

BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY COMPARATIVE APPROACH BETWEEN CAPITALISM, SOCIALISM AND ISLAMIC ECONOMY

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Abstract

How to cite this paper: Nuredini, B., & Matoshi, R. (2022). Business ethics and corporate social responsibility comparative approach between capitalism, socialism and Islamic economy [Special issue]. *Corporate Governance and Organizational Behavior Review*, 6(4), 208–220.
<https://doi.org/10.22495/cgobrv6i4sip2>

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ISSN Online: 2521-1889

ISSN Print: 2521-1870

Received: 12.06.2022

Accepted: 22.11.2022

JEL Classification: K200, M14, G33, G34

DOI: 10.22495/cgobrv6i4sip2

The purpose of this study is to present contemporary trends in the field of business law through comparative analysis by presenting the similarities and differences regarding issues related to business ethics and corporate social responsibility (CSR) within the three economic systems, capitalism, socialism, and Islamic economics. The concept of the capitalist economy is based on capital and has the welfare of large corporations as a priority. Socialist economics prioritizes the interests of the state, while Islamic economics is human-centered and it prioritizes the well-being of the individual (Migdad, 2022). Business ethics is a very important factor that should be present in all segments of society. The importance of business ethics is particularly evident in modern society, which is burdened by numerous crises and contradictions, both globally and locally. The need for good corporate governance is important as it helps companies to meet their capital needs beyond traditional sources of financing, in order to expand and be internationally competitive. In a globalized economy, as we live today, companies in countries with weak corporate governance systems are less competitive in the market. Good corporate governance serves as a defense mechanism against corporate scandals and potential corporate tortious and criminal liability (Aziri, 2020).

Keywords: Islam, Capitalism, Socialism, Business, Interest, Ethics, Corporate Social Responsibility

Authors' individual contribution: Conceptualization — B.N. and R.M.; Methodology — B.N. and R.M.; Data Curation — B.N. and R.M.; Investigation — B.N. and R.M.; Writing — Original Draft — B.N. and R.M.; Writing — Review & Editing — B.N. and R.M.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

Moral norms and ethical principles have changed throughout history, as have human behavior. Depending on the historical development, these ethical principles have been imposed by kings, the state, the church, or the ruling elite, and it is

quite normal that the principles be set depending on the behaviour of these entities.

What is asked as a question and refers to morality and ethics in general as an economic thought, primarily concerns the behavior of economic entities, motivated by their economic interests and their influence in the social community.

The very incorporation of morality and ethics into economic thought determines the fact that economics cannot be considered a science of neutral value, but on the contrary, a science that contains moral and ethical values.

Business morality is a collection of unwritten, general individual moral norms and values that always determine behavior in all business relationships. The basic characteristics of business morality are related to respecting the individual, mutual respect and trust, respect for diversities, overcoming differences and respect for the interests of others' protection of dignity, responsibility and duty to others, mutual help, relationship, promises, and given words (Marić, 2008). They also refer to the respect of good and business customs and intentions, business compromise, humanity, independence, accuracy, creativity, truthfulness, tolerance, cooperation, rationality, and consistency.

All the authors agree that the beginning of the application of the philosophical-ethical approach in the perception of the problems related to the resources and the behaviour of the individual as a manufacturer, trader, consumer, or creditor, appears in ancient Greek philosophy.

Aristotle, one of the most prominent thinkers of Ancient Greece, was particularly obsessed with the ethical problem of justice as a value postulate applied to economic phenomena, the organization of the economy, and society as a whole. Aristotle's views were an integral part of the socio-economic conditions in which he operated, and that was a period when slavery was still present but under the scrutiny of critics, a period in which commodity trade slowly suppressed natural trade raising questions related to the functioning of the market mechanism. Thus, the question of price formation, the definition of market structures, the definition of values, the determination of the function of money as well as the question of interest on borrowed money to which a separate section is devoted in this paper (Bartlett & Collins, 2012).

The focus of Aristotle's thought on economic phenomena is how natural or just they are. His value judgments are based on morality, but they also depend on the ideological prejudices of the ruling elite, to which he himself belonged. Aristotle differentiated the use of market value, which was supposed to be an expression of justice in exchange.

The philosophy of capitalism (established in the 18th and 19th centuries), sought to offer answers to the substantial questions of life under the influence of the spirit of the time, which is, and remains, materialistic and secular (Ryan, 1933). This teaching appeared in Europe as a reaction to the metaphysical values supported by the church at that time. Consequently, this philosophy propagated the doctrine that the whole universe was created by chance as a process of evolution, without a creator, without a purpose. According to this logic, if the whole universe came into being through random evolution, then man, as an integral part of the universe, evolved through the process of evolution. If so, then man is a creature who has no background, no purpose in his existence, no mission to perform nor prescribed criteria to adhere to (Chapra, 2014).

The purpose of this study is to reflect the role and importance of ethics in business and to affirm the concept of good corporate governance of

the three dominant economic systems at the global level, affirming the advantages and disadvantages of each economic system.

Bankruptcies of powerful corporations such as Enron, Tyco International, WorldCom, and especially, the Lehman Brothers scandal have shown that the lack of good corporate governance is to the detriment of shareholders, creditors, and other actors who have intertwined their interests with society and of the market itself where the company operates. Also, financial crises and institutional failures in Russia, Asia, and beyond are indicators of the failure of the concept of corporate governance.

The process of globalization highlighted the need to reconceptualize the interaction of companies with market regulators, in order to increase competition and meet the challenges of a global market.

In a globalized economy, as we live today, companies in countries with weak corporate governance systems are less competitive in the market. For this reason, the need for good corporate governance is important as it helps companies meet capital needs beyond traditional sources of funding, in such a way as to expand and be internationally competitive.

The concept of business ethics began in the 1960s as corporations became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes, and corporate responsibility. The increased focus on "social issues" was a hallmark of the decade (Twin, 2021).

As a general definition and clarification of business ethics, it can be said that it is a study of the business situation, business activities, and opportunities where decisions about what is good and what is bad are questioned. Emphasis should be placed on the fact that when we say "good" and "bad", we mean morally good and bad things, such as activities within finance and commercial business (Crane, Matten, Glozer, & Spence, 2019).

Business ethics has two basic dimensions of manifestation, which are: collective (group ethics) and individual ethics. Modern corporate companies are the dominant and most important form of business organizations in terms of the value of assets, the amount of material and financial investments, and the scope and range of business activities. To attract a large number of investors, they usually operate in the legal form of open joint stock companies or public enterprises, whose shares are traded on a daily basis in the secondary markets. In this context, a clear separation between ownership and management is one of the OECD principles that are critical for the effectiveness of corporate governance (Zejnnullahu, 2021).

This paper presents a logical and conceptual chronology based on the hypotheses and study objectives. The structure of this paper is as follows. Section 2 refers to relevant literature. Section 3 deals with the methodological aspect of the study. Section 4 deals with the basic concepts of capitalism, socialism, and the Islamic economy, and this part reflects the concept on which the Islamic economy is built and the financial system based on these principles. In this section, the basic aspects of the study are addressed, reflecting the similarities and differences between capitalism, socialism, and

the Islamic economy from the perspective of business ethics and corporate social responsibility (CSR). Section 5 is dedicated to the discussion of the possibility of incorporating ethical principles in business activity, which would obviously affect the improvement of the performance of corporations and national economies in general. And, finally, Section 6 presents the conclusion and recommendations for this study.

2. LITERATURE REVIEW

Aristotle wrote two ethical treatises: the *Nicomachean Ethics* and the *Eudemian Ethics*. He does not himself use either of these titles, although in the *Politics* (1295a36) he refers back to one of them — probably the *Eudemian Ethics* — as “*ta êthika*” — his writings about character. The words “*Eudemian*” and “*Nicomachean*” were added later, perhaps because the former was edited by his friend, Eudemus, and the latter by his son, Nicomachus. In any case, these two works cover more or less the same ground: they begin with a discussion of *eudaimonia* (“happiness”, “flourishing”), and turn to an examination of the nature of *aretê* (“virtue”, “excellence”) and the character traits that human beings need in order to live life at its best (Bartlett & Collins, 2012). Just as an illustration, according to the newly inaugurated ethical value “trust”, especially important for modern economic relations, “trust exists when a system of moral values is shared in a community in such a way that creates an expectation for correct and honest behavior” (Fukuyama, 2000, pp. 47–67). Ethics is believed to be a set of moral beliefs and conduct that discourages acts of self-gain and encourages honest and modest ways of generating business income (Ghosh, Ghosh, & Zaher, 2011). According to Drucker (1981), “business ethics” is rapidly becoming the “in” subject, replacing yesterday’s “social responsibility”. “Business ethics” is now being taught in departments of philosophy, business schools, and theological seminaries. Business ethics addresses what can be considered morally right and wrong in the way businesses make decisions and conduct their activities (Crane et al., 2019). There are countless seminars on it, speeches, articles, conferences, and books, not to mention the many earnest attempts to write “business ethics” into the law, which represents the view that business ethics and morally responsible behavior in the area of business activities are becoming necessary processes in realization of the purpose and goals of companies, customers, and public (Marić, 2008).

Business culture is at the strategic core of any ethics initiative (Smolo & Mirakhor, 2010), considering the reasons for the effects of the global financial crisis are still being felt all over the world (Twin, 2021). Economic crises have different causes and reflect differently on individuals, their families, and society in general. The last two crises that have shaken the contemporary world very powerfully have been named the global economic crisis and the European debt crisis. They are devastating for national economies, and thus devastating for an individual as the subject of economic development. All the analyses of their causes seem to hide all the elements they have in common or they share as the core of their generation — what we call “the crisis of morality” (Vlajčić, 2011). Today, numerous authors in their papers analyze CSR

through the prism of successful business operations. According to Lahjie, Natoli, and Zuhair (2021), corporate governance and CSR, which incorporate notions of transparency, accountability, and fairness, are important dimensions of a firm’s responsibilities toward its stakeholders. Velte (2020), in the doctrinal analysis of the relevant literature in the field of CSR, emphasizes the regulatory one’s implications. Unlike the US-American capital market as the dominant research design, the European legislature and also other regimes have finalized several CSR reporting reform initiatives and performance since the 2008–2009 financial crisis. Some studies have shown that there is a relationship between corporate governance and firm performance in the market. Corporate governance includes all activities performed to ensure that companies use their resources optimally effectively, achieve their goals, and fulfill legal obligations and social expectations. Companies that incorporate the good principles of corporate governance profit from competitive power both nationally and internationally.

The impact of the board of directors’ composition on a firms’ image can be measured and can guide investors to make the right investment decisions (Al Mubarak, 2020).

In Islam, business activities are considered a religious obligation (Al-Shaibani, 1997). Social responsibility refers to obligations that an organization has to protect and contribute to the society in which it functions (Beekun, 1997). Islam as a religion clearly defines the way a believer behaves in various aspects of his life (Hadžić, 2005). The concept of brotherhood and social justice gives rise to social responsibility (Naqvi, 1981) by sharing prosperity for society’s progress (Hassan, 2002). Islamic economics is based on the paradigm that has socio-economic justice as its primary goal (Smolo, 2013). Socio-economic justice (*Adalet*) is on the pedestal of the Islamic system of values. Islamic finance CSR funds comprise of charitable funds distributed by Islamic financial institutions (IFIs) across the world (Fernando, 2021). Islamic economic system provides a broad spectrum of business ethics that traders must practice. In this case, Allah said in the Qur’an in Surah Al-A’raf 56 “... Truly Allah mercy is very close to those who do good”. (Buldan, Hamid, Sriyana, & Tohirin, 2021). It is indispensable for a trader to deal admirably with these ethics in business transactions of daily life. This section emphasises the important characteristic features of Islamic economic system, morality, and justice in Islamic economics and finance (Chapra, 2014). Divine guidance educates ethical behaviour through essential principles that are self-determining and free of temporal constraints. The believers must put them into practice, adopting the normative practice of Islam. These essential features and notions include focusing on the positive, adopting the right attitude, showing gratitude through actions, following Divine guidance in wealth acquisition, self-sufficiency, moderation, trust, kindness, corporate social responsibility, and obedience to the Divine commandments (Ali, 2014).

Thus, the Qur’an and the traditions of Prophet Muhammad contain many references to trade and advice about how to conduct business. This is the loan by which one intends to show kindness to a fellow human being and do him a favor. It does not

involve taking an interest. Some good business practices were discussed in part ("Business ethics in Islam", 2019).

"... God has permitted trading and forbidden usury (*Riba*) ..." (Qur'an 2:275).

"Oh, you who believe! Fear God and give up what remains due to you from usury if you are true believers" (Qur'an 2:278).

Divine knowledge directs the individual and communal character and instills in us the principles that govern us not only in the domain of the economy but also in other domains of daily life. Believers are responsible for conforming with Divine guidance and shaping a better society where ethics are maintained and nurtured for a peaceful and prosperous existence (Qadri, 2019). Due to the current dynamic business environment, Muslims find themselves confronted with serious dilemmas and need guidance from clearly developed Islamic business ethics (Abeng, 1997, pp. 47-54).

3. RESEARCH METHODOLOGY

The methodological framework covers basic scientific methods.

The first scientific method that we will use when writing the paper is the historical method. The historical method will give an idea of the historical development of the concept of business ethics from the time of Aristotle until today. The following basic scientific methods will then be used:

Comparison is a research procedure of comparison of phenomena in space and time. A comparison in space allows for determining the similarities or differences of the phenomenon, and a comparison in time offers information about the movement of the phenomenon. Through the comparative method, the similarities and differences that exist between the Islamic economic system, as opposed to capitalism and socialism, will be presented.

The compilation method is a procedure for taking other people's results from a scientific research paper, that is, taking other people's views, observations, and conclusions. Considering the fact that business ethics and corporate governance is a relatively new scientific discipline when preparing the paper, other results from scientific-research works, i.e., attitudes, observations, and conclusions, will be used, and they will be cited according to the established methodology with academic correctness.

The analogy is a mental process by which, from the similarities of two or more facts, a conclusion is drawn that those facts also coincide in some other qualities, which we do not immediately notice. That is, if two phenomena are similar in some properties, it can be concluded that they are also similar in other properties. This scientific method will find its application in the part of presenting the concept of business ethics and social responsibility in the capitalist economy against the Islamic economy, by showing the similarities and differences between individual financial institutes and their practical application.

In the paper, guided by the principles of scientific methodology, the application of realistic methods cannot be avoided. Realist methods are

general thought processes of acquiring knowledge, which is based on reason and logic. For this reason, they are also called "logical methods" or "research methods". In doing so, the researcher reasons about a certain phenomenon primarily with logical reasoning. The most famous rationalist methods are analysis, synthesis, induction, deduction, comparison, and analogy.

Considering the fact that it is a multidisciplinary approach in the writing of this paper, the above-mentioned methodological approach by itself will not provide the expected results set in the purpose of the paper, nor will it be able to prove the set of hypotheses, without applying the methodological approach which is applied in the research activity in the field of Islamic economics.

The works of the theoreticians of the Islamic economy who systematically elaborated on this problem are rare. Since the goal of economic science is the understanding of the economic nature of man and the results of his behavior, the methodology, through which the desired results are reached, is of crucial importance. In the Islamic methodological system, there are three basic ways to acquire knowledge: learning, observation, and logical deduction.

4. CAPITALISM AND SOCIALISM VS. ISLAMIC ECONOMICS

The idea of the modern conventional system is usually associated with Adam Smith and his vision of the economy presented in his book "The Wealth of Nations". When created in the hands of Adam Smith, David Ricardo, and to some extent even John Maynard Keynes, economics was a moral discipline. Smith was a philosopher of morality before becoming an economist. It should not be forgotten that Smith was deeply religious. The "invisible hand" he speaks of when he raises the market to the pedestal is in fact the hand of God.

The philosophy of capitalism (established in the 18th and 19th centuries) sought to offer answers to the essential questions of life under the influence of the spirit of the times, which is, and remains, materialistic and secular (Vlajčić, 2011). This teaching appeared in Europe as a reaction to the metaphysical values supported by the church at that time. Consequently, this philosophy propagated the doctrine that the whole universe was created by chance and as a process of evolution, without a creator without a purpose. According to this logic, if the whole universe came into being through random evolution, then man, as an integral part of the universe, evolved through the process of evolution. If so, then man is a creature who has no background, no purpose in his existence, no mission to perform, nor prescribed criteria to adhere to. Although religious teachings opposed this philosophy, the idea of secularism gradually grew and spread not only in Western countries but also in many parts of the world. With this comes the abandonment of basic ethical values in societies. With the abandonment of morality, a vacuum was created for which attempts were made to compensate with concepts such as the *struggle for survival*, and *the fittest survive*, all under the strong influence of a theory that in the late 19th century was called "the theory of social Darwinism".

Utilitarianism became a concept that filled the void created by abandoning the moral code which aimed to define and determine what is good and what is bad, what is right and what is wrong and in such a way that instead of absolute moral principles, quite relative, explaining how one gets the feeling of inner satisfaction, regardless of other people's hardships and sorrow. As a result, the human being becomes an insatiable machine that primarily seeks to maximize only its own interests, without considering the means by which it will achieve this goal. This environment gave birth to *homo economicus* which served as the main element for the creation of the modern economy.

This means that the essence of the mission of the "economic man" becomes exclusively the realization of personal interests (self-interest). To achieve (realize) own interests in full, but under the condition that the other side of the coin is considered. In other words, it is possible for one to pursue their personal interests, but primarily they should strive to satisfy and serve the general interests, i.e., the interests of the social community.

The "economic man", with a certain dose of irony, was best described by the Nobel laureate Prof. Milton Friedman (2007), saying: "The economic man has only one responsibility toward his social community, and that is to secure as much profit as possible for himself" (pp. 173-178). In this context, the views of Erich Fromm cannot be avoided who says: "There is no doubt that the form of capitalism in the 20th century is very different from that of the 19th century, so different that it is questionable whether the same term should be used for the two systems" (Maciel, 2019, p. 26).

However, regardless of the terminology we have chosen, some basic elements remain mutual for the old and the new capitalism: the principle that not solidarity and love, but individualistic, selfish action gives the best results for everyone, and the belief that social life should be governed by an impersonal mechanism, the market, and not by the will, vision and plans of the people. With this conception of capitalist doctrine, it is normal to ask the question "How will the welfare of society be ensured, if everyone sees only his own interest?". In response to this question, the point of view was advocated that competition, as such, would help create the necessary harmony between private and public interests. In the modern market economy, the "invisible hand of the market" should set the boundaries of self-interest and promote social justice and the interest of society as a whole. Such viewpoints move in the direction that there is no need for any generally accepted moral and social values, nor for the role of the state towards the organization of the economy and the market. Personal interest, competition, and profit, as the sole goals, become the fundamental pillars of the philosophy of capitalism which is primarily defined as the teaching of materialism, consumption, and greater growth and development mania. The question is "What are the consequences of such a matrix?".

The consequences are numerous, painful, global, and devastating (catastrophic). The economic man deprived of moral values rapidly steps towards his downfall. Despite the "prosperity" he enjoys in his country, the follower of the teachings of capitalism is usually over-indebted, spends more

than he earns, is unfulfilled, dissatisfied, miserable, greedy, becomes addicted, and starts using drugs, alcohol, speculations, dishonesty, becomes a gambler and adulterer, and often suicide.

On the other hand, socialism is nothing but an extension of secularist philosophy. In essence, Marxism and socialism played a major role in destroying the authority of morality because they were aggressive toward religions as the primary teachers of morality. The socialist doctrine did not choose the means to restrict the fundamental freedoms of the individual and to deny them the freedom of belief. The main difference between the philosophies of capitalism and socialism can be seen in the answer to the three basic questions of economics: What, How, and For Whom to produce. Socialism offered the answer to these fundamental questions through the collectivization and centralization of power, and on the other hand, capitalism offered the answer through private property and market mechanisms. In the end, it turned out that socialism was as bad as capitalism because it was based on wrong teachings.

Fromm says that the aim of socialism was individuality, not uniformity, liberation from economic shackles, and not material interests becoming the main content of life; achieving full solidarity for all people, not manipulation and domination of one person over another. The principle of socialism was that every man is a goal for himself and that he must never become a means to another man. The socialists wanted to create a society in which every citizen would actively and responsibly participate in all decisions, a society in which the citizen would participate because they are a person, not an object because they have their own convictions, not imposed views (Fromm, 1981). Fromm also gives the answer to the essential question — What happened to socialism? (Maciel, 2019).

The humanistic goals of socialism were forgotten or turned into empty phrases, and the main emphasis, just like in capitalism, was put on the goals of economic gain. Fromm goes on to say that just as the ideals of democracy have lost their spiritual roots, so the idea of socialism has lost its deepest root, the prophetic-Messianic belief in peace, justice, and brotherhood among men.

4.1. Philosophy of the Islamic economic and financial system

Every socio-political system has its own economic system. Thus, Islam as a special code of life has an appropriate economic system that is built in accordance with Islamic teaching (Smolo & Mirakhor, 2010). The Qur'an, as the basic source of Islamic law, speaks of general principles, values, orders, and prohibitions. When it comes to the economic order of human life, then it can be said that the Qur'an does not contain any indication as to whether it is a feudal, capitalist, socialist, or other forms of social order. The Qur'an gives us clearly defined values based on which the economic system and economic relations in Islamic society should be built, regardless of time and place. Therefore, the Islamic economic system is based on the economic principles published in the Qur'an, which Muhammad applied during his lifetime and which he

passed on to his successors. This Islam, which is based on the principles of the Qur'an and the practice (*sunnah*) of the Messenger of God, reflects the complete philosophy of life (ibid.).

According to this, the economic philosophy of Islam springs directly from the life philosophy of Islam, given the fact that economics is only one aspect of overall human life and not a central category of all activities. In this regard, Islamic believers are obliged to adhere to the highest degree of the principles of sincerity, justice, and moral values. Ibn Taymiyyah sees market regulation as "a social and economic system based on moral values and legal regulations" (Smolo, 2013, p. 24).

The Great Depression of 2007 was triggered by declining liquidity in the US banking sector, resulting in the collapse of many financial institutions, the backing of banks by national governments, and the collapse of stock markets around the world. It has contributed to the collapse of key businesses, a trillion-dollar cut in power consumption, and a significant drop in economic activity. Governments were forced to take important steps. Many measures of varying severity were proposed by economic experts. The emergence of the global financial crisis in scientific circles has raised the question of the viability of the capitalist economic system.

Among the most important features on which the philosophy of Islamic finance is based are:

1. *Tawheed*: The doctrine of the unification (of God), the Islamic concept of monotheism (i.e., the oneness of Allah). Believes that God is one (*Wahid*) and unique (*Ahad*).

2. *Risala*: The mission, the revelation, which carries Allah's Revelation in the form of a book (*Kitab*) as a guide for the people.

3. *Akhirah*: A concept for the future world and the belief that in the future world we will be questioned about all deeds, even those that relate to economic transactions, and how that affects life in this and the next world.

4. *Khilafah*: The role of man as God's viceroy on Earth.

5. *Tazkiyah*: Purification and economic growth.

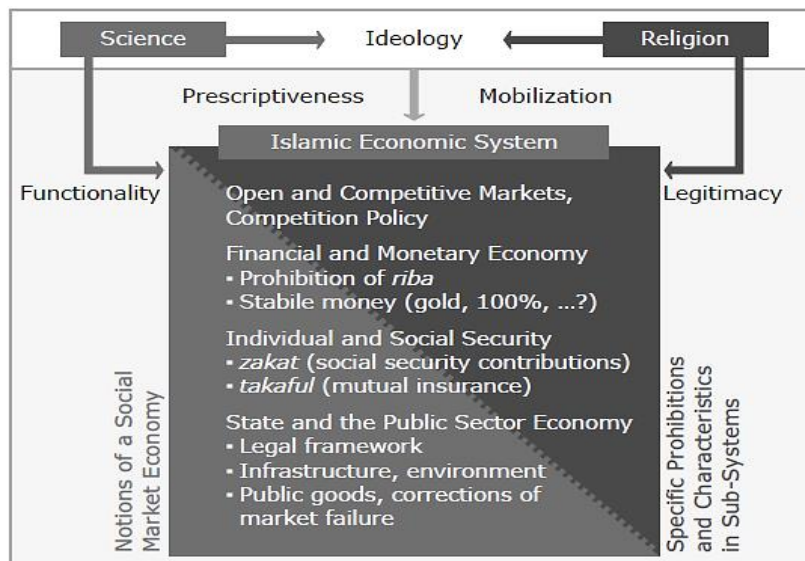
6. *Kafalah*: Social solidarity.

7. *Adalet*: Justice.

8. *Falah*: Economic prosperity needed to live according to the Islamic principles of this world, and in order to gain the *Akhirah*, a better world.

According to the above, every economic system, even the Islamic economic system, is based on some basic premises and values. The Islamic economic system relies on three factors of production: land, labor, and entrepreneurship.

Figure 1. Fundamentals of an Islamic economic system compared to the social market economy



Source: Nienhaus (2010).

This is the difference between the classical understanding of the factors of production: land, labor, capital, and entrepreneurship (Sukuk, 2008, p. 53). In Islam, capital and entrepreneurship are considered as one factor of production. The classical view links the notion of well-being to ownership over factors of production. Namely, each factor of production is owned by a person, and the wealth is divided according to the ownership: the land brings rent to the owner, labor — salary, capital — interest, and entrepreneurial activity — profit. According to the Rububiyah doctrine, everything is created by Allah and is primarily in his possession (belongs to him), so without his will, no factor of production can give any profit.

On the other hand, many authors view the conventional economy as value-neutral. By

choosing reason as the only instrument, conventional economists have chosen the fundamental principles on which the economic system operates. As a result, such a system is subject to change when the need arises. This process, deprived of any religious or moral values, is driven mainly by cupidity, greed, and personal interest.

Unlike the conventional system, there is a system of prohibitions in the teaching of the Islamic financial system among which the most important is the prohibition of *Riba* (interest), but there are also a number of incentives, as follows:

- risk sharing;
- entrepreneurship;
- respect of property rights;
- transparency and accountability;
- sanctity of contractual obligations.

Table 1. The basic differences between capitalist and Islamic economics

<i>Capitalist economics</i>	<i>Islamic economics</i>
What predominantly attracts customers	
Money	Life as determined by God in all monotheistic religions (Judaism, Christianity, Islam)
What defines the essence	
Using money to create money for and by those who own money	Engaging all available resources to meet the needs of all, without exception
Types of banks	
Big, mega banks	Small and medium
Ownership	
Depersonalized, with the shareholder role missing in most cases	Personalized, with a significant role of shareholders
Financial capital	
Global	Local/national
Purpose of investment	
To maximize private profit and well-being	To increase production and community well-being
Mechanism of coordination	
Central planning by mega-corporations	Self-organized market within the community
Cooperation	
Between competitors, to avoid competition discipline and sometimes regulation	Between people and the community, to improve the common good for all
Purpose of competition	
To eliminate the unprepared from the market and overtake it	To encourage efficiency and innovation
Role of the State	
To protect the property of the owners	To protect the interest of the citizens
Trade	
Free, but in the interest of the mega-corporations	Free, fair, and balanced
Political orientation	
Elite democracy of money ("greed is good")	Populist, people's democracy

Source: Customized according to Milenković and Milenković (2016).

4.2. Homo economicus vs. homo Islamicus

The basic teachings of Islam are completely different from the secular philosophies of capitalism and socialism. Islamic teaching aims to create a balance between the material and spiritual needs of man, on the one hand, and the interests of the individual and the social community, on the other. As we have emphasized in the previous lines, there is essentially nothing wrong or illicit in the fact that the individual aspires to achieve (realize) their own interest, but there must be a clear mechanism that will not allow them to step over the permitted limit and to not endanger the rights of others (Vlajčić, 2011).

Socialism relies entirely on the government as a collective governing body that has the task to ensure balance in the social community. However, it is obvious that the government failed to create a better society. Capitalism, on the other hand, as a secular environment, considers that the system of market economy, with small interventions by the state government, is sufficient for the required balance in society. Riots, protests, economic fluctuations, and financial crises, indicate the need for a greater role of the government in the economy of a country. However, the economic problem remains unresolved, so the essential question arises whether the problem is in the relationship between the public and the private sector or whether the human factor plays a key role in these two sectors.

4.3. Interest ban

Riba (interest) is any yield, reward, or compensation charged by the loan agreement, as well as a reward for debt rescheduling. Paying and receiving *Riba* is

strictly forbidden in Islam. In the context of such confirmation, the Qur'an says: "But those who take usury will rise up on the Day of Resurrection like someone tormented by Satan's touch. That is because they say, 'Trade and usury are the same', but God has allowed trade and forbidden usury. Whoever, on receiving God's warning, stops taking usury may keep his past gains — God will be his judge — but whoever goes back to usury will be an inhabitant of the Fire, there to remain" (Al-Baqarah: 275).

There is a generally accepted consensus among Islamic jurists that *Riba* also covers the collection of any positive interest, fixed and pre-defined, in the form of a yield rate that is guaranteed regardless of the performance of the investment. In this way, efforts are made to prevent injustice, according to which all risk is transferred to the debtor which is contrary to the teachings of the Qur'an, that is contrary to the principles of Islamic finance, according to which only a combination of human labor and capital brings rewards. According to Islamic teaching, profits must not be fixed and guaranteed in advance (Nuredini, 2021).

They should depend on the earnings realized with the investment. Islamic finance eliminates capital investment gains without entrepreneurial risk.

4.4. The concept of Islamic justice

Islam as a religion clearly defines the way a believer behaves in various aspects of their life. The teaching of Islam contains clear instructions and commands.

Table 2. The concept of Islamic justice

	<i>Islamic conception of justice</i>	<i>Modernist conception of justice</i>
Epistemological	<i>Wahi</i> (Revelation)	Rationalism, empiricism
Ontological position	Mankind is the vicegerent of Allah: Abid, whose purpose is to submit to the divine will	Mankind is free to pursue any purpose which he wishes to be prime as long as he doesn't hurt the freedom of others, he is self-determined
Metaphysical position	The world is deception hereafter is real life, a testing ground whose accountability will be done in <i>Akhirah</i>	No empirical proof exists of a hereafter, day of judgment: present life is the only life for mankind to cherish
Teleological priority	Establishment of a religious order	Establishment of a secular and liberal order
Top priority	Establishment of a religious order	Establishment of a secular and liberal order
Lowest priority	Material prosperity	The welfare of the disabled and poor
Purpose of justice	Success in hereafter	Success in worldly life

Source: *Javaid and ul Hassan (2013)*.

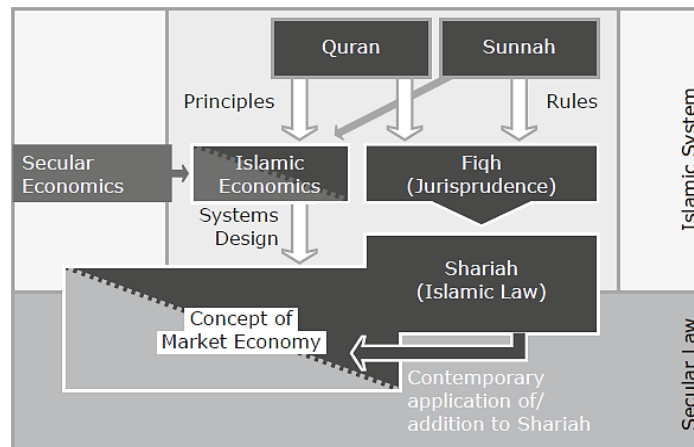
In today's conditions, the role and significance of the individual as a basic element of the private and public sectors, are often not sufficiently understood. Islam as a religion clearly defines the way a believer behaves in various aspects of their life (Hadžić, 2005, pp. 39–40). One of the important aspects of human life is the economic aspect. The purpose of Islam is to create a society of happy people who will worship Allah as the *Lord of the Worlds* and who will live in prosperity. Human happiness is composed not only of material values, but also of moral, ethical, and humanitarian values.

Islamic economics is based on the paradigm that has socio-economic justice as its primary goal

(Smolo, 2013, pp.19–34). Socioeconomic justice (*Adalet*) is on the pedestal of the Islamic system of values.

This position is quite logical, given that justice and fairness are the most important elements of the social community, because they are a prerequisite for the real success of any activity. The essential element of justice in a social community is the equality of all members of society. Both the poor and the rich, men and women, have absolutely equal rights, and the only feature that “divides” people is their character, their moral virtues, and their awareness of the knowledge of God (Vlajčić, 2011).

Figure 2. Fundamentals of an Islamic economic system compared to the social market economy



Source: *Nienhaus (2010)*.

4.5. Islamic social finance

Islamic social finance or “philanthropic” umbrella covers several types of charitable giving and funds in the Islamic finance space. Most prominent among these is *Zakat*, which refers to obligatory Islamic charitable giving; *Waqf*, synonymous with charitable endowments or donations; and *Qard al-Hasan*, which are essentially benevolent interest-free loans. The market for Islamic social finance remains largely untapped. Global *Waqf* endowments were estimated to have reached US\$410 billion in 2016, while *Zakat* was estimated to have reached US\$76 billion in 2018. Data further suggests that *Zakat* could peak as high as US\$356 billion if mechanisms are adequately improved to enable Muslims to safely and properly fulfil these obligations (Salaam Gateway, 2020).

Islamic finance CSR funds comprise charitable funds distributed by IFIs across the world. Overall in

2019, US\$1.2 billion was disbursed by IFIs through Islamic CSR funds, a staggering 81.5% surge over the US\$639 million distributed during the previous year. It also marked a landmark moment as the first year wherein Islamic CSR funds crossed the US\$1.1 billion mark. Of these, *Zakat* and charity funds accounted for US\$1 billion, while *Qard al-Hasan* funds comprised the remaining US\$129 million (Refinitiv & ICD, 2020).

4.6. Corporate social responsibility (CSR)

Corporate social responsibility is a self-regulating business model that helps a company be socially accountable — to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called “corporate citizenship”, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental (Fernando, 2022). To engage in

CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them. Corporate social responsibility is defined by the World Business Council for Sustainable Development (WBCSD) as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. The WBCSD define CSR as the commitment of business to contribute to sustainable economic development — working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development (Peck, Jassey, & Johansson, 2005). Corporate social responsibility aligns its values and behavior with the expectations and needs of all its stakeholders, not just the customers and investors, but also

employees, suppliers, communities, regulators and society as a whole. CSR describes a company's suppliers, communities, regulators and society as a whole. CSR describes a company's commitment to be accountable to its stakeholders, manage managing and improve its impact on the economy, the environment, and society (Ahmad, Taiba, Kazmi, & Ali, 2015).

Social responsibility refers to obligations that an organization has to protect and contribute to the society in which it functions (Koleva, 2021). Carroll (1999) suggests that all firms strive to balance their economic, legal, ethical, and discretionary responsibilities in order to meet their social obligations. Quazi and O'Brien (2000), on the other hand, consider CSR actions within a two-dimensional model that positioned such actions in terms of whether their strategic motivation is altruistic or corporate.

Figure 3. Carroll's CSR pyramid explained



Source: Carroll (2016).

The concept of brotherhood and social justice gives rise to social responsibility (Naqvi, 1981) by sharing prosperity for society's progress (Hassan, 2002). Therefore, CSR is considered crucial for Islamic business organizations (IBO). The principle of social justice is the bedrock of Islam, which deters Muslims from doing harm (Qur'an, 16:90; Yusoff, 2002). The Islamic concept of CSR is a holistic approach. It is a spiritual view derived from the teachings of the Qur'an and Sunnah. The Islamic approach to CSR is based upon philosophical foundations in which man interacts with nature and other human beings in the light of divine principles of Shariah. In the light of Shariah, a religious attachment plays a significant role as compared to the social contract. The religious obligations require a man to submit himself and spend his life keeping high moral realization given by the Shariah. Therefore, Shariah is a foundational basis for understanding CSR in Islam (Ahmad et al., 2015). CSR is a long-known concept that deals with corporate responsibility for the internal environment and external environment. While Islamic philosophy is rich in precepts pertinent to CSR, these precepts have not yet been formally synthesized to present a systematic model with

an explicit notion of CSR in Islam. Thus, there exists a gap in both Western and Islamic literature (Mohammed, 2007). There have been many Western concepts explaining CSR in various industries, such as services, manufacturing, and banking. Islamic and conventional banking is an institution that is synonymous with ethics (known as a cooperative bank, or charity bank) and has unequal values and aspirations. They have operated by building different philosophies and environments. Based on Western literature, CSR emphasizes four dimensions: environment, human resources, philanthropy, and human rights (Dusuki, 2011).

5. DISCUSSION

The global economic crisis, which began with the disruption of the US real estate market in 2007, led 2008 to major problems in the functioning of financial institutions around the world. But the consequences of the recent global financial crisis have questioned the economic institutions with a thousand-year tradition, for which in this period the scientific community rightly asked the question of whether the Islamic concept of financing could be effective in preventing economic crises.

After the onset of the global economic crisis, the Western world increasingly sought to introduce moral and ethical principles into the conventional economy. The analysis of the reasons that led to the onset of the economic crisis shows the tendency to conceal what is the essence of the onset of the crisis, and that is actually a crisis of morality.

Today, the key ethical debate regarding capitalism concerns whether it is fundamentally ethical or unethical. One view holds that capitalism is fundamentally unethical. Critics have argued that capitalism has an inherent tendency to generate great wealth for some people while leaving others much less well-off. Critics also point to the particular unethical behaviours that private enterprise, and in particular the profit motive, tends to produce.

As a result of this situation, the question rightly arose whether the Islamic concept of financing could be effective in preventing economic crises. Prominent scientists of Islamic economics, Chapra and Siddiqui (as cited in Vlačić, 2011, p. 99), believe that the underlying problem of the global financial crisis lies in the collapse of the economy's interest-bearing system. According to them, the situation was further aggravated by the extended expansion of interest-bearing loans due to excessive liquidity and reckless lending of money by banks, based on interest, to citizens with poor creditworthiness and who were not able to repay the debt. Chapra (as cited in Vlačić, 2011) says there are many reasons that led to the global financial crisis. According to him, the view is generally accepted that the main reason, however, is excessive and unreasonable lending by banks.

In conditions of capitalist philosophy, one cannot blame the banks because, like all other economic entities, they aspire to increase their profits in a materialistic and cultural environment where maximizing income and wealth is considered the highest measure of human success. According to conventional logic, the more loans issued, the more profit.

However, excessive lending leads to unsustainable growth in asset prices mediated by an artificial increase in consumption and speculative investment. To prevent new crises from occurring, Chapra (2014) highlights three factors that, through combined influence, can help prevent a recurrence of crises. The first factor is the moral limits of greed for greater profit and gain. The second is market discipline and the third factor is reforming the structure of the system by strengthening regulation and proper supervision.

It is worth noting that, business and capitalism as conducted have evolved primarily from European origins, and profits are measured against Western standards like the US dollar, the ethics that emerge from them are also beholden primarily (but not exclusively) to Western conceptions of behavior. The challenge for business leaders everywhere is to draw out the values of local cultures and integrate the best of those into their management models. The opportunities for doing so are enormous given the growing impact of China, India, Russia, and Brazil in global commerce. The cultures of these countries will affect the dominant business model, possibly even defining new ethical standards.

The thing that is being asked and refers to morals and ethics in general as an economic thought

primarily refers to the behavior of economic entities, motivated by their economic interests and their influence in the social community. In the context of this thesis, an answer should be sought on whether there is a need to limit the behavior of the economic entities, how that can be done, and what institutional solution can be offered as an alternative.

6. CONCLUSION

Undoubtedly, the general conclusion of this paper is that doing business without moral criteria and economics without ethical principles cannot provide permanent, meaningful, and stable results. The absence of moral values in any segment of business contributes directly or indirectly to increased costs, and loss of profit and thus reduces the competitiveness of the state which undermines its economic indicators. The existence of business ethics is a very important factor that should be present in all segments of society. The very incorporation of morality and ethics into economic thought determines the fact that economics cannot be considered a neutral value science, but on the contrary, a science that contains moral and ethical values.

This new business ethic is particularly concerned with highlighting the place and importance of economics for the quality of human life.

Today, we are talking about a form of social equality, respect of the person and the interests of the other as an expression of the modern spirit of general connection of people in the world, about the development of mutual trust in action. As an illustration, according to the newly inaugurated ethical value "trust", especially important for modern economic relations, "trust exists when in a community the system of moral values is shared in such a way that creates an expectation for correct and honest behavior" (Fukuyama, 2000, p. 40).

Today, the key ethical debate regarding capitalism concerns whether it is fundamentally ethical or unethical. One view holds that capitalism is fundamentally unethical. Critics have argued that capitalism has an inherent tendency to generate great wealth for some people while leaving others much less well-off.

Another view holds that capitalism is generally ethically good. Proponents of this view point out that capitalism is driven by free choices (e.g., what kind of work to do, what kinds of things to buy), and the ability to make free choices is good. They also point out that capitalism has a very strong tendency to generate wealth and increase human well-being. But sometimes, those who argue in favour of capitalism argue on the basis of how capitalism ideally "ought" to work, in a perfect world, and ignore or minimize the way the system works in the real world.

The basic teachings of Islam are completely different from the secular philosophies of capitalism and socialism. Islamic teaching aims to create a balance between the material and spiritual needs of man on the one hand and the interests of the individual and the social community on the other. As we have emphasized in the previous lines, there is essentially nothing wrong or illicit in the fact that the individual aspires to achieve (realize) their own interest, but there must be a clear

mechanism that will not allow them to step over the permitted limit and to not endanger the rights of others.

Unlike the classical economic doctrine where greed and hedonism are the basis for the functioning of a market economy, the Islamic financial system aspires to an even distribution of social and moral dimensions to ensure the general well-being of society.

Socialism relies entirely on the government as a collective governing body that has the task to ensure balance in the social community. However, it is obvious that the government failed to create a better society. Capitalism, on the other hand, as a secular environment, considers that the system of market economy, with small interventions by the state government, is sufficient for the required balance in society. Riots, protests, economic fluctuations, and financial crises, indicate the need for a greater role of the government in the economy of a country.

The purpose of Islam is to create a society of happy people who will worship Allah as the Lord of the Worlds and who will live in well-being. Human happiness is composed not only of material values, but also of moral, ethical, and humanitarian values. Private property and market competition are institutes supported by Islam and the religious rules of everyday conduct established by Sharia. Islam clearly directs the person on which path to follow and in Islam, the middle path, the so-called "golden mean", is represented. In order to respect such goals, the Islamic-oriented person, through their behavior and their actions and deeds, will be clearly different from the man who lives and works in conventional conditions.

Islamic economics is based on the paradigm that has socio-economic justice as its primary goal. Socioeconomic justice (*Adalet*) is on the pedestal of the Islamic system of values. This position is quite logical, given that justice and fairness are the most important element of the social community because

they are a prerequisite for the real success of any activity. The essential element of justice in a social community is the equality of all members of society. Both the poor and the rich, men and women, have absolutely equal rights, and the only feature that "divides" people is their character, their moral virtues, and their awareness of the knowledge of God.

The COVID-19 crisis has shown that companies that invest in boosting their long-term vitality are more likely to overcome problems. In fact, the pandemic accelerated the shift to an inclusive model of corporate capitalism.

Finally, the essential question posed by Fromm (1981) should be quoted: "Where are we today?"

Saying that: "Capitalism and vulgar, deformed socialism have brought man to the point where he is in danger of becoming a dehumanized machine; he loses his mental health and is on the verge of complete self-destruction. Only with full awareness of our own situation and its dangers, and with a new vision of life in which human freedom, dignity, creativity, reason, justice and solidarity can be achieved, can we be saved from certain decay, from the loss of freedom or from destruction" (Fromm, 1981).

The limitation of our study is that it does not contain empirical data regarding the behaviour of business entities operating within the framework of the three economic systems, and the main paper is based on doctrinal analysis.

We expect the focus of future research to be directed toward the empirical analysis of the operations of large corporations that are present in the global market, especially in the conditions of today's energy crisis and in the conditions of inflationary trends at the global level. Particularly interesting and relevant would be the research regarding the behaviour of "capitalist corporations" vs. corporations that operate on the basis of Islamic principles.

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