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Building Trust in E-Commerce: A Proposed Shari'ah Compliant Model

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Abstract

Studies show that trust has a significant impact on users' motivation, acceptance and willingness for e-commerce dealings. Existing literature investigates the role of trust in e-commerce environment within the conventional space but scarcely looks into the issue from the Islamic perspective. Considering that Muslim users constitute a relatively significant percentage of the whole online commerce community, it is pertinent to understand the concept of trust in the light of Shari'ah. Inability to satisfy religio-centric attitude of the Muslim internet users may bring negative consequences for the overall success of e-commerce environment. Therefore, the main objective of this study is to explore how to build online trust among Muslim users through an analysis of the essential requirements of e-commerce from the perspective of Islamic law of contract. The literature review covers empirical studies on the concept of trust, model of trust and Islamic law of contract. For the review, library research is employed by the means of investigating classical and contemporary literature to search for information on essential requirements underpinning e-commerce contracts. The study sheds light on some conditions related to offer and acceptance (form), buyer and seller (parties), and object and price (subject matter) of sale contracts concluded via online environment. An appraisal of these issues will justify the validity of e-commerce in Islamic law, thus enhancing the level of online trust among Muslim users. Drawing upon these discussions, a Shari'ah compliant model for online trust is proposed highlighting essential requirements of Islamic law of contract as variables for online trust.

Keywords: **trust; e-commerce; Islamic law of contract; Shari'ah**

INTRODUCTION

The advancement of Internet has changed the way people perform business and commerce, from a traditional to an online environment. As such, people can purchase and sell various items via Internet. Rapid growth and development of these online transactions is hugely determined by the presence of trust (Salam et al., 2005; Austin et al., 2006). Indeed, lack of trust is one of contributing factors to the hesitance of people to conduct transactions over the Internet (Yang et al., 2009). For this reason, researchers and practitioners have extensively discussed the issue of trust in the context of e-commerce environment. Nevertheless, little is known about this issue from the Islamic perspective. This gap needs to be filled because religion is suggested to be an antecedent of trust (Siala et al., 2004). They also indicate that trust among the religio-centric online Muslim customers is affiliated to religious teachings. Therefore, to secure trust among Muslim users, there is a dire need to understand the Shari'ah compliant way of doing e-commerce.

AN OVERVIEW OF E-COMMERCE

E-commerce (EC) can be simply described as the process of buying and selling over the Internet. Turban et al. (2009) describe it as the process of buying, selling, transferring or exchanging products, services and/or information via computer network, including the Internet. It can be broadly broken into four main categories namely:

i. *Business-to-Business (B2B):* refers to business activities between companies such as manufacturers who are selling their product to distributors.
ii. *Business-to-Consumer (B2C):* involves selling products and services to

consumers over an electronic network where customers can easily purchase the products and services without having human intervention.

iii. *Consumer-to-Business (C2B):* allows consumer to put up his products or services online, and set specification or required price where it will be reviewed by company. The company is expected to match the requirements of the consumer to the best possible extent.

iv. *Consumer-to-Consumer (C2C):* refers to selling or buying activities between private individuals or consumers over the electronic environment.

The success of e-commerce is predicated on trust; indeed, any e-commerce vendor that fails to establish a trusting relationship with their customers is doomed (Beatty et al., 2011). Trust is argued to be one of the influential determinants for the uptake of the online transaction (Luo, 2002; Salam et al., 2005). Further, lack of trust is one of the frequently cited reasons for the hesitance of customer to conduct online transactions (Yang et al., 2009). As a result, trust has become a crucial issue for online transactions as compared to hand-to-hand businesses as virtual environment entails risks and opportunities for fraud (Head and Hassanein, 2002).

TRUST IN THE CONTEXT OF E-COMMERCE

Many studies have tried to address the concept of trust; yet, there is no universally accepted scholarly definition given to trust. This is due to the fact that it is somehow complex (Holsapple and Sasidharan, 2005) and has a dynamic and multi-faceted character (Mayer et al., 1995). Nevertheless, Chopra and Wallace (2003) suggest that trust should reflect the union of three elements; a *trustee* to whom the trust is directed, *confidence* that trust will be upheld and a *willingness* to act on that confidence. Trust is therefore concurred as the interpersonal trusting relationships between trustors and trustees (Chopra and Wallace, 2003). On the same note, Limbu et al. (2012) in their recent study regard trust as willingness of trustor to rely on trustee based on the confidence and faith that the trustee will act accordingly.

Characteristics of trustor and trustee are argued to be pertinent in order to conceptualize a trusting relationship between them (Kräuter-Grabner et al., 2006; Mior Ibrahim et al., 2009). McKnights et al. (2002) propose a model of e-commerce customer trust that posits perceptions towards specific attributes of vendor website leads trusting intentions which in turn influences trust-related behavior among trustor and trustee. This contributes to the ongoing process of continuing and maintaining a valued and importance relationship between parties involved (Chaudhuri and Holbrook, 2001). Following these studies, Skarlatidou et al. (2011) advocate that a trusting relationship is influenced by trustor's properties and trustee's attitudes. These characteristics help to develop their online credibility, hence, clear up anonymity of Internet users that stymied the establishment of online trust (Hoover, 2007). On the same vein, Wu et al. (2011) point out that insufficient information or non-disclosure of the identity between buyer and seller reduces their level of trust to trade over the Internet. In an attempt to establish trusting relationship between online consumers, Abbass and Ibrahim (2011) propose a model where identity of each buyer and seller is validated using a unique number known as Assurance Key (AK). AK will be uniquely generated by Trusted Third Party (TTP) for every registered consumer, and it is a combination of reference number of state, continent and image of the registered consumer's face.

The buyer or seller is requested to snap and upload his picture to the system, which will be matched to the AK. Once the identity is verified, buyer or seller will be allowed to carry out his transaction as electronically reliable consumers. Otherwise, data will be sent to TTP for verification and image update.

The elements of risk and uncertainty are always associated to trust (Skarlatidou et al., 2011). Wang and Emurian (2005) explain that "*trust is only needed, and actually flourishes, in an environment that is uncertain and risky*" (p. 111). In this perspective, trust is required as parties involved in online transaction are physically apart, they cannot rely on things like physical proximity, handshakes or body-signals; thus creating a perception that e-commerce environment is inherently insecure and cannot be trusted. As risk and uncertainty are always involved in online purchasing, developing confidence level of the trusting parties is important because any of them may be subjected to the violation of trust during the transactions. For example, in addition to having trust in the quality and satisfactory condition of the purchased products, online buyer also has to have trust their on its deliverability. Tan and Thoen (2002) even propose that e-commerce would only be a success if users could put in their trust to the online environment.

Previous studies have illustrated the role of trust in e-commerce and its significance in different models, which shall be delineated in the proceeding section.

TRUST MODELS IN E-COMMERCE

Mayer et al.'s (1995) Factor-based Model identifies three main characteristics of a trustee that cause them more or less trusted namely *ability, benevolence* and *integrity*. Ability refers to skills, competencies and expertise of the trustee which may include good product knowledge, fast delivery and quality customer service. Benevolence is the degree of belief to which a trustee, aside from wanting to make legitimate profits, wants to do good to the trustor; and integrity has to do with trustor's perception that the trustee adheres to a set of principles that the former finds acceptable such as keeping promise and abiding to shopping rules specified on the website.

In another model, Sutcliffe (2002) shed lights four dimensions of trust – *merchant trust*, *content trust*, *product trust* and *process trust*. *Merchant trust* refers to the trust attributes on the e-commerce website that give impact to the merchant/seller such as business identification, contact person, privacy policy and third party endorsement. These attributes can motivate buyers to stay longer and establish transaction with the website. This is echoed by Hoover's (2007) study emphasizing on the importance of establishing web credibility for e-commerce users. *Content trust* involves attributes such as layout, structure, ease of navigation and technical competence that are very crucial to the website. *Product trust* focuses on the trust attributes on the website that give impact to the product such as brand, features, descriptions and price. *Process trust* refers to attributes such as on-order guide, purchasing process, payment option and delivery arrangement that give impact to the transaction process provided in the website.

In their interdisciplinary model of e-commerce customer relationships trust, McKnights and Chervany (2002) represent trust as a coherent and defined set of four concepts (i.e. *disposition to trust, institution-based trust, trusting beliefs* and *trusting intentions*) and ten subconstructs. Disposition to trust means the extent to which one displays a consistent tendency to be willing to depend on others in general across a broad spectrum of situations and persons. As disposition of trust is a generalized tendency across situations and persons, it shapes our interpretation of situations and actors in situations. Hence, disposition of trust will influence institution-based trust which reflects beliefs about the situations. Trusting belief means that one believes that the other party has one or more characteristics beneficial to oneself. This signifies that buyer wants seller to be willing and able to act to in the buyer's interest, honest in transactions, and both capable of, and predictable at delivering as promised. Lastly, trusting intentions means that one is willing to depend on, or intends to depend on, the other party even though one cannot control the party.

In addition, Cheung and Lee (2000) suggest that consumer trust in online shopping can be predicted by two sets of antecedent factors which are *vendor trustworthiness* and *external environment*. Vendor trustworthiness relates to the vendor's perceived integrity and competence, and vendor's security and privacy controls. External environment encapsulates the need for third-party recognition and legal framework in establishing online trust among the shoppers.

It is apparent from these models that establishing trust is dependent upon various factors which can be summarized into (i) trusting the parties involved in online transactions. Trustor and trustee need to possess necessary characteristics (e.g. integrity, identification and reputation) that may reflect their ability and eligibility to commit online transactions; (ii) trusting in the promises made by trustor (e.g. to buy and pay) and trustee (e.g. to deliver product) which will bring them into the state of agreement upon a set of principles deemed acceptable for them; and (iii) trusting in the ways of how online transactions are accomplished in terms of providing secured and reliable systems to support online activities.

Interestingly, religion is also found to play a significant role in shaping online trust among the users. Daniels and von der Ruhr (2010) indicate that religious customs, messages and traditions are important determinants of trust. Similarly, Barnes (2009) suggests that religious faith increases benevolence, which in turn influences trusting beliefs and online behavioral intention. In their study, Siala et al. (2004) concludes that religious affiliation shapes the establishment of online trust particularly among Muslims. Hence, they prefer to buy online from sellers whose characters are in accord to Islamic principles. Next section discusses e-commerce and its requirements from the Islamic perspective.

E-COMMERCE IN ISLAMIC LAW

From the Islamic perspective, e-commerce denotes the same connotation as of the conventional, except that all transactions must be in line with the Islamic principles and are free from (i) interest (*riba*), (ii) gambling (*maysir*), (iii) uncertainty (*gharar*), (iv) coercion (*ikrah*) and (v) forbidden (*haram*) elements. These prohibitions aim at protecting interests and eliminating harms of parties involved in a transaction, thus promote justice, which is one of the main objectives of Shari'ah (*maqasid al-Shari'ah*). As e-commerce involves trading between buyers and sellers, it needs to fulfill essential requirements and conditions of Islamic law of contract, namely (i) offer and acceptance (form), (ii) buyer and seller (contracting parties) and (iii) object and price (subject matter), hence deems valid. The following section delineates each of these requirements and its conditions as well as issues pertaining to e-commerce in Islamic law.

Offer and Acceptance (Form)

Form of contract consists of offer and acceptance, where an offer refers to the initial proposal made by either party in a contract – seller or buyer. Meanwhile, an acceptance is a statement made by the other party involved in the contract expressing his consent to the terms of offer (al-Zahrani, 2009). The majority of Muslim scholars agree that besides words, offer and acceptance occur in a form of writing or conduct (known as *mu'atah*), where neither seller nor buyer expresses the offer and acceptance or only one party says the offer and the other accepts through actions. Nevertheless, they disallow the offer that is in a question form, such as "will you buy from me" or "will you sell the good to me" because of uncertainty of the phrase (Al-Kasani, 1986; Al-Hattab, 1992; Ibn Qudamah, 1968).

Muslim jurists have stipulated some conditions for the validity of offer and acceptance namely connectedness, clarity and conformity (Al-Zuhayli, 2001). In normal contexts, contracting parties are physically present in one meeting session (*majlis al-'aqd*) to negotiate terms of the contract, so that offer and acceptance are connected, clear and consistent. Concerning e-commerce, there are two scenarios in which offer and acceptance may take place (Alzaagy, 2007; Al-Zahrani, 2009), namely (i) parties are virtually present in the space (though they are at different locations) and the offer and acceptance occur in one meeting place via instant writing such as chatting, or via electronic communication such as tele-conference. According to the Council of the Islamic Fiqh Academy (2000), the contract shall be deemed a contract between present parties, for it takes the ruling of constructive meeting place in concluding the contract; and (ii) parties cannot see or hear each other physically or virtually, and offer and acceptance happen through computer screens such as interactive websites and emails. The Council (2000) also resolved that the contract is complete when the offerer communicates the offer to the offeree and the offeree notifies his acceptance to the offerer. The ruling is based on the opinion of classical jurists regarding the conclusion of contract between inter-absentees, such as through a letter or a messenger. Despite the time and space intervals, the meeting place deems unified as the messenger or the letter constitute "a representative" acting and offering on behalf of the seller (Al-Kasani, 1986).

In e-commerce, we need to determine when the constructive meeting session begins and ends. Some scholars opine that meeting session starts immediately upon a seller advertising an item on the website (Al-'Ajluni, 2002; Al-Momani, 2004). Al-Zahrani (2009) argues that the session shall be established once a buyer shows his interest in trading by clicking on the advertised item on a seller's website, and then proceeds to "check out" basket after knowing the specifications and the price. So, the offer occurs when the seller asks confirmation, such as "do you agree?" Meanwhile, acceptance takes place when the buyer confirms the transaction and continues with the payment, thus the contract is concluded. Al-Zahrani's opinion is more acceptable and practical as advertising items for online shopping is similar to normal shopping in the store, where a seller put the goods on shelves and a customer has an opportunity to look at them and the price tags. The offer and acceptance will not happen until and unless the customer picks the goods and proceeds to the counter.

Based on the above, although the offer and acceptance in e-commerce are in various forms including oral (via chatting or telephone), written (via email or messenger), and conduct (via clicking confirmation button on website), they are valid as long as they are connected, clear and corresponding to each other. Furthermore, the offer in e-commerce, despite being phrased as a question, is still valid as it denotes explanation and confirmation rather than merely questioning (Al-Zahrani, 2009). Therefore, it does not contradict to the condition set by Muslim scholars. Technically, Muhammad et al. (2011) assert that authentication protocols by using session key can be used to resolve the issue of time validity for an online transaction. Session key ensures the security of a communication session between two computers or stations. The session begins when a connection is established at both stations and terminates when the connection is ended. Typically, one station requests a connection with another specified station, and if the latter replies agreeing to the connection, both of the stations take turns exchanging commands and data. Security controls, in which session key is one of them, have a significant impact on the establishment of trust in e-commerce environment (Suh & Han, 2003; Kim et al., 2010; Al-Rawabdeh et al., 2012).

Buyer and Seller (Contracting Parties)

All contracting parties according to Shari'ah, whether in traditional trading or e-commerce, must perform a contract based on a free or mutual consent (Vohrah & Aun, 2010). It is also known as consensus of both parties without any form of coercion, either directly or indirectly, or else, it would be a void contact (Abdul Jalil & Rahman, 2010). Allah says: "*O you who believe, do not devour each other's property by false means, unless it is atrade conducted with your mutual consent*" (Quran, 4:29). Having a mutual consent is significant to eliminate the issue of anonymity between the contracting parties. From the technical view point, the issue can be resolved through the application of digital signature (Muhammad et al., 2011). A digital signature provides a mechanism in which identity of the sender is not tampered or changed during the communication with the receiver. It replicates the traditional signature that uniquely identifies the signature's owner. Moreover, it cannot be copied or fabricated by the unauthorized party which means that the sender cannot easily deny the online transaction committed.

In addition, both of them must also have legal capacity (*ahliyyah*) and authority (*wilayah*) to execute the contract. Abu Zahrah (1996) defines legal capacity as eligibility of a person to acquire rights for himself and exercise them; and authority as power of executing the contract. Legal capacity is categorized into two, namely acquisition of rights (*ahliyyat al-wujub*) and execution of rights (*ahliyyat al-ada'*). The former refers to the eligibility of a person to acquire rights for and upon him while the latter is the eligibility of a person to execute or discharge his rights and duties in a manner recognized by the law. Every individual in Islamic law is borne with the acquisition of rights. It is granted to human beings regardless of sex, race, age, and physical ability or disability.

On the other hand, the executive rights have several phases. At the 1st phase, i.e. from birth until seven years old (before the age of discernment), a person does not any execution right at all. At the 2nd phase, i.e. from the age of discernment to the age of prudence, a person cannot enter into a contract except with his guardian's permission.

A person acquires complete execution of rights when he reaches the third stage, i.e. the age of prudence until death. At this stage, he has attained certain level of intellectual maturity and competence, hence is eligible to perform contractual dealings independently.

The question, however, arises in e-commerce as how to determine the legal capacity of contracting parties. As e-commerce normally occurs between either an individual or a company with a website; in the case where the buyer is an individual, therefore determining his legal capacity is less hassle because his modes of payment – such as via debit or credit cards – shall prove that he has attained the legal age and has an authority in executing the transaction. Meanwhile, if the buyer or seller is a company, the determination of its legal capacity depends on the certificate of approval from the relevant authority.

It is important to note that Muslim scholars however have different opinions with regard to a company or a corporation being a legal entity, in which it has the rights and responsibilities similar to a living person. Classical Muslim scholars are of the opinion that legal entity does not exist in Islam for a very simple fact; a company cannot be regarded as “a person” because it is only a fictitious and an imaginary person, as such, has no capacity to engage in any commercial transaction (Zuryati *et al.*, 2009). Nevertheless, Almajid (2010) notes that some modern jurists such as al-Zarqa and Abu Zuhrah justify the existence of entity other than human being as a legal person based on the fiqh known as *al-dhimmah*, which basically means “guarantee” or “accountable”. The stance is further propagated by a modern Muslim jurist, Taqi Usmani, based on precedents from Islamic institutions and practices like *waqf* (endowment), *masjid* (mosque), *bait al-mal* (public treasury), hospital and joint stock (Zuryati *et al.*, 2009). Usmani (2002) argues that *waqf* is a legal and religious institution in which a person donates some of his properties for a religious or charitable purpose. After the properties have been declared as a *waqf*, they no longer remain in the ownership of the donor. Likewise, the beneficiaries of the *waqf* can benefit from the corpus or the dedicated properties but they are not the owners. If, for example, a property is bought with the income of a *waqf*, it shall be treated as a property owned by the *waqf*. This indicates that *waqf* is similar to a living person who can own the property and thus, its transaction is legal in the view point of Shari’ah.

Object and Price (Subject Matter)
From the Shari’ah viewpoint, the subject matter, which constitutes object and price, must fulfill several criteria mainly lawful, valuable, in existence, deliverable and precisely determined for a contract to be valid. If the subject matter is uncertain and ambiguous, the contact will become void (Abdullah & Razali, 2008). Further, it must exist at the time when the contract is made and it should be possible to be delivered at the agreed time of delivery (Al-Kasani, 1986). In this regard, the subject matter must be clearly known to the contracting parties through which it should be precisely identified and described. Lack of knowledge about the subject matter and its characteristics may invalidate the transactions. According to Al-Zuhayli (2001), details of the subject matter could be obtained whether by means of physical viewing, indication or description. In this regard, e-commerce website may precisely describe the subject matter through texts and pictorial displays.

The mode of payments in e-commerce needs an appraisal from the Islamic perspective, as there are different e-payment systems widely used in B2B, B2C, C2B and C2C e-commerce including electronic cash, direct online or mediated credit/debit payments, electronic cheques, stored-value money and electronic bill payments (Ozkan et al., 2010, Kim et al., 2010). Credit card, in particular, is an essential mode of payments in e-commerce. It represents a loan relationship between card bearer and issuer. In Islam, the issuer is not entitled to receive more than the amount taken to purchase goods to avoid interest (i.e. *riba al-nasi'ah*). Nonetheless, the issuer can charge a fix amount of fees known as administrative expenses or service charges if they are not increasable due to the increased amount of purchase (Muhammad et al., 2011). The Council of the Islamic Fiqh Academy (2000; 2004) issued a resolution pertaining to the use of credit card; (i) it is not permitted to issue uncovered credit cards or to deal in them if there is a condition that fixes usurious increase even if a user intends to pay up within a given free period; (ii) it is permitted to issue uncovered credit cards as long as there is no condition that fixes usurious increases to be added to debt; and (iii) it is permissible to use covered credit cards for buying gold, silver or currencies. Therefore, Monirul (2004) and Lokmanulhakim *et al.* (2012) suggest that it is allowed to issue and use credit card for e-commerce transactions as long as it is consistent with the Shari'ah requirements and principles.

Furthermore, since e-commerce transactions usually involves objects being delivered in the future, hence items such as gold, silver and other usurious items cannot be traded to avoid interest (i.e. *riba al-buyu'*). This is because the tradability of these usurious (*ribawi*) items should fulfill two conditions, (i) equal value and hand-to-hand, if they are within the same genus; and (ii) hand-to-hand only if they are from different genus based on the narration of the Prophet (Muslim, n.d). Hence, Lokmanulhakim *et al.* (2012) conclude that online transactions of the usurious items are not permitted because they violate the hand-to-hand condition.

Pertaining to future delivery of all non-*ribawi* goods, particularly those delivered via postage, Al-Zahrani (2009) argues that the transaction is neither future sale (*bay' al-salam*) – if the payment is immediate via debit or credit cards – nor sale of debt with debt – if the payment is deferred through cheque or bank transfer. Instead, future delivery of goods in e-commerce is due to the nature of transaction itself, which happens between inter-absentees, hence entailing an intermediary, i.e. mail carrier to deliver goods to the buyer. Consequently, time gap between payment and delivery of the goods does not invalidate the e-commerce transactions.

SHARI'AH COMPLIANT E-COMMERCE FOR ONLINE TRUST: A PROPOSED MODEL

Based on the above discussion and on review of existing literature on the subject (Muhammad et al., 2013), this study postulates that Shari'ah compliant e-commerce can only be established through the fulfillment of the essential requirements of Islamic law of contract for (i) offer and acceptance (*form*), (ii) buyer and seller (*contracting parties*) and (iii) object and price (*subject matter*). Using Amazon.com as case study, Muhammad et al. (2013) indicate the significant need of fulfilling these essential requirements for an online transaction to be deemed valid or not from the view point of Shari'ah. Moreover, Shari'ah compliant e-commerce influences the presence of online trust among users (i.e.

buyer and seller) in this Internet-enabled environment. The fulfillment of these Shari'ah requirements may satisfy the need of religio-centric attitude of online Muslim users. Thus, it conforms with the findings of Siala et al. (2004) and Daniels and von der Ruhr (2010) that religious customs and traditions are important determinants of trust. Figure 1 depicts the proposed model of building online trust for e-commerce from the perspective of Islamic law of contract.

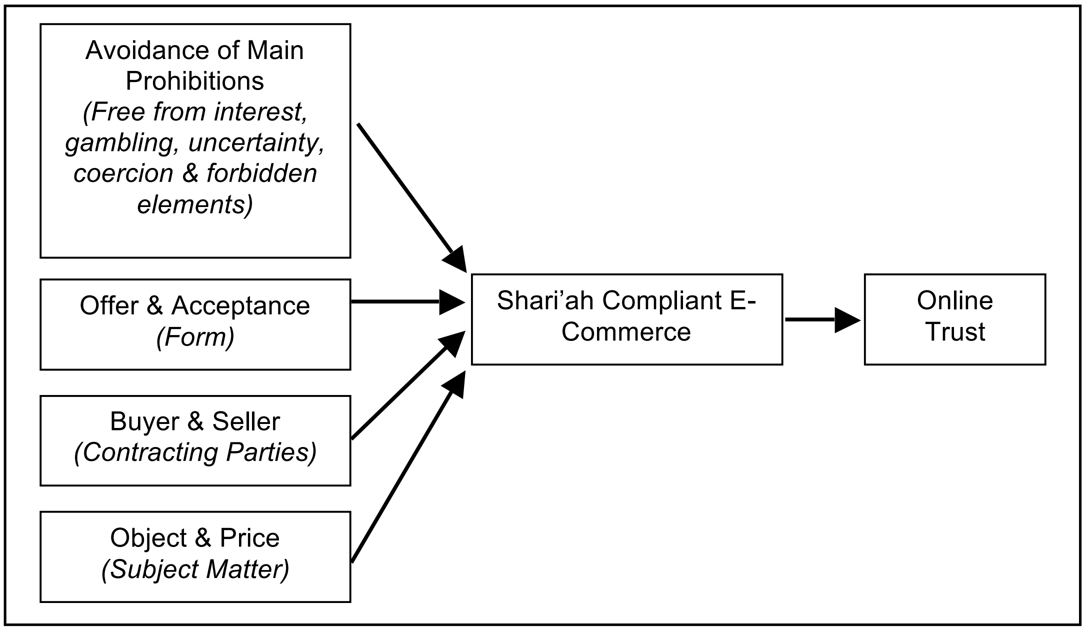

Figure 1: A Proposed Model for Building Online Trust for E-Commerce from the Islamic Law of Contract Perspective

CONCLUSION

E-commerce is allowed from the Islamic perspective as long as it complies with the general principles and essential requirements of Islamic law of contract namely (i) form, (ii) contracting parties and (iii) subject matter. These principles and requirements aim at protecting interests and eliminating harms of parties involved in commercial transactions, be either through conventional or online commerce. Based on this noble objective, it can be postulated that Shariah-compliant e-commerce may influence the presence of online trust among online users in this Internet-enabled environment. This study enriches the existing body of knowledge by providing a new insight for understanding trust in the context of e-commerce from an Islamic view point. Future study should attempt to empirically validate the proposed model of Shari'ah-compliant e-commerce for online trust.

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