

Faith-Based Entrepreneurship

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In the spring 2007 issue of the New England Journal of Entrepreneurship, Leyland M. Lucas and I explored the intersection of faith and business practices with S. Truett Cathy, founder and chairman of Chick-fil-A. Mr. Cathy is a devoted Southern Baptist, but the interviews with him lead me to consider how members of other faith traditions, who have built successful enterprises, see the role of their faith in their entrepreneurial endeavors.

Dr. M. Yaqub Mirza is President and CEO of Sterling Management Group, Inc. Since 1984, he has been actively negotiating mergers, acquisitions and sales of various companies around the world. After several successful acquisitions, Dr. Mirza served as director and officer in the development of the companies by evaluating top management to maximize efficiency and profitability and then restructuring, streamlining or expanding the companies.

Dr. Mirza has served as a trustee and treasurer and later as Chairman of Amana Mutual Fund Trust, and is now an advisor to the board of trustees of the Amana Mutual Funds, which is registered with the Securities and Exchange Commission as an open-end investment company and managed by Saturna Capital Corporation. In 2002, he was awarded the Entrepreneur Award by the Islamic Chamber of Commerce and Industry in San Jose, California.

Dr. Mirza attributes both his personal and business success to following Islamic principles. The following interview outlines the Islamic principles he uses to guide his investment in new ventures and how those same principles shape his management style and attitude toward corporate social responsibility.

NEJE: Dr. Yaqub Mirza, thank you for taking time to talk with me. Before we get into the main conversation about faith-based entrepreneurship, I'd like to spend a little bit of time hearing about your background—about where you grew up and how you grew up.

Mirza: Thank you. I appreciate the opportunity. I was born and raised in a small town in Punjab, Pakistan. I received my high school education there and then I earned my first

degree from the University of Punjab. I moved to Karachi and earned my masters degree in physics at the University of Karachi. I was teaching for a little while before I came here in 1970, and got my doctorate in physics in 1974.

NEJE: So that's the background, but that's not what you're doing now. And you've come a long way from that small town in Pakistan. So would you tell us a little bit about what it is you're responsible for now?

Mirza: At this moment, I'm more into management, investments, and entrepreneurship. We are managing several endowments, and the investments of those endowments in many for-profit businesses. We end up playing a major role in managing those for-profit businesses.

NEJE: One of the businesses that you started was the Amana Fund—the most successful faith-based investment group. You're doing religious investments now that are apparently very successful. So how did you do it? Could you describe the fundamental success elements of your work as you see it?

Mirza: But before that, I had a good career in physics; I had lots of publications in physics. My publications were often cited by many. It was in the area of laser spectroscopy, which was a new field in the 1970s. While I was very happy, at the same time I became more aware of the need in Africa and other parts of the world, including Pakistan. We started thinking about how we could help and benefit other people from what we know and the technology and the know-how which is available in the United States. We got involved in appropriate technology, and from the appropriate technology we then started thinking about how we can work in job creation for those countries.

That was kind of a shift, leading me from physics into appropriate technology and then looking into how I can be more productive and useful to underdeveloping countries. And that's where we came up with this idea of having an endowment. Funds of that endowment were to be invested in more than 10 countries, which will basically focus on providing food, shelter, and clothing, as these are the three basic needs of a human being. We made investments in the 1980s, which also created many jobs in those countries.

And, that is what I'm doing basically today. We're very

happy that we're employing thousands of people around the world and we helped settle many areas in Africa and elsewhere, where people are able to acquire new technologies and new know-how and be able to sustain themselves. Since five or six years ago, we have curtailed our investments overseas, we're more focused here [in the United States], in Chile, at the moment, and a little bit in Turkey.

We got to the Amana Fund when I was in York University in Toronto. I came up with an idea that Muslims really are not that adept at the stock market. They really don't see themselves investing in the stock market. I think it comes from our background, because stock markets are not that much regulated or that much conveniently available in our countries. Now they are developing, but 30 years ago they were not as developed and regulated as we have in the United States. So we said "Why don't we form an investment group or investment club and pool our monies and then basically try to invest together?"

And of course, investing together had a lot of benefits. One can buy more stocks, one has to pay less commission, one can diversify and each one doesn't have to deal with all the accounts and the statements and whatnot. So we formed an investment group, which worked quite nicely. Then I came back to the United States. That group continued for some time. I thought, well this experience was so successful. We used to meet every month and have dinner together and we'd talk about investment, and then we'd pray together. When we made money everybody said, "Let's pay our Zakah (poor tax), 10 percent of the profit to the needy and the poor." So it's really provided a great sort of forum for us to know each other and talk about various investments, issues in community, and how we can help each other. When I came to the United States, I thought we could launch an investment group on a national level. That then led to the formation of Amana Mutual Fund.

NEJE: *You said that the Islamic community wasn't investing in the stock markets, is there anything in Islam that stops you from being an investor?*

Mirza: On the contrary, we are encouraged to participate in businesses, take risks, make investments, and we are very much encouraged to be merchants and traders and people who should go into businesses. As matter of fact, as you know, if you keep money under the pillow or in a checking account we have to pay 2.5 percent Zakah on it, on the principal, as well as on any interest that we earn which is not permitted. So we are penalized for keeping money idle. On the other hand, if we invest in businesses we don't have to pay Zakah on the principal, but we pay 10% on the profit. So if you look at it, there is a huge financial incentive for us to take risks, help the economy, recycle the money, and we should participate in businesses.

NEJE: *So you see what you're doing, not just as a venture to make money. You wouldn't start up a fund just to make money, but as almost a religious obligation?*

Mirza: Very much so, although you know profit as a motive is always there and it helps to bring in more investors certainly. We have provided a vehicle where people can put in their funds, then we as a group invest it. That helps the economy create jobs in all sorts of forms. It's very much an obligation as a Muslim.

NEJE: *On the profit side, and particularly the Amana Mutual Fund, the venture has been extremely successful. It was the top-rated religiously oriented fund. How would you attribute the characteristics of that success—is it due to the talent of the investors or luck?*

Mirza: I think I will call it a blessing from God. Really we have talents, and there is something called luck; but if we don't do the right thing, we're not going to get the blessings. And I attribute a lot of the success to following Islamic principles. And, of course, credit goes to the stock picker, who's our portfolio advisor, Nick Kaiser. He's a very conservative, socially responsible manager of funds.

The Islamic principles involve not just doing the right thing. It's about doing the right thing for the right reason. Our investment philosophy, believe it or not, is very much similar to John Templeton [founder of the Templeton Funds]. He on his own, without to my knowledge knowing of Islamic principles, chooses to manage his funds in a very socially responsible way that is consistent with Islamic values. He does not invest in alcohol, he does not invest in tobacco, and he doesn't invest in porn or related things or gambling or casinos. And in his argument about why he does not invest in firms that produce these things, which I've read, he basically says that these are the kind of things which are, one of these days, going to get in trouble with the regulators or somewhere. Therefore, the stocks are going to tumble and it's better to avoid them.

NEJE: *The fundamental principles, you said, are not only doing the right things, but you have to do the right things for the right reasons. Are there any particular principles that come to mind that guide how you manage your ventures?*

Mirza: First of all, there are businesses we cannot participate in. I just mentioned what Templeton is doing. We don't invest in tobacco, pornography, gambling, casinos, even banks. Because with banks, most of their earning is from interest. Of course if they're Islamic banks [that do not charge interest], we have no reservations about investing in them. Similarly, we don't go into CDs and bonds and things related to that.

We had divested from South Africa when it was apartheid. We divested from Blockbuster, as they have lots of R-rated

videos. I did not know what R-rated videos were until one of our investors brought it up for discussion [in a meeting]. In R-rated films they show a naked upper part of the body of a woman, so once we came to know about it we just divested from Blockbuster. So these first screens are the forbidden business. And now we're looking at promoter companies, promoting same sex marriages, gay movements, abortion, and other [such behavior considered un-Islamic]. We haven't made a final judgment on them, but that is something our scholars are discussing. So that's our first screen.

After that we look at the debt-to-market capitalization ratio and if it is less than 33 percent, those are permissible investments. Now as you know, high debt always causes a problem. I looked at the Enron Corporation, WorldCom, Adelphia, and several companies who we now know are in lots of problems. As a matter of fact, Amana had investment in Enron. We sold it out about 15 to 16 months before the collapse because we saw the debt-to-market capitalization ratio increased, and it was higher than one third. And, as you know, you're a business professor, when companies get into trouble, they borrow more money and the more trouble they get into, the more money they borrow. And that obviously leads them to bankruptcies and so on. So this, to me, as a business was a very good prerogative and a guide that you just get out when you think they are just borrowing more money.

The next thing we look at is the cash in the company and how much interest income the company is generating, which is given out as part of the dividend. Most of the [Islamic] scholars have set a 5 percent limit, if it's more than 5 percent we don't invest in it. Less than 5 percent, we invest but then we want to purify. And what is [meant by] purification? Let's say this company has 5 percent in interest income, and it issues or gives a dividend of \$1. So I will keep 95 cents and 5 cents I will give to a charity or to a poor person. It's not considered part of my charity; it's just cleansing or purifying my return.

Now, why 5 percent and why not more? Companies are in the business of growth, providing services, and being socially responsible. When they accumulate too much cash, either they should reinvest in the business or they should give out [the excess cash] as a dividend. If they don't give it out as dividend, that means they have plans to grow the business. But if you see over 1, 2, 3 quarters that they don't utilize the cash, to me, as a business person, that means that the management is stagnant. They just don't know what to do with their cash.

And then comes the urge to merge, and they see one way to grow is to acquire a company. From my experience I can share with you that the merges often don't work. When people acquire other companies, there are always assumptions which never come true. There are always hidden things that you don't know about that company which come into play,

so that means a disaster.

We also look at other things, like account receivables plus cash. If it's more than 50 percent, then really you're trading cash. You don't want to be trading cash. You want to invest in the company that is doing real business or providing services or producing useful commodities.

NEJE: Do you think that trying to invest using Islamic principles presents unique challenges in the business world?

Mirza: You know, the SEC thought so. When we tried to register, they had us put a lot of disclosures [in our prospectus] and they kept on saying that if you don't put money in an interest-bearing account, the return will be less as compared to a conventional mutual fund, so you need to make another disclosure. So we went back and forth for almost two years and we [finally] got the approval.

But the performance of the fund, I think speaks for itself. I'm thankful to God that it has really performed well. We have now had a lot of non-Muslims investing with us. On a daily basis we are getting almost a million dollars coming into the fund, we have crossed the 650 million mark. Five to six years ago we were just hitting on 50 million [dollars in investments].

The performance speaks for itself. I don't think it's a hindrance because I feel if we do the right thing, what God wants us to do, then there's a blessing. If we try to cut corners and we try to play smart and we try to do the wrong thing to make money, then there is going to be no blessing. I often tell people, I can make a dollar by working, or I can cheat somebody and make a dollar or I can steal a dollar. Which one would you do? Obviously you would want to do the first one. So the concept may be the same, you may end up getting the same money, but the process is very crucial. We really strive to follow the principles and we believe that if we do that, then God's blessings are there.

NEJE: Why do you think that you're getting an increasing number of non-Muslims who are investing with Amana?

Mirza: I haven't talked with them, but my guess is just performance. They see it is performing; it's the best fund, it's socially responsible, so they just come in. Let me say that I have many friends who are from other faiths, Christians and Jews. They would like to be very socially responsible. I was just talking yesterday with Nancy Luque, one of our attorneys, and she said, "I got \$7,000 from my IRA and I'm thinking to put it in Amana and I want you to help me to see how I can make this roll over." So I think people are increasingly becoming conscious of doing the right things and the performance certainly helps.

NEJE: *In your opinion, do you think that the ideal of social responsibility cuts across different faith traditions, meaning even if you come from a different tradition that you may see the ideal of social responsibility pretty much the same?*

Mirza: I think the trend is toward that. In the last 30 years, I've seen a trend where people are becoming more religious and more morally and socially responsible. As it comes to morality and positive aspects of being good citizens, good human beings, people of good faith, I think it's very good.

NEJE: *Are there particular components of the Islamic faith that influence your perspective of corporate social responsibility?*

Mirza: Absolutely. I live and work as a Muslim. My obligations to God don't end on Friday. They continue to and through all of what I do, in my sense of justice, fairness, honesty, being fair, giving people their due share, treating people like a family, treating people as equal contributors, not only Muslims, but people of all faiths. I work with Christians, Jews, Southern Baptists. I deal with Catholics in Chile. I deal with Hindus and Sheiks in different companies.

I have a wonderful relationship with them, and because of that I think we have developed a mutual relationship of trust. One time I was very much touched by something that happened. Someone I know, it was six years ago, of a different faith called on me and he said, "You have been telling me to do some estate planning, and make a family trust, and I listened to you and I talked it over with our attorney, we're drafting documents and we need someone as a trustee. And my wife and myself, we have decided you're to be the trustee." I was very touched, because this man has tens of millions [dollars] net worth and I don't live in their city; we live about 2,500 miles apart. And I'm not of his faith and for him to come to me and ask for it, I was really honored. And I told him I would be honored and he said, "No, all the honor would be ours if you accept it." And I accepted that and then out of my sense of responsibility during the next visit, I told him, "I would like to visit your family and talk to your children. And, I want to listen from you and your wife what do you expect me to do if something happens. You know, give me some direction or letter of directions, so I know as a trustee how to make independent judgment to fulfill your wishes and desires for the benefit of your beneficiaries, your children."

So it was really very pleasing to see that. I'm sure he had many, many friends of his own faith whom he [has] known longer, but he decided that he wanted me [to be the trustee].

NEJE: *What are the principles that you have, that you think you share with people of other faiths?*

Mirza: I think honesty, fairness, justice, politeness, kindness, and mutual respect; these are things that we share with our

Christian, Jewish, Sheik, and Hindu friends. The problem comes when someone is not as committed or strong follower of that faith. There I have more difference of opinion than with the people of faith and who are actually practicing. I find often in Chile that the wives are more religious than the husbands. The husbands often say, "How come you two always agree and I don't?" Although they are Christians and I'm a Muslim, I think the way I use religion in our businesses is the same [as other faiths] in many ways.

It's interesting to me that when a Christian manager says to me that he wants to fire somebody, although he can do that, but since he is one of my reports, he'll report to myself or the board or chairman of the board, I would like to have him consult with me. When he comes I will raise many issues with him, and then when he has expressed all of his complaints to me, I will tell him, "Think about what a good Christian would do, and I don't want you to answer now, we will talk about it later."

And later he talks and he says, "I think you're right, I need to give him another chance or I will need to work with him. Or I will need to tell him of his shortcomings and to improve on it." So I am saying that I have seen people go back to what they already know, but they may not be practicing it at that time. I have seen that many people of faith and who are practicing of their faith, they respect me because we are people of faith. And they tell me, "Look, we respect you and we want to work for you and we want to make sure that this venture is more productive and more profitable because we feel we are working with someone who is a person of faith and who is doing so much charity and who is helping so many people and who is doing so many good things."

NEJE: *Well that's one side of it, but how would you respond to those who would argue that a company first and foremost must turn a profit, and then it should consider its principles?*

Mirza: When I ran a for-profit business, the foremost responsibility was for profit. And I'm there to create value for shareholders and in some cases, I'm a shareholder myself, so I'm creating value for myself. But what we often forget I think is that if we put our religious values in practice, overall all things would be blessed and we would be able to have better profitability.

Let me give you examples. I'm often told by our managers and they tell the next level of management that these people, when they make money, they share with us and they think of us and they treat us as equal partners. Then they go out and they get motivated and they feel that since they are getting part of it, they need to work more sincerely, harder. I know productivity is a big issue for our companies in the United States and I've been able to work and create businesses that are number one in their field. The Amana Mutual Fund, we just talked

about is the best fund in the country; it's the best Islamic fund in the whole world. We manage a juice factory in Chile, Jucosa, it's the best company in South America. The only company which is ISO 9000 approved [in Chile]. So I think we need to realize that when we put our faith to practice and we're good with people and we give them their due shares, we are able to motivate them to work harder and be productive.

I can give you so many different examples on that. The laborers are often neglected in companies. Top executives, they have the 401Ks, they have the profit sharing, they have the bonuses, they have vacations. But the laborers, the poor people, whose sweat is what has been benefiting corporate America, are often ignored. Our approach is to reward them as much as we can. Of course we can not give them millions of dollars. But every time we receive recommendations to give year-end bonuses, the board will look at it, approve the one, but for the poor people, the laborers who are on the line, 900 people, we will double their bonus. This will mean several hundred thousand dollars more being given out. Then at the same time, we make corporations to be socially responsible and do charitable work. We asked our employees to recommend to us what other charities they want us to support; whether it is in education, whether it is in helping battered girls, whether it is handicapped kids, or the United Way. They feel so proud to be associated with a charity, they can come to the board and say, "This is what I recommend." And we support them and we get a charitable deduction for it.

Secondly, indirectly, many of our employees' children benefit from our social responsibility. One other project I'm so proud of and President Bush mentioned it in a speech. I don't think he realized that we were the ones who funded it, but the *Atlanta Journal-Constitution* reported on the project. There were many students, children of minorities, who were behind by two grades in the public schools. So the school system, in a county where we have a business, had organized a weekend program where these students could be brought in and they could be given extra education or coaching or tutoring and they can advance to the same level as the rest of the students. They had everything organized, except they didn't have \$29,000 to give the teachers. They approached us and they were looking for five or ten thousand dollars. They didn't expect that we would adopt the project. When it came to the board, and upon asking questions, we found out that many of those people are working in our own factories. So we want to see the children of the people working for us, and other production facilities, we want their children to be educated. We want them to get an education; we want them to be productive citizens of society. So we adopted the whole project and we gave them the money and the program went on. And we were very happy that when President Bush was visiting Atlanta, he mentioned that that project be followed and modeled in the United States.

So I think there are so many different things that come about as a result of behaving in a socially responsible manner. One final example, I know loyalty in corporate America is two or three years [before the person starts looking for another job]. I have heard people say, "I work, if I find a better job I just move on. I have no regard for what the corporation has done for me in training and relocating." I'm so thankful to God and happy to tell you that most of the people working with me, they have worked for us for 15 to 22 years, with the majority of them, on the average about 20 years.

NEJE: Why do you think that is?

Mirza: I think it is the way we treat them. I go the extra mile with my staff here to treat them like a team, and a team member. We develop a family relationship with them; we invite them to our homes with their families. We go the extra mile to take them out when we visit those places. We take them to different places on vacations and other activities. For example, I took the people from Chile, and we had a board meeting in Victoria Falls in Zimbabwe, with their wives to the meeting. And one of the wives of a board member said, "I can't believe I'm here in Africa. So clear, and clean air. I can see the stars." And she said, "Yaqub, I'm going to pay you back by making sure and kick out my husband to go out and work." You cannot get these kinds of statements from wives unless they really feel they are proud of being a productive member in that company.

NEJE: One of the challenges often faced is when a leader of an enterprise like yours has these particular values and principles. How do you make sure that they filter throughout the organization? How do you share your beliefs and principles throughout the organization?

Mirza: I think this is true socialization. When we socialize with these people, obviously they had never met anyone who was born in Pakistan and is a naturalized citizen of the United States; for them it was unique. In one case in Chile, before somebody accepted to be our general manager, he asked me, "Would you mind meeting my wife?" I said I would be happy to, but why? He said, "She just doesn't know who you are and with whom I would be working." So I went to their house and the next day he came and said, "Yes, I accept the job." But I think through socialization, through these trips we make together, it is communication with them. When I visit a project, I try to have lunch or dinner with the top management. Sharing what we believe and listening to them and what they believe allows us to appreciate the commonalities in what we have.

NEJE: At this stage in your life, you're running a successful business. You've achieved a level of affluence in your life, no matter how that's defined. How important

is it for you to spend time with friends and loved ones?

Mirza: I think this is a great question, and my answer might surprise you. I try to be fair in giving due rights to my children, my wife, my family, my friends, my siblings, my parents when they were alive, so I try to live a balanced life, which is what we are encouraged in Islam to do. I spend time with my children. Part of this spending time together, I took them with me to most parts of the world. They have been to the Far East, to Africa, to Chile, most of the places [I have been], and my wife often tells me this has given me time to gel with them, share our principles and values, and see how I do things, and then through practice [provide an example].

Each day how you manage your household sets and example. We pray in Jumah [pray together] at home together. Ramadan is a great occasion that forces everybody to be together for eating meals in the morning and breaking fast at night. Otherwise, everybody has busy schedules, especially when they are in school. So I think I've tried to do that and it is important to me, because I feel that we do want to leave behind a good society, a better society than what we found. And the only way we can do that is through good children.

I'll share with you a very personal thing. I take my social responsibility quite seriously. I feel I need to give back to the community; the community has contributed a lot to me. I do that through certain ways and certain expertise. So recently, my two older children kind of beat up on me. They said I need to spend more time with young people in the community, who are between 20 and 30 [years old]. Some are graduates [of college], some are graduating, some are newlyweds, some are trying to decide what to do in their life, and some are starting businesses. So we have formed a group of those individuals, who meet in our house. We have dinner together, we have open discussions, and try to help them with their career planning, including if we can have some retreats. There are fundraising dinners, where usually there is a very good speaker, like Zatuna [Institute] had a very nice fundraiser. So we bought a table for 10 people, and we invited 10 young people to be at that table. They not only meet with me, but met other community leaders from all over the United States. The dinner gave them not only an opportunity to listen to good talks, but also to provide them a forum for networking. Many students may not be able to buy a ticket for \$200, but somebody is inviting them and giving them a reason to respond positively and to go and attend.

I do offer classes through the Fairfax Institute. I don't take any compensation for it. And I feel that I need to do more with people in the ADAMS [All Dulles Area Muslim Society] community. I think my wife does more social work than I do, but I make sure she has the opportunity to do that. I don't have any demands on her, so she's very actively involved. Yesterday somebody passed away and she was very much involved in the funeral arrangements and other activities. So

I think ultimately what we can do is to be involved, trying to share with people, learn from them and share what we know, and through that we hope that we'll leave a better society behind us.

NEJE: *This is the general catch-all question—is there anything that you would like to say or share with someone who will ultimately read this article or any prime words of advice that you would like to offer them?*

Mirza: I really think going back to your earlier question on my background, I'm really so thankful to God that I was born in a house with parents who were very religious and very caring. They were involved in social work, they were involved in many businesses, I learned quite a bit from that. And they were also caring toward the community. My father was the mayor of the town for many, many years. I learned from him how to take care of public funds and public trust which has been given to you. So from that background, I adopted those principles and those values. My motto has been in life that you should never forget the blessings of God. We should pray regularly and we should help the people in need. And that is something that has really been the guiding charge. I could sit here and tell you that I could have a lot more money than what I have, but I believe in sharing, I believe in contributing to the development of people.

I believe in a verse, which I have hanging on the back of my door, that says: "Anything you expend will be replaced by Him." And that's the words from Qur'an, 34:39. So really I see everything in my life as from God. I don't want to brag here; I try to be very generous.

And I find somebody like the person I just mentioned to you who died yesterday. He was a young man with three children. His older daughter is a third-year [student] up at George Mason. Before he passed away, when we visited him in the hospital, he was in a coma. When I found out, I told my wife to please tell the daughter that we will take care of her tuition fee so she should not worry that she will not graduate or something like that. And she did that and she came back to me and she told me that she was relieved that at least she will have the opportunity to graduate. So things like that, I think a few thousand dollars toward making the difference in the life of a person who would hopefully do good for the society and the community is very crucial.

I think to sum it all, we should just be good Muslims. Follow the faith, practice what we believe, and be good to the society and don't try to cut any corners. Sharing is really the best way that we can live a great life. I have seen in my life unexpected things happen, miracles happen, and God just blesses you in many, many ways in which you cannot even think of. And so I won't trade what I do, what I am for anything in the world.

NEJE: Dr. Mirza, thank you for sharing your thoughts with me and our readers. Your insights into faith-based business brings an important perspective to this growing body of literature.

Mirza: Thank you.

—Miles Davis