



Problems Inherent in Transforming Multinational Corporations Using Islamic Banking as a Reflection of Modern Globalisation

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ABSTRACT

Modern globalisation enhances many kinds of activity, which strengthen its influence on human civilisation entropically. Multinational corporations that use Islamic banking are included in the global processes of world civilisation, helping to maintain social and economic balance worldwide. The global world is now accepted as the new platform for international relations. A new concept of social and economic development that promotes cultural resources in a modern and post-industrial economic paradigm is becoming more extensively developed. Multinational corporations (MNCs) occupy a huge space in today's multicultural, global world. However, their main trait, that of multi-nationality, gives rise to unique problems that these corporations must fix in order to remain competitive in the fast-paced, highly challenging world of modern business. The problems of managing MNCs is particularly topical for the present stage of the development of world economy, which

is in the active process of forming complex structured economic entities. Owing to publicity and much activity in corporations there are competitive interests between various groups involved in corporate relations. This has great influence on the external environment. Success depends on how a worker will use his/her talent and imagination and if he/she is capable of

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making individual decisions. All the aspects of creativity are interrelated and inseparable.

Keywords: Globalisation, multinational corporation, society self-regulation, the Islamic banking

INTRODUCTION

Managing corporations, which work in various national economic sectors and at the international level, has been the subject of scholarly study worldwide for a long time. Islamic banking is a product of international economic relations and is being aggressively developed both in Islamic and non-Islamic countries (Kamal, Almulla, Karabulatova, & Karabulatova, 2016, p. 138). Islamic banking in itself is a powerful mechanism of influence on the modern character of international social and economic relations. In our opinion, it strengthens migration flows from Islamic countries and regions, forming new relationships with accepting communities (Akramov, Ryazantsev, Karabulatova, & Akramov, 2015; Gabdrafikov, Karabulatova, Khusnutdinova, & Vildanov, 2015; Karabulatova et al., 2016), transforming the identity of each member of society (Karabulatova, 2013; Osipov, Karabulatova, & Karabulatova, 2015).

There are two main types of multinational corporation (MNC). Transnational multinational corporations locate their operations in one country, but have branches in different countries of the world. Multinational corporations, on the other hand, are owned by two or more countries and have branches in various other countries. The main qualitative trait of

MNCs is not the capital of the countries. All corporations that have one foreign office established on direct foreign investment can be considered multinational.

To study the rapid development of such new forms of business calls for new methodological principles (Karepova et al., 2015). The list of characteristics by which it is possible to classify the activity of corporations is rather extensive. The classification of corporations is given in Figure 1.

The functions of a corporation can be organised around internal relations between the players who formed the corporation. This type of corporation is a classic holding i.e. a corporation with a parent company and subsidiary companies. There are also distributed holdings, which is a corporation based around a network of companies and affiliates, which it leads. Another type of corporation is the *etarkhiya* (set up by a crossed holding of shares), which is owned by shareholders of one company. There is also the administrative corporation or neoholdings, which is set up by agreement between a group of shared owners and a central corporation (Frolova & Kabanova, 2014; Polonskaya et al., 2015). These definitions show that corporations, such as associations, conglomerates, consortia, concerns, syndicates, trusts, financial and industrial groups and holdings are distinguished by how they amass their capital.

The penetration of religion into the management of economic institutions consolidates nationality with social and

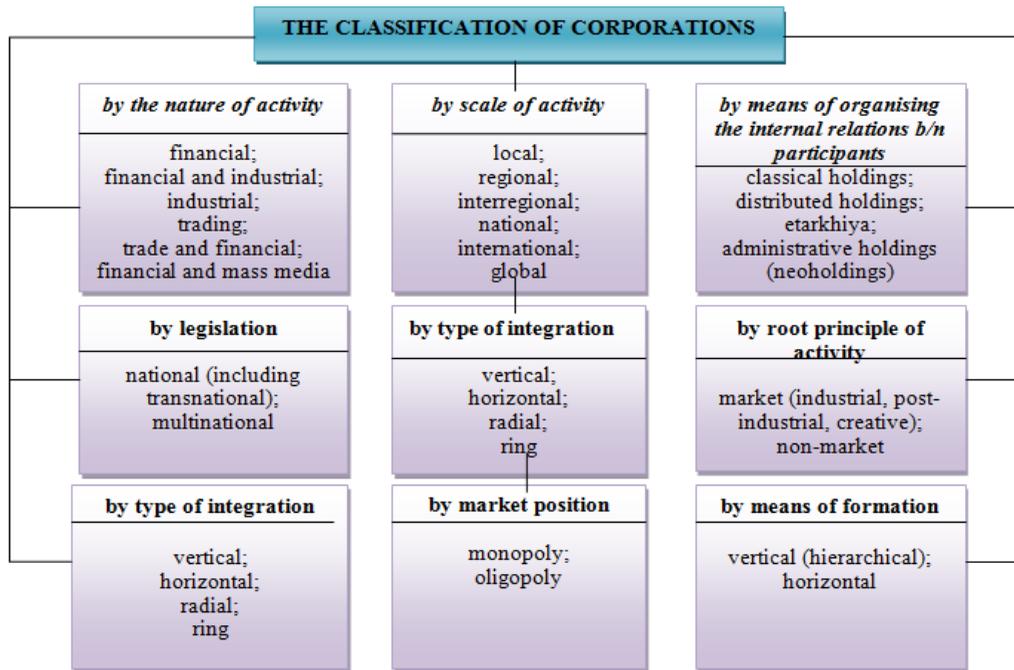


Figure 1. Classification of corporations

economic mechanisms (Osipov et al., 2015; Osipov, Akhmetova & Karabulatova, 2015; Ryazantsev, Karabulatova, Sivoplyasova, Pismennaya, & Manshin, 2015). Religion in the Islamic East authorises political power, affirming the head of as a symbol that brings the community together (Karabulatova & Sayfulina, 2015; Osipov et al., 2015). In addition, religion protects the social structure (Karabulatova & Sayfulina, 2015; Khairullina, Karabulatova, Shvedova, & Koysh, 2015). In other words, in relation to the state and society religion is the glue that holds the community together, but its efficiency depends on itself. Islamic banking is promoted on the Internet as a ‘network war’ in terms of capital (Barsukov et al., 2015; Karabulatova et al., 2016); the promotion uses various ethno-psycho-

linguistic strategies to convince potential consumers of the efficacy of this banking service through gradual transformation of their internal worldview and linguoamental base in general (Kamal et al., 2016, p. 138; Karabulatova, 2013; Karabulatova & Sayfulina, 2015; Osipov et al., 2015).

Different religious systems have helped to strengthen traditional social structures or existing political powers to different degrees. Where the religious system supported the state poorly, its power eventually diminished and society suffered, as was the case with the Ancient Middle Eastern empires, whether Persian, Assyrian or others. Where it functioned efficiently, the result was the opposite, although there were essential distinctions caused by cross-cultural aspects (Akramov et al., 2015; Karabulatova &

Sayfulina, 2015; Khairullina et al., 2015; Ter-Akopov, 2011, pp. 135-136).

Arab countries are governed by an Islamic (Kamal et al., 2016, p. 138; Khairullina et al., 2015; Osipov et al., 2015). The religious awakening of the second half of the 20th century led to the agenda of making power the central achievement of religious groups in these countries. One of the manifestations of this agenda is the rise of Islamic banking. Islamic banking aims to provide:

- the possibility of creating an accurate control system and high controllability;
- a simplified system for participants to join and withdraw;
- limited liability;
- large financial means;
- strengthening participants' competitive positions, lack of restrictions on activities and a bigger scope for resource maneuver;
- creating oligopolies, which influence demand and bring monopoly excess profits;
- coordinating the interests of business units that join;
- fast adaptation to changing market conditions;
- the possibility of diversifying production on the basis of horizontal and vertical integration and redistributing risks due to acquiring small easily -sold shares in several enterprises;
- stability of business, guaranteeing the additional security of long-term investments that increase the corporation's attraction for investment and a rise in the market value of their shares;
- a representative office and protecting the position of corporations through the representative office;
- saving transaction, trade and production (as a result of considerable scales of activity) expenses;
- development and transformation at the expense of internal sources;
- increasing the effective management of the enterprises of participants of the integrated structures and the control of managers;
- optimising production and technological chains and cash flows;
- growing the volume of the profit, which is reinvested in production;
- the possibility of conducting research and development;
- forming and developing market image and confidential relations with contractors;
- using special corporate financial and economic mechanisms such as insurance funds, consolidated balance, transfer prices;
- a coordinating branch and regional and group interests;

- optimising taxation etc. (Kamal et al., 2016, p. 138).

Developing corporations need to use the advantages of economic globalisation (creating a world market of goods and services, information and technologies, capital, personnel resources, emissions in the environment); electronic communication (distribution of technologies, which provide remote control, conclusion of contracts and calculations using electronic money, remote assessment of buyers' solvency and suppliers' competitiveness); multiple forecasting and comprehensive planning; and transition from a hierarchical structure to a network structure. In other words, Russia has entered a new economic and social reality (Frolova, 2014; Osipov & Lokosov, 2011, p. 422).

Advances in Islamic banking are determined by an electronic and information-orientated society and strengthening migration flows, first of all, from the countries and regions with a mainly Muslim population (Akramov et al., 2015; Ryazantsev et al., 2015). This situation demands an approach to the analysis of financial institutions using new forms of attracting cash flow for an objective assessment of the consequences of using Islamic standards of ethics and morals in business.

METHODS

This research used acts of legislation and legally enforceable enactments and data from statistical agencies, research institutions, periodicals, economic

information agencies, the Internet and Russian corporations' financial and corporative statements. Capitalisation of Russian corporations increased by 6.5 fold in the years 2006-2007 in comparison with the former decade (1996-2005). Capitalisation did not change in practical terms in 2013 in comparison with 2012; in fact, it decreased in comparison with the years of 2010-2011.

The Russian equity market is remarkable for its high concentration of capitalisation in companies that release emissions into the environment and industries. The 10 companies responsible for the highest rate of emissions make up 62% of the total number of companies. The oil and gas industry make up half of the domestic share market. The list of the most capitalised emitters for the year 2013 has not changed essentially. It contains a new pollutant, OJSC Magnet (Kamal et al., 2016, p. 138).

One cannot help noticing the decrease in capitalising electric power and metal companies as well as the increase in the companies' capitalisation, which render finance services.

One can suppose that most Russian corporations do not participate in capitalising by means of an exchange market, for they do not want to release information about ownership structure, income, flow of funds, debts and a move to the International Financial Reporting Standards (IFRS). The cause is the fear of potential dangers and the possibility of a hostile takeover by the government.

The absence of an accessible national

long-term credit system as a source of investments that forces a big business to orient on funds from the secondary source was revealed in analysing the source of financing Russian corporations. However, in cases of modern macroeconomic uncertainty, some Russian companies think that they must decrease investment volume if there is no confidence in future demand and begin decreasing debt volume and currency debt volume because macroeconomic problems can lead to ruble devaluation (Ryazantsev et al., 2015; Ter-Akopov, 2011, pp. 135-136).

Besides international credit and the practice of issuing Eurobonds, there is credit given by stockholders of Russian companies, ruble-denominated financing for Russian companies. This credit has two aims; the first is to optimise tax (a larger percentage in ruble credit than in currency can be allocated to expenses), and the second is to ensure that all creditors and banks participate equally in case of bankruptcy.

RESULTS

The analysis of the international corporation Al Mulla shows the possibility of using creative economy to extend the capabilities of a holding that uses conventional and nonconventional methods and techniques in its operations. Arab Gulf countries are using Islam in international banking to show new possibilities through a creative approach to solving the social and economic problems of modern society (Kamal et al., 2016, p. 138). According to scholar John Howkins says, "The customary economy is out of

date, 'creative economy' must now follow it" (Howkins, 2011, p. 9; Kamal et al., 2016, p. 138). The quicker the world starts reforming itself, the more safely can crisis such as financial crisis be managed.

The world crisis in the middle of the second decade of the 21st century raised the question of the further development of the human race and how this would be achieved. In today's electronic and information-orientated society, creativity is the leading factor in augmenting production, and therefore, it is creativity that must become everyone's main purpose in life.

This is affirmed by the literature, which shows a high contribution of creativity as the reason for the general rise in GDP worldwide. At present 7% of global GDP is accounted for by creative industries. The annual rise in the economy of the OECD countries fluctuates from 5% to 20%. In most of the developed countries, advertising market volume comes up to about 1% of the GDP, whereas in Russia, it is about 0.6%. The market in monetary terms grows four times larger than GDP. Now, the budget ratio in main advertising is the same as that in the leading countries of the world, with a difference in general volume of advertising investments that comes up to about \$7 billion in Russia, whereas in the USA it is about \$290 billion. The domestic advertising market is at 11th place in the world by volume. Advertising expenses per head of population make up about \$45 in Russia, \$600 in the USA and \$200-\$350 in Europe. So, there is a potential for development in Russia, but the ratio of market growth will

slow down more and more as it approaches the generally accepted 1% of GDP (Kamal et al., 2016, p. 138).

The Al Mulla Group, with its parent company in the Arab Gulf state of Kuwait, is the leading diversified private business group. The corporation has more than 15,000 employees who work in more than 40 different companies of the Group and its subsidiaries, located in eight different countries. It has more than 200 international brands. The Al Mulla Group is presented in knowledge-intensive industries, advanced technologies and the service industry. The financial division of Al Mulla is keen to combine products and services offered to each of its subsidiaries to ensure its clients' satisfaction.

The knowledge-intensive industry is presented, first of all, by medicine, biology, nanotechnologies and healthcare. The founder of the corporation possessed remarkable organising and enterprise abilities and magnificent intuition that allowed him to skilfully combine the duties of State Secretary and head of his own business. Even before news was heard of "the Washington roundabout", that method of business widely known and used in the Muslim East in the time of the Arab caliphate. According to official results for the fiscal years 2014-2015, the currency reserves of Kuwait reached a record value of \$592 billion, corresponding to 179.2 billion dinars. In other words, the reserves of Kuwait increased by \$53 billion in just one year. Kuwait managed to achieve this result not only because of offering the lowest price

for oil (\$75-\$77 for barrel), but also for its successful investments.

Despite the wide availability of information on Islamic banking, most professionals have a narrow-minded idea of this concept. This creative approach to economic activity provided Muslim countries a system and business mechanism that acted as a code of honor among businessmen. The distinctive feature of Islamic banking is that it does not attract deposits and does not exact interest on credit (Kamal et al., 2016, p. 138).

Islamic banks began functioning as a successful business model in the 1980s. The first attempt at setting up a bank on the basis of the Islamic ethics was carried out in the 1960s after the idea was mooted by Egyptian economist, Ahmad al Najjar, from Meath of Gamr. Ahmad al Najjar opened a small bank in his homeland providing services for saving and accumulation of wealth of ordinary citizens and investment, without the practice of usury or exacting interest for monetary operations. However, participation in profit sharing from transactions was provided.

The main activity of the bank consisted in attracting the financial resources of small investors and forming capital based on the principles of Sharia. Ahmad al Najjar moved to Saudi Arabia, where he continued to deal with the problems of Islamic economy. The concept spread in the Arab East and Africa and then to Australia, Canada, Russia, Sri Lanka, Great Britain, the USA and other countries around the world. Thus, this pattern of banking began to take root

not just in Muslim countries but also in Western countries, with the participation of major Western companies such as IBM, General Motors and Daewoo and banks such as Deutsche Bank, IAG, ABN Amro, Citibank, Hong Kong & Shanghai Banking Corporation, Chase Manhattan, JP Morgan and others.

Today Islamic banking competes with conventional banking effectively. Conventional banks in the USA are allowing some volume of Islamic banking in their operations, and London has become the capital of Islamic banking. The popularity of Islamic banking is growing in geometrical progression in the world financial and credit market. We see the high viability of Islamic financial services in Great Britain, Singapore, South Korea, Japan, Hong Kong and other countries. Today, Islamic banking is available in 75 non-Muslim countries.

The concept of design investment is more appropriate as a working procedure. This design investment is connected with risks and risk sharing. The bank does not draw interest; it studies the business plan brought to it and analyses the risks and then shares them with the client. Project investing is the customary practice (Mervyn & Hassan, 2010, p. 452).

In the former Soviet Union, Kazakhstan was one of the most attractive economies suitable for Islamic banking (Table 1).

Thus, the total amount of finance attracted by the financial organisations of Kazakhstan over four years by Islamic banks came up to \$888 million. This is not much for the Kazakhstani banking sector, which has the sum of loans from financial organisations (including foreign ones) exceeding \$151 billion a year. However, considering the fact that Islamic banking

Table 1
Finance attraction of islamic banks in Kazakhstan (interbank capital market)

Date	Kazakhstani Banks-Recipient	Islamic Bank-Donor	Description
2005- 2006		Calyon Bank/Abu Dhabi Islamic Bank	Finance attraction for the sum of \$50 million
2006- 2008	Turan-Alem Bank (BTA)	Calyon Bank/Abu Dhabi Islamic Bank	Finance attraction for the sum of \$200 million
2007- 2009		Abu Dhabi Islamic Bank/ CIMB Bank	Finance attraction for the sum of \$250 million
2009		Development Islamic Bank	Finance attraction for the sum of \$100 million
2006- 2007	Tsentrcredit Bank	Abu Dhabi Islamic Bank/ Commercial Bank of Qatar/ Boubyan Bank/Dubai Bank PJSC/Habib Bank	Finance attraction for the sum of \$38 million
2007- 2009	Alyans Bank	Calyon Bank/Abu Dhabi Islamic Bank	Finance attraction for the sum of \$150 million
2009	Halyk Bank	Development Islamic Bank	Finance attraction for the sum of \$100 million

is relatively new as a banking model and that its activities are different from those of conventional banks, this is quite an achievement (Islamic economy, 2016).

The founder of Islam, the Prophet Mohammed, left potentially ambiguous administrative and managerial experience and guidelines for his followers and pupils. This ambiguity is reflected in the Islamic banking operations of two types of establishment. The first type of establishment apply instructions of a concrete and applied character in direct response to the present situation of the Muslim community-state, while the second type apply the general values of Islam to banking. Islamic banking derives from centuries-old traditions of management and governance for public administration of domestic and foreign policy.

Now the Muslim East offers many examples of administrative, legal and social transformations that are directly or indirectly connected with political, legal and administrative culture that grew out of Islam and now adapted for the present. Although its practices are different because it is rooted in a different perspective, Islamic banking shares the search for the ideal that other systems also pursue, a search essentially for efficiency of public administration, self-organisation and self-government.

The main characteristic of Muslim identity is the professional creative development of the Islamic way of life based on the highest international standards. The modern social and economic systems of the world were revealed to be vulnerable in the

last global crisis when the macroeconomic stability of national economies were badly hit. Governments across the world were pressed to look for effective ways of macroeconomic stabilisation of their economies.

DISCUSSION

In the 20th century technologies, companies and even the venture capital moved to locations m to with a big concentration of talented and creative people. This is to say that the big companies moved to places where the qualified specialists lived or had established their companies. The success of a company does not depend on its technical assets solely but on its ability to thrive in a tolerant, open and creative atmosphere i.e. in locations that nurture these characteristics (Florida, 2007, pp. 13-22).

Russia today is seeing a rise in ethnocentric sentiment. In this context the growth of Islamic banking tends to be used by radical preachers pursuing their own agenda (Karabulatova et al., 2016; Karabulatova & Sayfulina, 2015; Khairullina et al., 2015). The problems faced by corporations has been studied by such researchers as Strahova, Galperin, Ignatyev, Gorbunov and others. They defined corporations as “the special kinds of joint stock corporations, which are characterized by their transnational type of business, large in size and dominant position at the market.”

In Stepanov’s opinion, the term “corporation” originated from the Latin expression *corpus habere* that denotes the

rights of a legal personality i.e. the term “corporation” was initially a synonym for the term “corporate person” (Stepanov, 2009). In Durkheim’s point of view, the term “corporation” is a professional union, which must form the basis of the modern society of the 21st century for the corporate state. The corporation is a social institution, which must be reconstructed, renewed, supplied with self-consciousness and action technology and included in the existing structures of the state (Durkheim, 1991).

Chernyshyev admitted the existence of several approaches to defining the term “corporation”. He agreed that one meaning of the word is “corporate person”. Another meaning of the word is “a professional union”, and this meaning was widespread in the Middle Ages. Some examples are Kozhevnikov corporation, Sukonshchikov corporation and gold workers corporation. The third meaning of the word is a certain mirror reflection or renewal of this historical phenomenon. In this way, Chernyshyev concluded that the modern corporation is a definite group of persons who expand and make managerial decisions professionally, making those decisions consciously and step by step (Chernyshyev, 2001, p. 685). Galbraith added that corporations use modern techniques to make managerial decisions gradually (Galbraith, 1969). Ross suggested the following definition: “a corporation is a business, founded as an individual legal personality, consisting of one or more private or corporate persons” (Ross, Westerfield, & Jordan, 2000, p. 324).

By various objective estimates, the

Muslim population of Russia numbers between 16 and 23 million people. Out of this, the percentage who adhere to the principles of Islam in everyday life is considerable, and this number of Russians are eligible for Islamic banking services. The development of these services in the republics of Tatarstan, Chechnya, Ingushetia and Bashkortostan, where the Muslim population prevails, is considerable. Islamic banking is open also to non-Muslims. The high degree of deposit reliability and risk minimisation is attractive to all. Many potential clients are attracted by the moral, ethical aspect of Islamic banking. According to experts, similar services must generate interest among the representatives of small and medium business, who are interested in investment.

Among the authors who have written on Islamic economics are Muslim jurists, ethnopsychologists, historians and demographers such as Polonskaya, Bekkin, Akramov, Ryazantsev and Selishchev (Akramov et al., 2015; Polonskaya, 1985; Ryazantsev et al., 2015; Ryazantsev, Pismennaya, Karabulatova, & Charif, 2014; Selishchev & Selishchev).

Only three out of five EEU countries, Kazakhstan, Kyrgyzstan and Tajikistan, have developed a legislative base for regulating Islamic finance actively. In Kazakhstan the development of Islamic finances is connected with the financial and economic crisis of 2007, when a regional financial centre was set up at the premises of the National Bank of Kazakhstan (NBK) in Almaty. A new law, “About Modification

and Additions to Some Acts of RK”, was drafted concerning the organisation and activity of Islamic banks, and Islamic financing was adopted in 2009. In 2012, the national bank of Kazakhstan developed and approved a road map on developing Islamic financing up to 2020 (“Islamic banking”, 2016).

The development of a tax law for the purpose of providing tax neutrality as value added tax (VAT) to protect the operations of conventional banks of the Russian Federation has been put in place in Russia. Thus, in existing legislation, this tax (today at the rate of 18%, with the possibility of its being raised to 20%) is borne by Islamic financial institutions, placing unequal competition on them.

CONCLUSION

It is no secret that the electronic and information-orientated society of today is flooded with a plethora of information. However, one cannot often stumble on a really original idea among all this information, which assails us at a furious pace. Globally the flow of funds has begun depending most of all on creative information orientated around the mood, anticipation and unconscious reactions of market participants. The creative core of any data set provides an efficient perception of information by the audience without turning it into “information noise” (Barsukov et al., 2015).

The range of problems concerning the diverse and ambiguous manifestations of Islam in the life of the state and society

remains extremely important to modern Russia. Not only because along with Orthodoxy, Islam as a traditional religion of the country, showcases the centuries-old history of the nation. The Russian Federation is an active participant in international relations. It includes states that practise Islam and is a member of Islamic interstate and intergovernmental organisations.

Russia made attempts to introduce Islamic financial instruments at different times. The initiative was welcomed by countries nearby such as Kazakhstan as well as those far away such as Bahrain, whose representative, Ithmaar Bank, has declared its intention to open an Islamic bank in Russia. There have been unsuccessful attempts such as the Badr-Forte Bank, the Slavinvestbank and also the Globeks Bank, which issued *sukuk-halal* bonds in 2006. In addition, the financial group, Broker Credit Service (BCS), set up the Mutual Investment Fund (MIF), was declared *halal* in 2007 (Kamal et al., 2016, p. 138).

Full-fledged Islamic banking is available in the Gulf States, Pakistan, Bangladesh, Malaysia, Sudan, Egypt, Kyrgyzstan, Kazakhstan and Great Britain. According to the legislation of Pakistan, Sudan and Iran, the activity of conventional banks is forbidden.

The rise of international corporations and their mergers promotes not only new types of crime, but also new creative ideas in industry, expanding an associative subjective and objective, verbal and paraverbal network. As a result, ideas at the level of the unconscious are creating

exciting, innovative new products but also destabilising established traditions and values and occasionally normalising deviation. In this situation, business integrity is crucial.

Today we live in the world of simulacra; therefore, originality becomes the most valuable product in the creativity market (Karabulatova, 2013). An original and memorable image is equal to a product in the electronic and information-orientated society (Karabulatova, 2013). As a result, some important questions arise. Firstly, how do we create an intellectual environment in which people may combine ways of putting their ideas into practice, taking them from the imagination out into society to become viable and profitable goods and items? Secondly, how may we turn our dreams into powerful projects with team support? One can distinguish three principles, based on these questions.

The first principle is the universality principle. Everyone has a measure of creativity as a natural endowment to improve and enhance the world in which we all live. The second is that freedom is necessary for expressing creativity. Freedom allows the individual to determine his own attitude towards his ideas, to accept or to reject them and to follow his own idea and imagination. The third is that markets and connections are available for modifying freedom in economic activity. This allows a person or a company to produce goods, to render service, to put prices on goods, to predetermine the cost of a company and to sell and to purchase i.e. to transact business.

Thus, the multinational corporation as a certain system is a definite hierarchically regulated system of elements and subsystems, which are combined either for achieving specific aims or for achieving total interconnected aims, and creativity is a basis for developing the network to realise this.

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