Lecture Notes in Networks and Systems 194

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The Importance of New Technologies and Entrepreneurship in Business Development: In The Context of Economic Diversity in Developing Countries

The Impact of New Technologies and Entrepreneurship on Business Development

Springer

Lecture Notes in Networks and Systems

Volume 194

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ISSN 2367-3370 ISSN 2367-3389 (electronic)
Lecture Notes in Networks and Systems
ISBN 978-3-030-69220-9 ISBN 978-3-030-69221-6 (eBook)
https://doi.org/10.1007/978-3-030-69221-6

This Springer imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Foreword

The present business environment has been tumultuous due to the emerging new challenges resulting from innovative development and disruptive technology. Consumer demands for innovative products and services have urged business fraternity to be responsive and resilience in combating those new requirements.

The Fourth Industrial Revolution is characterized by the combination of physical and digital technologies, such as analytics, artificial intelligence, cognitive computing, machine learnings and the Internet of things (IoT). This would certainly impact the companys' business direction, the future industries, the customers, the employees and the society at large. The advancing technologies are bringing about social changes and economic development. As such, organizations are required to adapt to the new environment and strengthen their strategies despite the risk and uncertainty in the environment. New business integration strategies must be leveraged to ensure companies continue to sustain.

To anticipate the rapid change, education is set forth to be more innovative in offering the future ready curriculum. As such, education organizations and scholars are expected to be malleable and creative in designing new curriculum that embrace new technologies, integrating strong entrepreneurship values, fostering positive values and socio-emotional skills throughout the curriculum in order to produce quality and competent future human capitals that are ready to serve the future industries.

In is a privilege for the Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, to co-publish this book in promoting the excellent and cutting-edge research by scholars from around the globe. I trust, this book would benefit many parties and be able to aspire everyone in developing buoyant strategies that gives positive impact and consciousness to sustain in any endeavor.

Roselina Ahmad Saufi

Preface

In today's globalized environment, the process of creation and development of business became more and more challenging and complex. Entrepreneurial actions and advanced technology are the most important features of the recent developed economies and ones of the factors contributing to business development. Countries became more connected by and through technology, gadgets, and continuous and intense technological development, the business environment and the trajectory traveled by entrepreneurs to create a more competitive business environment. Innovation has become vital everywhere and business managers should always be prepared to find out new innovative solutions and ideas, so that, can maintain the sustainability of the business in the current and future competitive business environment. New technology refers to the use of computing machines, artificial intelligence, big data, deep learning, game-based learning, information technology, management information system, accounting information system, knowledge management and devices to store, capture, manipulate and retrieve shared knowledge. Therefore, the integration between modern technology, entrepreneurship and business should be well managed so to provide a wide range of high quality and competitive products and services in societies, especially in developing countries. The objective of this book chapter is to conduct a review, examine, analysis and discussion relating to the importance and the impact of new technologies on the development and sustainability of a business in developing countries in the context of economic diversity.

This volume constitutes the refereed proceedings of the International Conference on Business and Technology (ICBT 2020) organized by EuroMid Academy of Business and Technology (EMABT), held in Istanbul, between November 14–15, 2020. The ICBT 2020 partners and supporters were: United Business Institutes—Belgium, AACSB Accreditation—USA, Universiti Malaysia Kelantan—Malaysia, National University of Life and Environmental Sciences of Ukraine—Ukraine, ARCIF Analytics, E-MAREFA—Jordan. In response to the call for papers for ICBT 2020, 245 papers were submitted for presentation and inclusion in the proceedings of the conference. After a careful blind refereeing process, 151 papers were selected for inclusion in the conference proceedings.

The ICBT 2020 proceedings contains one hundred and fifty-one chapters by the authors from thirty-six countries. Each of these chapters was evaluated through an editorial board, and each chapter was passed through a double-blind peer review process; hence bestowing Fourteen themes:

I. Implementation of artificial intelligence, IoT and innovative.
II. Sustainable finance, innovation and business uncertain situations.
III. Marketing, E-commerce and social media.
IV. Supply chain quality management practices and blockchain technology.
V. Tourism, technology and hospitality and health care services.
VI. Fourth Industrial Revolution implementation of artificial intelligence and FinTech for growing business success.
VII. Public administration and digital economy.
VIII. Entrepreneurship, start-up and business success and social implications.
IX. Corporatefinance and accounting.
X. Islamic economics and finance.
XI. Corporate social responsibility.
XII. Business management, HR and business success.
XIII. Education management, technology, smart universities and Covid-19 impact.

These chapters are reflecting quality research contributing theoretical and practical implications, for those who wise to apply the technology within any business sector. It is our hope that the contribution of this book will be oft the academic level which even decision-makers in the various economic and executive level will get to appreciate.

Finally, we express our sincere thanks to the plenary speakers; Prof. Olaf Weber from University of Waterloo—Canada, Prof. Khaled Hussainey from University of Portsmouth—UK, Prof. Timothy Mescon from AACSB International—USA, Prof. Roselina Ahmad Saufi from Universiti Malaysia Kelantan—Malaysia, Prof. Munira Aminova from United Business Institutes—Belgium and Prof. Suliman Hawamdeh from University of North Texas—USA.

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Contents

Drop Shipping in the Supply Chain: Fiqh Perspective

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Abstract. Drop shipping entails movement of goods where a dropshipper as entity A, sells goods that are physically stocked with entity B on a retail basis to a consumer using the online networking system. In Shari'ah, the permissibility of such business arrangement revolves around a fundamental concept of not selling what you do not own. There also exist information asymmetry between the parties where only the retailer merchant has more information than both the seller and the customer. Given its prevalence and increase patronage by Muslims, this study examined the permissibility of the dropshipping using juristic adaptation (Takyīf Fiqh) to ascertain the Sharī'ah compliance of the existing model. Analysis of the Shariah compliant issues in the transaction cycle show that the existing dropshipping model is not fully compliant with the Shariah. Thus, alternative Shari'ah compliant contract in Wakālah, Salam and Parallel Salam are proposed to validate the dropshipping model for entrepreneurs who opt for Shari'ah compliant approach.

Keywords: Drop shipping · Supply chain · Shariah compliance · Wakālah · Parallel Salam · Disruption

1 Introduction

In the manufacturing and allied industries especially, the need to reduce costs, improve corporate profit, enjoy strategic advantage and integrate supply chain management systems to ensure efficient delivery of low-cost and high-quality products and services have taken the centre stage of the academics, professionals and end-users discourse Chou et al. (2004), Power (2005). The supply chain is a management science that deals with the effective process of planning, controlling and execution of the flow of product from the manufacturer to the end users (Power 2005, Yu et al. 2017). Li and Lin (2006) explained that the optimization of the supply chain management has become the latest potent strategy to improve firm's competitive edge and profitability. However, due to its interdisciplinary nature, Al-Shboul et al. (2017) explained that supply chain management continue to be explored from various interconnected perspectives. Thus, Li and Lin

B. Alareeni et al. (Eds.): ICBT 2020, LNNS 194, pp. 629–644, 2021.
https://doi.org/10.1007/978-3-030-69221-6_48

(2006) highlighted that latent studies on the subject matter have been largely generic and offer limited contributions to the practice of supply chain management. The emergence of dropshipping as a supply chain mechanism has, on the other hand, gained enviable momentum as efficient and cheaper means of transferring products in the supply chain which effectively optimizes the use of information technology to minimize associated cost and improve operational efficiencies Chou et al. (2004), Jahari and Al-Aidaros (2016). Musa et al. (2016) described dropshipping as a supply chain management model where retailer advertises products virtually without a stock in store but relies on the manufacturer or wholesaler for the availability of such product when customer demands for the product. Dropshipping is considered as one of the e-commerce disruptions in the supply chain management Chou et al. (2004). Hovelaque et al. (2007), noted that the advancement in information technology has contributed to the increasing demand for efficient supply chains and fast product delivery which found solace in dropshipping that leverage on the use of technology to reduce the operational and distributional bottlenecks in the transfer of product from manufacturers to end users. Thus, the perennial challenge of end users in having quick and easy access to the product is alleviated by the dropshipping mechanism (Choo, John and Stefano 2016). In the dropshipping arrangement, the dropshipper does not have to own capital, instead leverage on the money of the manufacturers or the wholesalers. The dropshipper benefits from the easy way of starting a business without owning capital Jahari and Al-Aidaros (2016). The success recorded by dropshipping and recognition in the e-commerce industry shows that if the leverage is properly managed, the dropshipper can eventual own its own online store Hittle and Moustafa Leonard (2011). In line with the above, in their study which explored a dual-channel supply chain of conventional retail channel and an online channel, Yu et al. (2017) found that when the retailer has comparatively low market power, both the manufacturers and the retailers benefit from dropshipping. However, Gan et al. (2010) espoused the presence of information asymmetry in the tripartite relationship existing between the end user, retailer and the manufacturer. The study noted that the retailer who is the middleman between the end user and the manufacturer possesses privilege information about the description of the end user's demand, as well as information on the quantity and quality of the available stock for supply by the manufacturer, whereas both the end user and manufacturer do not enjoy such privilege (Ahsanath 2011). Therefore, the information asymmetry gives room for opportunistic behaviour that may be exploited by the retailer to maximize his own interest at the detriment of either or both the end user and manufacturer. The end user might get a delayed or substandard good while the manufacturer is short paid. The situation is further complicated by the lack of crisis management in the supply chain management Hittle and Moustafa Leonard (2011). In order to improve the confidence of the end users on the platform's arrangement, bogus terms and conditions guiding the legality of the transactions and return policies are stated on the platform. It is however instructive to note that this contract of adhesion further entrenches the power of information asymmetry. In fact, in ethical business transaction not only promotes full information disclosure but also ensure observance of international best practices that are compliant with certain level of morality. Thus, issues arising from information asymmetry which provides privilege information and knowledge to one party over the other in the same transaction is minimized, and adequate redress given when it happens, Zhao Mengrui (2015). In the Islamic finance legal principles, it is an established position that sale of goods is only valid with ownership by the seller, and discrepancies occurring from order descriptions and delivered product will render the contract invalid as it may lead to moral or financial hazard (Hassanain 2016). Additionally, the retailer who benefits in terms of profit arising from the dropshipping mechanism does not bear inventory risk. Thus, violating the Islamic legal maxim of "Al-Ghurm Bi Al-Ghunm" meaning, profit is justified with risk (Zuhailī 2006). Given the above background, the growth of online business across the world and most especially, the rapid growth of users of Islamic contracts for executing both simple and complex shariah compliant business transactions across different geographical boundaries, there is a compelling need to ascertain whether the existing operational procedures for dropshipping are compliant with the Shariah or not.

Therefore, this study aims to explore whether the existing dropshipping model complies with the shariah. The study will also elucidate on the juristic conditioning of dropshipping from shariah perspective and what needs to be done to put dropshipping in its right perspective without violating the fundamental principles of shariah.

This paper is organized as follows. Section 2 reviews the related literature on the concept of Drop shipping and proposed relationships in the conceptual model. Section 3 describes the benefits and shariah challenges of Drop shipping. Section 4 analyzes the data from classical and contemporary literature and presents the results. Section 5 discusses interesting findings of juristic conditioning (Takyīf fiqh) in the study. Finally, Sect. 6 concludes the paper, states the limitations of the study and recommendations for future research.

2 The Concept of Dropshipping and How It Works

Dropshipping involves the process where the dropshipper (a retailer) does not keep the products it sells in stock. Instead the dropshipper sells the product by leveraging on the availability of the item for sale from the third party (manufacturer) and has it shipped directly to the customer. With this arrangement, the retailer focuses more on marketing strategies that ensure more customers acquisition and is relieved of the costs and efforts that come with production and distribution Yao et al. (2008), Yu et al. (2017). It is important to note that in the conventional supply chain, there is the manufacturer, the wholesalers, the retailers and the consumers Zając (2014). The dropshipping method shows that the merchant sees or handles the product to ascertain the agreed conditions and terms as required in purchase-sales agreement Mathien and Suresh (2015). The core distinction between dropshipping and the conventional retail model is that the drop shipper does not own stock or own inventory. Instead, the dropshipper purchases needed inventory directly from the third-party with the order to ship directly to the end customers Yu et al. (2017).

The drop shipping mechanism has four cardinal points to complete its operational procedures in the entire supply chain space. Firstly, individuals or corporate entities willing to leverage on drop shipping will have to set up an online seller account with any of the leading online stores such as Amazon, Alibaba, Lazada etc., (Pretorius 2001). These online stores are in this situation considered as the owner of the advertising platform where retailers can market and sell products. Every registered retailer will have to abide by the terms of the chosen online platform. Secondly, the retailer will have to find competitive dropshipping companies that are efficient and effective in their various product lines (Zorzini 2018). The trust of the dropshipper is essential because the retailer will have to rely on the information provided without physical confirmation. Thirdly, the retailers will have to go through the catalogue of the selected drop shipper, choose the product he/she wishes to sell, upload the identified items online to the chosen platform where customers can order for it (Zorzini 2018). It is important to note that cheap and reliable items are the most attractive goods for sale on online platforms. The customers shopping online are usually conscious of value and money back from the purchased goods and services. As much as the price is important, the drop shipper that will ensure the product is adequately shipped and delivered is also very important in the online business (Michael 2017). Ayanso et al. (2006), also emphasized that order fulfilment is noted as one of the weakest links in e-commerce. The final step is to sell the items on the platform, monitor the payment, shipping and receipt of the product. Through this, it is evident that the retailer is neither buying any goods with his/her money nor stocking the products yet making money by leveraging on the structured supply chain system (Michael 2017). Below is the diagrammatic representation of the dropshipping operational procedures (Fig. 1):

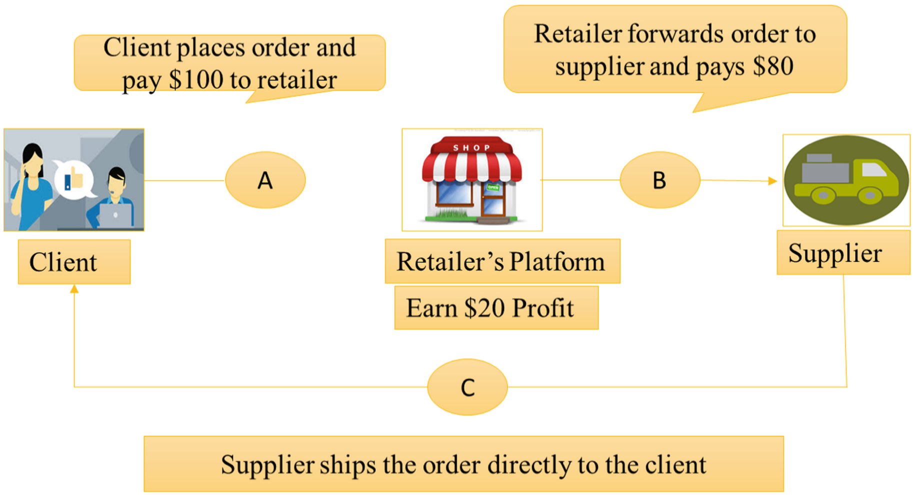

Fig. 1. Dropshipping model example

3 The Benefits and Challenges of Dropshipping

Dropshipping is one of the latest supply chain disruptions and common e-commerce mechanism that required less capital to start with greater profit. Dropshipping became very attractive to many potential merchants because little or no capital is needed to leverage on the dropshipping business, attracting wider customers reach while prompt and efficient delivery are achieved. The merchant as retailer only leverage on the existing supply chain using the online opportunities and make lots of profit with less floatation cost or capital outlay. Dropshipping has introduced lots of people into an online business without investing money in the inventory up front compared to the traditional retailers that have to tie up vast amounts of capital purchasing inventory Chopra (2003).

The general perception of the market shows that drop shipping method is easy to get started since the merchant do not deal with the physical goods. Hence, in dropshipping, retail merchants have no worries about managing or paying for a warehouse, packing and shipping orders, tracking inventory for accounting reasons, handling returns and inbound shipments and continually ordering products and managing stock level (Victor 2018). Moreover, since retail merchant in drop shipping method does not have to deal with purchasing inventory or managing a warehouse, the total overhead is low compared to the conventional businesses Chopra (2003).

Another reason why drop shipping method is attractive to the modern merchant is that of its flexibility of the location of the business. The merchant can operate from the comfort of his/or her room. Many online retailers are small portfolio office that operate just with the laptop anywhere there is internet access to communicate with suppliers and customers Mathien and Suresh (2015). The benefits of dropshipping are desirable to an average retailer because it is a tested and trusted model in the conventional supply chain which requires little capital to start and provides convenience and efficiency to the parties involved. The dropshipping companies benefit immensely by reduction in marketing costs as lots of online retailers marketing their product online and facilitating awareness of the product to the end users through the use of online platforms (Michael 2017).

Sometimes, the customers are concerned about getting access to the product needed to ascertain its specification and payment procedures. The dropshipping mechanism has reduced the concerns of customers in locating the manufacturer because order for desired products can be made online through the dropshipping platform. All of these benefits make dropshipping an attractive model to both beginner and established merchants, (Michael 2017) However, despite the convenience and flexibility derived from the use of the dropshipping mechanism, it does have its challenges (Lazzazera 2018). There are several disadvantages from drop shipping in the supply chain system. One of the significant concerns of merchant retailers in drop shipping is the issue of low margins due to the competitive pricing of items in the dropshipping system. Since it is easy for the retailers to get started without capital and sometimes low overhead cost, many merchants will set up shop and sell items at rock-bottom prices to grow revenue Chopra (2003). The merchant can maintain low pricing of the items because they have invested so little in getting the business started so they can afford to operate on a meagre margin. Another challenge using the dropshipping mechanism relates to the keeping of inventory (Lazzazera 2018). Since the merchant retailer is not keeping any stock of his/her own, it is relatively difficult to keep track of the availability of the items in the warehouse. The dropshipping warehouse or companies usually have multiple order from different wholesalers or retailers, hence, the process of fulfilling the mandate for merchants and stock of inventory changes on a daily basis. Even when the retailer synchronizes the store inventory, the supplying drop shipper may also not provide adequate technology required to support the need of the merchant in the drop shipping cycle. Additionally, the challenge of complexity in shipping when ordering with multiple suppliers remains a daunting task for the retailer. For instance, if a customer placed an order for three items with a merchant online and the merchant is getting that three items from three different suppliers, the multiple suppliers is charging different shipping cost and thus seems too expensive for the customers who is not conversant with the back-end operations Hayes and Youderian (2013).

Also, supplier errors such as shipping to the wrong location or shipping different item remain significant challenges to the dropshipping business. Needless to say, that it is hard to sell items that you never saw but rely majorly on information and trust of the manufacturer's brand and word. The common issue is that the best drop shipper makes mistakes occasionally while the mediocre one makes lots of errors. The smart and successful suppliers in the drop shipping cycle are fair and reasonable by continually exploring means to remedy the situation by providing customers with options such as refund, re-shipping at no cost, apologies, etc. Hayes and Youderian (2013) explained that accepting liability for mistakes made in business is one of the keys to sustainable dropshipping business. Moreover, e-commerce analysts have commented that dropshippers might be sued by the owner of the goods or the manufacturer for selling its good without permission particularly when the goods have intellectual property (IP) that is copyrighted or a trademark brand (dropship lifestyle). On the other hand, when dropshipper gets permission from the owner before selling its product online and mentioned this on the website, it has fulfilled one the requirements of parallel salam. Similarly, the inventory issues such as the challenge of missing or broken items are frequent challenges in dropshipping. The query of who should bear liabilities on the missing or damage inventory usually arise between dropshipping arranger, the buyer and dropshipping supplier Corey Ferreira (2021). Usually, in the event of discrepancies leading to law suit, dropshipper and supplier are quick to invoke the contract of adhesion that was written by them and required the consent of the end user (which they may not adequately understand).

Despite the challenges in the drop shipping business, it remains one of the successful enterprises of the 21^{st} century. It has increased the income of the people by creating more jobs to the willing business individuals and has improved customers' experiences via easy access and timely delivery of products (Chen et al. 2011). Thus, dropshippers who are concerned about the Shariah compliance of the business model have to give adequate considerations for the potential shariah issues in the entire dropshipping model to maximize the embedded benefits in a halal manner. This is discussed in the next section of the study.

4 The Shariah Issues in Dropshipping

The shariah law is meant to guide the affairs of humanity and protect the entire ecosystem. The fundamental principle in Islamic commercial transaction is that every business activity remains permissible except if there is any clause or situation that rendered it impermissible. *"Al-Aṣlu fi Al-Ashyā Al-ibāḥa illa mā warada nasun sariḥun li taḥrīmihi",* (Zuhailī 2006).

Dropshipping is a modern transaction where the retailer does not keep stock instead it purchases on behalf of the customer from the third party with the instruction to ship the item directly to the customer. In some cases, end users hold a perspective that the ownership of the goods rest with the retailers as they have found the item(s) on the virtual desk of the retailers giving the end users the impression of availability and prompt delivery Grover and Ramanlal (1999). Whereas, in most cases, the retailer may not have had physical contact neither with the goods nor the manufacturer. This generates some shariah concern especially the principle which relates that sellers must have ownership before he/she can transfer title of the goods to a third party. This study therefore aims to explain the related shariah issues in the drop shipping cycle and provide juristic adaption based on Islamic fundamental principles and maxims.

The first jurisprudence issue relating dropshipping from Shariah view point revolves around product delivery based on descriptions by the customer. The delivered product must conform strictly to the shape, size and color that warranted the customer to place the order on the dropshipper platform. It must also fulfil the quantity by the customer. Placing order and delivery in the supply chain transaction must not violate the rights of the involved parties. Secondly, the sale of what you do not own is a fundamental issue in Islamic law based on the tradition of the prophet which stated thus: It is prohibited to sell what you do not own,

> *"La yajūzu bai ma la tamlik"* [Do not sell what you do not possess] (Abi Dāwūd, no. 1318 1999). *In the matter at hand, the merchant in the dropshipping supply chain is not really considered as the owner of the item because the transaction is done without possession of the goods rather leverage on the demand and supply need of the customers and dropshipping via the supplier who has ownership".*

One relevant question in this scenario is whether the merchant in the situation of dropshipping can be considered as middle man wholesaler or retailers, or as an agent that is coordinating the transfer of goods between two parties. One of the focal concerns of the shariah compliance principle is the elimination of situations and clauses that might cause dispute between the contractual parties. Shariah law aims to reduce ambiguity in the sold item, ownership of the goods and who bears the brunt of liability in the event of default or breach of contractual terms.

Although, it is well established in the tradition of the prophet (PBUH) that: "Do not sell what you do not own" (Abi Dāwūd, no. 1318 1999). *However,* Ibn 'Abbas narrated that: "The Prophet came to Medina and the people used to pay in advance the price of dates to be delivered within two or three years. He said (to them), 'Whoever pays in advance the price of a thing to be delivered later should pay it for a specified measure at specified weight for a specified period' (Al-Bukhārī, no. 2239 2002). This narration of ibn Abas indicates that there is an exception to the general rule which is applicable using a contract called Salam (forward sale). In Salam contract, the merchant undertakes to supply specific goods to the customer at a future date in exchange of an advanced price fully paid on the spot. The item is paid for by cash whereas the seller delivers it at a later date. The Prophet (peace and blessing be upon him) made a concession for this type of sale when he saw many farmers using this model of financing to fund their work.

5 The Juristic Adaptation of Dropshipping

Dropshipping is one of the latest enduring disruption to e-commerce business providing benefits to the entire dropshipping cycle. Hence, this study aims to explain the possible shariah complaint model for dropshipping activities. This is in line with the fact that Islamic law extols the efforts of rectifying the drawbacks in worthy causes and put it in its proper context according to the Maqasid Sharī'ah (Al-Sayyid 2004). The aim of the Sharī'ah is not necessarily to condemn the present practice rather to make (Takyīf Fiqh) juristic adaptation of the existing structure to make it shariah compliant following the shariah and protecting the entire dropshipping cycle. In this light, the Wakālah (agency contract) and parallel Salam (parallel forward contract) models are two Islamic financial contracts that a dropshipper or merchants in the dropshipping cycle can considered to ensure shariah complaint of the product and services. The two Islamic contracts and their juristic adaptation to dropshipping are explained in the next paragraph.

5.1 The Wakālah Model for Dropshipping

Wakālah (agency) is a mutual contract between principal parties on a subject matter. The principal parties are the two parties to the agency contract while the subject of the agency contract is for what the agreement is based upon. According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standard 23, (2015), Wakālah "is the act of a party delegating the other to act on its behalf in what can be the subject matter of delegation" and it is thus permissible". In Islamic law, the element of agency contract (Arkan Al-wakalah) are four. The majority of jurists list four essential elements for the agency to be valid. These four elements are the *sighah (the form)*, *muwakkil (the client)*, *wakil (the agent)* and *muwakkil bihi (the subject matter), (*AAOIFI no. 23 2015). First; the form of the agency contract which is any form of customary practices that indicate offer and acceptance of two parties either by the utterance of wording or gesture of messaging as construed in commercial practice (AAOIFI, no. 23 2015). Secondly; the *Muwakkil (the client)* is the principal person who delegates his disposition to another person, to act on his behalf in a subject matter. Thirdly, the *wakil* (agent) is the other principal person who accepts delegation to act on behalf of and for the *muwakkil*. The AAOIFI no. 23 (2015) stipulates that the principal persons; the client and the agent in the agency contracts should possess legal capacity to a contractual agreement. Hence, the two-principal person should have right to the disposition and not an incapable person like a lunatic or minor. In agency contract, the agent should be aware of his/her status as an agent to a specific subject. Otherwise, the contract will be treated like an un-commissioned agent (fudūlī), (Khālid 1999). In Islamic jurisprudence, an un-commissioned agent (fudūlī) is a person who discharged or act in the disposition of the affairs of another person without being an agent or having the right to do so (AAOIFI 2015). Ibn Taimiyyah (728H) explicated that the permissibility of sales of *fudūl* is assumed pending until the owner confirmed its permission (Ibn Taimiyyah 2004). Hence, the approval or denial of a contract concluded by the un-commissioned agent is subject to the discretion of the owner.

However, the AAOIFI no. 23 (2015), also stipulates that the *muwakkil bihi* (subject matter) should be known to the principal persons and must not be an ambiguous item or commodity. The standard clarifies that minor Jihālah (unknowability), that does not create dispute or disagreement between the principal person over the subject matter can be overlooked. The AAOIFI, no 23 (2015) also stipulates that even though the agency contract is basically not binding on principal parties because each party has the right to revoke the agreement, yet it becomes binding on the parties when it involves the right of other parties, when it is a paid agency, and when the agent undertake the contract for a period of time and cannot be discontinued until maturity because a halt might cause injury to party in the agreement tenable in the court of law. To make the dropshipping mechanism compliant to the Sharī'ah, the proposed model is shown below (Fig. 2):

5.2 Agency (Wakālah) Procedure in Dropshipping

In an agency (Wakālah) model, the merchant (Wakīl) remain agent that is mediating relationship and transfer of goods and services between the customers and the dropshipper supplier. The merchant operates exchange of goods and payment between customer and dropshipper supplier with the knowledge of both parties (Al-Sayyid AbdulḤalīm Muhammad Hassan 2004). The customer ordering a product online is aware the merchant responsible for the platform is a middle man and there is another independent dropshipper supplier who will ship the goods to an agreed location of the customer (Yu et al. 2017). For instance, on one hand, the customer A ordered a mobile phone from merchant B who is the owner of an online platform. On the other, the merchant has another platform to place order for supply of commodities from dropshipper suppliers to different locations. The merchant charges and agency fee are reflected in the price available online for the customers.

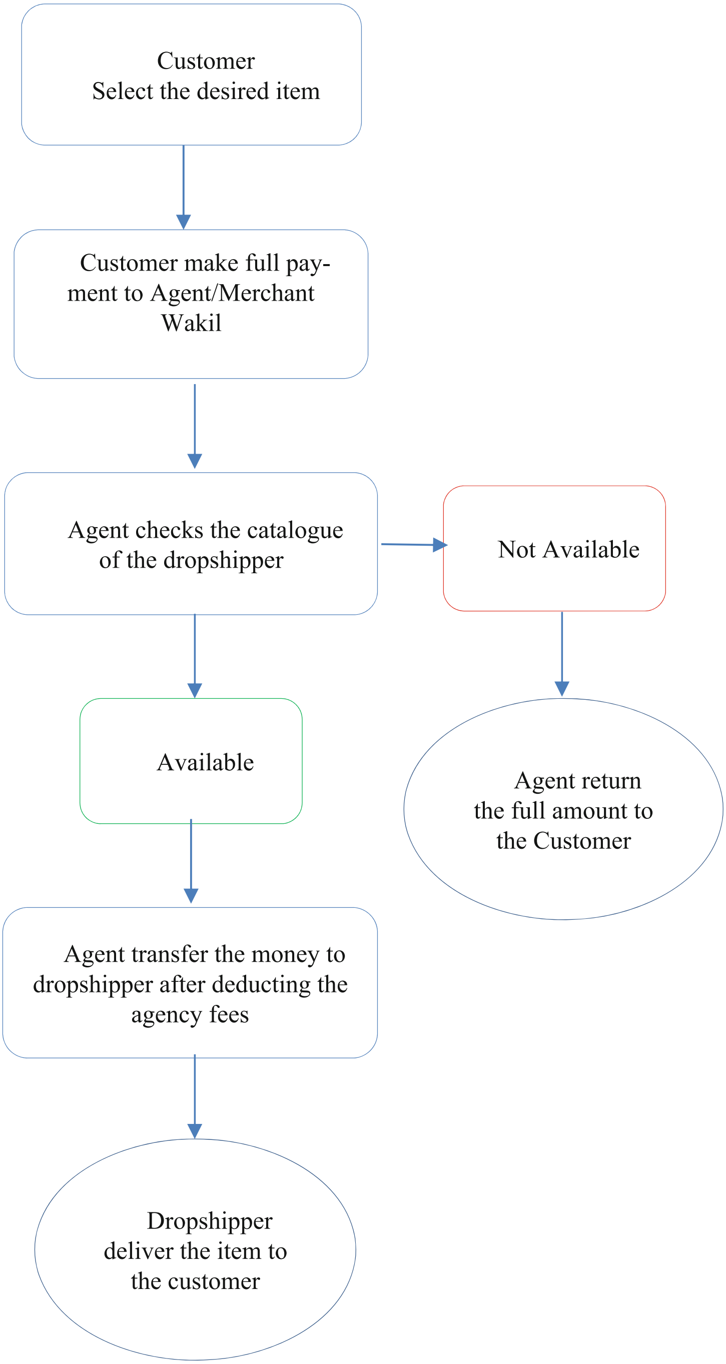

Fig. 2. Proposed agency (Wakālah) contractual model for dropshipping

5.3 The Parallel Salam Model for Dropshipping

Salam (forward financing transaction), where a party pays in advance for buying an item to be supplied by the other party at the pre-agreed date (AAOIFI, no. 10 2015). The Salam contract is a debt like contract because the object of the Salam contract is the liability of the seller until the agreed future date of delivering the subject matter. Although, there exist an authentic tradition of the prophet (PBUH) that forbids sales of what you do not own, yet the Salam contract is considered as a contract where the subject matter is a recompense for the price paid in advance, just as the price is recompense paid for getting the goods in advance (AAOIFI, no. 10 2015). The idea of Salam is to provide a mechanism that ensures the seller has the liquidity they require to enter into the transaction in the first place. Muslim jurists are unanimous that full payment of the purchase price is key for Salam to exist. However, Salam cannot take place in money or currencies as these are subject to rules relating to bai al-sarf, wherein exchange must be simultaneous (Amer 2015).

Salam contract also has three essential elements: first, the form which depicts the commercial customs and practices that dictate forward financing transaction in a given jurisdiction. Secondly, it has a subject matter which includes the capital of Salam and the proposed item for delivery. Thirdly, is the delivery merchant and the receiving client, (AAOIFI, no. 10 2015). On the other hand, Parallel Salam (Parallel forward contract) is the process of selling goods to be delivered even at the date and time of delivery of the original Salam. There are two independent contracts in Parallel Salam arrangement; the delivery merchant is a buyer and the other one which is the seller. According to the requirement of parallel Salam, the two contracts cannot be tied up in a way such that the rights and obligations of one contract are dependent on the rights and responsibilities of the parallel arrangement (Amer 2015). Hence, each contract should be independent of the other in the performance of its obligation and claim of its rights. For instance, if merchant A purchased from supplier B, 100 bags of rice by way of Salam to be delivered in a week's time, merchant A can contract a parallel Salam with C to deliver to him 100 bags of rice on the same date. But while contracting Parallel Salam with C, the delivery of the item to C cannot be conditioned with taking delivery from supplier B. Therefore, even if supplier B did not deliver the bags of rice on the agreed date, merchant A has the duty to deliver the agreed quantity of rice to C. He can seek whatever recourse he has against supplier B, but he cannot rid himself from his liability to deliver the bags of rice to C. Similarly, if supplier B has delivered defective goods which do not conform to the agreed specifications, merchant A is still obliged to deliver the goods to C according to the specifications agreed with him because of the Islamic maxims:

"Al-Iḍtirār la yubṭilu aqa Al-ghair" difficulty cannot vitiate the right of others (Zuhailī 2006). By inference therefore, employing the parallel Salam model will make dropshipping arrangement to be Sharī'ah compliant because it ensures that the end user gets the right ordered quantity and in the right quality. More importantly, it offers juristic clarity that allays the fears of the Muslim consumers that using parallel Salam, the retailer can sell to end users even though ownership resides with another entity (the supplier). Thus, in the event of default or mismatch of the delivered order, the end user has recourse to the retailer merchant full compensation to either refund or replace the

order Jahari and Al-Aidaros (2016). The parallel Salam model for dropshipping is shown below (Fig. 3):

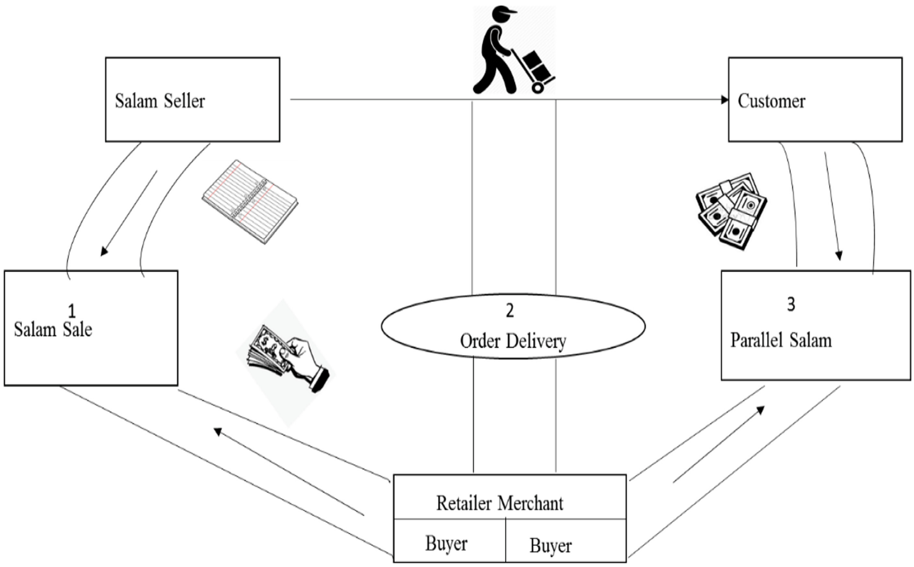

Fig. 3. Parallel Salam model for dropshipping

5.4 Parallel Salam Procedure in Dropshipping

In parallel Salam, the merchant remains the fulcrum of the transfer of goods and services between the buyer and seller. However, the retailer merchant in parallel Salam maintains two separate and independent Salam contract. In the first Salam, the retailer merchant is the Salam buyer on behalf of the customer. Also, in the second Salam contract, the retailer merchant is also the Salam buyer while the dropshipper supplier is the Salam seller. Parallel Salam is distinctively characterized by operating two independent contracts between the same supply chain. The model above is explained thus:

1- The retailer merchant (buyer) based on order made and money collected from the customer makes purchase order from the supplier and pays full amount on the spot in return for future delivery (dropshipping) of the item directly to the customer at the agreed date, location and right specification.
2- The supplier will deliver the prescribed order at the agreed location and date to the customer.

3- In the event that the first Salam seller fails to deliver the agreed item at the due date, the retailer merchant contracts another Salam seller to drop ship directly to the customer possibly at a higher spot rate paid in full.

It is important to note the followings:

(a) The retailer merchant in the first contract is a Salam buyer and remains so in the second contract.
(b) The dropship supplier is allowed to ship the goods directly to the buyer (client) if the merchant has any mechanism to ascertain the specification such as video recording of the goods.
(c) The parallel Salam concept might incur extra cost if the goods is not shipped directly to the client because of double delivery as compared to agency (Wakālah) contract.

In the scenario above, it can be deciphered that there has been adjustment or a proposition of waiver to the traditional modus operandi of a Salam and Parallel Salam. Originally, in a Salam contract, the retailer merchant is expected to take delivery of the item for onward transfer to the customer. Following this traditional route will increase cost and would have run counter to the dropshipping ideals of avoiding double transportation cost. Thus, to render it compatible with the dropshipping procedures, instead of taking delivery, a proviso is included that the supplier sends the product directly to the customer. This procedure would not in any way jeopardize the Salam contract as the reason in this part of the contract is the delivery of the item in the right quantity and quality with the intent of reaching the intended user at the agreed time.

Additionally, in the parallel Salam, which is the last part of the transaction, in the event of a failure in delivery, the retailer merchant can have a recourse to another Salam seller in the pool to quickly forward the item to the customer to avoid reputational risk and can later claim damages from the initial Salam seller.

5.5 Salam-Dropshipping Risk Mitigation

Considering that Salam contract involves upfront provision of spot payment to seller who makes delivery in the future, the contract is inherently laden with some risk possibilities. With respect to dropshipping in relation to Salam, the following risks and their mitigation methods are identified (Table 1):

Table 1. Dropshipping risks and mitigations

Risks	Mitigations
Counterparty and Delivery Risk • Supplier may defect after collection of money from the retailer merchant. • Supplier may deliver items that does not meet the customer's specifications.	• The retailer merchant must enter into a binding contractual agreement (MOU) with the seller that will allow him claim damages if the supplier defect, or the provision of guarantor. • The retailer merchant also has the opportunity of Parallel Salam by locating another Salam seller from the available pool. • A performance bond or collateral securities can be set aside to mitigate the risk.
Commodity -Price risk • At the time of deliver, fluctuation in commodity price may render the initial or agreed Salam price lower than market price causing losses to the supplier	• The retailer merchant can request a promise to supply irrespective of fluctuation in price from the supplier. • Hedge using futures.
Early Termination risk • Due to unforeseen contingencies, the Salam seller may decide to revoke the contract by giving refund half way and refuse to supply the items as requested	• The supplier does not have the right to refuse delivery without the consent of the retailer merchant. A refusal to deliver may attract penalty or damages as from the seller.

6 Conclusion and Recommendations

Dropshipping is one of the modern financial reality that is gaining momentum in the supply chain industry. However, the shariah law permits all business transactions except that which violates fundamental principles in Islamic law such as riba (usury), Jihālah (ambiguity), Gharar (deception) and other causes of disagreement among contractual parties. Any situation that can trigger violation of terms of the contractual agreement is forbidden in Islamic law. Hence, the issue of non-disclosure of the role of merchant as the middle man between the customer and the supplier dropshipper is competent of causing violation of right of contractual party. Also, the prohibition of selling something you do not own is indisputable. However, the allowance of the Salam transaction shows us that there are exceptions to this rule. Therefore, Islamic law permits dropshipping as a business that gives lots of benefit to the parties involves in as much it can remove elements capable of causing disputes among contractual parties. Thus, with the model propositions explored in this study, it has shown that both Wakālah (agency) and parallel Salam can be used as financial contracts for dropshipping. The Wakālah contract expanciated on the permissibility of the retailer acting on behalf of the dropshipper even though he does not have real ownership nor bear any inventory risk. Also, to complete the juristic adaption of dropshipping, the parallel Salam confirms that the option is available to the customer to make full spot payment and get the delivery of their product at a later date. The issue of information asymmetry has been addressed as long as the absence of such information is not significant to put any party to the transaction at a jeopardy. This study is limited to qualitative approach as it apply the principle of juristic conditioning (Taqyīf fiqh) to develop a new and practicable approach to modelling shariah compliant dropshipping for entrepreneurs.

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