematic to figure out the real profits. If community members refuse to pay the *zakat*, then the local community exercises pressure on those unwilling to pay (Amiji 1975, 45). Partly, the collected money is sent to the Da'i in Mumbai and is no more available for the community.

The financial security system of the community covers also the private sphere. Financial assistance is provided for weddings; for the support of widows and orphans an extra fund exists. The Amil has a central position in this system because he has to decide on the necessity of a person or a family. During research it was not possible to get more information about the exact sources and usage of the funds. Community members are unwilling to talk about this matter because non-Bohras may misuse this information to spread rumours about the community. To sum up, it can be said that an extensive financial security system supports the local community members in private and business affairs. This system is based on deposits, tax payments and voluntary contributions. The system provides security in situations of individual hardships.

Inside vs. Outside the Community

Not every Bohra can take advantage of the described system. The most important precondition is to be a member of the local community. There are Bohras, however, who do not belong (anymore) to the local community. The described system is based on social control. The advantages are restricted to those Bohras who follow the Da'i's rules and instructions. These include, beside religious matters, prescriptions concerning food, clothing and hair-styling of men and women. This far-reaching regulation of life is not accepted by all Bohras. If members do not follow the rules strictly, a conflict with the community arises.

The Da'i's power is based on his religious authority and the structure of the community. The latter is an hierarchical autocracy with the Da'i at its top. In every major city with a Bohra community the Amil, who is chosen and sent by the Da'i, represents the Da'i's interests. The Amil is in rank the highest local religious authority and is in close contact with the Da'i in Mumbai (Abdulhussein, 1995a, 225; Daftary, 1990, 298-99; Lokhandwalla, 1955, 127). The Da'i's relatives periodically visit the local communities and on such occasions they collect the *zakat*. The hierarchic structure gives enormous power to the Da'i who can decide on the treatment of every community member. His most powerful instrument is the exclusion of community members. If the Da'i excommunicates a member, then all other Bohras have to stop social contacts with that person in order to avoid their own exclusion. This rule counts also for family members. The social boycott includes the refusal of religious performances by the Amil. Through

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the refusal of a place at the community's graveyard and through the refusal of religious ceremonies at weddings and burials by the Amil, a harsh psychological pressure is exercised on the socially ostracised person (Lokhandwalla 1955, 124-26). The excommunicated person has the possibility to ask the Da'i for pardon and to become a member of the community again.

A conflict with the community also arises if a Bohra neglects his duties in business. In one recorded case, this internal for the community mechanism of sanctioning was instrumentalized by a non-Bohra. The case was such that a Bohra had debts to pay to a Sunni businessman. Despite repeated requests to pay, the Bohra refused. Finally, the Sunni explained the case to the Amil. The latter forced the Bohra businessman to pay his debt.

Nevertheless, not always does the social boycott - and the fear of it - achieve its aim. Despite the restrictions, Bohras leave the community and live with their families as outsiders. Daftary (1990, 313) refers to conflicts in the community in India as tensions between traditionalists and reformers. The reformers strive for a limitation of the Da'i's power but not for a reform that aims to change religious aspects. Those Bohras of East Africa who have studied in Europe or North America and who have lived most of their lives there return with ways of thinking which brings them into conflict with their communities in East Africa. Since the structures of the community do not allow to react flexibly to criticism, part of the well-educated is ostracised.

Data Presentation

From a total of 78 questionnaires, 13 were answered by Bohras. Their enterprises are represented in six branches. The production of food and soft drinks (restaurants are excluded) is a major branch and 4 of the interviewed Bohras work in this sector. They are represented also in the branches of chemicals, wood processing, printing and metal processing. They are absent in the construction, mining, textile and transport sectors. In order to compare the Bohras with other entrepreneurs, three groups are being differentiated. The first group includes the 13 Bohras. The second group is formed by 'other Asians' (Hindu, Sikh, Catholic, Sunni). This group includes 17 people. In the third group there are 46 entrepreneurs of 'African' and 'Arabic' origin.

It is also true for the Bohras that the better the education of the owner, the larger his enterprise is (regarding the number of employees). A conspicuously high number of the Bohras have graduated from European and North American universities. While 4 of 13 Bohras have a university degree, only 3 of 65 of the other entrepreneurs have similar degrees.

Economic Success

The question whether the Bohras are more successful than other entrepreneurs can be answered positively provided that the indicators 'capacity utilisation' and 'change of invested capital' are considered.

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In the period from 1992 to 1997 the capacity utilisation of enterprises owned by Bohras is higher than of enterprises owned by other entrepreneurs. More than half of the Bohras say that their enterprises have a capacity utilisation more than 60% compared with a quarter of the 'other Asians' and only one tenth of the 'African'/'Arabic' group reaches this level.

Tab.1: Capacity Utilisation 1992 - 1997

Owner	n	Capacity Utilisation 1992 - 1996		
		< 40%	40%-60%	> 60%
Bohra	13	3	3	7
Other Asians	17	8	7	2
Africans, Arabs	43	15	18	10
Total	73	26	28	19

A second indicator is the change of invested capital in the period 1992 to 1997. None of the interviewed Bohras said that his invested capital decreased but 11 out of 13 said that it increased. From the other groups about 70% give the same answer.

Tab.2: Change of Invested Capital 1992 - 1997

Owner	n	Change of Invested Capital 1992 - 1997		
		decreased	constant	increased
Bohra	13	0	2	11
Other Asians	17	0	5	12
Africans, Arabs	46	5	8	33
Total	76	5	14	57

The Bohra announced that the source for the increase of invested capital was own capital, especially reinvested profits.

This raises the question why they use a comparatively high percentage of their profits for reinvestment. Two reasons could be given: The first reason is that investment into interest-bound assets is forbidden by the Islamic business ethic. This makes it necessary for the Bohras to look

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for alternative investment opportunities, one of them being reinvestment into one's own company. The second reason is that half of the profits - if not reinvested - has to be saved in the account at the committee. Once the profits are put in the account, the entrepreneur has no free access to them because the committee may use them for providing loans. This makes it for a prospering businessman rather unattractive to put these profits under the committee's control.

Beside the higher reinvestment rate of profits, two more aspects indicate that Bohras prefer investment forms which limit the community's access to their capital, at the same time being in accordance with the Islamic business ethic. The one is the comparatively high level of education. This implies a high investment in human capital, which is excluded from taxation but contributes, in the long run, again to the community's prosperity: a well-educated entrepreneur will probably be a successful entrepreneur and will support the community with comparatively high payments. The second one is the high percentage of Bohra entrepreneurs who own a second and even a third enterprise. 7 of 13 Bohras own a second company in comparison to only 7 of 18 'other Asians' and only 9 of 46 'African'/'Arabic' entrepreneurs.

Starting Capital and Crisis Situations

To be a successful entrepreneur means to be able to overcome difficult economic situations during the life period of a company. One of these situations is the foundation of an enterprise. The possibility to have initial capital is crucial. It can be said that in fact the Bohra entrepreneurs receive loans from their community for financing the founding period. An interest-free loan scheme has existed since the 1970s. All enterprises which were founded or taken over by the present owner after 1970 were examined. 37 entrepreneurs financed their starting capital partly through loans and 7 Bohras were among them. While none of the 30 other entrepreneurs took a loan from their religious communities, 2 from 7 Bohras did. This number seems to be rather low. In fact, Bohra enterprises have been existing for a long time (in one case 107 years). These enterprises need loans for expanding the company rather than initial capital. In open interviews two more Bohras said that they took community loans for the expansion of their businesses.

Furthermore, it can be proved that the Bohra entrepreneurs receive community help in times of enterprise crises. In the period 1990 - 1995 more help was requested than in the years before. 9 from 78 entrepreneurs said that they received help from outside the company during this period. 3 of the 9 entrepreneurs were Bohras. While 2 of 3 took loans from their community, none of the other 6 entrepreneurs did.

It can be summarised that, firstly, enterprises owned by a Bohra are more successful than those which belong to other entrepreneurs and, secondly, that Bohra entrepreneurs receive financial support from their community, while non-Bohras do not have this opportunity.

The Excluded Bohras

In Tanga there are Bohras who have been excluded from the community, or who have decided of their own free will to leave the community. 11 from 13 Bohras reply that they attend the religious services regularly, that is daily or, at least, weekly. The other two people say that they attend services very rarely. On the question how often the interviewee participates in social activities organised by the religious community, 9 people reply with 'often' and 4 with 'rarely'. These 4 include the 2 persons who do not attend services. While 9 entrepreneurs are in close contact with the community, 2 are more estranged and 2 others are excluded from the community.

In the following, I focus on those two entrepreneurs who are excluded from the community. Both have university diplomas from European or North American universities. In fact, both belong to a comparatively small group of entrepreneurs in the city which obtained such degrees. However, other Bohras have also similar degrees from American universities and they are not in a conflict with the local community. In contrast, their families strongly support the community. A good education alone cannot explain why Bohras leave their communities.

What strikes the observer is that the enterprises of both of the excluded Bohras are among the three largest Bohra enterprises. An interpretation could be that with the increase of the size of the enterprise the dependence on the community shrinks. Education abroad has consequences: not only that European or American values are adopted by the people and make a conflict with the community more probable, but also that the better education makes a successful establishment more probable. With the prospering of the company, the dependence on financial support by the community diminishes. Additionally, a stay abroad allows the establishing of business contacts outside the Bohra community. Thus, the independence of those Bohras studying abroad is obtained in several ways.

These Bohras who were excluded and partly excommunicated from the local community criticize neither the payment in general, nor the amount of money paid to the community, or to the Da'i, respectively. What is criticized is the lack of control, the undemocratic decision-making in the community and the uncontrolled usage of the money by the Da'i.

The Importance of the Network for the Economy

The religious network of the Bohra community has several positive effects on the development of entrepreneurship in Tanzania. Micro-economic advantages are based on exclusiveness, which is maintained by an internal hierarchy. Economic disadvantages are observable on the macro level. The macro-economic advantages and disadvantages will now be summarised.

The first advantage is the possibility to receive financial support in the founding phase of a business. Loans are provided with extremely favourable conditions. Through the loan scheme already established entrepreneurs support the founding of new enterprises. The establishing of

new enterprises creates employment opportunities dominantly for African workers. Thus, the macro-economic importance is the creation of jobs.

A second advantage lies in the financial support for community members in situations of crises. Especially in times of economic recession loans from banks bear a high risk due to high interests. Such loans often bring the enterprise at the threshold of bankruptcy. Interest-free community loans can stabilize enterprises in a recession period and preserve working places.

The third advantage is based on an Islamic business ethic. It supports investments in production and human capital, while investments in financial assets are not promoted. That is why profits are channelled into the first two forms of investment. For the Tanzanian economy both are essential for the future development. The country suffers deficit of well-educated entrepreneurs as well as a lack of investment in the production sector.

The first disadvantage for the Tanzanian economy is that the market principle in respect of selecting unprofitable enterprises is displaced. Unprofitable (Bohra) companies can remain in the market while enterprises whose owners are not embedded in similar networks will have to close down. This refers dominantly to African enterprises.

A second disadvantage is based on the exclusiveness of the community. It is possible to become a member only through birth or marriage. The economic advantages, thus, are restricted to a small minority of the population in the country. Due to its small size, the overall positive economic effects remain limited. Because of the (ethnic and religious) exclusiveness of the Bohra community, entrepreneurs of African origin do not consider the community a successful economic model which could be applied for their own ethnic groups.

The third disadvantage is the formation of oligopolistic market structures. This refers rather to the Bohra traders than to the producers. Barriers for market entry are created for entrepreneurs who cannot compete with the Bohra. This makes it more difficult for entrepreneurs to establish in the market and limits the gains of the market to a small group.

The fourth disadvantage is the capital export through transfers. A reinvestment of profits on a local or national scale - for social or business projects - would contribute to building the regional and national economy. The hierarchic structure of the community, however, does not allow a local investment of the profits, this capital is transferred to the Da'i in Mumbai, instead. This capital export is a loss for the Tanzanian economy.

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