Multi-Level Marketing from Islamic Perspectives

Mohd Shahril Ahmad Razimi, Abd Rahim Romle and Ummu Noor Habibah Yahya

Islamic Business School, School of Government, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia

Abstract: Multi-Level Marketing (MLM) has been one of the controversial businesses in this modern business. It is because there are some of MLM’s activities that give the bad impact to the practitioners due to the hidden strategy from the top management in this business. The real purpose from this business activities is to generate income especially for an individual which it can help them to add an extra income so that they can improve their standards of living.

Key words: Multi-Level Marketing • Islamic Business • Marketing

INTRODUCTION

Entrepreneurship is one of the economics strategy which always been a concern and changing along with the times. This is because economic in entrepreneurship not only contribute to the countries per capita income but also as a catalyst for change in social structure and society. The development of entrepreneurship and increase in entrepreneurs will affect to a positive economic growth and a strong support for economic development of a country. This is parallel in Islam which highly encourages business activities based on the hadith by Prophet Muhammad (S.A.W), business is nine out of the ten from the earnings in our life. So as Muslims, understanding and knowledge about business must be studied to make sure that business activity is in line with the Shariah.

Lately, Multi-Level Marketing (MLM) has been one of the controversial businesses in this modern business. It is because there are some of MLM’s activities that give the bad impact to the practitioners due to the hidden strategy from the top management in this business. The real purpose from this business activities is to generate income especially for an individual which it can help them to add an extra income so that they can improve their standards of living.

However, due to some negative elements and critics about the losses of money and cannot get return as promises by top management, it has raised a concerns among the public especially from the Islamic view about this matter. Many parties have given the view based on Shariah principles about the status of MLM business whether its Shariah compliance or not and also some guidance to differentiates between the actual Multi-Level Marketing and pyramid schemes activities. So that, people can has a better understanding about the actual MLM business and the business that hide behind MLM business.

Overview of Multi-level Marketing And Pyramid Schemes: As stated by [1] in his book, Multi-Level Marketing (MLM) was introduced in the United States (US) by Dr. Karl Ramburg at 1945. MLM business value exceeding USD100 billion and more than 40 million people around the world engaged in this business. Besides that, 20 percent of the 500 000 millionaires in the US involved in MLM business and 37 percent from 100 largest corporations activities was based on the MLM business. MLM business began to spread in Malaysia since 1976 through the promotion, distributing, and delivering the products to the consumers.

Multi-Level Marketing: Multi-Level Marketing (MLM) is an activities that included three or more levels that supply the product to practitioners of the MLM to be promoted to the consumers. Compensation is earned by practitioners in MLM based on the supply of the product to consumers whose participate or not participate in the MLM. A legitimate MLM activity will focuses on the supply of products rather than the recruitment of participants into MLM [2].

Corresponding Author: Mohd Shahril Ahmad Razimi, Islamic Business School, Universiti Utara Malaysia.
The products offered must have consumers' value and they are willing to purchase those products. New participants usually required to buy a distributor kit to start the business and the product must be sold at the seller’s cost and only for the purpose of facilitating sales. To prevent any manipulation from the top levels, any agreement that promises huge returns by appointing a new entrant must be avoided.

**Pyramid Schemes:** Pyramid schemes are absolutely different with the Multi-Level Marketing business. Their main income source is through the recruitment of a new member or participant. In this business plan, the products will be offered but it may have only a little value and the commission is very low compared to the MLM business plan because their income is derived primarily from the registration fees of new participants. In order to attract more members, pyramid schemes offer a huge wealth and financial securities to their participants.

The registration fees that pay by new participants may be described as an investment into a money-making enterprise, a membership fee, or an enrollment fee. And the upper levels will ask them to recruit new members so that they are able to earn any money. From this strategy, it has infinite recruitment and usually this scheme is unsustainable and eventually ruined. The upper level of the pyramid schemes may get a lot of money but the lower level of the pyramid schemes will lose their money.

**Problem Statement:** The previous studied by [2] found that the fastest growing in birth is the religion of Islam. This statement is supported by [3], the total of Muslims in 2014 was 2.08 billion which is increased by 1.84% from total population in 2013. While in Malaysia, the Muslim population is estimated at 60.4% than the other races such as Chinese, Indian, and others. So, due to the rapid increasing in Muslim population may lead to the increasing in business sector whereas this is the easy way for them to find an additional income in order to earn a living in an uncertainty economic situation.

[4] stated that MLM business is very famous in Malaysia to promote both financial instruments (unit trusts, takaful products) and consumer products (supplements, water filter). There are two Malaysian companies that currently been in the top global MLM companies which are DXN Holdings Bhd and Cosway Corp. However, due to some MLM companies that abused the MLM business concept lead to the negative perception towards many people whether MLM business is Shariah compliance or not.

So, it is very important for us to properly understand the fact of the concept of MLM business. We should not be too hasty to punish MLM business whether its *haram* or *halal* without goes through a detailed investigation or else there is a clear reason that showed it is *haram*. This is because there is some business concept that absolutely running a prohibited strategy such as pyramid scheme concept but there hide behind MLM business concept. That’s why most of the people have a negative perception about the MLM business. If the authority makes a clear clarification about this thing, the people out there will have the confidence to choose the MLM business that followed Shariah compliance and take the opportunity to involve in MLM business so that it will help them to increase the income and their living.

**Mlm From Islamic Perspective**

**Based In Quran’s Verse:** The original law of each muamalat is a must as long as there is no *dalil* and factors that forbid it transaction. Business is one of the activities that recommended in Islam to improve the socio economy status of the community. Even the Prophet Muhammad (S.A.W) himself is a brilliant trader. As a trader, basic principles in Islam should be implemented with the support of the values and avoid the elements such as ruse, gambling, and usury as had been stated in following verse:

> “O you who have believed, do not consume one another’s wealth unjustly but only (in lawful) business by mutual consent. And do not kill yourselves (or one another). Indeed, Allah is to you ever Merciful”. (Al-Nisa 4:29)

Based on the above verse, the system and concept of MLM is permissible as long as there are no factors that forbid it. Indeed, for judgment as illegitimate as some muamalat must necessarily base on the proposition. Therefore, as long as there is no *dalil* or *haram* factors, MLM business is consider as permissible in Islam.

**Based On Islamic Scholar’s Perspective:** The Fiqh Council committee was meeting in the 72nd Conference of the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia on 23 January 2006 to discuss about the status of Multi-Level Marketing (MLM) in Islam. From this conference, the committee agree that the regulations, concept, and structure of MLM approved by the government are permissible and not in contradiction to the Islamic business concept. While Jabatan Agama Islam Malaysia (JAKIM) in 2013 mentioned that, although
MLM is considered permissible but the equity among the transaction parties must be met the requirement of 15 parameters.

However, this is different with committee fatwa in Arab countries. There are several committees fatwa such as Saudi Arabia, Jordan, and Sudan that banned the MLM business. Based on Fatwa no. 22935, dated 3rd May 2004, they just concluded that MLM is the same with pyramid schemes which is the purpose of this business is to earn commission instead of selling the products. This is supported by Indonesian Fiqh Council which concluded in their fatwa that MLM business is haram if the MLM operates by accumulating funds from the public as capital for the business and promises fixed return every month [6].

There are four main reasons this business is banned in Arabic countries[7, 8]. Firstly, it consist riba al-fadl which involves an exchange of goods of the same type but of different quantity. Secondly, it consist gharar in the transactions because the success of the members does not depend on product sales but instead on the number of successful downlines recruited under him. Thirdly, it consist zulm which is the unlawful consumption of people’s wealth. And lastly, it consist deception which is the even though real reward is attributed only to the recruitment, some uplines use a tangible products as a alibi to convince more people that there is a legitimate business.

Fifteen (15) Parameters by JAKIM

Registered and licensed: The companies that want to start a Multi-Level Marketing business must be registered and get a licensed with Companies Commission of Malaysia (SSM).

Direct Selling In Written Form: JAKIM specified that membership should only be effected in writing and not based on verbal conversations in order to avoid any manipulation. The contract of the agreement must be understood and mutually agreed by both parties.

Cooling-off period: MLM member can quit from MLM company by giving at least ten business days prior notice after accepting the membership contract. After that, company has to return the membership fees and repurchase the unsold goods from ex-members.

Nominal Membership Fees: Membership fees must be reasonable to the public. It should involve administrative costs in enrolling a person to become a member and the costs of printing membership materials.

Intention Of Becoming A Consumer: The company must make it clear to differentiate between a public consumer and a member consumer.

Aqad In Direct Selling: The contractual terms must be clearly stipulated by MLM company.

Contractual Mutuality: Both MLM company and the members must have mutually consented to this business and the reward system. There must be no element of duress, undue influence, manipulation, concealment of information and the aqad must be executed at arm’s length.

Benefits Of Being Participant: Participants of MLM company should receive either a discount, commission based on product sales, and can become an independent business owner of the MLM products.

Product Criteria: The products offered must not a ribawi items and payment for and delivery of items is usually on spot basis.

Product Pricing: The prices of the MLM products must not be too expensive beyond what a reasonable price that people would expect. Prices may differ based on the types and quality of products and availability of after-sales services.

Reward System: The reward system can be in the form of commission, bonus, or other economic benefits agreed between the members and the MLM company and it must be based on product sales, not on recruitment.

Consultation With Shariah Advisory: To be certified as Shariah compliance, MLM company must have at least appointed two Muslim Shariah advisors who have at least a degree in Usual Fiqh or Muamalah and experience working relating to Islamic transactions.

Training Programmes: A good MLM company should invest in training all its members either new recruits or professional members. The training should be done regularly either free of charge or based on a nominal fees.

Return And Buy-back Policy: If the member is unable to sell the products within 6 months, the company must buy back the good and paying the member at least 90% of the amount.
Termination Policy: LM company should also set down clear procedures, terms and condition should the member decides to withdraw completely from the company.

Issue On Multi-level Marketing: The issues about the status of Multi-Level Marketing (MLM) arise when there are certain parties that abuse the concept of MLM business such pyramid schemes [7, 9]. As mention before, pyramid scheme plan is totally different with MLM plan. In a pyramid scheme, representatives are paid for recruiting new members not for selling products. No products are being moved because people are just earned money through recruiting. This is not permissible and any operation of this business strategy must be avoided by Muslims.

In MLM business, there would be no incentive whatsoever for simply signing new members as pyramid schemes. The only money that would be made would come from moving products once the person becomes involved. For example, a new member who signs up must pay RM150. For that RM150, he or she gets some literature and product sample. The incentive only will be earns when he or she takes the products and sell it to the consumers. No money is made when people are signed up. Money is made only when the person moves products.

Public’s Misunderstanding
Upline Earn Commissions From The Sales Of Downline: This is popular criticism against MLM because people out there seen MLM as form of persecution to the downline whose tried to sells the product, while the upline just waiting for the sales generated by downline. In fact, upline also played a role which is they trained the downline on how to promote the products, how to attract the consumers, and so on.

MLM’s Members Earn Profit and Income Without Spending a Capital and Less Effort: According to [10], this perception is due to the misperception from the public that fails to distinguish between the real MLM businesses with pyramid schemes that hide behind the MLM company. Actually, MLM members need to provide start-up capital and operating cost as well as make an effort to get a higher income even the capital and effort is usually much less than the issued capital.

The Possibility of Gambling in MLM Business: A successful or unsuccessful the risk of building a network by sponsoring new members or downline are still included in the acceptable risk-taking in business. A shariah issues may arise if the company not recruit new members to carry out genuine business through the marketing of the product, otherwise used for head hunting to earn commissions through the new recruitment. So, shariah issue is not caused by elements of gambling but because it was done as money game that taking other people’s property with haram’s way [7].

CONCLUSION

As conclusion, to overcome the public’s confusion regarding the Shariah issue of MLM company, the management of MLM company need to provide a report from their Shariah advisor about Shariah compliance assessment and make it easy to be accessed by public through the official website of any legitimate MLM company. So that the society especially Muslim who are concerned about the issue of halal or haram of MLM business can read, understand, evaluate and thus can avoid them from the doubtness of MLM business. This is expected can contributed to the direction of MLM industry which is not only profitable and productive, but also follow the concept of making a profit in an equitable manner and no to oppress others as Shariah guideline.

Moreover, hopefully those experts either from the MLM industry itself or even among Shariah experts in this field can read, understand, evaluate, or thus can give positive feedback and criticism. They are expected to help improve the formulations that have been made and fix the mistake regulation by MLM companies to make sure that their MLM business is Shariah compliance.

REFERENCES


