ENTREPRENEURIAL LESSONS FROM ETHICA

What Islamic Finance Entrepreneurs Can Learn from Ethica's Experiences

THE VISION: The vision of creating Ethica Institute of Islamic Finance, an organization that sought to bridge the gap between Islamic finance scholars and industry practitioners, was formed in 2002. The idea was to create a learning resource that was global, scalable, and replicable. Global that it might be equal to the task of reaching a growing audience of Islamic finance practitioners; scalable that the delivery mechanism be as effective in a classroom of twenty as it would in an institution of several thousand; and replicable that the training be deliverable repeatedly.

We went to work in 2002, later compiling content one-on-one with some of the world's leading Islamic finance scholars and bankers, designing the platform, refining the pedagogy, incorporating in 2007 in Dubai, and finally launching the platform in 2009. During our stealth design and development mode we conducted face-to-face training programs around the world and gained invaluable experience about the particular needs of practitioners, most notably that training not be too heavy on theory, a common refrain among attendees. Keeping the training practical became our relentless focus. The use of practical case studies, examples, and quizzes slowed content development but made the end product that much more effective.

We were grateful for the timing of our launch, amid a crisis, because it inculcated in our team the habits of entrepreneurial efficiency that bode well later, spending wisely, hiring slowly, and relying on steady, consistent customer service.

For other entrepreneurs considering a launch, the lessons they can take from the Ethica experience are the following:

1. stay as small, not as big, as you possibly can;
2. grow slowly;
3. launch early;
4. focus on cash flow, not profitability.

STAYING SMALL: The once lauded advantages of large scale now often encumber the entrepreneur. With technologies for product and service execution changing so quickly for Ethica, having a team nimble enough to respond and retool quickly was more useful than the possible advantage of a large company. We were also grateful that by maintaining a small team we were able to weather the global financial crisis without asking anyone to leave the company.

GROWING SLOWLY: Steady, organic growth where you cultivate talent and give employees genuine ownership of their work is more satisfying to the individual and more beneficial to the customer. Moreover, with knowledge based companies like Ethica, the knowledge of the market always exceeds any amount of content you generate yourself, so there is a built-in skew in favor of outsourcing content generation. Even so, Ethica resisted this temptation to outsource everything: owning our own content had short-term costs that were eventually outweighed by the longer term benefit of quality control and Shariah compliance.

LAUNCHING EARLY: After working years in stealth mode, there is a tendency among entrepreneurs to anxiously hold on to the product or service for as long as possible. We saw the same tendency in ourselves and tried to resist it by launching as soon as the product was ready. Many things necessarily must evolve with the fullness of time. For instance, our partnership agreement began at a scant dozen pages and now runs to over three dozen with the experience that came with engaging partners from all over the world.

FOCUSING ON CASH FLOW: Young companies often focus on profitability, but unless there is a steady stream of cash flowing through the system, high growth companies often "grow themselves broke." We avoid debt, look at cash on a weekly basis, and configure our business model so that payments come in before services go out. We spend a great deal of our time and money on developing new content and allocating surplus funds to subsidizing developing countries rather than on advertising and business development.

In terms of Islamic finance specifically, entrepreneurs often ask us how to break into the industry. Among the more common questions are the following:

What are the most lucrative sectors in Islamic finance for entrepreneurs to tap into?

Islamic finance is a top-heavy industry: large and medium sized banks dominate the headlines while major gaps abound in other sectors of the industry. At Ethica we've seen that early stage venture capital, waqf finance, microfinance, research, training, advisory, and media are among the many under-served areas that offer substantial opportunity for entrepreneurs. In a market where major institutions are still not hiring at the pace they were several years ago, it is time to look beyond the standard banking job and explore start-up opportunities.

How can Shariah-compliant financing benefit entrepreneurs in comparison to raising conventional financing?

Entrepreneurs raise capital using debt or equity. Debt focuses both lender and borrower on the debt because the ultimate objective is repayment. Equity, on the other hand, focuses investor and issuer on the business: its viability, profitability, and, depending on the stage of investment, its short and long-term prospects. Shariah-compliant finance, where the financing is equity-based such as with a Musharakah or Mudarabah based structure, rather than a conventional financing or even an Islamic financing based on debt, such as with a Murabaha, Salam, or Istisna, accomplishes this.

There are many Islamic financial hubs around the world. Which countries hold the most opportunities for entrepreneurs and why?

Ethica currently serves professionals and students in 62 countries, so we have some sense of the relative strengths of different countries during this protracted financial crisis. Africa, South Asia, Central Asia, and outliers like Australia show continued promise and hold near-term opportunity for budding entrepreneurs. At a time when banks in the traditional Islamic financial hubs are downsizing or freezing their hiring, we see many countries in these regions launching their Islamic finance sectors and issuing licenses. It is during these early years of a country's Islamic finance industry that Islamic finance entrepreneurs have an opportune time to launch their companies.

What advice would you give to an entrepreneur who is new to Islamic finance?

First, regardless of what kind of business you decide to launch, you will need to know the basics about Islamic finance. Becoming conversant in Islamic finance means knowing the core products and how they work. At minimum, you should understand these products and their limitations according to the leading Islamic finance standard in the world, the de facto standard for 90% of the world's Islamic finance jurisdictions, AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions). Their Shariah Standards guide is available at www.aaoifi.com. If you cannot sit and learn directly from a scholar who has a working understanding of these products according to AAOIFI standards, you should learn from an educational institution, of which there are several currently in the market today. And finally, you should begin working on your idea today. The need to "get experience first" is highly overrated. Nothing prepares you better for succeeding in your future business than going ahead and launching your future business. Put pen to paper and start your business plan now.