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ISLAMIC ASPECTS OF SHAREMARKETING AND MULTI-LEVEL MARKETING

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Date:- 30/3/2015

ISLAMIC ASPECTS SHARE MARKETING AND MULTI-LEVEL MARKETING

There originated a lot of religion from the beginning of human life in the world. In this cotemporary world, different religions are emerging there. All religions have their own control panel including moral rules and regulations to be followed. Like that, Islam also has correct rules and regulations to lead their followers to a best object. In Islamic view goodness of any activity of life is necessary. Every bad moment will reflect their life badly. Business is medium of money. We can't live without money. In money case a lot of people are caught by the digs of fraud. Some people become thief because of their poorness. They have no any medium to earn. Most of people become bad only because of stinginess. Then Islam brought a control panel for controlling the way of earning. Way of earning should be very clear. In Islamic view, clearness of earning is very essential for everyone. We can briefly describe the doctrine of Islam on marketing that it should be fraud less. Now a days there are lot of way to earn in the world all of them are not agreeable in Islamic view. Some of them are agreeable while another is not agreeable. Islam compared interest loaded marketing as fire loaded marketing. Then it should be avoided in marketing. In modem world there has been emerging a lot of marketing system. When raise such new systems Islamic jurists think how to clarify its Islamic manners. Then they will conduct a detailed study around all such new methods of marketing and clarify its Islamic view. This is a small attempt for such study over relevant subjects they are:-

- Share marketing
- Multi-level marketing.

Before entering to the cream of subject, here would discuss about some criterions of Islam on trade, because these both subject have relation with it.

Some Criterions of Islam in Trade

Islam is great religion in world. In trade it's visions are glorious. The holy Quran and hadith studies us mutual part of trade. The foundation of trade is it should be free from *gharar*, cheating.

Before considering the problems around shares of a company, we have to observe criterions of Islam on trade. When one Muslim interferes in a business he should have to observe such criterions. In share marketing we should have to look what kind of commodities are trading there, are they *thaharath*?, Is there any type of *gharar*, and interest? Islam never allow in marketing non-clearness commodities. Imam ahmed zaindheen discribed in his *fathahul mueen* :-

The cleanness of commodity is necessary in Islam because the basic concept of all types of marketing is it should be free from *gharar*.

Buquari:kithabul baih

The holy women ayisha ® said :- when the last verses of the chapter two came to prophet (s) he read it upon his companion from mosque and prohibit the trade in liquor.

♦ Surah 8 al - Anfal 27thverse

Ye that believe; betray not the trust of god and the apostle, nor misappropriate knowingly things entrusted to you.

The great scholar of hadeeth Imam aboo eesa thurmudi reported that the prophet (s) prohibited a trade which contains cheating or deception.

There is a lot of hadeeth reported from prophet (s) around this subject I brought her only some samples of theme.

The people remembered by almighty Allah through the chapter: 16 an-nahl about the consequences of fraudness.

Surah 16: an- nahl 92

And be not like a woman who breaks in to untwisted strands the yam which she has spun after it has become strong. Noor take your oaths to practice deception between yourselves lest one party should be more numerous than another. For god will test you by this and on the Day of Judgment he will certainly make clear to you (the truth of) that where in ye disagree

Surah 4:-nisa:- 105

We have sent down to thee the book in truth that thou mightiest judge between men, as guided by god :so be not (used) as an advocate by those who betray their trust.

Surah 16: an-Nahl. 94

And take not your oaths, to practice deception between your selves, with the result that someone's foot may slip after it was firmly planted and ye may have to taste the evil (consequences)

Of having hindered (men)

And a mighty wrath descends on you.

Like that it's all transaction also should be free from interest because interest is one type of 'gharar' the holy Qur'an mentioned it very clearly.

Chapter:2 Al-Baqara. Verse No:275

Those who devour usury will not stand except as stand once whom the evil one by his touch hath driven to madness that is because they say "Trade is like usury but god 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 God (to judge) But those who repeat (The offence) are companions of the fire. They will abide therein (Forever)

Verse No: 276

God will deprive usury of all blessing but will give increase for deeds of charity for he Lovett not creatures ungrateful and wicked.

Chapter No: 4 An-Nisaa Verse, No: 161

That took usury, though they devoured men's substance wrong fully: we have prepared for those among theme who reject faith a grievous punishment.

In Hadeeth prophet explains punishment of one who interfered with the interest.

Prophet said that: I saw someone at yesterday night they came to me and lead to a pure world. Then I rushed to bank of Blood River. I astonished there are two persons one stands at the bank of river. Another stands at middle of river when the middle man wants to climb from river. First man one who stands at bank of river throws stones towards him then he return to the position where he was. Then I told about that person then replied he is a person who ate the interest.

A share of an individual means a certain portion which equal to his share in assets of that company. Such a condition portion of all assets Islam called such type of assets as "Mushah". In Islam when we sale Mushah we have to keep some rules the books of shareea had described that rules very clearly. Imam Mahally describes in his book "Mahally" it is permissible that selling a well-known portion among two parties from our property the knowledge about marketing substances is a compel criterion in marketing. The great scholar in school Shafi, Imam Navavi describes in his renowned book "Raula" that when an individual sales is five sent field from ten sent of total field then byer should be known about total property, otherwise that transaction is not permissible.

Now a days when we by performance shares or hand over it to the consumers they do not known about the total property of that company and their own portion from total property it is not permissible, not agreeable and there is another stipulation also that he should be seen the trading property by his own eyes in reality, not in picture or explanation Imam Ahmed Zainudheen described it in his book Fathahul Mueen:-

The dealing is not permissible when two parties didn't see the commodity.

In modern stock exchange all dealings of shares are between brokers and buyers. No any contact with company it is not permissible. The "Sharah" prohibits it very strictly.

This is a small overview of Islamic *shariha* on trade. Now start the discussion on subject. What is share? Which are its types? Are they permissible in Islam? These are the questions which coming to our mind.

SHARES

The capital of a company is divided into shares. Each share forms a unit of ownership of a company and is offered for sale so as to raise capital for the company. Shares can be broadly divided into two categories equity shares and preference shares. Equity shares give their holders the power to share the earnings or profits in the company as well as a vote in the administration affairs of the company. Such a shareholder has to share the profits and also bear the losses incurred by the company. On the other hand, preference shares earn their holders only dividends, which are fixed, giving no voting right Equity shareholders are regarded as the real owners of the company. When the shares are offered for sale directly by the company for the first time, they are offered in the primary market whereas the trading of shares takes place in the secondary market.

In financial markets, a share is a unit of account for various financial instruments including stocks (ordinary or preferential), and investments in limited partnerships, and real estate investment trusts. The common feature of all these is equity participation (limited in the case of preference shares).

A corporation divides its capital into shares, which are offered for sale to raise capital, termed as issuing shares. Thus, a share is an indivisible unit of capital, expressing the contractual relationship between the company and the shareholder. The denominated value of a share is its face value: the total capital of a company is divided into a number of shares. The income received from shares is known as a dividend. A shareholder, also known as a stockholder, is a person who owns shares of a certain company or organization. The process of purchasing and selling shares often involves going through a stockbroker as a middle man.

Concepts of Share In practical terms, shares are individual pieces representing an equal stake in the capital of a business organization. The number of shares makes the respective holder eligible to receive a certain part of the profits made by that company. The shares also help the respective holders to be able to lay claim to a part of the worth of the specific company. This is applicable, however, only when there is liquidation.

Definition of Share According to financial terminology the share is regarded as a unit of account that can represent several monetary instruments, such as stocks, REITs, mutual funds, or limited partnerships. In Great Britain the term "shares" usually refers to stocks. Dividend the earning that the holder of a share makes from his or her shares is called the dividend. An earning amongst held shares is only possible by the company making a profit. Dividends are actually part of the profits of the company whose shares may be held by the respective holder. These are non-reinvested profits

In modern world companies raise long term and median term capital by several sources. The major source is issue of shares. Two types of shares are issued by company to raise capital

- ❖ Preference share
- ❖ Equity or ordinary share

Is the preference share agreeable in Islam?

In general, preferred stock has preference in dividend payments. The preference does not assure the payment of dividends, but the company must pay the stated dividends on preferred stock before paying any dividends on common stock.

Preferred stock may be cumulative or noncumulative. A cumulative preferred requires that if a company fails to pay a dividend (or any amount below the stated rate), it must make up for it at a later time. Dividends accumulate with each passed dividend period (which may be quarterly, semi-annually or annually). When a dividend is not paid in time, it has "passed"; all passed dividends on a cumulative stock make up a dividend in arrears. A stock without this feature is known as a noncumulative or straight preferred stock; any dividends passed are lost if not declared.

Preferred shares are more common in private or pre-public companies, where it is useful to distinguish between the control of and the economic interest in the company. Government regulations and the rules of stock exchanges may either encourage or discourage the issuance of publicly traded preferred shares. In many countries, banks are encouraged to issue preferred stock as a source of capital. On the other hand, the Tel Aviv Stock Exchange prohibits listed companies from having more than one class

of capital stock.

A company may issue several classes of preferred stock. It may undergo several rounds of financing, with each round receiving separate rights and having a separate class of preferred stock. Such a company might have "Series A Preferred," "Series B Preferred," "Series C Preferred" and common stock.

In the United States there are two types of preferred stocks: straight preferred and convertible preferred. Straight preferred are issued in perpetuity (although some are subject to call by the issuer, under certain conditions) and pay a stipulated rate of interest to the holder. Convertible preferred in addition to the foregoing features of a straight preferred contain a provision by which the holder may convert the preferred into the common stock of the company (or, sometimes, into the common stock of an affiliated company) under certain conditions (among which may be the specification of a future date when conversion may begin, a certain number of common shares per preferred share or a certain price per share for the common stock). There are income-tax advantages generally available to corporations investing in preferred stocks in the United States.

But for individuals, a straight preferred stock, a hybrid between a bond and a stock, bears some disadvantages of each type of securities without enjoying the advantages of either. Like a bond, a straight preferred does not participate in future earnings and dividend growth of the company, or growth in the price of the common stock. However, a bond has greater security than the preferred and has a maturity date at which the principal is to be repaid. Like the common, the preferred has less security protection than the bond. However, the potential increase in the market price of the common (and its dividends, paid from future growth of the company) is lacking for the preferred. One advantage of the preferred to its issuer is that the preferred receives better equity credit at rating agencies than straight debt (since it is usually perpetual). Also, certain types of preferred stock qualify as capital; this allows financial institutions to satisfy regulatory requirements without diluting common shareholders. Through preferred stock, financial institutions are able to gain leverage while receiving equity credit.

If an investor paid par (\$100) today for a typical straight preferred, such an investment would give a current yield of just over six percent. If, in a few years, 10-year Treasuries were to yield more than 13 percent to maturity (as they did in 1981) these preferred would yield at least 13 percent; this would reduce their market price \$46, a 54-percent loss. The difference between straight preferred and Treasuries (or any investment-grade Federal - agency or corporate bond) is that the bonds would move up to par as their maturity date approaches; however, the straight preferred (having no maturity date) might remain at these \$40 levels (or lower) for a long time.

Preference shares which carry preferential rights in dividend and repayment of capital in winding up of the company they are entitled to a fixed rate of dividend before any dividend is paid to ordinary shareholders how the rate of dividend specified in preference share is not guaranteed. If any year's profit is not sufficient to declare dividend on shares the preference shareholders will not get dividend. They have previous fixed payment of capital on winding up of the company. When company earned profits then shareholders at preferential agreement will lose that profit. This type is not permissible In Islam. When a preference share holder earns profit only through his shares without losses we can conclude such type of share contain cheating.

The difference kinds of preference shares are:-

1. Cumulative preference share
2. Non-cumulative preference share
3. Participating preference share
4. Non-Participating preference share
5. Redeemable preference share
6. Irredeemable preference shares
7. Convertible preference shares
8. Non-convertible preference shares
9. Prior preferred stock
10. Preference preferred stock
11. Exchangeable preferred stock
12. Perpetual preferred stock

13. Putable preferred stock

14. Monthly income preferred stock

No one of the above shares is permissible in Islam because they all are types of preference share. A preference share holder earns profit only through his shares without losses then we can conclude that such types of shares contain cheating.

Is the Equity share agreeable in Islam?

The term shares used here refers to "Equity Shares", it's a type of security.

"Equity Shares" are the most common types of shares and are the most widely traded stock market instruments.

"Equity" means ownership. Anyone who holds one share (unit) of ABC Company owns a portion of the company. Person is shareholder, he is owner.

Definitions of 'Equity' given by investopedia.

1. A stock or any other security representing an ownership interest.

On a company's balance sheet, the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses). Also referred to as "shareholders 'equity'".

2. In the context of margin trading, the value of securities in a margin account minus what has been borrowed from the brokerage.

3. In the context of real estate, the difference between the current market value of the property and the amount the owner still owes on the mortgage. It is the amount that the owner would receive after selling a property and paying off the mortgage.

In terms of investment strategies, equity (stocks) is one of the principal asset classes. The other two are fixed-income (bonds) and cash/cash-equivalents. These are used in asset allocation planning to structure a desired risk and return profile for an investor's portfolio.

Shares without any preferential right in payment of dividend or repayment of capital are known as equity shares or ordinary shares. Dividend will pay only after paying dividend of preference shareholders if there no any profit or surplus after paying preference shareholders equity share never get dividend, in time of achieving more profits equity share holders will gain high income by the dual made of equity shares -on income or high income - are considered as a speculative share. In winding up of a company, Equity capital will pay only after completing all other claims the equity share holders are thus called residual claimants. On the other hand equity share holders occupy a very important position in company they are real owners with complete voting rights and they actively participate and control the management.

In equity share there is no freedom for retiring from business. But Islam allows retire when he wishes another problems inequality among shareholders when give dividend according to the ratio of shares. The company will give dividend firstly for preference shareholders even there equity shareholder. It is cheating. Islam never allows it. We already indicated towards such type of cheating very strictly. Then we should have free from all kind of this business.

And Allah is the Source of strength. May Allah send blessings and peace upon our Prophet Muhammad and his family and companions

Islamic concepts on multi-level marketing

Multi-Level Marketing is a strategy that some direct sales companies use to encourage their existing distributors to recruit new distributors by passing the existing distributors a percentage of their recruit's sales. The recruits known as a distributor's "downline" All distributors also make money through direct sales of products to consumers. Amway is an example of a well-known direct Sales company that uses Multi-Level Marketing.

Multi-Level Marketing: it is a marketing strategy in which the sales force is compensated not only for sales they personally generated but for the sales of the other sales people that they recruit this recruited sales force is referred to as the participant's down line of compensation and can produce Multi-Level Marketing.

The standing committee for academic research and issuing fatwa gave a definition for multi-level marketing it is some companies were whose work may be summed up as being the attempt to convince a person to buy a product. On the basis that he will also convince others, and soon. The more levels of participants there are the more the first person will gain in commission. Reaching thousands of riyals. Every participant convinces others to join in return for a large commission if he is success full in getting new Customers to join his list of members. This is what is called pyramid marketing or network marketing.

Multi-level marketing is a plan for the distribution of products whereby participants earn money by supplying products to other participants in the same plan. They, in turn, make their money by supplying the same products to other participants.

In all above lines Ijarath is an Arabic word, meaning is calling someone for reward. The basic concept of Multi-Level Marketing also is Ijarath (leasing)

When we check Islamic parts of Multi-Level Marketing we should have to look or study above Ijarath.

After check all types of the meanings we can conclude that it is leasing some valuable things. Next we can check the criterions of the Ijarath in below.

Some criterions of Islam in *Ijarath* (Leasing)

Using Multi-Level Marketing technique by companies is not a problem. In the common rule all types of dealings Islamic shareea (muamalah) legal origin is allowed. Till there is not proof that prohibit it Multi-Level Marketing is one of such muamalah that exist today. There for using Multi-Level Marketing technique by companies is not a problem. All there are no things that are forbidden by the sharia in the Multi-Level Marketing parties. Dealing that are forbidden in buying and selling muamalah it is there is an elements of usury sharer (fraud) *jahalah* (something that is not criterion) *Zhulm* (no element of haram/injustice to the parties with respect to the sale and purchase muamalah)

Islam announce to keep value of justice in every sector of muamalah

Surah 5 al-maidah 9:-

Ye who believe! Stand out family for god as witness to fair dealing and let not the hatred of others to you make you swerve to wrong and depart from justice be just that is next to piety and fear god is well acquainted with all that ye do

Some kind of dealing is **Haraam** .because purpose of such dealing is to earn commission, not to buy the product. The commission may reach tense of thousands while the product is not worth more than a few hundred any smart person who is offered a choice between the two will choose the commission. Hence these companies rely on marketing and advertising of their product which emphasizes the size of the large commission which the participant can earn and offers the incentive of a large profit in return on a small sum, which is the price of the product. The product marketed by such companies is merely a screen or a means of earning these commission and profits. Because this commission is really the point of the transaction. It is **Haraam** according to Shareea for several reasons.

1 .It involves riba of two type riba-al-fad (involving exchange of goods of the same type but of different quantity) and Riba al nasia (involving differed payment of a large amount than would be payed if it were paid immediately) the participant pays a small amount of money in order to gain a lot of money in other words he pays cash for cash of a different amount and with different payment. This is the kind of riba that is forbidden according to the texts and to scholarly consensus. The product which the company sells to the agent is simply a screen for this transaction. It is not what the participant is seeking and it makes no different to the rolling.

2 - It is a kind of gharar (ambiguous transaction) that is forbidden in sharee'ah, because the participant does not know whether he will be successful in finding the number of purchasers (participants) required or not. No matter how long pyramid or network marketing lasts, it must inevitably reach an end, and when a person joins the pyramid he does not know whether he will be in a higher level and thus make a profit, or in the lower levels and thus make a loss. The fact of the matter is that most of the members of the pyramid lose out, except for the few at the top. So what usually happens is loss, which is the case of all ambiguous transactions. One of two things may happen, and it is usually the one that is most feared. The Prophet (peace and blessings of Allaah be upon him) forbade ambiguous transactions, as was narrated by Muslim in his **Saheeh**.

3 These transactions involve consuming people's wealth unlawfully, because this contract benefit not one but companies and some participants whom the company encourages with the aim of tricking others. This is what is forbidden in the Qur'aan, where Allaah says:-

"O you who believe! Eat not up your property among yourselves unjustly"

4 This transaction involves cheating, deceiving and tricking people, by showing the product as if that is the purpose of this

transaction, when that is not the case, and by enticing them with the idea of large commission which people do not usually earn. This is the kind of deceit that is forbidden in sharee'ah. The Prophet (peace and blessings of Allaah be upon him) said: "Whoever deceives us is not one of us." Narrated by Muslim in his *Saheeh*. And the Prophet (peace and blessings of Allaah be upon him) said: "The two parties to a transaction have the choice, so long as they have not parted. If they are sincere and open in their dealings, the transaction will be blessed for them, but if they lie and conceal anything, the blessing of their transaction will be erased." Agreed upon.

With regard to the view that this transaction is a kind of brokerage, this is not true. Brokerage is a transaction whereby the broker receives payment in return for selling the product, whereas in network marketing the participant pays a fee in order to market the product. Brokerage means marketing the product in a real sense, unlike network marketing where the real aim is to market the transaction, not the product, so the participant markets to others who will market to others who will market to others and so on, unlike brokerage in which the broker markets the product to those who really want the product. The difference between the two is quite clear.

With regard to the view that the transaction is a kind of gift, this is also not true. Even if we accept that, not every gift is permissible according to sharee'ah. A gift given in return for a loan is riba. Hence 'Abd-Allaahibn Salaam said to Abu Burdah (may Allaah be pleased with them both): "You are in a land where riba is widespread among them. If you have some right over a man and he gives you a load of straw or a load of barley or a load of fodder, this is riba." Narrated by al-Bukhaari in his Saheeh.

Gifts are subject to the rulings on the reason for which they are given. Hence the Prophet (peace and blessings of Allaah be upon him) said, concerning the zakaat- collector who came and said: "This is for you and this is what was given to me as a gift": "Why don't you sit in the house of your father and mother and see whether you are given any gifts or not?" Agreed upon.

These commissions are only paid for the purpose of joining the network marketing scheme, no matter what names are given to them, whether they are called gifts or anything else. That does not change their nature or the ruling on them in the slightest.

It is worth mentioning that there are companies that have appeared in the market which follow the practices of network marketing or pyramid marketing, such as "Smartest Way", "Gold Quest" and "Seven Diamonds". The ruling on these companies is no different from the ruling on the companies mentioned above, even though the products they offer may vary.