

E-Commerce In Islamic Perspectives: The Theoretical Framework, Key Success Factor And Challenges For Islamic E-Commerce Business.

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ABSTRACT

Internet makes the physical world seems borderless. With Internet people could communicate, gather various information and doing business transactions in just few clicks away. People could buy commodity-like products and digital products simply from Internet, and get these products sent to their homes or them online. This era is called the E-Commerce era. A lot of conferences and seminars were held pertaining to the e-commerce but only a few brought up matters about e-commerce in the Islamic perspective. To fulfill this gap, the paper will highlight the framework of Islamic E-commerce stressing the key success factors to ensure the successful and the challenges that the Muslims would be facing.

Keywords

Islamic E-Commerce, Key Success Factors, Challenges.

1.0 INTRODUCTION

The world commerce industry was changed since December 21, 1994, when a joint press release, the University of Illinois at Urbana-Champaign and Netscape Communications Corporation¹ announced that they had reached an agreement that left Netscape free to market its products independent of the university, its collaborator. Less than 6 months later Netscape announced its first IPO (5 millions share at USD 28 per share). From that moment, the way we trade, communicate and do business changed, as the impact of the Internet on the business landscape could not be

avoided by any cooperation, executives or governments (Plant, 2, 2000).

As we can see that the changes are taking place rapidly in our daily life. You do not have to personally go to the hardware and supplies shops to buy materials required for building a dollhouse for your daughter. What you have to do is to switch on your computer with Internet connection. While connected to the Internet you are able to browse the online supermarkets and click on every single item that you want for the dollhouse construction in your virtual shopping cart. In a few days all the items ordered through the Internet will be delivered to your doorstep. What you must have is a debit/credit card number and a postal address. Does not E-commerce make your life easy and simple? This is what is happening to you inside your home and the impacts of e-commerce on the workplace are even numerous.

Joseph (2000) mentioned that the Internet provides access to an electronic global marketplace with millions of customers, operating on a 24/7/365 basis. The increasing availability of sophisticated Web tools allows companies to eliminate, re-engineer, and automate business practices, thereby providing a more cost effective, time-efficient manner of conducting business. In addition to these positive changes, some challenges arise. As the information technology profession continues to expand, more skilled personnel in the industry are needed, causing a work shortage crisis for many employers. In addition, "Cyber law" is still a relatively new discipline, with the legal ramifications of e-commerce still be explored (Joseph, 2000).

¹ Formerly known as Mosaic Communications

2.0 WHAT IS E-COMMERCE?

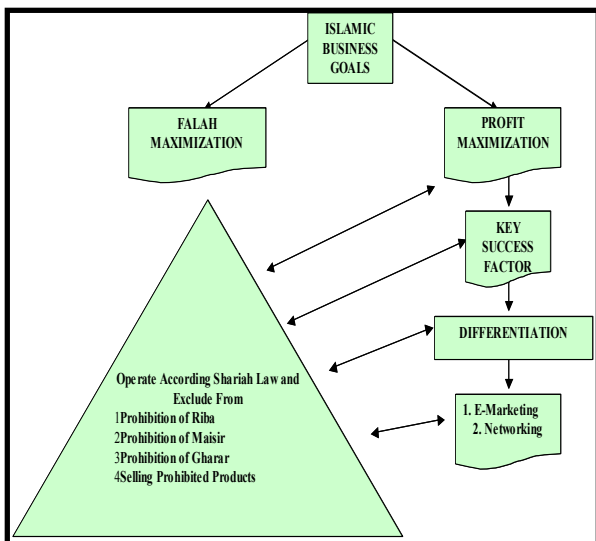
Internet or the new communications medium closes the gap in the physical world. With the existence of the Internet the world is actually borderless. People could buy shoes, spare-parts, and electrical appliances from the Internet and also could gather information and learn about other cultures, climates from the Internet. With the development of Internet, it did not only become a way of communicating or information gathering but also getting products to be sent to our home.

This era is called the E-Commerce era. The Organization for Economic Cooperation and Development (OECD) defines e-commerce as:

"Business occurring over networks which use non-proprietary protocols that are established through an open standard setting process such as the Internet ... the term 'business' broadly means all activity that generates value both within a firm (internally) and with suppliers and customers (externally). In this sense it would include internal networks (e.g., intranets) as well as networks that extend to a limited number of participants (e.g., extranets). Some of this activity may result in a monetary transaction and some will not". (OECD 1999, p. 28).

Joseph (2000) defines **E-Commerce** as the practice of buying and selling products and services over the Internet, utilizing technologies such as the Web, electronic data interchange, email, electronic fund transfers, and smart cards. Michael Dell (1999) says "The Internet is like a weapon sitting on a table, ready to be picked up by either you or your competitors" (Dell, 1999).

Other argues that E-Commerce does not have to be solely Internet based transaction but also could be derived from other means of communications such as telephone, fax, and telex. As for simplicity, we will define E-Commerce as doing business electronically, which could include gathering information,



communicating and trading with customers and suppliers electronically.

3.0 E-COMMERCE IN AN ISLAMIC PERSPECTIVE²

3.1 ISLAMIC BUSINESS

Islamic Businesses can be defined as business organizations, which operate it business under the Shariah law and exclude their operations from the following criteria:

- 3.1.1. Operations based on *riba* (interest) such as activities of commercial and merchant banks, finance companies.

"Allah will deprive usury of all blessing, but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked" (Al-Baqarah, 276)".

- 3.1.2. Operations involving Maisir³ (gambling)

"They ask thee concerning wine and gambling. Say: "In them is great sin, and some profit, for men; but the sin is greater than the profit." They ask thee how much they are to spend; Say: "What is beyond your needs." Thus doth Allah Make clear to you His Signs: In order that ye may consider" (Al Baqarah:219).

- 3.1.3. Activities involving the manufacture and/or sale of *haram* (forbidden) products such as liquor⁴, non-halal meats and pork.

² Note:

The diagram depict that generally Islamic E-Commerce have 2 distinct goals, which are Falah Maximization AND Profit Maximization. Both goals must move hand in hand to ensure success. This means that to acquire Profit Maximization, a company must adhere to Shariah directives that consist of prohibition of *riba*, *Gharar*, *Maisir* and of selling prohibited products.

³ Maisir has also been described as involving two parties in a combative game played for the sole purpose of winning at the expense of one's opponent. The gain accruing from such a game is unlawful, as is the act of playing it, for it diverts one's attention from productive occupation and virtuous conduct.

⁴ The Prophet (peace be on him) did not stop at prohibiting the drinking of alcohol, whether much or little, but he also forbade any trading in it, even with non-Muslims. It is not permissible for a

The Prophet (pbuh) said “Allah has prescribed certain obligations for you, so do not neglect them; He has defined certain limits, so do not transgress them; He has prohibited certain things, so do not do them; and He has kept silent concerning other things out of mercy for you and not because of forgetfulness, so do not ask questions concerning them”. (Reported by al-Darqutni and classified as hasan (good) by al-Nawawi.)

- 3.1.4. Operations containing element of *Gharar*⁵ (uncertainty) such as conventional insurance business.

Ibn Majah on the authority of 'Abu Hurayra (r.a)⁶ (translation of the version in Muslim) that “*The Prophet (pbuh)*⁷ *prohibited the pebble sale and the Gharar sale*”.

Yusuf Qardawi mentioned in his book entitled The Lawful and Prohibited in Islam, “Islam does not prohibit any trade except those which involve injustice, cheating, making exorbitant profits, or the promotion of something which is *haram*⁸” (Qardawi, 1960).

The goal of Islamic Business will be two fold; profit maximization and as well as welfare or *Falah*⁹ maximization. The Islamic business will consider the benefit of the whole society as well as the other priorities in the Islamic states (Awwal Sarkar, 1999).

In *Surah al-Baqarah 2:275*, the Qur'an clearly expresses that “*Allah hath permitted trade....*”¹⁰.

The revelation in the Qur'an is a clear authority that Allah has permitted trade as one of the approved means of how we could earn a living.

Muslim to import or export alcoholic beverages, or to own or work in a place which sells them. In connection with alcohol, the *Prophet (peace be on him) cursed ten categories of people saying: Truly, Allah has cursed khamr and has cursed the one who produces it, the one for whom it is produced, the one who drinks it, the one who serves it, the one who carries it, the one for whom it is carried, the one who sells it, the one who earns from the sale of it, the one who buys it, and the one for whom it is bought. (Reported by al-Tirmidhi and Ibn Majah, on reliable authority.)*

⁵ *Gharar* could be described as the lack of transparency in a given transaction.

⁶ *Radiy'allahu anhu* (Blessed upon him)

⁷ (pbuh) Peace Be Upon Him

⁸ *Haram* is prohibited by Allah

⁹ *Falah* mean success

¹⁰ The verse is revealed in the context of prohibition of *riba* or usury or interest and a denial to people who treated trade as the same as usury.

“O ye who believe! Eat not up your property among yourselves in vanities: But let there be amongst you Traffic and trade by mutual good-will: Nor kill (or destroy) yourselves: for verily Allah hath been to you Most Merciful!” (An Nisaa', Verse 29)

Not only trade activities were the major economic activities at present, they were also the main economic activities of our ancestors. The traditional way of doing trade however is changing rapidly with the introduction of Internet. Physically, Internet is nothing more than an unregulated network of computers mostly linked either by telephone lines, ISDN lines or broadband connections. It is different from our traditional way of doing business or trade. The Internet development is so rapid, and all businesses, conventional or Islamic, could not afford to be left out in order to be able to compete in the free market.

Therefore the Islamic businesses must take part in the Internet development to be at par with all other businesses. However, a lot of studies should be conducted in the E-commerce area to cater the Islamic businesses needs in order to ensure that they are in line with Shariah guidelines.

Hurriyah El Islamy, a lecturer at Cyberlaw Center, Faculty of Management Multimedia University Malaysia mentioned in her book entitled “e-Business. An Islamic Perspective” that there are three basic things that should be considered in Islamic E-commerce contract formation over the Internet despite the buyer, seller and the product. They are offer, acceptance and consideration (El-Islamy 2002). If all these things have been observed and implemented, E-commerce is permissible because the Shariah use *ibahah*, which is a presumption in Shariah of everything is permissible in the absence of specific Qur'anic injunctions.

The basic principle is that something, which is not forbidden, is deemed to be lawful based on the maxim “lawfulness is a recognized principle in all thing.” In other words, everything is presumed to be lawful, unless it is definitely prohibited by law (El-Islamy, 2002).

4.0 MAJOR CHALLENGE

Doing business according to Islamic perspective is not difficult since it promote justice for sellers and buyers and as long as it adhere to Islamic principles. However, avoiding from *Riba* and *Gharar* seems almost impossible for Islamic businesses since almost every transaction will directly or indirectly involve the *riba* elements. These are the major challenges that the

Islamic businesses have to encounter. The other two prohibitions such as Maisir and 'selling prohibited products' are normally adhered by the Islamic businesses. Even though Maisir and selling prohibited products are deviant for Islamic businesses, these two prohibitions should not be ignored completely. On the other hand the other two prohibitions should be managed by the Islamic businesses in order to achieve the goals or the objectives of the firms which are profit maximization and as well as welfare or Falah maximization.

Gharar and riba are the two prohibitions, which are ignored by Muslim businesses due to our own ignorance. Riba or in other word is also called interest or any addition from the lending process. It is predictable that Riba are widely spread in the business system in any company including Islamic businesses as the conventional financial system survives from it. This situation would encompass the problems that the Islamic business would be facing in avoiding the prohibition of Riba in order to uphold equitable economic justice principle.

Riba is clearly prohibited from the Qur'anic perspective; *"Those who devour usury will not stand except as stand one whom the Evil one by his touch Hath driven to madness. That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever)" (Al Baqarah: verse 275).*

The prohibition of interest is not only in Qur'an but also in the Torah and Bible. However, many Jews later interpreted the prohibition on usury as applying only loans made between Jew and Jew, not between Jew and Gentile.

The challenge for Islamic E-commerce in fighting riba would be choosing the payment and banking system which is Shariah compliance. This is important because the operational backbone of e-commerce is in its payment and banking system. In our present system, most of the domestic and international trades use the conventional financial system that are connoted and related to Riba.

So if Muslim entrepreneurs want to sell their products (especially in B2B e-commerce), they have to ensure that they do not involve in riba transactions in their deposits, financing and payment system. To avoid riba

at any cost, the Muslim businesses must ensure that they utilize the Islamic banking or Islamic financial system. The products, which are currently offered by the Islamic banks and Islamic windows, are competitive with product range covering from deposits, financing and other services.

Products such as Mudarabah¹¹, Musyarakah¹² and Murabaha¹³ are examples of the most common products of the Islamic banks and windows. The support from the Islamic banker to the Islamic commerce is inevitable and it is expected that the Islamic bankers provide facilities, which are at par with the conventional system in term of its services, range of products and reliability.

Since the introduction of the first Islamic Bank¹⁴ in 1983 in Malaysia, Muslims have the opportunity to avoid unscrupulous conventional financial system and use the Shariah compliance financial system. With this opportunity, the development of the E-Commerce must abide to the Shariah prohibition of interest and therefore the payment systems selected must also be of Shariah compliance.

The next challenge is to avoid the Gharar elements in buying and selling contracts. There are numerous Hadiths forbidding *Gharar* sales, and specific instances thereof. One commonly cited Hadith was narrated by Muslim, 'Ahmad, 'Abu Dawud, Al Tirmidhi, Al Nasa'i, Al Darami and 'Ibn Majah on the authority of 'Abu Hurayra (r.a)¹⁵ (translation of the version in Muslim) that *"The Prophet (pbuh¹⁶) prohibited the pebble sale and the Gharar sale"*.

The Shariah determined that in the interest of fair and transparent dealing in the contracts between the parties, any unjustified enrichment arises out of uncertainty or undefined of the essential pillars of contract is prohibited (Awwal Sakkar, 1999). According to *Ibn Taymiyah*, as quoted by Dr. Mohammad Hashim Kamali in his book *"Islamic Commercial Law"* pg.160, *Gharar* is present in all those business dealings in which "one party does not know what is in store for him at the end of a bargain" (Kamali, pg 160, 2002). El Gamal (2001) defines *Gharar* can best be translated as "trading in risk" (El Gamal, 2001). Yusof Al-Qardawi defines *Gharar* as selling something about which there is an obvious element of uncertainty, which may lead to dispute and conflict, or may result in the unjust appropriation of other people's money (Qardawi, 1960).

¹¹ Mudarabah is a profit and loss sharing scheme.

¹² Musyarakah is a partnership scheme

¹³ Murabaha is a mark up cost scheme

¹⁴ Bank Islam Malaysia Bhd

¹⁵ Radiyah'allahu anhu (Blessed upon him)

¹⁶ (pbuh) Peace Be Upon Him

El Gamal in his book *The late Shafi'e Ulama*, Professor Mustafa Al Zarqa' defined Gharar as the sale of probable items whose existence or characteristics are not certain, due to the risky nature, which makes the trade similar to gambling (El Gamal, 2001). If that is so, then undertaking anything blindly without sufficient knowledge or to risk oneself in a business venture without knowing exactly what will be the outcome or drawing up open-ended contracts could all, for example, be regarded as being Gharar (Ahmad Nordin, 2003).

The involvement in Gharar activities could be originated out of deception through ignorance by one or more parties to a contract. Gambling is also a form of Gharar because the gambler is ignorant of the result of the gamble. There are several types of Gharar, all of which are haram. The following are some examples:

- a. Selling goods that the seller is unable to deliver;
- b. Selling known or unknown goods against an unknown price, such as selling the contents of a sealed box;
- c. Selling goods without proper description, such as shop owner selling clothes with unspecified sizes;
- d. Selling goods without specifying the price, such as selling at the 'going price' ;
- e. Making a contract conditional on an unknown event, such as when my friend arrives if the time is not specified;
- f. Selling goods on the basis of false description; and
- g. Selling goods without allowing the buyer to properly examine the goods.

(Awwal Sarkar, 1999)

In order to avoid Gharar, the contracting parties must (i) ascertain that both the subject and prices of the sale exist, and are able to be delivered; (ii) specify the characteristics and amounts of the counter values; (iii) define the quantity, quality and date of future delivery, if any.

If these two prohibitions, Riba and Gharar, could be avoided along with the other two prohibitions, the Islamic businesses could achieve the one of the two goals, which is the Falah maximization. Another challenge that could be foreseen in Islamic e-commerce is to increase adult literacy among Muslims especially in the 57 OIC countries.¹⁷

Statistics of Adults Literacy in OIC Countries from 1994 - 1998

	N	Min	Max	Mean	Std. Deviation

¹⁷ OIC Organization of Islamic Conference

YEAR95	57	13.10	97.90	61.48	24.38
YEAR96	57	13.60	99.00	62.61	24.09
YEAR97	57	13.60	99.00	62.90	23.88
YEAR98	57	14.30	99.00	63.89	23.80
Valid N (listwise)	57			64.25	23.68

Statistic Data Source: Statistical, Economic, Social Research and Training Centre for Islamic Countries website (SESRTCIC)

One of the challenges in implementing e-commerce in OIC countries is the literacy among the population. Majority of the OIC countries are developing countries. This is one of the factors of why the literacy level is still low. There are quite a number of countries that has a very low score of literacy level. Based on the table above, we have made a simple statistics to show the level of literacy of 57 OIC countries population.

It could be seen that the trend goes upward in five years row from 1994 to 1998. This shows that the literacy level had increased over time. However, there is a big gap between the lowest and the highest scores. The mean score is approximately 61% in the year 1994. OIC countries especially those that have low score have to overcome the illiteracy problem. These countries have to put an effort to give more attention to the education of the population. This is because we cannot do business through the Internet with consumers who cannot read and write.

Since the challenge is the literacy among population, it is not that hard to implement the Business to Business (B2B) e-commerce rather than Business-to-Consumer (B2C) e-commerce. The Ministry of Trade and Industry of OIC countries might have to play major role to ensure that the B2B e-commerce could be implemented among them. Moreover, this type of e-commerce normally gives greater impact to the economic development of the countries.

5.0 KEY SUCCESS FACTORS OF THE ISLAMIC E-COMMERCE

Profit and Falah maximizations would be the goals of any Islamic business. The goals are comprehensive than the goals set up by the economists and the experts in finance. Islam does recognize profit maximization but it must be balanced with the well being of the society and the state. This true because when the business wants to maximize its profit and to be a successful business, there must be a coherent between the organization, society and the state. One of the criteria that could be identified as one of the key success factors is differentiation

without refuting the freedom of others to compete in a free market.

5.1 Differentiation

Islam encourages competition and promotes free market and we could see that Internet is not merely a network of computers but it has become a new platform of new free markets and war zones. If any company would like to succeed in the E-commerce industry, it is vitally important for the company to differentiate its products from other companies.

This is true when there would be thousands of website offering homogeneous products from all around the world. With the advent of the search engine in the Internet, customers could obtain information about any products available in any websites originated from all around the world. If everyone have the same opportunities to become a seller using website, it is important that a particular business distinguish its e-business apart from others such as products offered, service offered and the quality of services. Some of the businesses would try their very best to be as different as it could be and sometimes, they even become monopoly in order to safeguard their business position and consistency in market share.

Monopoly is not encouraged in Islam because it prevents the establishment of free market, therefore differentiating the products could be limited to differentiating in the features of the products, quality, and services provided to the customers. Monopoly is concentration of supply in one hand, where it leads to exploitation of consumers and the workers, which has been declared unlawful by the Holy Prophet (*pbuh*). Gigantic trusts, cartels and monopolies should not exist in the Islamic Society (Sahih Muslim, Book 10). However, differentiating by improving the product features, quality and services could stimulate a competitive free market and in return would benefit consumers and the economy as well. Differentiation could be done in many ways and one of the ways is in marketing strategy especially when dealing with the transformation of traditional marketing mix towards the e-marketing mix.

5.2 E-Marketing Mix

Transforming our traditional way of doing things into a new or modernized way would be destructive if it is not done appropriately. The same criteria should be applied if we want to change our traditional marketing mix to e-marketing mix especially when we have to adhere to the Shariah principles and guidelines. The best approach or

strategy that should be used to market the Islamic e-commerce is by using the marketing mix (4P's) concept. Below is a discussion on how the Islamic e-commerce marketing strategies could be applied to a real business or company.

Almost every company has to re-think its strategy due to the changes that the Internet brings. With the introduction of e-commerce in the business world, it helps the traditional organisations to create new value and reach high operational and financial excellence.

5.2.1. Product

A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need (Kotler, 1991). In an e-commerce marketing strategy it is important to remember that information is now its own viable product. Rayport and Sviokla (1994) stated that transactions where the actual product has been replaced by information about the product. In the physical world, a shopper who wants to buy something has to manually sift through the millions of choices and requires a shopper to travel to a store and inspect the products. In the Internet, consumers can search much more comprehensively and at virtually no cost. Indeed, pure navigators such as Yahoo has already become a major player in this business (Evans and Wurster, 1999). By selling through the Internet, companies can fulfil their customers' informational, transactional and service needs in a speedy and cost – efficient manner. For companies product innovations, direct assess to customers to collect information through Internet is faster and outstanding in fulfilling customer want or need. In adhering to the Islamic principles, the Islamic business must have the products a full information or description about the product and must have the ability to deliver the products. Furthermore investing in business activities that are considered prohibited in Islam are not something a Muslim should undertake. The Qur'an declares the pursuance of safe and high quality ideals is one aspect of actualizing safe and reliable products and services for customers (Al-Qur'an 2:172,7, 7:160; 20:81; 2:168; 5:88; 8:69; 16:114; 23:51; 5:5; 7:157)

5.2.2 Place

For most companies the place aspect of the marketing mix involve marketing channels. Marketing channels can be defined as interdependent organisations involved in the process of making a product or service available for use or consumption (Kotler, 1991). Due to the size of its marketplace, the Internet will have the most profound effect on place in the marketing mix. E-

commerce puts the purchase decision anywhere that connection to the Internet exists. Klein and Quelch (1996) stated that the global reach of the Internet will create a larger marketplace and a strong growth of a network's utility.

In addition it will bypass the retailer as the computer manufacturers such as Dell and Gateway 2000 have done. Prior to the arrival of the Internet, Moriarty and Moran (1990) stated that the exploitation of new electronic technologies will offer new, more customer-oriented, entrepreneurial approaches to marketing channels. For example IBM, which over the years has moved from a single channel based around its own sales force, to being a hybrid operation involving dealers, value-added resellers, a catalogue selling operation, direct mail and tele-marketing. It is critical to develop a large customer base in e-commerce.

Rayport and Sviokla (1994) describe the place of e-commerce in terms of two aspects: context in which the transaction occurs (e.g. an electronic on-screen auction replaces a face-to-face auction) and the infrastructure that enables the transactions to occur (e.g. computers and communication lines replace car lots). Rayport and Sviokla (1994) claim that customer loyalty must be first gained in the context dimension. The first mover advantage is very important because Internet standards could make the competitive advantages of a particular context difficult to sustain. By their very nature, standards will allow organisations to duplicate the design and features of competitors' Web sites.

According to Islamic principles, distribution channels are not supposed to create a burden to the final customer, in terms of higher prices and delay. Ethical lapses in distribution channels as those which cause unnecessary delays in their delivery, compelling customers to return repeatedly and thus causing them unnecessary inconveniences (Al-Ukhuwa, 1938, pp.44, 48). As the Islamic business operates in accordance with Shariah principles, it will phase out uncertainty in reaching the customers. The business will be more dependent on direct marketing, less involvement of agents and will utilize the Internet to reach the customers.

5.2.3 Price

Price is the only element of the e-marketing mix to generate revenues. Furthermore, price is one of the key elements in a winning e-marketing mix. Without having a competitive pricing strategy, it can easily lead the business to an undesirable situation. The success of the pricing strategy is depending on the businesses pricing objectives and the pricing approaches. For instance,

firms could apply one of the pricing strategies which are mentioned below.

As the company objective to maximize short-term profits, it tries to squeeze as much money out of sales of the product as possible, even though fewer customers may make a purchase. This is when businesses are offering a new or innovative product and initially charge a higher price (skimming price) because the early adopters aren't very price sensitive. Furthermore, the business will lower the prices to "skim" off the next layer of buyers and ultimately the price will drop as the product matures and competitors offer lower price.

The Internet gives many buyers new tools for comparing price offerings, furnishing consumers with new buying power, cost reduction, which companies expected in turn to push down prices. The businesses aim to gain market share by introducing a low price (penetration) strategy. Businesses try to maximize the number of subscribers to the online business and be able to penetrate quickly into the mass market. A low market price discourages competitors from entering the market, and is the best approach when many customers are price sensitive.

Islam prohibits marketers from practicing price discrimination between bargain hunters (Mumakis) and non-bargain hunters (Mustarsil) by selling the same merchandise to them for different prices (Ahmad, 1995). Even though the application of direct marketing (online marketing) used by marketers, all unethical lapses in pricing are similar to injustice (Dhulm) and are sin. Hence, all profits earned through such unjustified prices are not only unethical, they infringe upon the unique status of man/woman and his/her role and responsibilities as viewed under the Islamic framework.

In promoting products or services via Internet, firms must avoid a misleading advertisement, which leads to the uncertainty in terms of message to the potential customers. It is unethical for the firms to over-praise their products and attribute to them qualities that they do not possess (Al-Ukhuwa, 1938, pp.23). According to Islam, the promotional techniques must not use sexual appeal, emotional appeal, fear appeal, false testimonies, and false research appeal, whereby these methods are purely to exploit the basic instinct of consumers worldwide with a view to gain profits and greater market share.

5.3 Networking

It is imperative that small and medium businesses strategize on their networking to ensure that the company is able to progress accordingly. In this case it

is assumed that the Islamic businesses are small-scale operators and fall into the small and medium industry. This is also accordance to the view of encouraging competition among businesses and discouraging monopolies in Islamic perspective. Therefore the focus of one of the key success factor of the Islamic E-Commerce is networking.

There is an important relationship between a company's competitive strategies and their importance to company's resources in a network. Most e-commerce firms usually have few employees and possesses only limited resources, intensive networking improves their access to information, capital, personnel, raw materials or merchandise, customers, facilities and may provide trappings of legitimacy (Star & MacMillian, 1990)

But what is a network? A network is the conceptual or graphical representation of a set of individuals or organizations and the relation linking them (Knock & Kuklinski, 1982), networking means establishing and maintaining such relations.

Research on small businesses social networks and their effects on company performance generally have defined networks as those individuals who are linked directly to the entrepreneur, to the exclusion of people linked only indirectly. (Sandberg & Logan, 1997)

It is also important to note that all the networking that a company has is actually not effective if it is not properly classified and defined. As further added by Sandberg & Logan, examining the composition or size of an entrepreneur's networks, without differentiating among their users or purposes, overlooks the value of the resources they provide.

A research was done by Sandberg & Logan (1997), whereby they focus on the network's importance as sources of various resources rather than on their composition and size. They have listed the resources of critical importance to new and small business into six categories. Following excerpts by the researchers in these categories are similar elements from in an Islamic perspective

Network can be done with the customers and suppliers via electronic group. The group will be established and moderated by the company with a full-time employee maintaining the group as well as the website. Through this group customers could be contacted and their details could be maintained systematically. The moderator will invite potential customers to subscribe to this group and they only have to reply to be subscribed. All the information pertaining to the company and products and

services offered by the company will be posted to them over time. Customers could also use this e-group platform to discuss among them matters pertaining to the products and services.

5.3.1. Information

Information on markets, competitors, technologies and other related matters are important for entrepreneurs in structuring their business strategies. The less experienced or knowledgeable entrepreneurs the more important this information is to them. This category is represented in Ostgaard and Birley (1994) by two variables, market information and competitor information.

As the saying goes, he who holds the most information is the most powerful. This is very true because we seek information to reduce uncertainty and to improve the decisions we make. In this instance the most important variables to look upon are competitors' and market information.

In an Islamic perspective, gathering information on competitors and market can be done easily because there are no boundaries in obtaining them. As is done conventionally, Islamic perspective of gathering information are done by way of questionnaires, market surveys, observing the competitors' approach of doing things and much more.

5.3.2. Discussion and advice

Apart from information, discussion and advice on needs to be done in assessing the ideas. The entrepreneur's need for information often lies the need for a sounding board to assess his or her ideas and offer advice (Timmons, 1990). Sources of such feedback and advice may be varied (Greco, 1992). This category corresponds to that of "general advice" in Ostgaard and Birley (1994).

This aspect is another important factor in a network. In Islam, discussions or 'shurah' plays an important part because apart from being able to garner more ideas, the act itself bring forth barakah. There would be a person playing the part of a leader while the others are followers and they will discuss and give ideas and advice on issues at hand.

5.3.3. Capital Sources

Capital is a critical tangible resource for business ventures (Cooper et al.,1991)--hence the importance of the network that gives, invests, or lends capital for the venture. The entrepreneur who can neither personally meet the firm's capital needs nor obtain funds from formal sources may turn to informal investors, or angels

(Wetzel, 1987). In other cases the entrepreneur's family and friends may fill the breach, often at below-market rates. Ostgaard and Birley's (1994) variables included "assistance in obtaining business loans or investors."

Capital is needed to start a business in Islam because without capital a company would not be able to operate. The network that a company has in obtaining capital is crucial so as to enable it to continue with its operations.

The sources of capital may be from our own savings or other informal sources for example family, relatives and/ or friends. These borrowings may or may not include profit when it is paid back to the lender

If the company is borrowing from formal lenders such as financial institutions, it must ensure that the loan applied are not the conventional kind but Islamic – getting loans without consorting with riba' is very important. Again, having a strong network in order to get capital would be advantageous as long as it adheres to the teachings of Islam.

5.3.4. Borrowing resources

Entrepreneurs often borrow tangible resources owned by others. Such borrowed resources as vehicles, office space, telephone lines and receptionists can convey essential credibility at little or no cost to the fledgling firm (Starr & MacMillan, 1990). Ostgaard and Birley (1994) did not include this variable.

Other resources that are borrowed must also conform to Islamic rules and regulations. A very new company without much capital sometimes has to borrow office space, telephone lines and so forth to accommodate its operations and having a good network to assist would be valuable.

In Islam when we borrow in kind it means that we have to use the resource borrowed diligently and return it to its owner in one piece. This entails trust between the two parties and understanding of how and when the resource should be returned.

5.3.5. Customers and referrals

Organizations and individuals may provide critical aid by becoming customers or helping the entrepreneur attract other customers. Although the organizations and individuals who provide this help may also be professional advisors, business acquaintances, investors or lenders, family, friends, suppliers or customers, in this context they are a social resource to the entrepreneur. Ostgaard and Birley (1994) included "contacts with new customers" and "advertising by word-of-mouth" to capture this aspect.

Having a network consisting of customers (be it organisations or individuals) who are capable in helping the company by introducing and recommending its products to other potential customers are advantageous.

The customers must make sure that the company it recommends has products that are of good quality, halal and are available and not just fabrication or have elements of uncertainty (Gharar). In the standpoint of the company, having good rapport with the customers would certainly help it to expand business through network. However, again it is very crucial that the company be transparent and refrain from promoting products or services that have elements of uncertainty or fabrication.

5.3.6. Suppliers and referrals.

Reasoning similar to the customer-and-referral resource applies to people or organizations that aid in establishing sources of supply for the venture. This category appears not to have been included by Ostgaard and Birley (1994).

This category is similar to customers and referrals whereby both parties (suppliers and company) networked must avoid elements that are prohibited by Islam.

From the categories above, Sandberg & Logan (1997) found that it is important for businesses to understand that:

1. An entrepreneur's "network" comprises multiple networks defined by the resources each provides. The entrepreneur who fails to make this distinction, directing energies toward developing an undifferentiated "network," is less likely to acquire critical resources than is one who targets their most effective sources.
2. Different resource-providing networks may play critical roles depending on the dictates of a venture's strategy; knowing which networked resources are most important in pursuing a particular competitive method enables the entrepreneur to target the networks most likely to provide them.
3. It is dangerous to over-rely on acquiring certain resources through networks. Very high importance of such a networked resource may indicate neglect of internal resources or of alternative means of achieving business aims.

Hence, this means that all of the categories involved in networking are very important depending on what kind of business an entrepreneur wants to delve into. These items may be viable if used hand in hand or it can prove

fruitful if one distinct category is pursued. However, again it is imperative not to rely too much on a certain network or networks in order to avoid getting ruined if the network backfired.

7.0 CONCLUSION

E-Commerce does have a place in Islamic perspective, however whenever it took place, certain requirements of the Shariah should be complied and adhered to. This is to ensure that the goals of the Islamic business, which is manifold; falah and profit maximization, could be achieved. By achieving these goals the Muslim can be successful in business and also in the days of hereafter. Falah maximization could be achieved by abiding to the Shariah and the four major prohibitions outlined are the prohibition of Riba, Maisir, and Gharar and of selling prohibited products such as pork and dogs. On the other hand, the profit maximization of the Islamic E-Commerce could be achieved by differentiating products, quality and services offered to the customers through e-marketing mix and networking. Further research should be conducted in these two areas and its relationship to the e-business key success factors. As far as E-Commerce is concern, it is permissible in Islamic perspective as long as it abides the Shariah guidelines. The Prophet (peace be on him), by his words and deeds, delineated the rules of trade, encouraging, indeed, urging the Muslims to engage in it. Among some of his sayings are the following: "An honest and trustworthy merchant will be with the martyrs on the Day of Resurrection." (Reported by Ibn Majah and al-Hakim, who classified it as "sound.") "An honest and trustworthy merchant will be with the prophets, the truthful, and the martyrs." (Reported by al-Hakim and al-Tirmidhi, with good transmitters.)

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