

Islamic marketing ethics and its application in Islamic banking industry

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Abstract

The term Islamic marketing has gained a lot of attraction in recent days among the Shariah scholars and financial marketing experts. A lot of research papers and journal articles have been published in magazines and newspapers which in fact created a massive awareness among the people on this topic. This particular sector of Islamic marketing has now become a great area for research and project works. Even though after all these publications related to Islamic marketing, there is no well formulated rules and regulations for governing marketing principles and process on the light of Shariah. In order to fulfill this gap, this paper on Islamic marketing will discuss all core components of marketing in both conventional and Islamic system. Further it explains the concept of Islamic advertising under the sub topic promotion. Every topic have been well analyzed through the lens of Shariah with reference from its authentic sources. All the topics have inter-related in order to give continuation flow for the readers.

Key words: Marketing, Shariah, advertising and ethics.

Introduction

Marketing is one of the major core processes in the modern business world. All the products from the manufacturer or producer come to the consumer's hand only through the process of marketing. In early times marketing in trade doesn't exist in a separate name or entity because of its transaction limitations. But today in this modern world, because of the wide expansion of trade and businesses, marketing holds a crucial role and it is also considered as an important sector for the growth and development of the entity. As Islam is the religion for the whole mankind and a unique way of life, it provides perfect guidance for all the activities regarding trade and business. Regarding marketing there are many regulations formulated by the modern Shariah scholars which were extracted from the primary and secondary sources of Shariah. Even though these regulations were structured exclusively for the Islamic Halal entities, it can also be extended to other companies and industries on an ethical basis which may give fruitful results for the society as the whole. Till date there is no significant work has been done on this topic of Islamic marketing through which its

door for educational field works and projects have been opened for scholars and marketing experts.

Even though some journal articles and news reports has created some awareness on this subject, it needs a lot of in depth researches and project work for understanding this issue on both theoretical and practical perspective. This paper discusses all the main components of marketing on a conventional worldview and addresses the Shariah issues with references from its authentic sources and Shariah opinions of scholars.

Defining marketing:

The term marketing has been defined in different terms based on the different worldviews that the scholars and experts hold in this field. In a common layman view the term marketing can be defined as the process of determining the needs and wants of consumers and being able to deliver products that satisfy those needs and wants. Marketing includes all of the activities necessary to move a product from the producer to the customer. In other words,

it can be defined as a bridge in which the process of linking the producer with the customer takes place.

Conventional definition:

The American marketing association defines marketing as follows.

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (*Approved October 2007*)¹²⁹

Islamic marketing:

In Arabic the term marketing is defined as Taswiq (التسويق)

Islamic marketing can be defined as the process of identification and implementation of value maximization strategies for the welfare of the stakeholders in particular and the society in general governed by the guidelines given in quran and sunnah.

Five P's of marketing:

Marketing is mostly related to 5ps in conventional system namely product, pricing, promotion, place and people. These five Ps were considered as the major components of marketing. if any one of these components were not up to the task, then the marketing remains as an incomplete process. Basically Islam is not against all the conventional practices and systems, rather in this modern day it screens all the market practices through the process of Shariah and evaluates with consideration of situation and environment and finally gives suggestions for change or development in the particular issues. Based on the above statement we now screen the five major components of marketing through the lens of Shariah by which we can easily identify the components which contradicts Shariah in its theories and practices. Further we compare and contrast these five components with the Islamic financial sector.

Product:

Products are considered as the doors of marketing. If there is no product, there is no need for marketing. Initially in conventional marketing there is no restriction in the products. Anything which has value is considered as an product for sale in the market. But today the situation has changed a lot. Now some countries have the concept called socio economic cost in which they consider the social welfare and benefits of the society as the whole. Based on this principle they have made some restriction on certain products which are considered as harmful to their people. In Islam this concept already exist in the name of Maslaha and was practiced in many countries for centuries. Islam strictly prohibits the act of trading and marketing products such as alcohol, pork, gambling, adultery, cigarettes etc. today all these prohibited elements by Shariah were considered under the socio-economic cost in the conventional system.

Islamic banking products:

The development of Islamic banking products should be visualized quite differently as compared to western thinking because both have its own practices and system which in some cases contradicts completely from a practical angle. So the Islamic banking products need extra attention in the development of products without violating the norms of Shariah. Basically the products which are offered in Islamic banks should be 100% Shariah compliant. If not then there is no more discussion in this issue. Even though in countries like Malaysia, products such as inah and thawarruq which are considered as non Shariah compliant products by majority of today's modern scholars was in practice for many years. But in recent days many banks have stopped offering these products based on its doubtfulness. So the Islamic banks should be very clear regarding the products they offer in the market. Every Islamic bank should be aware about the Shariah risk in each and every product they introduce in the market. As the Shariah risk exist only in Islamic finance sector, the banks should always have a strong Shariah advisory committee through which they can offer fully Shariah based and Shariah backed products. The products in Islamic banks should not only be known clearly by the employees, rather it should be taken to the knowledge of the customer through the means of employees working in the bank. Today

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80-90% of muslims consider Islamic banking as same as the conventional system. This mentality can only be changed by providing accurate knowledge to the customers of Islamic banks. The customer should understand the underlying contract of the product they took in reference to the sources of Shariah. If the Islamic bank doesn't educate their customers on these concerns then they should be prepared for facing a great arbitrage problems in the future.

Pricing:

The pricing concept has become a vital topic in present Islamic market environment. As Islam doesn't have any restriction over the maximization of profit, many scholars have been debating in this issue for past many years without any fixed solution for it. Normally in conventional system the prices for a product is determined by the demand and supply mechanism. On the other hand Islam also encourages this mechanism with certain conditions and limitations related to the maslaha public interest. Further it regulates the producers and sellers to maintain the same price in the market. Once the second caliph umar bin al-khattab passed by hatib ibn abi balta'ah and found him selling raisins at much lower price with the intention of putting his competitors to loss. Then caliph umar ibn al-khattab told him: either enhance your rate or get away from the market. At the same time islam also condemns the raising of price for a particular product in the market without any accurate reason, rather on the intention of competing with other enterprises. The above statement can be justified based on the prophetic saying: do not raise prices in competition.

Pricing the Islamic banking products:

The pricing mechanism for Islamic banking products have gone through many controversial arguments among the Shariah scholars in recent days. One of the hot debates in this issue is related to the pricing benchmark. Today majority of Islamic banks which operate around the globe, prices their products based on the conventional benchmarking system such as LIBOR, KLIBOR, etc. these conventional benchmarks are purely determined by the interest rate which is completely opposite to the Islamic financial sector. Even though modern scholars such as taqi usmani have granted permission for using these conventional

benchmarks for Islamic banking products, it can't be taken as granted for all times. His Shariah opinion on this regard will be valid for only a certain period of time. In addition he insisted the global Islamic financial sector to establish a new Islamic pricing benchmark based on Shariah principles and regulations as soon as possible. In 2010 ISRA also published a research paper on this issue of Islamic pricing benchmark which was exclusively funded by the bank Negara Malaysia. On the other hand the confidence level of customers of Islamic banks has dropped to a lower level because of the usage of LIBOR in their pricing mechanism. Further it creates a misunderstanding in the Islamic society regarding the Shariah compliance of today's Islamic banks. Thus, the Islamic financial experts and Shariah scholars should work hard together in the process of introducing, establishing and implementing a new Shariah based benchmarking system for the global Islamic financial sector.

Promotion:

A product in a market can be reached to the customer only through the process of promotion. In modern days markets were spending a lavish amount in the process of promoting their products among the public. These spending of a huge amount are basically based on their belief and confidence on the process of promotion. In conventional system a product can be promoted in any way as per the wish and desire of the entrepreneur or seller. But in Islamic system the process of promoting products has been restricted with certain norms and principles of Shariah. Today the Halal branding and advertisement is one of the biggest industries in the world. massive growth of muslim populations in western countries in one of the major reason for the expansion of this industry worldwide. As the process of promotion is solely based on advertising, we will first discuss the concept of advertising in both conventional and Islamic from a common viewpoint, then we link it with the Islamic financial and banking sector with reference to the practices of the market in general.

Islamic injunction in promotion:

Promotional tools, particularly advertising, play a significant role in value orientation, for they shape and mirror the values of society. Advertisements and other promotional measures, applied in Islamic

societies, should project Islamic values. Therefore, special attention must be paid to designing promotions that would help in projecting Islamic values, building customers' characters, and propagating truth in society. Promotions are justified on the basis of Islam's support for trading activities. Permissibility of and encouragement for trading is evident in the following verses of the Qur'an: "Allah hath permitted trade and forbidden riba" (2:275); "O believers, do not eat each other's property by wrong means, but let there be amongst you trade and business through mutual goodwill" (4:29); "When prayer is finished then disperse through the land in order to seek the bounty of Allah." (62: 10) Since the ultimate aim of all promotional tools is to enhance trading, activities like advertising, PR, sales promotions, and contests are Islamic if they are consistent with Islamic principles and injunctions. Firms are, therefore, justified in spending reasonably on promotional activities with a view to informing consumers, who are entitled to know the exact qualities, quantities, and value of products on the market.

Introduction to advertising:

Advertising is one of most important vital sector in the marketing field. As Islam is the practical way of life for the whole humanity till the end of times, it guides towards all fields essential for the humanity for its survival and well being. Based on this fundamental principle it has provided all essential basic fundamental needed for the business and trade. Even though advertising seems to be a modern concept, its basic methodology have been basically linked with the Shariah based theories and principles. In addition the modern Shariah scholars have channelized many regulations for advertising in marketing sector which will be discussed shortly below.

The basic primary motive of advertising is to inform the people or community in general about certain product, idea or service and persuade them in some way to buy that product, to adopt that service or encourage that idea. But in order to implement this easy defined process of advertising, the companies and entities should follow certain ethical norms and cultural traits which are based on the beliefs and value of a particular country or region. If this is not done so, then the advertising process will end in failure. For example in certain countries advertising in public utility poles, trees,

shrubs and painting on rocks or natural features were prohibited under the act of preserving natural resource and public properties¹³⁰. So these kind of advertising will not only be taken out, rather they will penalized by the government authorities which may cause some damages for the goodwill of the company or entity. in addition to this ethical issues there are some social related as well, which should be considered in the first level. A society that has multi ethnic groups like Malaysia; commercial advertisement must recognize those groups feelings and culture traits in a way what is considerate to their ways of living. The Islamic Shariah also acknowledges the above mentioned social ethical based advertising methods.

The process of advertising in both conventional and Islamic starts with claims. It can be also considered as another alternative name for advertisements. Allah the almighty says;

And they have made the angels, who are servants of the Most Merciful, females. Did they witness their creation? Their testimony will be recorded, and they will be questioned.

The above verse states the claim of Christians who used to say that the angles are women and female. This is in fact a false claim in nature. So Allah the almighty warns them, that they will be questioned in the Day of Judgment regarding their claims that they have made in this world.

Truthfulness: Advertising is an activity to which communication is essential. The Qur'an has laid down certain norms of communication which should be strictly observed in designing advertisements. The Qur'an enjoins upon us the necessity to speak the truth (33:70; 4:9).It also emphasizes justice, "And when you speak (make sure that you) speak with justice"(6: 152). Those whose tongues utter any falsehood will be the first to be driven to hellfire (16:62). Those who preach what they do not practise are under the devil's influence (26:226). Allah asks the believers, "Why do you say what you do not profess?" and gives stern warning of His anger to those who lie (61:2-3). There are numerous verses which emphasise fulfilment of promises (2:40, 2: 177, and 17:34).

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One may conclude from these injunctions that whatever is communicated through advertisements (and other promotional means) must be accurate and truly representative of the product or service advertised. There should be no false or misleading price claims or savings claims in advertisements. Similarly, there should be full and explicit disclosure of (2:42) the terms and conditions pertaining to guarantees and warranties.

Allah speaks of enterprise and struggle for livelihood as "seeking His bounty" (62: 10). Promotional activities leading to healthy competition among firms are acceptable, and should be encouraged

Ethics based claims in advertising:

The major difference between Islamic and conventional marketing system lies in the concept of faith and belief. In conventional practice and system every concept and principles are based on rational thinking and reasoning but in Islamic system the concept of *Falah* plays a crucial role, in which it takes this worldly life and hereafter into account. Further its principles and theories were completely based on revelation. Based on this difference if we look at the above Quranic verse we can conclude that in Islamic advertising the claims are not treated so easy as conventional. All the claims which were made in the process of Islamic advertising are answerable to almighty Allah and the concept of accountability should be taken into strong consideration by the Islamic advertising companies. Initially the illusory promotion giving false impression regarding a product or service is strictly proscribed in Islam, and marketers should hold ethical grounds when creating ads that are neither false or misleading. In today's market environment the images and pictures shown in the advertisements totally differs from the original product. Many customers have been misled by this illusionist concept and their expectations have been spoiled by the marketing entity. According to Islam this act is regarded as a modern cheating tactics and it strongly condemns it in all circumstances. Prophet Muhammed sal condemned all forms of deceptive promotions by saying "one who cheats is not among us". Fixing this statement of prophet as a benchmark we can easily screen all the activities of advertising for testing its Shariah compliance. For example the ads containing excessive exaggeration are regarded as a form of

lying, and lying is prohibited as it leads to cheating and cheating is also prohibited in Shariah. Thus a seller in an Islamic market should disclose the defects in the products he sells and at the same time he should not make any false claims in his process of advertising.

Advertising through Islamic terminologies:

Another advertising practice which is commonly seen in many Islamic countries today is concerned with the usage of religious term. Some organization in these countries use the Quranic verses and prophetic hadeeth in their commercial ads for promoting their products among the muslim locality. In some ads we can find the terminologies like *bismillah*, *allahu akbar* *Assalamu Alaikum* etc. The main of using these kinds of religious identity is to show to the people that their products are Shariah compliant. Normally muslims around the world are influenced by their religion in all aspect of life. When they come across advertisements with Quranic verses, their confidence level of that particular product will remain high in their heart and on the other side the demand for this product will increase eventually. However these kinds of advertisements can be allowed by Shariah law only with a condition that the ads are true without any exaggeration and without any form of lying.

Spending Behaviour:

The Qur'anic model regarding spending is summarily expressed the following verses: "when they spend, they are neither extravagant nor niggardly, but hold a just balance between these (extremes)" (25:67); "Make not your hand tied like a niggard to your neck, nor stretch it forth to its utmost reach, so that you become blameworthy and destitute" (17:29); "Waste not by excess, for Allah loveth not the wasters" (6:141); "Squander not (your wealth) like a spendthrift," and, "surely spendthrifts are brothers of the devils, and the devil is ungrateful to his Lord" (17:26-27). These verses lead to the conclusion that all promotional activities leading to wastefulness should be discontinued. Every Muslim living in any society across the globe is expected to adopt a moderate attitude in the procurement and utilization of resources, as both extremes (i.e., extravagance and miserliness) have been disapproved of by Islam.

Advertising Islamic banking products:

The Islamic banking products can be promoted or advertised among the people in many ways. The most effective way is through the customers. But unfortunately many Islamic banks fail to realize the power of this advertising tactics and lose their name and goodwill among the society. The Islamic banks should initially take effective step in educating their customers regarding the major differences between Islamic and conventional banks. If they fail to do so, then the customer views the Islamic banks as same as conventional which in fact causes a great promotion failure for the global Islamic financial sector as the whole. So the first responsibility of promoting the Islamic banking products among the customers lays on the head of Islamic banks employees. If the Islamic bank appoints employees with good communication skill, then they have already started their advertising among the people. If any one customer of a Islamic banks gets the knowledge of differences between Islamic and conventional bank, then it will surely reach a thousands of people in the society.

Advertising through social media:

The social media today is a vast and fast industry in the planet for promoting and advertising a product. It includes all the information providing tools such as daily news papers, television, radio, posters, banners etc. the development of technology has made the process of advertising so easy in recent times. But unfortunately the usage of these modern advertising tools by Islamic banking sector lies in the bottommost level. Today the academicians of Islamic finance educational sector were conducting many workshop and conferences on this topic. But unfortunately these conferences have been organized only for financial experts and university student. Till today for a common layman Islamic finance remains as a strange concept. In order to change this inequality situation in creating awareness on this subject, the Islamic banks should establish television and radio channels exclusively for providing knowledge on this subject. On the other side the major responsibility of promoting this issue lies in the hands of the imams of the Masjid. The jummah lecture is one among the powerful tool for creating a change in the society. There are many historical jummah lectures in the history which changed the entire society in a day. If we educate the Masjid imams in this concern, then

surely we can expect a great change among our community people on the issue of Islamic banking.

General Islamic ethics for Marketing Brouchers:

Place Place Publication Ethics: Allah has forbidden all sorts of *faawtii.zish* (shameful and vulgar deeds). He has given a stern warning: "do not come even near *tofaawal.zish* whether they are obvious or hidden" (6:151, 7:33, 42:37, 24: 19, and 53:32). Therefore, advertisements of products that raise sensitive and controversial issues, or which encourage vulgarity should not be permitted. Supporters of such advertisements insist that the growing number of people suffering from sexually transmitted diseases makes such advertising essential. Advertisements, which may be somewhat beneficial but which may lead to sinful acts, cannot be allowed because *faawtii.zish* are sins in Islam. This is similar to the prohibition of intoxicants and gambling. The Qur'an says, "they ask thee concerning intoxication and gambling. Say, in them is great sin and some benefit. For men the sin is greater than the benefit." (2:219).

Human Dignity: Advertisements humiliating certain racial and ethnic groups by exploiting stereotypes should not be permitted. The Qur'an says, "O believers, let not some men among you laugh at others; it may be that the (latter) are better than the (former); nor let some women laugh at others; it may be that the (latter) are better than the (former); nor defame nor be sarcastic to each other; nor call each other by offensive nicknames; ill-seeming is a name connoting wickedness, and those who do not desist are (indeed) doing wrong." (49: 11).

Place:

Place can be defined as a target point fixed by the seller for his marketing process. If the target is not fixed in its appropriate place, then the mission of marketing will end in failure by not achieving its socio economic objectives. So in short, the selection of a particular place for introducing a particular product determines the success and failure of the marketing process of a company or entity. The place for a market is determined by all its external and internal factors such as, government policy, financial stability, climate environment etc. a productive and profitable market place can be known only by conducting research and project field work by the experts in

this field. This process of research may take a long time, but it gives fruitful results in the future.

The Islamic banking industry is now looking for many productive places for establishing its market in a large scale. In some countries like Malaysia the demand and supply mechanism for Islamic banking industries are quite good and stable. but in other countries like India and Pakistan, even though the demand for Islamic banking product is very high, the political and government regulation stands as a stopping barrier for not letting industry to develop and flourish in its full extent. So in order to move in the road of development and growth the Islamic banking industry should focus their target in the Middle Eastern countries and some western countries in which the support for Islamic finance is in the higher level. Before establishing a bank in a country the Islamic finance industry should know about the financial stability of the nation and its climate changes. Based on these analytical studies it can introduce the products according to their needs and circumstances.

People:

People are considered as the final stage of marketing. The execution of marketing strategy starts and ends with the people. They are the one, for whom the whole process of marketing is working. In marketing, the term people always referred to the consumers, buyers and customers. The people are always related with the place. Many modern scholars don't consider it as a separate pillar of marketing; rather they consider it as a sub pillar of the place.

The primary motive of Islamic banks is not only to maximize profit; rather it aims to uplift the society financially and economically by providing equal justice to every individual in the society. even though this objective is not achieved yet, we strongly believe that one day it comes to existence with a global financial stability around each and every corner of the world. In order to achieve its goal, the Islamic banks should tie up closely with its people and customers. As Islamic banks have different kinds of risk weighted products, it can easily identify the economic status of a country or a nation more than the conventional banks do. Today Islamic finance has been commented as a banking system for rich, which in fact contradicts to its universal socio economic objective. So in order to

make the above statement as invalid, the Islamic banks should start their micro financing project in small villages and rural areas for uplifting the life of poor and needy. In order doing so, it can easily achieve its objective in a very short time. Today many banks have started thinking about this issue in detail. further many field projects have been carried out by view banks in Malaysia and other countries for getting the outlook of implementing the micro financing projects. The customers of Islamic banks should not be visualized as same as conventional banks. The differences should be observed by the customer as soon as they step into an Islamic bank. The people should be provided with all the basic information of their products. The trust based relationship in Islamic banks should be maintained in a higher level. As Islamic finance sector initially established for the benefits of Muslim ummah, it can also be extended to all other religious groups and sects by which a nation can flourish economically regardless religions and boundaries.

Conclusion

The Islamic banking industry often faces many difficulties in the process of determining the popularity of their products among the Islamic and non Islamic societies. These difficulties can only be cleared out by implementing a strong ethical and Shariah based marketing theory which can be suitable for both the conventional and Islamic system. In current, the Islamic banking theories were mostly contradicting to the practices and implementation process. A wide range of gap can be easily seen between them. To avoid this gap creation in future, the Islamic banking should focus highly on the promotion of its products. If the products are well defined and structured according to its Shariah requirements, the process of marketing and promoting products will remain effective in general. In addition the Islamic financial institution should always maintain a statistical data regarding their customer satisfaction and value maximization. This will provide them effective suggestions for their forward move towards the road for growth and development. This particular sector of marketing should be given extra importance and consideration in Islamic banking institutions, by which the products can reach the customers in a way that it should be reached and promoted through the principles of Shariah.

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