

# The development of Islamic entrepreneurship in the service sector of cross-border regions of the Russian Federation

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**Abstract.** The current trend is the development of the Islamic business in the service sector for the Muslim population as the fastest growing segment of the global economy. In the Russian Federation, the development of this area is possible in the ethno-cultural cross-border micro-regions, such as the Republic of Tatarstan. The purpose of the study is (a) to describe the positioning of Islamic entrepreneurship and (b) to identify the socio-economic effects and limitations of its development. The methods of retrospective generalization and semi-formalized interview were used in our research. The research shows that the features of Islamic entrepreneurship, which is conditioned by the theological settings of the Muslim doctrine, describe its positioning in the priority direction of its development in trade. The paper also reveals certain limitations in the development of Islamic entrepreneurship. In particular, it notes the initial stage of formation and the vagueness of a meaningful understanding by businessmen of the essence of the Islamic economic model.

**Keywords:** cross-border region, Islamic entrepreneurship, service sector, Islamic economic model

## 1. Introduction

According to the approach of F. Siederbaum [1], one of the varieties of the intra-national or cross-border microregions are the ethnical and cultural ones, which are formed on the common historical, national, religious, cultural, linguistic traditions. According to the Constitution of the Russian Federation [2], in the Russian Federation, the republics act as ethno-cultural and cross-border micro-regions, being the national-state entities.

Individual subjects of the Russian Federation (republics) demonstrate promising regional practices of building competitive advantages in the development of territories, taking into account ethno-religious peculiarities and their integration into the world development trends and prospects in the Russian Federation. Thus, 15% of the world GDP (113 trillion dollars) is the share of 57 countries of the Organization of Islamic Cooperation (OIC) [3]. This territory is dominated by the Muslim population. Objectively, the development of the Islamic business in the service sector for the Muslim population (halal) as the fastest growing segment of the world economy is becoming a modern trend. According to OIC reports, the global halal market is estimated at \$2.3 trillion, with the largest shares occupied by food (67%), pharmaceutical products (22%), as well as cosmetics and perfumery (11%). It is no coincidence that, within the framework of the national project “International Cooperation and Export” [3], the mark “Halal Products” is designated as the priority of multiple growth in exports of

agro-industrial products. According to the instructions of the President of the Russian Federation, “the Russia-Islamic World” Strategic Vision Group was established, and the President of the Republic of Tatarstan R. N. Minnikhanov became its head [3]. The Republic of Tatarstan is a pilot region for introducing the principles of Islamic banking and financing in Russia, developing Russia's relations with the OIC in the format of the “International Economic Summit of Russia and the OIC Countries” in 2012 and in the “Russia-Islamic World: Kazan Summit” format since 2016 [3].

The empirical development of the “halal” practices of the industry in the Russian Federation takes place against the background of the incompleteness of theoretical developments in both foreign and domestic science, the terminological uncertainty of Islamic entrepreneurship and the absence of its official accounting. This causes ambiguity in interpretations and characteristics. Even though the empirical development of the “halal” practices of the industry in the Russian Federation is accompanied by discussions and discussions organized in the format of international expert sites in various forums. Among experts, there is an opinion about the low awareness of the target audience (Muslim entrepreneurs and the population) about the Islamic economy and finance [4]. What are the positioning and prospects of Islamic entrepreneurship in the production of services? How do Russian businessmen of halal services understand and share the principles of the Islamic economy? These questions are sharp and controversial, stipulating the goal of the research. The purpose of the study is to describe the positioning of Islamic entrepreneurship and to identify the socio-economic effects and limitations of its development. The object of study is the Republic of Tatarstan as an ethno-cultural cross-border micro-region.

## **2. Materials and Methods**

Studies of ethno-confessional features of the development of entrepreneurial activity of the Muslim peoples in the Russian context is not a new subject. They were carried out in the regional aspect of individual entrepreneurial families of Muslims and their charitable activities [5], in a retrospective analysis of the evolution of entrepreneurship among the Muslim peoples of the Russian Empire [6]. OIC is engaged in the development and promotion of the principles of the Islamic economy; Halal products, Islamic finance, exhibition consulting are priority areas for Alif Consult.

Based on the method of retrospective generalization of these materials, the positioning of Islamic entrepreneurship in the sectoral structure of the national economy is determined. Expert views on the status of Islamic entrepreneurship were identified by interviewing. The need for expert opinion research is due, first, to the limitations in the setting up of the institution of Islamic entrepreneurship related to the lack of factual information about the number of entrepreneurs doing business in accordance with the principles of Sharia. Second, the need to study the expert opinions comes from the perspective of the main provisions of the implementation research, according to which the success of the implementation of institutional transformations is largely due to the perception and support of them by stakeholders. On the basis of these questions, at the first stage of the study, the guide-interview was developed. Also, a stepwise selection was indicated. It covered two groups of informants: (1) the entrepreneurs producing halal products and (2) the experts-representatives of state authorities responsible for the development of Islamic entrepreneurship. At the second stage, the field interview was conducted in the first half of 2019 (N = 15). In the third stage, we transcribed the interviews into texts. For conducting a qualitative discourse analysis of texts, the method of progressive approximation was used: creation of a structure of assumptions and concepts; their approbation, which allows to see how these assumptions correspond to the evidence and reveal the characteristics of the data. We also used the following coding: open coding (selection of topics to which codes are assigned, creation of a list of topics and an analytical memo); axial coding (organization of a set of primary concepts, review and verification of primary codes, identification of key analysis concepts).

### 3. Results

Islamic entrepreneurship is a relatively new institution and is the least studied type of entrepreneurial activity. The conditions of modernization in the mid-twentieth century in the Islamic countries stimulated its formation.

The characteristics of Islamic entrepreneurship, causing its features, are determined by the theological principles of the Muslim doctrine:

- Priority activities are own labor and trade. The Prophet said, “What a man acquired through the labor of his hands, this is brought to him by good trade” [6]. Islam does not prohibit people from acquiring wealth and encourages a person to increase his material wealth by legal means. Illegal business activities include prostitution, fortune telling, selling alcohol, drugs, pork, borrowing (riba), bribe (rushavat), usury [6];
- The priority of personal work as opposed to attracting labor under conditions of employment. Moreover, each able-bodied individual of the society must work and receive a fair remuneration, and the state must provide opportunities for getting a job;
- The prevalence of the interests of the community over personal (individual) interests, leading to the development of social responsibility of entrepreneurial activities carried out through the institutions: voluntary donations – “sadaka”, “waqf”.

In a summary of these characteristics, we propose a definition of Islamic entrepreneurship. In our opinion, Islamic entrepreneurship is an initiative, innovative activity in accordance with the Sharia law, which is aimed at creating profit for the benefit of society.

In fairness, we note that the term “entrepreneurship among the Muslim population” is most often found in studies. This term reflects the confessional affiliation of an entrepreneur, rather than full compliance with the Islamic principles of doing business, specifying the features of Islamic entrepreneurship described above. So, the results of generalization show that the Muslims are involved in usury: in Kazan, 74 Muslims carried out loan operations, they issued 100 loans in 1723 [6]. Only in 1899, during the publication of the fatwa by mufti Muhammad Abdo, the activity of banks and credit institutions was recognized in the Muslim world. It draws attention that the hired employees are involved in the activities of Muslim entrepreneurs in the context of industries (table 1).

**Table 1.** Factors of production belonging to the Muslim entrepreneurs in individual industries, in % of the total number of existing industries in 1884 [6].

Industries	Production factors	
	Factories	Workers
Cloth production	32.0	53.9
Soap production	13.0	18.8
Papermaking	6.6	8.0
Furwear and sheepskin production	1.3	28.1
Salt production	12.4	8.9
Match production	13.3	17.2

As can be seen, in the structure of industries, the Muslim entrepreneurs dominate the cloth industry. At the same time, in the structure of sectors of the national economy, Muslim entrepreneurs had a large representation and achieved success in entering international markets [6] in the service sector such as trade, which corresponds to Islamic principles of doing business.

Muslim entrepreneurs showed social responsibility by implementing charitable activities in the form of direct investments in the social infrastructure of rural areas – the location of production, the content of shelters and societies to support the poor Muslims [7].

The results of a study of the modern development of Islamic entrepreneurship show a convergence of expert opinions from entrepreneurship and state authorities on the positioning of the development of Islamic entrepreneurship in its infancy. Experts from the government emphasize their interest in the development of Islamic entrepreneurship and describe the implementation of activities in this direction

in organizing exhibitions and summits, promoting the halal industry, opening “Islamic windows” of servicing in Sberbank of the Russian Federation. The development of Islamic entrepreneurship is positioned as quite potential for increasing foreign investments in the territory.

Also, I would like to note that many experts associate the Islamic entrepreneurship with the production of halal products, demonstrating lack of awareness in the peculiarities of the principles of Islamic economics. The entrepreneurs see the mission and social function of their activities in meeting the needs of Muslims in specific products: clothing, food, the provision of restaurant services. Some entrepreneurs talk about the prospects for business development in the growing segment of the halal industry. Individual entrepreneurs, emphasizing the social orientation of activities in meeting the needs of Muslims, identify their business with social entrepreneurship.

#### **4. Discussion**

In the absence of uniform approaches to the terminology of the Islamic economic model, the term “Islamic entrepreneurship” proposed by us is a subject of discussion. On the one hand, some researchers rightly point out that “entrepreneurship has not been widely developed in the countries of traditional Islam” [6]. On the other hand, the modern realities of business implementation require the designation and definition of the relevant terms and concepts prevailing in science and practice. It seems that the encountered term “entrepreneurship of the Muslim population” reflects only the confessional affiliation of an entrepreneur. And this term cannot claim the completeness of the expression of the diverse characteristics and features inherent in doing business in accordance with Islamic principles.

The identification of Islamic entrepreneurship with social entrepreneurship is debatable, especially in the view of the social responsibility characteristic of Islamic entrepreneurship. Author’s researches [8] prove that in the conditions of promoting the paradigm of sustainable development into practice, social responsibility is an immanent characteristic of modern civilized business. And the essence of social entrepreneurship is revealed in the creation of social value through the involvement of a target group of stakeholders in entrepreneurial activity driven by altruism and innovation.

#### **5. Conclusion**

Features of Islamic entrepreneurship, due to the theological settings of the Muslim doctrine, determine the priority direction of development in such services as trade. In promoting Islamic entrepreneurship in the service sector for the Muslim population as the fastest growing segment of the global economy, ethno-cultural cross-border microregions have a special positioning in the Russian Federation.

Experts from business and the state unanimously describe the modern positioning of Islamic entrepreneurship at an early stage of development. Islamic entrepreneurship reduces business to the halal industry as a growing market segment. Social orientation of entrepreneurial activity is seen in meeting the needs of the target audience – Muslims, thereby demonstrating the vagueness of a meaningful understanding of the essence of the Islamic economic model. We see this as a restriction of the development of Islamic entrepreneurship, for which leveling the development of education in the field of business fundamentals in accordance with the principles of Islam is required.

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