

ONLINE DROPSHIP FOR BUSINESS TRANSACTION IN MALAYSIA: VIEWS FROM MUSLIM SCHOLARS

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Nowadays, people are not only buying things in a traditional way but the advancement of technology has evolved and people buy products through online transaction. In Malaysia, the phenomenon of buying through online dropship agent becomes one of the popular ways of buying products. However, questions arise whether the transaction is in accordance to *Shariah* (Islamic Law) or the other way around. In practice, the dropship transaction uses agent as the seller of the product; where in fact the agent does not hold the product. The two important issues raised are the transaction itself whether it is considered as lawful or not; and the issue of uncertainty (*Gharar*). This study aims to explain the online dropship transaction from an Islamic perspective. Among the topics addressed in this paper are *Gharar* issues, transaction between the dropship agent, customer, and postage issues. Open ended questions were given to Muslim scholars in Malaysia and one interview with the dropship agent was conducted to support the findings. The results of this study show that the dropship transaction is considered valid from Islamic perspective as long as it is based on *Bai as-salam* concept. As the *Shariah* is being followed by both parties (dropship agent and buyer), than they will get the potential benefits from the business transaction because it makes them feel ease and satisfaction in conducting online business.

Keywords: Online Dropship, *Shariah*, *Gharar*, *Bai as-salam*

INTRODUCTION

In the globalization era, the improvement of internet has transformed the way people perform business from a traditional way to an online business environment. Internet has created a business revolution by providing customers new ways to do shopping which turned to be an online business (Xing, Grant, McKinnon, & Fernie, 2011). Online business becomes part of people's daily lives (Salifu, 2008) as such; people can purchase and sell various items through internet (Muhammad, Muhammad & Khalil, 2013). In Malaysia, the internet era began in 1995, and since then, it changes the lifestyles of individual and the way companies perform business (Mansoori, Liat, & Shan, 2012) and commerce (Muhammad, & Muhammad, 2013). The reason people access the internet is for information gathering, education, as a channel for communication and entertainment. Beside, internet becomes a source of income for people as it is one of the business and marketing tools that cannot be avoided. Internet also helps business people to get more customers and income. According to Ayub, Hamid, and Nawawi (2014), there are 17,723,000 internet users which consist of 61.7% of the Malaysian population in 2010. It shows that internet is becoming a necessity among Malaysians.

Many business transactions are done through online such as online banking, electronic government (e-government), online purchase and online dropship transaction (Sin Tan, Chong, & Lin, 2013). In online dropship transaction, the dropship agent takes ownership and controls over products from the product owner (Hagi & Wright, 2014). In this online transaction, a customer pays to a dropship agent for the item he/she wants to buy. The agent will pay certain amount to the owner of the product as being agreed by them. The details of the customers are also being sent to the owner and finally the owner will mail the product to the customer. Although the owner sends the product to the customer, the address (as states in the mail) will be the dropship agent's name. Through this system, the dropship agent will get fee or profit as token for selling the product on behalf of the owner (Islamweb, 2014).

In online dropship transaction, an agent promotes the owner's product through the digital picture. During the transaction, the physical product is not in the hand of the agent. The agent only deals on behalf of the owner through digital picture that is being advertised in his/her social network (Hazwan, 2014). The issue of the product being promoted by the agent can be queried as the physical product is not in the agent's hand during the transaction period. Generally, Islam always encourages trade and commerce (Abu-Tapanjeh, 2009). Although people do business through online, it should be conducted according to the *Shariah* and not to involve any forbidden (*Haram*) elements such as interest (*Riba*), uncertainty (*Gharar*). But as for the online dropship transaction case, the problem raises the issue of permissibility of such transaction though the agent does not have the product.

With regard to the said problem, this paper aims to provide an answer whether or not the transaction done through dropship is valid from Islamic perspective. In other words, this paper will examine the permissibility of dropship transaction from the *Shariah* perspective and by looking whether there is any *Gharar* issue in the transaction between the dropship agent and the customer. The outline of this paper consists of several sections which start with reviewing the related literature followed by the methodology. Then, results and discussion are presented. Finally, limitations of the study and the conclusion are the last two parts of this paper.

LITERATURE REVIEW

Online dropship transaction

As explained by Ghazali (2011), there is growing awareness among Muslim customers regarding online transaction pertaining to the *Shariah* issue. Muhammad et al. (2013) examined the acceptability of the online transaction from the context of *Shariah* (Islamic law) of contract and stated that as long as the online business transaction follows the general principles and essential requirements of *Shariah*, the transaction is allowed from the Islamic perspective.

The advancement of information technology and commerce has made the transaction of online business growing. Lots of benefits can be gained from online business. The online business is one way of doing business where buyers and seller are not affected by time, location or distance because it is convenient and time saving (Huseynov & Yildirim, 2014). Because of the benefits received, online business becomes one of the ways of doing business and becoming a dropship agent is one of the ways people involved in online business.

The term dropship means that the dropship agent physically do not see, pack or ship the product to the buyer and this activity is done by the owner of the product (Hazwan, 2014; Sarwat, 2013). According to Indonesian Syariah Advisory (2012), to become a dropship agent, the agent only needs to have internet access and promote the owner's product through online. In the dropship transaction, the agent sells product on behalf of the owner without physically holding the product. No capital is needed and the agent only needs to have a phone or computer and internet access to promote the owner's product through internet in the social media (Youderian, n.d.). In the dropship transaction, three parties are involved, i.e. the owner of the product, the dropship agent and the customer. There are five steps that describe the entire process (as shown in figure 1). Those are:

Step 1: Agreement between owner of the product and the dropship agent

The dropship transaction starts once the agent agreed to become the owner agent in promoting the owner's product (Lieber & Syverson, 2011). There should be an online discussion between the owner and the dropship agent. Once all the terms and condition being agreed, the agent officially becomes the dropship agent for the owner of the product. From time to time, the product owner sends the digital picture of the product to be promoted by the dropship agent.

Step 2: Product delivery

When the owner sends the digital picture, the owner also sends the details of the product such as size, material used and price. Once it is received, the agent will promote the product through social media such as WhatsApp, Facebook and Instagram (Hazwan, 2014). When the dropship agent promotes the product, the price includes the fees or profit for both of them (Sarwat, 2013).

Step 3: Dropship agent and customer transaction

If any customer is interested to buy the product, he/she will directly inform the dropship agent to check the availability of the product. The dropship agent will check with the owner, and once the product is available, dropship agent will inform the prospect customer. Once the customer agrees to buy the product, the dropship agent will send the payment details. The customer will pay the total amount including the postage cost to the dropship agent (Islamweb, 2014). Once the payment is done, the customer will send the payment details to the dropship agent.

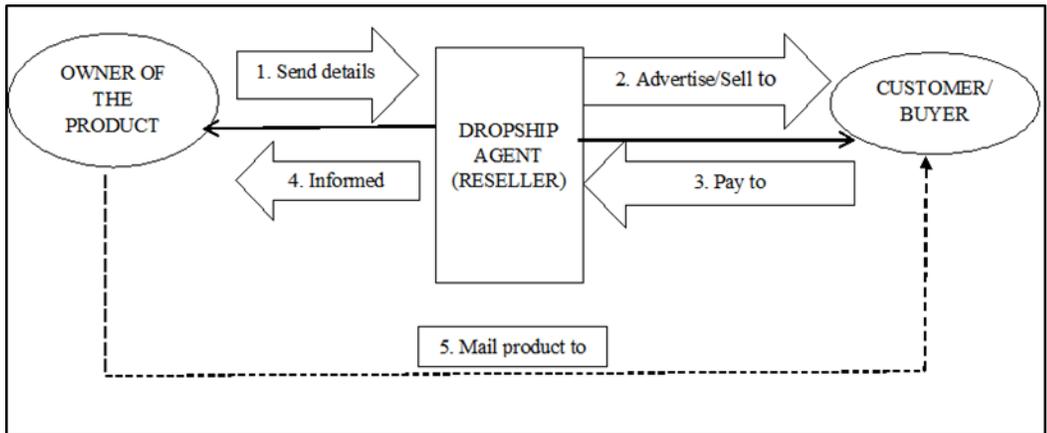
Step 4: Payment to the product owner

The dropship agent will pay to the product owner the amount that they have agreed (Indonesian Syariah Advisory, 2012). The agent also will send the details of the customer, i.e. name, address and phone number, to the owner for postage purposes.

Step 5: Packaging and postage

The owner will do the packaging process and then mail the product to the customer. Although the owner sends the product to the customer, the sender's name in the mail is the dropship agent's name (Youderian, n.d.).

Figure 1: Dropship Transaction Process



Through this system, the dropship agent will get fee or profit as token for selling the product on behalf of the owner. During the transaction, the physical product is not in the hand of the agent. The agent only deals on behalf of the owner through digital picture that sent to him/her.

Sales are related to the exchange of property for property as indicated in Al-Quran as Allah s.w.t says: “Allah has permitted trade and forbidden Riba” (Al-Quran, 2:275). From the Islamic perspective, the product sold by the businessperson must fulfill certain criteria that are lawful, valuable, in existence, deliverable and precisely determined for a contract to be considered as valid (Muhammad et al., 2013). The product must be presence and deliverable from one party to another. This means that, if the object or product does not exist and the seller is unable to deliver it, the transaction is considered as worthless and invalid. According to Hanafis, the elements of contract are only offer (*ijab*) and acceptance (*qabul*) which expressly represent the mutual consent of contracting parties (*‘aqidan*). According to Shafi’is, Malikis and Hanbalis schools of thought, the elements of contract are the *sighah* (*ijab and qabul*), the contracting parties and the subject matter of the contract (Nawawi, 1999). For online transaction, the business transaction must fulfill essential requirements of *Shariah* that are form, contracting parties and subject matter (Muhammad et al., 2013; Muhammad & Muhammad, 2013; Maisarah, 2015).

a. Form (offer and acceptance)

The term offer refers to the early offer made by a party in a contract (Muhammad et al., 2013). In the dropship transaction, the parties involve are the dropship agent and the customer. The

Muslim scholars agree that beside words, offer and acceptance also occur in a form of writing, telephone (Amin, 2008), fax and telex and body language of the contracting parties are accepted. Muhammad and Muhammad (2013) pointed out that both offer and acceptance should be connected, clear and conformity with one another. In dropship transaction, offer and acceptance (between the dropship agent and the buyer) are virtually presented. The offer and acceptance take place through chatting or other electronic communication such as computer or hand phone screen. Each party cannot hear or see each other physically.

b. Contracting parties (buyer and seller)

In any business transaction whether it is offline or online, it should have a buyer and a seller. No belongings should be taken from its owner without the concern of the owner. This concept is based on the Quranic verse "*O you who believe! Eat not up your property among yourself unjustly except it be a trade amongst you, by mutual consent*" (Al-Quran, 4:29). This shows that all transactions must be based on free willingness of parties involved. Contracting parties must be those who are legitimately allowed to engage into the business transaction (Muhammad et al., 2013).

For dropship transaction, the parties involved are the dropship agent and the customer. The dropship agent is considered the seller whereas the customer is the buyer. The dropship agent must have the consent to deal as the dropship agent who acts and offers digital product on behalf of the owner.

c. Subject matter (object and price)

For the transaction to be valid, the product that being offered must be legal, valuable, existing, deliverable and precisely determined, (Muhammad & Muhammad, 2013). The product sold by the seller should be permissible and lawful based on *Shariah*. Both the product and the price must be known to the seller and buyer. The buyer should be precisely identified and described the product and the price that they want to buy. The lack of knowledge in terms of object and non-existence of object will create risk (Paldi, 2014). If the object does not exist and the seller is incapable to deliver it, the transaction is consider as null and invalid (Muhammad et al., 2013).

In the dropship transaction, the object that is considered as the product sold by the agent is not in his/her hand. The agent only has the digital picture of the product including the description of the product and the price. The detail of the product is provided by the owner of the product. The owner will set the fee or commission for the efforts in promoting the product.

Gharar

One of the parameter underpinning the Islamic business transaction is where every transaction must be free from prohibited elements that are *usury (Riba)*, uncertainty (*Gharar*) and gambling (*maysir*) (Muhammad et al., 2013). *Gharar* originates from the Arabic verb *Gharra*, which means to deceive (Maajim, n.d.; Paldi, 2014). The term *Gharar* is being defined in various ways by scholars (Department of Islamic Development Malaysia, 2012; Nordin, Aziz, Ahmad, & Daud, 2014). The first group defines *Gharar* as doubt or uncertainty as to whether the transaction occurs or not (Al-Saati & Abduirahim, 2003; Amin 2008). The second group refers *Gharar* to the *jahalah* (ignorance) of the object and the third group refers *Gharar* as unknown and doubtful. Ahmad and Marhaini (2008) define *Gharar* as indeterminacy involved in transactions where the quality and the quantity of the commodity on sale are not predetermined and known. *Gharar* also referred to taking excessive risk (Muhammad & Muhammad, 2013; Muhammad et al., 2013). It also can be related to risks arising from lack of knowledge about the contract, i.e. object, price, and time of delivery (Paldi, 2014). *Gharar* is prohibited in Islam as it can generate loss. In a Hadith, the Prophet (s.a.w) prohibited the sale of *Gharar* (Mokhtar, Muhammad, Amboala, and E-Alam, 2013; Sahih Muslim, n.d.). From the economic viewpoint, *Gharar* transaction is considered as a zero-sum game with uncertain payment (Al-Suwailim, 1999).

In any transaction whether it is an offline or online, every single transaction (physical or virtual) is regarded as a contract (Paldi, 2014). This transaction should be clean and free from ambiguity and fulfil all the requirements underlined by the *Shariah* in order to be regarded as a valid contract (Maisarah, 2015). To avoid *Gharar*, both parties (buyer and dropship agent) are required to have adequate information of product in term of quality, size, material (Ghazali, 2011) and mode of delivery (Mokhtar et al., 2013). Product description and information should be clearly explained in order to prevent *Gharar* (uncertainty).

In the dropship transaction, it is necessary to avoid any contracting party which can mislead the other party. It requires sellers and dropship agents to clearly define the products that being offered. The image of the products must be displayed clearly with detailed of specifications prices, mode of delivery and payments (Maisarah, 2015). The dropship agent and the buyer should be able to exchange the message in order to achieve conformity in the contract that binds them together (Mokhtar et al., 2013; Ghazali, 2011). In dropship transaction, product describes with photo and text (details of the product) in term of material, size available, color and price.

Bai as-salam

As explained by Mokhtar et al. (2013), *Bai as-salam* is a form of forward contract, where the

price for a product is paid in cash on the spot at the time of the contract and the product will be delivered later (Muneeza, Nurul Atiqah Nik Yusuf, & Hassan, 2011). *Bai as-salam* also defined as the sale where the product is delivered at a future date in exchange for price to be paid immediately (Kaleem, & Abdul Wajid, 2009; Islamic bankers, 2008).

According to Muneeza et al. (2011), for *Bai as-salam* contract, there are essential conditions should be met by the seller and the buyer. Those are:

1. The buyer shall pay the price in full to the seller at the time of effecting the sale. Otherwise, it will be synonymous to a sale of debt against debt, which is expressly prohibited in *Shariah*.
2. The specifications (quality and quantity) of the product must be determined to avoid an ambiguity which could become a cause of dispute.
3. Date and place of delivery must be agreed upon but can be changed with mutual consent of the parties.
4. *Bai as-salam* can be effected for products which are homogenous and traded by counting, measuring or weighing according to usage and customs of trade. Other items such as precious stones, cattle heads and others cannot be sold through the contract of *Bai as-salam*, because every stone or individual animal is normally different from other items.
5. It is necessary that the product is expected to be available at the time of delivery.
6. *Bai as-salam* cannot be effected for product which must be delivered on spot.
7. In *Bai as-salam* transaction, the buyer cannot contractually bind the seller to buy-back the product that will be delivered by the seller to the buyer. However, after the delivery is made, the buyer and the seller can enter into a transaction of sale, independently, with their free will.
8. In *Bai as-salam* transactions, the buyer shall not, before taking ownership (actual or constructive) of the goods, sell or transfer ownership in the goods to any person.

In the dropship transaction, the transaction is related to *Bai as-salam* transaction, where the buyer pays the price in full to dropship agent once the buyer agreed to purchase the product (Islamweb, 2014). Once the payment is done, the agent will send the details of the customer, i.e. name, address and phone number, to the owner for postage purposes. The owner of the product will do the packaging process and then mail the product to the customer with the dropship agent's name in the mail (Indonesian Syariah Advisory, 2012; Youderian, n.d.).

METHODOLOGY

As the aim of this study is to find out the Islamic perspective regarding the online dropship

transaction by looking whether there is an element of *Gharar* or not, a case study approach was taken as it allows both theory testing and development (Kennedy & Coughlan, 2006). An online interview with a dropship agent that promotes an owner product was conducted. The reason in having an interview with the dropship agent is to get more details about the dropship transaction and to support the findings of this study. This method has been suggested (for research of this type) in high technology environment (Kennedy et al., 2006).

The study also conducted interviews with Muslim scholars in Malaysia. The interviews were being analyzed using the basic level and a descriptive of the data (of whatever the scholars said when the researchers asked them about Islamic perspective of the online dropship transaction's case). The population identified for this study consists of all Muslim scholars in Malaysia as this study needs respondents who have knowledge in *Shariah* (Islamic law). In Malaysia, there are 14 states of Religious Council. Based on the sample size table that developed by Krejcie and Morgan (1970), the number of respondents needed for the study is 14 Muslim scholars. For dropship transaction issues, the chosen respondents are the states' official Muslim scholars (*Mufti*) in Malaysia. The details of Muslim scholars from all states were found from the website of Department of Islamic Development Malaysia (E-Fatwa, 2015). Once the details have been found from the website, the information about the Muslim scholar's name, email address and telephone number being compiled in a spread sheet to make it easy for the researchers to contact the respondents.

Every interview consists of five questions. Question one asks about the transaction done by dropship agent either it is valid or not (as the product that being sold is not in the possession of a dropship agent. Question two is on the transaction between the agent and the customer as the agent promotes the product on behalf of the owner of the product. Question three is regarding the fees or profit received by the agent. Question four is related to the issues of sending the product to the customer where the product owner sends the product to the customer on behalf of the dropship agent. Finally, question five is an open question to know the opinions of the Muslim scholars about the issue of online dropship transaction in general.

The interview questions were distributed through email to 14 Muslim scholars. The Muslim scholars were called before the questionnaire being emailed to them as to make sure they receive the email and alert them about it. As a gentle reminder to the respondents, a follow-up call was made a week after the interview questions were being emailed.

After implementing the above procedure, only five scholars (out of 14) agreed and replied to the researcher calls and questions, making the return rate of 33.3 per cent. This response rate is considered acceptable as previous study regarding dropship only used supplier, reseller, and

buyers as respondents (Cahyaningsari & Hendratmi, 2014). In Malaysia, one of the functions of the Muslim scholars at the Religious Council is to lead research efforts on current issues in the field of Islamic law. Due to this, the feedback from the respondents can be accepted although only five scholars replied.

As for interviewing the dropship agent, this study used proxy to get more information about the dropship transaction and to support the findings. The dropship agent has involved in the dropship transaction for more than 18 months. The interviewed agent is a dropship agent in selling women clothes. The interview questions are on the following issues:

- i. The process in becoming the dropship agent. The process discussed in figure 1.
- ii. The fees that received by the agent. As stated by the agent, the fees (to be received by the agent) are based on the product owner's estimation as to have a healthy competition in the market. The agent also stated that, if every single agent sets his/her own fees, it will come up with unhealthy market competition.

RESULTS AND DISCUSSION

The validity of the dropship transaction is important in Islam. Any business transaction should follow the Islamic law. From the interviews with the Muslim scholars, the answers can be classified into three categories, i.e. those are product being sold, rules/standard or principles and fees imposed (as shown in Table 1)

Table 1: Categories of Interviews' Answers

Categories	Details
Product	Product specification, Proof of ownership to avoid <i>Gharar</i> .
Rules/Standard/principles	It should be based on (1) Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and (2) Contract law in Islam.
Fees impose	Imposed based on the effort, time and costs.

Product

The issue of *Gharar* is being discussed. For online transactions, there are four major concerns associated to *Gharar* i.e. that are the uncertainties over the products, pricing, delivery and deferment of delivery. According to the Muslim scholars in Malaysia, the product that to be

transferred must be owned before the seller can sell it. There must be a proof of ownership before the transfer of ownership can be done. In the process, there must be a clear indication of ownership taking place. If that did not happen, *Gharar* takes place. Due to this, in the dropship transaction between the dropship agent and the customer, the *fiqh* concept should be taken into consideration as *Shariah* prohibited someone from selling something that he/she did not own it yet. Two scholars stated that the agent act as a middle person (to promote the products on behalf of the product owner), and the issue of the product is not being in the hand of the agent, are not the primary concern. According to them, the main concerns are (1) the product owner gives the permission to the agent to act on his/her behalf, (2) there must be a clear indication of ownership taking place to avoid *Gharar* and (3) the product owner has stock of the product that is for sale and to be promoted by the dropship agent.

If the product (that is being sold by the dropship agent) is uncertain and ambiguous, then the transaction is considered as invalid because it did not fulfill the criteria of precisely determined but if the product is specific and no specification being mention such as the serial number, then the dropship agent can sell the product to a customer based on *Bai as-salam* transaction although (1) the product that being promoted is not in the hand of the dropship agent and (2) during the postage process, the owner is the one who sends the product to the customer. All scholars stated that the dropship transaction is valid from the Islamic perspective as long as the owner gives the authority to other party (e.g. the dropship agent) to promote, offer and sell the product to the customer. If the customer wants to buy the product, the customer can order and pay through dropship agent. After receiving payment from the dropship agent, the owner will send the product to the customer. As the owner of the product gives authority to the dropship agent to sell the product so the *Ijab* (offer) and *Qabul* (acceptance) have happened.

In this transaction, customer will pay for the product that he/she wants to buy, and accordingly the product will be sent to him/her in future. Once the dropship agent received the payment, the agent will pay the owner of the product. This is considered as the agent is buying the product on behalf of the customer. This is where the dropship agent gets 'wa'ad' (promise) from the buyer before the dropship agent can proceed with the order on behalf of the customer. Finally, the agent will instruct the owner of the product to send the product directly to the customer.

In general, for the dropship transaction to be valid, it requires the dropship agent to clearly state the product being offered, the image of the digital product must be clear and the details of the specification or measurement of the product being available to the customer. The agent should also provide the details of payment and mode of delivery to the customer.

Rules/ Standard/Principles

The respondents (i.e. Muslim scholars in Malaysia) emphasized that all parties involved in the dropship transaction (customer, dropship agent, and the product owner) must follow Islamic contract in buying and selling activities. The transaction done by the dropship agent is considered as *Bai as-salam* transaction. *Bai as-salam* transaction is business transaction that involves pre-order, where customer will pay the seller first and the delivery of the product is deferred. Based on Standard Accounting and Auditing Organisation for Islamic Institution (AAOIFI), a product that can be bought through *Bai as-salam* includes product that people can identified the specification of the product, no different between each units and the product, can be found in the market (AAOIFI, 2010).

Fee

Fee can be imposed based on the effort, time and costs incurred by the agent. “*Ujrah*” or fee is allowed in *Shariah*. Although fees are allowed to be imposed by the dropship agent, the amount charged should be reasonable. And as stated by the dropship agent that being interviewed in this study, the fee (received by the agent) is basically determined by the owner of the product. This is done due to have a healthy competition in the market and to act in a fair situation to all dropship agents. One scholar stated that all agents should sell the product based on a fixed price indicated by the product owner. This is also one of the ways to avoid different prices charged by dropship agents to customers. All scholars agreed that the agent has the right to make a profit for the efforts in promoting and selling a product.

In summary, the dropship transaction considers valid from Islamic perspective as long as all processes are clear and the Islamic contracts are being followed. Basically, the dropship transaction considers as business transaction that follows the *Bai as-salam* business transaction (as presented in Table 2). In explaining the process of dropship transaction the *wakalah* (agency) and *ju'alah* (fee) principles also can be considered.

Table 2: Details about *Bai as-salam*

No	Aspect	<i>Bai as-salam</i> transactions
1	Parties involved in transactions	In the transaction, the witness is not compulsory but strongly recommended to avoid any misunderstanding in future.
2	Medium of transactions	The business transaction is being conducted in an agreed way by all parties involved. The transaction can be in form of face to face or one party appoints his/her representative to act on behalf of him/her.

- | | | |
|---|------------------------------|--|
| 3 | Mode of payment and delivery | Either payment made in advance by the customer or product is delivered first before the payment is received. |
|---|------------------------------|--|

Source: Adopt from Mokhtar, Muhammad, Amboala, and E-Alam (2013).

LIMITATIONS

This study only focused on the dropship transaction and no discussion on other types of online business transactions such as online banking, e-tailing and others. In addition, the data collected in this study are from Malaysia, hence the research results may lack of generalization. Future study can be conducted on every single criterion in the business transaction.

CONCLUSION

For online parties, that are the buyer and the seller, it is easier for them to conduct the online business transaction. Generally, the online business concept is acceptable in Islam. For a transaction to be valid, it should comply with the *Shariah* (Islamic law). All transactions must fulfill the basic requirement of *Shariah* in relation to the following issues: (1) offer and acceptance (form), (2) the contracting parties who are the buyer, agent, and the seller, (3) the subject matter (object and price), and lastly (4) the payment method. The online dropship transaction should be free from the element of *Gharar*. Therefore, all parties involved (the seller, the agent, and the buyer) have to look at the whole process of the dropship transaction to ensure that the process of the online dropship transaction is clear and valid from the Islamic perspective.

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