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RELIGIOUS ENTREPRENEURIAL COMMUNITIES: SOLUTION FOR OR CAUSE OF SOCIOECONOMIC INJUSTICE? A COMMENT

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Abstract
Certain religious entrepreneurial minded communities are highly successful. It is tempting to assume that the underlying social mechanism of business success can be used as a blueprint for the development of larger social entities. Recently, Javaid, Shamsi and Hyder (2020) have argued that inefficiencies of markets and bureaucracies may be avoided if religious entrepreneurial communities are considered an alternative for members' business investment, capital- and expertise-support to businesses, and the re-distribution of wealth in favor of economically vulnerable community members. Consequently, the title of their paper is "Religious entrepreneurial communities as a solution for socioeconomic injustice". I address this problematic position by an extended comment and point out inefficiencies induced by such an approach. I apply the concepts of networks and clubs to tackle problems of religious entrepreneurial communities as sub-groups of larger social entities. Individual beliefs, individual preferences, and norms of cooperative behavior can occur among members of any community, with or without common religious beliefs. Consequently, a shift from the areligious, market-oriented form of economic organization towards specific sets of religious beliefs will not, by itself, endanger business success. These issues require considerable attention before a transfer of behavioral pattern prevalent in small communities can be applied to larger groups. I emphasize the danger of generalizations from small case study results of specific entrepreneurial communities to larger social entities, such as societies.

Viewpoint

Keywords: Entrepreneurial communities; Socioeconomic justice; Community-based entrepreneurship; Entrepreneurship-based policy; Clubs; Networks

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Introduction

A persistent finding from the research of religion and economic development is that some religious groups foster entrepreneurial behavior more than other groups. Since Max Weber introduced this line of thought, it has been investigated in countless variations. It is indeed tempting to ask whether behavioral patterns of entrepreneurial successful religious groups can be used as a blueprint for the development of larger social entities. This may be particularly tempting if other organizational arrangements in a society, such as the market or the state, show unfavorable results in respect to developmental progress. A recent study by Javaid, Shamsi and Hyder (2020), who follow such a line of thought for Pakistan, is the starting point of this discussion.

From an investigation of the Memon, Delhiwala, and Chinioti communities in Pakistan, Javaid, Shamsi and Hyder (2020) claim that some Muslim entrepreneurial-oriented communities provide support for entrepreneurial activities of their members, (1) which *serves well* the individual interests of the members in terms of business profitability and household income growth, and thus can be seen as advancing the cause of social justice (in alleviating poverty by redistribution of wealth both within and outside their communities), and (2) which *should be* seen as a blueprint for a value system to be recommended to supplant the free market system, among other extant forms of economic organization.

It is noteworthy, first, that patterns of successful religious communities are not limited to Pakistan (Papanek, 1972) or Islamic countries. The pattern has been found around the world (e.g., Anderson et al., 2000; Egbert, 2009; Egbert et al. 2011; Glazer and Moniyan, 1963) and for a considerably diverse group of religious communities (e.g., Dana, 2007; Cheung and Yeochi king, 2004; Egbert, 1998; Greene, 1997), and it remains a core topic in entrepreneurship research (Brammer et al., 2007; Dana, 2009). Second, there is nothing surprising about rules-of-conduct in a community reciprocated by communal support through network and capital for the adherents of such rules that serve the profitability interests of its members. This is how clubs function, as a network of relationships among its members. It is not religiosity that fosters business success, it is rather the set of values in a specific pattern of preferences on the side of community members, regardless of the religious persuasion of the persons who adhere to such communal preferences.

I, thus, find the first descriptive point made by Javaid et al. to be straightforward and noncontroversial. It is with their second, prescriptive claim that this paper is concerned, namely, that policymakers can consider the underlying religious sociocultural norms of successful communities as a role model, or as an example, in order to develop policy tools with the aim to reduce socioeconomic injustice in societies. They use the term socioeconomic justice as derived from an earlier discussion of Islamic and capitalist conceptions of justice (Javaid and Hassan, 2013), but here I do not deal with this issue, one way or another.

The focus is on their second claim. It is the suggestion that the value system and norms of religious entrepreneurial-motivated communities can supplement or even replace other institutions in a society that are commonly employed to achieve these tasks.

"The religious entrepreneurial communities may be seen as an alternate to free-market or state-driven methods to impart socioeconomic justice where needed. The voluntary inclination of entrepreneurs in such communities to facilitate those in need may, perhaps, reduce or even eliminate the need to involve state intervention to redistribute wealth through taxation, which may also eliminate the cost of the state bureaucracy, which is used for the collection and redistribution of taxes." (Javaid et al., 2020, p. 415)

Economic policies in countries of North America, Western Europe and Asia are not based on religious beliefs – though their citizens may hold religious beliefs – and yet these policies have achieved the reduction of poverty (which could be a proxy for socioeconomic justice) at moderate to remarkable rates. Javaid et al. make an indefensible claim when they assert that neither the state nor the free-market—in practice two rarely applied extremes—are often ineffective, but "[…] the free-market and liberal state are often seen as sources of social disintegration of local communities leading to an increase of socioeconomic injustice […]." Javaid et al. (2020, 416).

This observation seems to be the reason why they follow a line of thought that resembles Granovetter's embeddedness approach. This approach positions the organizational form of networks between markets with isolated individuals and hierarchies (Williamson, 1975). In this line of thought, networks are considered superior organizational forms compared to markets and hierarchies (Granovetter, 1985). Indeed, religious entrepreneurial communities may be treated as networks, as I show in the next section. Javaid et al. suggest that the socioeconomic value system of religious entrepreneurial communities is an alternative to market and bureaucracy, to capitalism and communism and that they can replace or supplement a stately organized redistribution system. They propose that researchers and policymakers may consider this alternative to advance socioeconomic justice (Javaid et al., 2020, 416, 433).

This position is provocative but addresses an essential point. Since we know that religion may promote *or* hamper entrepreneurial values (cf. also Dana, 2009), the question addressed is whether this knowledge can be used to the benefit of larger social entities. While I agree on the positive effects of the redistribution of wealth within the communities and society, our following discussion is critical to the suggested implementation of values and norms based on entrepreneurial religious communities on other sub-groups in a given society.

I focus on two main issues: Firstly, I argue that such an approach is hardly feasible provided that such communities are addressed by the theory of clubs and the theory of networks. The reason is that institutions of networks and clubs discriminate against non-members. Discrimination is imminent in the structure of both institutions because they include and exclude individuals. As it has recently been emphasized, social capital may nonetheless lead to inequality (Pena-López et al., 2021). Related to this aspect, I formulate relevant questions. These questions need consideration before one proceeds in the proposed direction. Secondly, religious entrepreneurial communities and their value systems can be considered a cause of existing injustice in societies.

I address this argument by the logic of a simple thought experiment in which community members use the market to realize business profits, but redistribution is confined to the network. In the next section, I discuss the theory of networks and clubs applied to religious entrepreneurial communities. In the third section I argue, that religious entrepreneurial communities may be considered not as the solution but as a possible cause of social injustice and market failure. Finally, I conclude.

Clubs and networks as structures of discrimination

To address the problem, I construct a verbal model in the form of a thought experiment. I structure a hypothetical society as follows: Let us assume a heterogeneous society *S*. *A* is a subgroup within *S*. Subgroup *A* is homogeneous with respect to its individual members. *A* may resemble an entrepreneurial-minded community. Its respective members share similar individual characteristics. *A* has emerged in history. *S* may have discriminated against some of its members in the past who formed the distinct sub-group *A*. Or, some individuals have positioned themselves apart from *S*, e.g. by rejecting mainstream religious beliefs or norms, thus forming *A*. In both cases, the reason why *A* has become a distinct sub-group within *S* is historical. Muslim and Christian history is full of examples that sub-groups split from mainstream religious beliefs and constituted separate, often exclusive, communities. Independent of exogenously ascribed or endogenously evolved difference, the identity of *A* derives from (real or imagined) distinctiveness from *S*. In order to elaborate on *A* I apply, firstly, the network analogy and, secondly, the theory of clubs.

The relative strength of links between network members in *A* is due to personal ties. This is so because members share specific individual characteristics—e.g., ethnicity, religious denomination, migration experiences, history, or else—and follow specific norms and value systems. The sub-structure within *A* may consist of clan and family or other social entities. If we assume that *A* is a network, then it discriminates non-members by definition. Membership in *A* is exclusive and bound to individual characteristics. These cannot be acquired by the deeds of a particular individual, but are inherited, e.g. ethnicity, religious denomination, family, class, caste, etc. Network membership constitutes a form of social capital.

Network members have access to specific resources. These resources are unavailable or available at higher costs for outsiders. Cases at hand are access to information, credit, employment opportunities, suppliers or customers (cf. Dana, 2009, 92-93). Barriers effectively keep non-members outside. Thus a member of *S* cannot enter *A*. *A* reproduces itself as a closed network if characteristics can only be acquired by birth.

A specific interpretation of religion—distinct from the interpretation of *S*—allows *A* to set itself apart from *S*. The interpretation of religion functions as an entry barrier. The promotion of specific value systems in the network enhances its exclusiveness. Religion and religious teaching may foster value systems, which are important for entrepreneurship, as Dana (2009, 88) outlines. Consequently, some groups are entrepreneurially successful. Javaid et al. stress this point. However, they do not address the issue that it is the ability of networks to keep outsiders outside the network that can be one of the major reasons for entrepreneurial success.

A network with social links resembles a club in economic theory. Galbraith et al. (2007) employ the economic theory of club goods with respect to social capital. Next, I apply the economic theory of clubs to the case at hand, i.e. religious entrepreneurial communities. A club is a sub-group of individuals who belong to a larger entity. Clubs emerge to realize specific goals. In most cases, it is the provision of a club good. If clubs provide club goods for their members, then it is important to exclude non-members from these goods. The original contribution is by Tiebout (1956). Here I follow the extension of this model introduced by Buchanan (1965). Buchanan states that individuals form clubs within a society. The aim of the club is to provide and share quasi-public goods (club goods) among club members. Since all club members can use these club goods, rivalry in consumption appears among club members if *too many* members join the club. Exclusion of new members appears vitally important in case of congestion. The price of club membership is the price for the right to use the club goods. The optimal club size is certainly finite.

A religious entrepreneurial community such as *A* resembles a club in society *S*. Club membership is exclusive (however, often involuntary), and the number of club members is the size of community *A*. The club provides club goods such as access to resources, specific value system, rule enforcement within the club, social ties, to mention but some. Moreover, cooperative behavior within the network and charity giving within the community are also club goods. They are available only for members of *A* but not for non-members (Galbraith, 2007). If I consider *A* firstly as a network and secondly as a club in the way described above, the ability to exclude outsiders and to preserve exclusiveness is essential for its existence. Religion, ethnicity, class, caste may be criteria for inclusion and exclusion.

The advantages that individuals gain through network and club membership are not without costs. These costs become apparent when individuals aspire to leave. They lose access to resources and, in closely-knit social communities, they have to pay the social costs of exclusion. Christian and Muslim history provide examples of persecution of individuals who do not follow community norms and try to leave their communities. The stability of clubs and the stability of networks and, hence, of closely-knit religious entrepreneurial communities largely depends on the successful exclusion of outsiders and the prevention of members from leaving the community. If a community is relatively stable in the above sense, it can provide club goods at relatively low costs to its members.

As an additional hint one may point out that the above argumentation *does not* require concepts such as social capital, embeddedness or trust (cf.

Egbert, 2006). In religious networks, social capital is ascribed by birth, not by deeds; embeddedness is a consequence of closeness and personalized relations; trust is not required as a prerequisite for the community—if interactions in the closed network are assumed to be infinite, then permanent cooperation is the only stable Nash-equilibrium for all community members. Thus, cooperation and reciprocity among members of *A* are rather a consequence of the organizational arrangement, not its origin, and thus not a consequence of religious teaching.

Having said this, let us now address the suggestion of Javaid et al. To quote one of their central claims: " […] religious entrepreneurial communities may offer a viable alternate to the default organizational structure (bureaucratic system) prevalent in both capitalist and communist societies […]" and "So one may ask, is an organizational designed built on the idea of religiously motivated personalization of relationship is better than the bureaucratic design of organization for the sake of advancing socioeconomic justice or even better from viewpoint of modern idea of freedom?" (Javaid et al. 2020, 432).

In essence, their suggestion is to implement a more effective organizational arrangement than markets and/or state/bureaucracy. I argue that relying on religious entrepreneurial communities as a more effective organizational arrangement is highly problematic. To illustrate some of these problems, I assume that the norms of a successful entrepreneurial community *A* are planned to be implemented in *S*. I outline some consequential questions which show that such an approach is not feasible.

First, why should members of *S* be willing to accept or follow the rules and norms of sub-group *A*, if historically *A* actively isolated itself from *S*, or *A* was discriminated by *S*? History may have cured some of the original reasons for *A* being different from *S*, but it is rather unlikely to assume that *S* will welcome the rules and norms of *A*. Imagine one of both is Shia and the other is Sunnite, or one a Protestant denomination and the other Catholic, or one Muslim and the other Hindu. An implementation of rules, norms and value systems will hardly be accepted. Instead, members of *S* may show active resistance to such an approach. Javaid et al. are silent on this apparent problem. The question is why *should* members of S accept to follow norms prevalent in *A*?

Second, if I assume that there is not only one but more successful religious entrepreneurial communities in one society, such as *A*, *B* and *C* with different value sets (Dana, 2009, 96) in a given society *S*, then the following questions occur: Whose value set is appropriate for *S* and who selects whether to apply the value set of *A*, *B*, or *C*? Is it possible to implement a ranking on these sets and to make a statement whose norms are more effective to reduce poverty? How will the other communities react to such an imposition of exogenous rules? If *A* provides the pattern, there is no reason for *B* and *C* to give up their successful norms. Javaid et al. are silent on this important question as well.

Third, *S* is heterogeneous with respect to values, preferences and personal ties among its members. How will the society treat those individuals who cannot or do not prefer following the norms of a sub-group? If redistribution depends on personalized links, then how to treat those individuals who have no personalized links or are unable or unwilling to establish personalized links? Are these individuals excluded from redistribution? Will they remain comparatively poorer because they do not have links to the network? If the receiving of charity or transfers depends on personalized links and not on individual needs, it will be challenging to justify such a redistribution with any concept of socioeconomic justice. The result could be a Pareto inferior situation compared to an ineffective state bureaucracy.

Fourth, if values and norms are transferred from *A* to *S*, the network expands. Obviously, *A* loses its exclusive character as a club because the number of members increases. The consequences are manifold. The group becomes less homogeneous; thus, rule enforcement becomes more difficult and more expensive. If the group and each individual face higher costs due to larger network size, free-riding on club goods becomes more likely. Since entrepreneurial success is positively linked to exclusiveness and not necessarily to group size, newly formed sub-groups and new clubs are likely to emerge in *S* (cf. also Galbraith, 2007).

While markets fail in the provision of public goods and may cause poverty for some but not for others, a bureaucracy has the *potential* to counterbalance inefficient market outcomes. There is no doubt that corruption in markets and corruption in bureaucracies limit the effectiveness of both institutional arrangements (Kruger, 1974; Niskanen, 1975) and may lead to poverty or to socioeconomic injustice. However, it is highly unlikely that social arrangements, which are effective in religious communities, will also be effective if transferred to larger social entities. These arrangements are effective exactly *because* a network has a limited size.

Finally, networks are not free from corruption. In this aspect, they are similar to real (and not hypothetic) markets and bureaucracies. The advantage of markets and bureaucracy is that, at least theoretically, participation is possible for many, and distribution is neutral with respect to individual characteristics. In contrast, a network excludes by its very nature individuals and distinguishes between insiders and outsiders. Consequently, neutral bureaucracies are more effective to provide specific public goods, such as law enforcement, redistribution, schooling, etc., than networks.

In the next section, I go one step further. I argue that religious communities that are entrepreneurially successful can also be a cause for a given unequal distribution of wealth in a society and for existing injustice. I do not argue here that this is an outcome that these groups or individuals have intended, but it could be a consequence of existing networks in a given society.

Religious entrepreneurial communities as a cause for social injustice

For the following, I refer again to community *A* constituting a subgroup of society *S*. I explicitly do not refer to any specific religious community or society. Entrepreneurial success can be depicted by a multitude of variables. For simplicity and to frame our argument, I refer to only one variable. I use profit before tax, defined as revenues minus costs. The higher the profit, the more successful the enterprise or the entrepreneur is. Let us further assume that entrepreneur A_1 is successful in this sense, i.e. realizing a comparatively high profit through her business activities. To illustrate our case, let us further assume that A_1 produces bread. She sells it to fellow community members but mostly to members of *S*. Her profit stems from selling at prices above marginal costs. I assume that the bread is tasty, demand and sales are high. Given $S - A > A$, she realizes profits mainly by selling to members of *S*. In short, the bread market allows her to realize profits and to be a successful entrepreneur. Her position on the market is uncontested because if potential competitors from *S* want to enter the bread market, she can activate network resources. She uses the network to maintain market power and can continuously sell at prices above marginal costs.

Following her religious and/or community norms, she redistributes large parts of her profits to fellow members of *A*. This may be charity giving or stimulating fellow members of *A* to start their own business. She may also grant charity to individuals in *S* with whom she keeps ties. Consequently, the profit she realizes by selling to members of *S* is reallocated to and distributed largely in *A* because personalized relations are crucial for redistribution, and she has more ties to members in *A* than to members in *S*. Enabling other members of *A* to become also successful entrepreneurs means strengthening the reallocation process from *S* to *A*. Consequently, the wealth/poverty gap between members of *A* and *S* increases. In this simple model, successful entrepreneurial behavior makes the community *A* better off, while the majority population in *S* is not improving.

On a more abstract level, the following occurs: The *institution of the market* allows the selling of goods and the accumulation of profit. The *institution of a network* is used by individuals to realize the gains that the *institution of the market* offers. The gains are mainly redistributed within the network. If justice is considered, the *institution of the state* (in the form of bureaucracy) may be required to balance a rising inequality gap. A bureaucracy that implements a social policy, e.g., a tax system, functions to cure the negative externalities caused by *markets* and is enforced by *networks*. A bureaucracy is useful because it allows the implementation of non-discriminatory policy towards citizens, while redistributions via a network based on personalized relationships are discriminatory.

Two aspects from the above argumentation are worth noting. Firstly, it makes little sense to consider the market, network, or state/bureaucracy as alternative institutions. Instead, the network or its individual members utilize the market—and often also the state/bureaucracy—to realize profits. The market is a prerequisite to make entrepreneurs successful but also to increase social welfare. Networks can be understood as a means of channeling profits and welfare to specific groups in a society.

In such a constellation, the state, hence, the bureaucracy, is required to cure the negative externalities caused by markets *and* networks. From this perspective networks, as those of religious entrepreneurial communities, can undermine the effectiveness of markets and states. Networks are not a solution to reduce poverty and to improve wealth distribution but can be a root cause of socioeconomic injustice. This argument is rendered to be even stronger if the market power of networks is considered.

Secondly, individuals maximize utility within a given institutional framework. If I define utility maximization in non-monetary terms, e.g. the maximization of social status or social reputation, it is well in line with value systems prevalent in some entrepreneurial communities. If the status in a group is gained through charity giving or being generous to society, those individuals who give most, receive the highest status. The more profit individuals make on markets, the more they can redistribute, and the higher their status in their community is. Thus, utility maximization can go hand in hand with the non-monetary values of religious communities. Profit maximization on markets, as a proxy of entrepreneurial success, is then a way to maximize social status or social esteem, as Weber already pointed out in the past. Nevertheless, individual utility maximization leads to distributional problems in the society and these are not solved through networks.

To achieve the aim of more socioeconomic justice, i.e. less poverty, in a given society, one may think about an alternative approach. Would it not be more effective for a society's welfare, i.e. a Pareto improvement, if the members of a religious entrepreneurial community in the initial step, when they use the market to generate success, are less successful? This would imply that they do not maximize their profits but instead charge lower prices and consequently allow all members of *S* to buy, as the above example goes, bread (and all other commodities) at lower prices. Thus, the welfare of the many and not of the few could be increased.

Conclusions

The position of Javaid et al. (2020) to use religious entrepreneurial communities as alternatives to distributional systems of markets and states/bureaucracies is highly problematic since it would directly discriminate social groups that do not belong to these networks or are at the peripheries of such networks. For instance, these could be women, members of specific religious denominations, or ethnic minorities. There is no doubt that in the real-world, markets and bureaucracies do not always provide efficient solutions with respect to socioeconomic justice. Particulaly if corruption is prevalent, these institutions do provide inefficient and undesirable solutions. Nevertheless, religious entrepreneurial can only represent sub-sections of a society and thus discriminate *a priori* large parts of a society. Markets and bureaucracies have at least the potential to be neutral to individual criteria of societies' members. Consequently, a shift from the areligious, market-oriented form of an economic organization towards specific sets of religious beliefs will not reduce the cause of social justice.

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