
HOW MEMON, DELHI SAUDAGARAN AND CHINIOTI ENTREPRENEURS CREATE NEW VENTURES?

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Abstract

This paper explains how entrepreneurs belonging to Memon, Delhiwala and Chinioti communities create new ventures using family and community resources. Using multiple sources of data including in-depth interviews, community literature, and direct observation, the paper creates a consolidated picture of the process employed and recommended by the entrepreneurs of three communities. A case study approach was used to process and analyze the data. The findings suggest that religious orientation, family culture, family resources, family and community networks play a pivotal role in shaping the process of venture creation. The finding can be helpful for new entrepreneurs planning to start a business in the Pakistani context.

Keywords: Venture Creation, Ethnic Entrepreneurship, Mixed Method Approach, Community Literature.

JEL Classification: Z000

Introduction

In Pakistan there are a number of communities known for their entrepreneurial nature. Among them Memon, Delhi Saudagaran and Chinioti are the top three (Saqib, 2016). These communities have been entrepreneurial since many centuries and even dominated the trade and commerce of the sub-continent during the British rule (Suriya, 2011). Looking at the expanse of their entrepreneurial activity, which was spread all over the subcontinent and even beyond (Menning, 1997; Saqib, 2016), one can infer about the depth and breadth of their experience, sophistication of their techniques to initiate and manage large scale enterprises. Despite the richness of their experience, there is negligible research done to understand and document it.

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This paper is extracted from a much broader exploratory study done to understand how Memon, Delhi saudagaran and Chinioti communities in Karachi run and manage their venture in ways which are compatible with their community culture and ideological orientation. This paper will exclusively focus on how entrepreneurs in the respective communities start their ventures using family and community resources, how their ideological orientation and family culture affect their startup strategies. The study is qualitative in nature and uses a case study method to process, analyze and organize the data collected from multiple sources.

The next section will review the brief amount of literature available on ethnic communities in the region. Section 3 discusses the methodology used to explore how the entrepreneurs in the three communities start their business. Section 4 will cover the findings followed by the discussion and conclusion.

Literature Review

The research done so far on the ethnic-family entrepreneurial communities in the Muslim world is limited. Papanek (1972), Levin (1974) and Werbner (1985) have done some work on how communities are organized in the Muslim world, however, their articles are decades old. Dobbin's (1996) work on Asian entrepreneurial minorities, which only discussed Ismaili community and Egbert's (1998) work on Bohra community in Tanzania are relatively more recent. Any similar study on Delhiwala and Chinioti communities in Pakistan who are also known for having a similar orientation was not found. The work of Menning (1997) is also valuable in this context; however, it is not exclusively about the Muslim community, rather Menning has taken an impartial view on all such ethnic groups in Surat City. The following is the review of the limited amount of literature on Muslim entrepreneurial communities.

Respective literature explains how Memon, Dawoodi Bohra, Ismaili (etc.) organize their business, family and community life in a synchronous way. The facilitative environment of family and community makes it easy to start a new business; financial support, social capital, information access, connections with suppliers and potential customers, makes self-employment a preferred career choice for community members. Such a level of support ensures a continuous stream of opportunity creation within the community (Papanek, 1972).

According to Levin, "reputation for being pious Muslims, which has been attached to the Memon contributes greatly to their commercial success" (p. 232) subsequently creating an atmosphere of 'enforceable trust' among the community members. In this context, cultural and religious values play their part in providing a discourse to rationalize the 'reciprocity exchanges'. The communal bond, therefore, also becomes a source of labor, expertise, market intelligence, connections, suppliers, and even capital to develop the business. The trade network within the respective communities also operate on the same lines (Levin, 1974).

Basu (1998) notes that the long-run success of family firms depends on “access to and use of informal (personal and family) sources of capital at the time of business start-up” (p. 317). Apart from that “access to informal sources of information through other family or community members being in the same line of business” (ibid) is another advantage Asian entrepreneurs operating in the UK, including of Pakistani origin, receive from their communities.

Egbert (1998) has made a similar observation about Bohra community operating in Tanzania, in his view the key competitive advantage Bohra entrepreneurs have over other entrepreneurs is “the possibility to receive financial support in the founding phase of business. Loans are provided with extremely favorable conditions” (p. 133). The pool of funds for this loan scheme has been organized by “established entrepreneurs” (ibid), as per the instructions of Bohra’s religious authority, to facilitate other community members in setting up new ventures (ibid). In other communities also personal networks helps in evaluating creditworthiness of a new customer. The same networks are also a source of information about market dynamics and emerging opportunities (Papanek, 1972).

Similarly, in Surat city (India) various entrepreneurial communities do business on informal lines (Menning, 1997). The financial and information support which exist within the “extended kin ties and the putative or mythical kinship uniting members of the same caste or religious community” (p. 73) is preferred over “formal and impersonal types of outside support and organization” (ibid) by the community members. Menning notes:

“When an individual has access to zero-interest loans from his family firm or his ethnic community, he has little need to approach lenders such as banks or money-lenders for capital. In the same way, entrepreneurs often prefer to get advice and training from family and caste members rather than relying on external sources like state agencies, vocational schools, and so on.” (p 73)

Similarly, extensive use of family and kinship resources to start and run businesses has been observed in ethnic entrepreneurial communities around the world (Flap et al., 2000; Portes, 1998; Woolcock, 1998). The family and community relationships are a source of information about emerging opportunities in the market (Zimmer & Aldrich, 1987); often family members and young ones are hired as apprenticeship at a lower cost; the immediate and extended family also provide necessary funds to start a venture, often on interest free basis (Flap et al., 2000). Trust, a fundamental lubricant (Putnam, 2000) in business relations, is high in between family members of ethnic communities as compared to that with non-members (Zimmer & Aldrich, 1987).

As a result the transaction cost of doing business is reduced for ethnic entrepreneurs (Aldrich & Waldinger, 1990). The community can provide a customer base for the early stage ventures (Peng, 2005). The inter-community connections of firm owners can help in finding trustworthy suppliers (Dana, 2009), can help access the opportunities within and outside the community (Volery, 2007), and

can provide trusted labor force (Peredo, 2003). The community culture and closely knit networks create social pressures prohibiting the community members to violate ethical norms established in the community (Portes & Sensenbrenner, 1993).

Methodology

The case study method was used to study the three communities. The case study method can incorporate the use of multiple sources of data including interviews, direct observations and community literature published as monthly magazines and newsletters (Yin, 2003). Furthermore, case study method also encompasses the complexity of a phenomenon and the rationale behind the phenomenon(s) under study (ibid).

The paradigm used to interpret the findings is known as social constructivism where the reality is not assumed to be discovered rather co-created by the respondents and the researcher. Background, values, pre-conceived notions; biases etc. of all participants influence the exploration process (Creswell, 2007; Guba & Lincoln, 1982; Lincoln & Guba, 2013).

We used the transcribed data from 9 interviews of entrepreneurs from Delhi Saudagaran, 8 from Memon and 7 from Chinioti community. The number of respondents from each community fall within Eisenhardt's prescribed limit (Eisenhardt, 1989). Experience of these respondents was treated as a mini-case within the case of the entire community (ibid). Each respondent was asked about his own experience and his observation at the community level. The interviews were conducted in Urdu, which were then transcribed. The transcripts were thoroughly read, and summarized. Summaries which were created in English language were sent to the respondents for verification and consent. However to maintain anonymity of the respondents their names are not mentioned in the case study (Creswell, 2007).

The findings of these interviews, after approval of the respondents, were triangulated with the biographies and literature published in the community magazines (Eisenhardt & Graebner, 2007; Yin, 2003). The exploration from the data was stopped till the point of theoretical sufficiency, that is proceeding any further did not reveal any more constructs, patterns or rationale between the phenomenon under study (Andrade, 2009). The findings were coded and categorized through a highly iterative process of comparing "data with data, data with category, category with category, and category with concept" (Charmaz, 2006: 187). The emerging pattern was articulated in a case study format as recommended by Creswell (2007).

The findings presented below are extracted from the case studies developed for each of the three communities. All findings related to venture creation or creation of a business firm using family and community resources are articulated below. The references to the data are made as follows:

- Transcribed interview recordings are cited as (IAP 5) where 'IAP' is the initial of the respondent, and

5 is the serial number of the key statement from the transcript compiled in the data set developed in this study.

- Reference to the magazine Saudagar is made as '(Saudagar, Mon 20XX, p. ##)'. All issues of the magazine since 2001 are downloadable from <http://saudagar.pk/download.php>.
- Reference to the Dr. Amjad Saqib book 'Kamyab Log' (Saqib, 2016) was made as (KL, p. ##).
- Similarly references to the Memon magazine were made as (Memon, Mon 20XX, p. ##). Memon magazine until November 2014 can be downloaded from <http://www.wmopc.com/indexma.php>, while magazine after April 2015 can be downloaded from <http://wmoworld.com/the-Memon/>.

Findings

Entrepreneurial Traits

Starting a business require a number of entrepreneurial traits. The traits highlighted by the respondents and mentioned in the magazine Saudagar, include desire to learn (SAR 8; AB 52; UL 58; IS 13), strong communication with employees and customers (FA 41), courage (FA 40; MF 65), emotional maturity (RS 33), self-control during difficult times (KL, p. 101; MT 23; MN 52), hard working (IAP 20; TP 22; JBS 25), perseverance (TP 16; SAR 35; KL, p. 156; SJ 22; AB 13), humility (FA 32), intuition (FA 27, 45), judgment of character (KS 6), ability to take risk (NS 63; Memon, Sep 2015, p. 6; MF 55), financial management (TP 67), having ones skin in the game (JBS 59), visionary (Saudagar, Feb 2015, p. 13; KL, p. 253; MT 26), self-reliance (Saudagar, Sep 2011, p. 29; May 2012, p. 59), belief in ones Creator to provide sustenance (SAR 56; JBS 14; IO 31), emotional intelligence, self-confidence, street-smartness (WK 69), time management (KL, p. 177, 147), passion (KL, p. 112; Memon, Apr 2016, p. 12), appetite for growth (MF 51), being bold and vigilant (MF 37), good at calculations (IO 87; MT 63), drive for continuous improvement (MF 54), a win-win mindset, honesty of intentions (JBS 58), and ability to remain as stress free as possible to avoid making mistakes (MT 21).

Training and Guidance

One should gain the knowledge of the supply chain before entering into a new line (IS 70; IO 105). It is advisable to gain some experience for a few months in some small business of one's choice and learn how to manage the whole supply chain and the market (WK 67; SJ 58, 60; MT 13; Memon, Nov 2015, p. 4). Market knowledge is also important; spending time as a salesman can help one understand how the market works (FA 10, 20). It may also be recommended to find a job in the SME (Small and Medium Enterprise) sector (IAP 83, 84), in the domain of one's interest, to gain relevant experience (Saudagar, Feb 2016, p. 42). Two of the respondents had many years of job experience before the respondent started their business (KS 1; FA 1). The preliminary knowledge can be gained by consulting a friend or a family member who is already experienced in the domain (IS 69; MA 2). Mentorship by family or community elders can facilitate during the entire process of setting up a business (UL 2; SJ 9, AB 12). In case of lack of experience, partnership with someone already

experienced in the field is another option. Partners can be from one's immediate network, friends and relatives (KS 10; KS 21, SAR 20).

Opportunity Recognition

Business opportunity is identified from the information received from the community network (as mentioned earlier). In many cases the opportunity to start a business was discovered from within the immediate family network (TP 34; IO 4; NS 5). Sometimes the customer is already known to the entrepreneur before starting the business. Often the established entrepreneurs develop the new comers in his family network as his suppliers, and become the first customer as well. This customer bear the teething problems of the new comers as they struggle to produce the desired quantity and quality of product at the right time (IO 3; SAP 58). This suggests that knowing the customer in advance is also important (JV 7; WK 2). The initial customers are also found using ones personal and family connections (FA 30; KS 2; SAR 31). The assurance of the first customer gives confidence to the first time entrepreneurs and minimizes their stress and risk also, subsequently minimizing their chances of failure. Ones network beyond the family and community can also be helpful in finding customers (KS 21, SAR 20).

Using and Maintaining Family Goodwill

Personal and family credibility is important to gain trust of all stakeholders. Maintaining and growing that credibility through honesty and honoring of commitments is crucial. At the time of starting a business family goodwill is one of the important assets for the new entrepreneurs, as mentioned earlier (SAP 11; ARJ 14; MT 4). When starting a business family's or fathers credibility helps getting connected with potential suppliers. Supplier would also give credit if he already knows ones father or family background (MN 22; SAP 19; MT 9). The budding entrepreneur also needs to prove through his conduct with stakeholders that he has the capacity to carry on the goodwill of the family by honoring his commitments with the customers and suppliers (MT 11). Establishing the trust with the suppliers, therefore, is fundamentally important through timely payments (SAP 16; MT 7).

Capital Arrangement

The father is the first investor in many cases (MA 21; SAP 20; MT 4). Other than one's father, father in law can also be an investor. Partnership with some relative or friend can also be done to raise investment (SJ 16; UL 11, 17). If capital is not available within immediate network then the person either save money through brokerage, or by working as an employee for some years (SS 20; SJ 32; JV 12). Due to religious reasons banks are avoided (WK 39; RS 42; ARJ 22). Absence of interest payments on bank borrowing keeps the cost of doing business low. Also the risk of failure is reduced when using capital from family particularly when the market is uncertain. All respondents suggested that there is no significant difference in business growth when banks are avoided, rather

business performance is improved as the entrepreneur operates without the fear of bankruptcy during difficult times (IO 12, 18; AsB 16; WK 64).

Improvising Using Available Resources

It is important to work by hand and getting them dirty to learn the basics of the business (KL, p. 199, 97, 155; WK 28). Minimizing the expenses on any luxuries is advisable as personal expense is also a cost incurred to the business (Saudagar,2016, p. 72). Keeping the personal expenses low to the minimum is important to keep the cash flow positive (AB 20; SS 3; MT 25). It is recommended that the business is started with the available resources (Saudagar, 2012, p. 68; SAR 21), not more than 50% capital at hand should be invested (NS 62), one must not go beyond his means (JBS 58), and chosen domain must be according to ones skill set (SAR 18). Any unnecessary office expense also needs to be avoided to keep the cost low (JBS 58).

Minimization of cost will increase the net profits, which is reinvested in the business. The growth of the business, therefore, needs to be organic, slow and steady (FA 17; KS 17; IAP 85). Entrepreneurs start form what they have (AB 17; KL p. 95), what they know (KL, p. 93) and what resources are available in their network. Organic growth is preferred through reinvestment of profits. It is emphasized that one should begin with improvising on the resources already available (ARJ 10; IO 102, 108). It’s advised to keep the pace slow and steady (MT 24) and keep ones faith in the Al-Mighty as the sole provider of sustenance (MN 37).

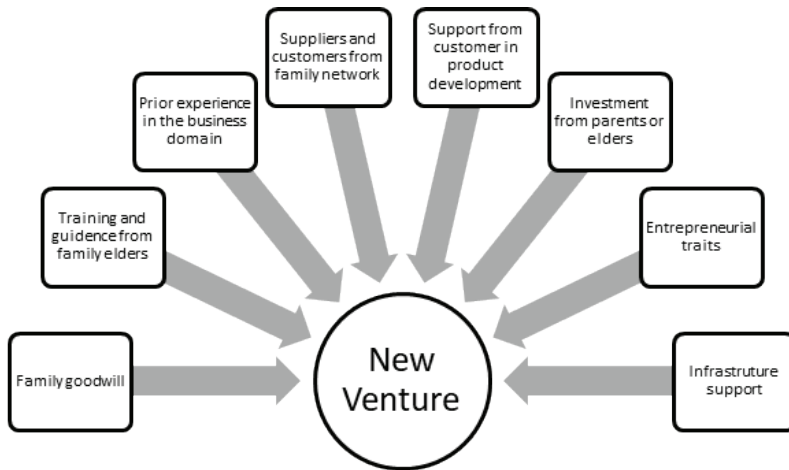


Figure 1: Factors, including community and family resources, contributing to the creation of a new venture

The following is the consolidated summary of the steps taken or recommended by the

respondents from all three communities:

Step 1: Evaluate yourself, ask what I know, whom I know, who am I, what I have, and what are my passions. Identify means, and do not go beyond them. Know the bird in hand. The knowledge, capital, family workforce, infrastructure support, the connections with stakeholders in the network, goodwill of the family are all resources. Gradually expand by investing the profits. Do not take excessive risks as they increase the chances of failure. Experimentation can be done to test new ideas by leveraging the resources available in the support network.

Step 2: Seek advice from the elders regarding the opportunities which exists in the domain of one's expertise. Knowing the customer in advance reduces the risk of investment significantly. Often opportunities emerge in the process of building a business, sometime in the form of accidents or unprecedented events.

Step 3: Get experience as an apprentice or an employee in someone else's business; market experience can also be gained through brokerage which would also generate returns. Knowledge about the product, production process, competition, and customer is fundamental before starting a business. Working in a smaller business is more beneficial as it is possible to learn about the entire supply chain which is not visible in large scale enterprise.

Step 4: Do not invest all the savings or the money borrowed from father or someone else, have something as a backup in case the business collapse. Work out the affordable loss and invest only that amount. Keep the cost low and work with your own hand as much as possible.

Step 5: Build credibility with the suppliers and goodwill with the customers. Market reputation is one of the important assets an entrepreneur possesses. Commitment to the customer must be honored at all cost. Timely payments to the supplier build trust, and the supplier comes forward with easier credit terms.

Step 6: Expansion is done within the means. Banks are avoided. Partnership with trustworthy community members, friend or close relatives is sought. Customer is sought from the network of family and community. Employees are hired using community references. A family like atmosphere is recommended to keep the employees loyal and motivated. The same criterion of meritocracy is applied for all participating members including the immediate family, relatives, and employees from within and outside the community.

Discussion and Conclusion

The finding of our research complements the existing literature on how family and community facilitates the process of venture creation by providing training, guidance, information, trustable human capital, financial capital, connections with customers, access to credit networks and suppliers, facilitation in opportunity recognition and moral support during difficult times. The trust that exists in family and community networks significantly reduces the transaction cost. These benefits make it pertinent to maintain the bonding with the immediate and extended family, and community networks. For example, not honoring one's verbal or written commitments can adversely affect the relationships with the concerned stakeholder, and also damage one's reputation in the

community network.

The insight regarding the impact of religion and lifestyle on acquisition capital and management of resources in context of ethnic entrepreneurship is an addition to the existing body of literature on the subject. Avoiding of interest bearing loan and using family capital to start a business is not seen as a barrier in the process of business growth, rather a source of entrepreneurial liberation and control. Reinvesting profits while keeping the personal expenses to the minimum is a notable phenomenon, not observed in earlier research. Avoiding banks and reinvestments of profits keep the growth of business steady and stable, while keeping the business resilient during tough times, as believed by the respondents from the three communities. Religious values and lifestyle choices therefore can have an impact on how a business survives during tough times.

The process also comes closer to the effectuation model of entrepreneurship as proposed by Sarasvathy (2001). As suggested in effectuation model, the community entrepreneurs start from their means, and explore the opportunities and using their existing networks and make commitments with potential stakeholders while doing so. However, respondent's experience suggests that overreliance on existing knowledge and experience of elders limits the new comer's capacity to explore into new venues and experiment novel ideas. There were examples in the data where a new comer surrounded with entrepreneurs in a dying or badly performing industry would, therefore, have negligible options as he (or she) would be reliant on the same underperforming network of entrepreneurs.

On the positive side, the relationship within the family and community networks provides a facilitative environment for the new entrepreneur particularly when he or she faces difficult times. For example, a creditor will easily extend the payback time without charging interest, a favor which one cannot expect from a commercial bank. The entrepreneurs in all three communities suggested that the failure rate of new businesses to be less than 20% (IS 51; IS 53; ARJ 89; MN 48), however, there was no published data to back this claim. Even if we assume the failure rate to be twice than what is perceived by respondents, it is significantly better than the venture failure rate of entrepreneurs using a "causal method"⁴ (Sarasvathy, 2001) of starting a business (Blank, 2013).

⁴ Causal method involves starting a venture by identifying a market gap or an opportunity through a rationalistic analysis of data from the market. A business plan is prepared to convince a financial institution like a bank or a venture capital firm. Business is then established using the investment to capture the presumed market gap. Effectuation method is presented in contrast to the causal method by Sarasvathy (2001) where an entrepreneur uses the available resources and networks to take the first step and gradually evolve his proposition as his network and resources increase. In this way an entrepreneur create a market organically instead of discovering an already existing market through data analysis.

Due to space limitations, the paper sketches a brief outline of the process of venture creation as practiced and recommended by the respondents of Memon, Delhi Saudagaran and Chinioti communities. The brief description points toward the significance of learning from the experience of respective communities of creating a facilitative environment for entrepreneurs. The facilitative environment reduces the chances of failure and preserves the socio-psychological wellbeing of all stakeholders involved. Replication of such an environment can also help in the promotion of entrepreneurial culture and inclusive economic growth.

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