

# Shariah Compliance Online Business: An Insight into the Stages of Shariah Compliance Online Business

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## **Abstract**

**Purpose:** This study aims to gain a better understanding of Shariah compliance and its implementation stages in online businesses. It begins with an overview of online business and government initiatives aimed at encouraging businesses in Malaysia as well as a review of Islamic approaches towards online business, known as Shariah compliance.

**Design/methodology/approach:** This study employed a qualitative approach via library research to obtain relevant data from selected databases, other researchers, religious sources, books, reports, and electronic sources.

**Findings:** There is a crucial need to understand Shariah compliance in online businesses to protect the interests of all parties involved, especially the buyers and sellers. Incorporating the five stages of Shariah compliance (*Al-Ta'aqud, Sihha, Nafath, Ilzham, and Delivery*) into online businesses will also inculcate fairness and transparency in all transactions and business practices. Additionally, the study discusses the ideal ways of conducting online business according to the Shariah principles, which is pertinent particularly for Muslim entrepreneurs.

**Research implications:** The stages of Shariah compliance should be acquired by online businesses to guarantee their compliance with the Shariah standards. For this purpose, each of these stages must be clearly defined and related information must be shared and applied by online businesses.

**Originality/value:** This study recommends further investigation on the measurement items of each Shariah compliance stage to acquire in-depth knowledge and a better understanding on the topic of Shariah compliance among online businesses.

**Keywords:** Shariah Compliance, Online Business, Knowledge, Entrepreneur

**Paper Type:** Conceptual Paper

### Introduction

Online business refers to commercial activities that involve the exchange of products, services, and information over the Internet. Many believe that the trend of selling and trading goods online emerged as a result of technological advancement; however, it became more pertinent amidst the COVID-19 pandemic as the movement control order forced businesses to adopt internet-based solutions and conduct their transactions online.

The religion of Islam regards business as a noble act of earning and encourages its followers to engage in business activities. It is also one of the sunnah of Prophet Muhammad (SAW) following his hadith that was narrated in support of conducting businesses:

عَلَيْكُمْ بِالتَّجَارَةِ فَإِنَّ فِيهَا تِسْعَةَ أَغْشَارِ الرِّزْقِ.

(You should conduct business, for in it is 9 out of 10 livelihoods).

Accordingly, the concept of Shariah compliance has gained growing attention among scholars, entrepreneurs, and consumers. A bibliometric study by Sholihin et al. (2021) showed a significant increase in the number of studies on Shariah compliance. Furthermore, Anwer et al. (2020) reported that more regulators in Iran, Sudan, and Pakistan are attempting to achieve full Shariah compliance in their Islamic finance practices.

Islam necessitates for all business activities to be performed fairly and truthfully according to the Shariah values and principles, particularly when the transactions are done among Muslims. This highlights the importance of instilling Islamic knowledge and guidelines into the operations and transactions of every business. Several verses in the Quran and Al-Hadith have greatly emphasised on Shariah-compliant businesses, notably in the aspect of acquiring and selling. Therefore, conducting a business that fully conforms to the Islamic laws requires entrepreneurs to possess relevant knowledge and skills in all business aspects and the ability to put them into practice. The obligation to seek knowledge as a yardstick in determining between good and bad is acknowledged when ALLAH SWT mentioned in the Quran:

يَرْفَعُ اللَّهُ الَّذِينَ آمَنُوا مِنْكُمْ وَالَّذِينَ أُوتُوا الْعِلْمَ دَرَجَاتٍ.

*(Allah SWT will elevate the degree of those who have believed among you and those who are given knowledge. And Allah is aware of what you do [al-Mujadalah:11]).*

The prominence of investigating this topic lies on the fact that Islam is a way of life that provides the followers with detailed guidelines on how to live and manage their lives according to Shariah principles. This is applicable across all aspects of life, including social, political, and economy. A number of past studies have investigated the effect of Shariah-compliant business practices. For instance, Mohd Shahrizal (2017) suggests that accurate and proper understanding is necessary to successfully accept and implement Shariah compliance principles. It is advocated by Jafari Sadeghi and Biancone (2017) who believe that successful operation of Islamic-adhering businesses requires the entrepreneurs' proper understanding to the concept of Islamic regulation and culture. Whereas, Irawan Febianto (2011) noted huge widening gaps between the current state of business and the Islamic ideal in most Muslim countries, which become a threat to the well-being, peace, and stability of a society.

On the other hand, several studies reported that companies' adherence to Shariah principles can boost consumers' confidence, satisfaction, and perceptions with the products or services, thus reflecting positively on the business performance. It was found that Shariah-compliant insurance companies that successfully convinced Muslim customers regarding the extent of their service positively affect the customers' buying decisions, resulting in increased sales (Amron, Usman & Ali Mursid, 2018). These satisfied customers later become loyal to the said companies and spread a positive image of the service. Meanwhile, another research concluded that Shariah compliance has a remarkable effect on stock market valuation in Muslim countries (Jaballah, Peillex & Weill, 2018).

The growth of online business thus necessitates further research into Islamic rules and guidelines (Abdulrahman Alzaagy, 2007), especially when there is still a lack of knowledge and awareness over Shariah-compliant practices in business. Norazlina, Fauziah, and Siti Hartini (2004) highlighted that while online business has grown rapidly worldwide, Muslims continue to wonder whether trading should be conducted according to the Shariah principles. Therefore, the purpose of this study is to obtain a better understanding of Shariah-compliant online businesses and to propose Shariah-compliance stages that can be applied by online businesses. The main aim is to raise awareness about conducting online business according to the Shariah principles. Entrepreneurs need to be well-informed that online businesses adhering to the Shariah-compliant model can still gain as much profit as those that follow the conventional model. This study also contributes to the body of knowledge by looking at the stages that can be taken by online businesses to adopt the Shariah-compliant model into their operations.

## **Literature Review**

### ***Business in Malaysia***

The Malaysian economy has been effectively diversified since the country gained independence in 1957. Having shifted from the agriculture and commodity-based industries towards robust manufacturing and service sectors, Malaysia is set for modernization that will propel its status as a prominent exporter of electrical appliances, parts, and components to transform the country into a high-income nation through an extensive economic strategy. With its economy steadily expanding and rapidly advancing toward technology and innovation, Malaysia is pushed toward higher-value-added sectors and services while steering away from the reliance on natural resources with the goal of improving the people's well-being.

The current development in information and communication technologies has inadvertently evolved the Internet into a source of income and revenue. Concerned about the people's income levels, the local government introduced several initiatives under the 2017 Budget to increase Malaysian's earning opportunities through the eUsahawan and eRezeki programmes under the Malaysia Digital Economy Corporation (MDEC), involving a total of 300,000 participants and RM100 million in budget. Meanwhile, the allocation of RM100 million for the eRezeki, eUsahawan, and eLadang MDEC projects and RM60 million for the 1AZAM programme in the 2018 Budget indicated the government's commitment in implementing various measures to promote entrepreneurial opportunities (Syed Azwan Syed Ali, 2017). Such large allocation has opened a vast network of virtual business opportunities to both existing and new entrepreneurs who are interested in starting a business.

Furthermore, several policies have been developed by the government and private sectors to promote traditional and digital entrepreneurship as a career path that benefits both entrepreneurs and the Malaysian economy. For example, the Ministry of Entrepreneur and Cooperatives Development (MECD) is tasked to formulate policies for the development of an inclusive and competitive entrepreneurial community, particularly in the SME sector, that is capable of competing on the global market as well as spurring the development of the B40 group and social entrepreneurship. The MECD introduced the National Entrepreneurship Policy 2030 (DKN 2030) with the aim of creating an entrepreneurial ecosystem that will improve Malaysia's competitiveness to face the rising competition in the global economy and Industry 4.0 challenges, and instil an entrepreneurial culture within the Malaysian society (SME Corporation, 2021). In line with the government's vision, DKN 2030 aspires to expand the number of qualified, viable, and resilient entrepreneurs as well as strengthen the capacities of local entrepreneurs, particularly in the SME sector.

Both the government and private sector also allotted a RM140 million matching grant under the National Economic Recovery Plan or *Pelan Jana Semula Ekonomi Negara* (PENJANA) in encouraging micro-enterprises and SMEs to switch to digital or online services. The allocation was utilised by MDEC and selected e-commerce platforms to conduct training sessions, vendor subsidies, and sales help. In partnership with private enterprises, the government also contributed RM70 million to launch a Shop Malaysia Online campaign in encouraging consumers to shop online using promotional coupons and enjoy various discount vouchers supplied via the e-commerce sites. Furthermore, the government continues to provide grants and loans to SMEs and mid-tier businesses in encouraging more businesses to subscribe or use digitalisation services. This includes the allocation of RM100 million in SME Digital Matching Grants to SMEs in collaboration with telecommunication companies, RM500 million as simple loans under the SME Technology Transformation Fund, and RM100 million under the Smart Automation Grants where eligible companies may receive a grant of up to RM1 million (Prime Minister Office of Malaysia, 2021). These allocations equate to approximately RM700 million.

Meanwhile, the recent government aid packages aim to mitigate the impact of COVID-19 on both the people and businesses. For instance, RM15 billion is allotted under the Malaysian Economy & People Protection, or *Perlindungan Ekonomi & Rakyat Malaysia* (PERMAI), to fund 22 projects focusing on combating the COVID-19 outbreak, safeguarding the people's welfare, and supporting business continuity (Speech, 2021). Additionally, the government has outlined several steps to assist the business community, including the Wage Subsidy Programme 3.0 under the Social Security Organisation (SOCSO). The programme is eligible for all employers operating in states under the movement control order where qualified companies will receive a RM600 pay subsidy for each employee earning less than RM4,000 per month and the maximum number of employees eligible for salary subsidy is increased from 200 to 500 employees. This plan, which includes another RM1 billion in funding, is expected to assist 250,000 firms and over 2.6 million workers.

Another government aid package is the PERMAI Prihatin Special Grant, which is an enlargement of the Prihatin Special Grant Plus aid. It offers a one-time payment of RM1,000 to over 500,000 SMEs located in states under the movement control order while RM500 is provided to over 300,000 SMEs in other states. The grant also provides a one-time financial support of RM500 to approximately 14,000 tourist guides and 118,000 taxis, school buses, tour buses, rental automobiles, and e-hailing vehicles. Besides hastening the implementation of microcredit programmes, the government expedites RM1 billion microcredit facilities to

aid the cash flow of micro-firms and SMEs in addition to the soft loans offered by several local banks, including Bank Simpanan Nasional (RM390 million), Agrobank (RM350 million), and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) (RM295 million). Finally, the SME and Micro SME e-Commerce Campaign and the Shop Malaysia Online Campaign are further intensified with an additional allocation of RM300 million in encouraging entrepreneurs and businesses to participate in online sales and adopt e-commerce platforms.

### ***Online Business***

Online business refers to enterprises that utilise Internet-based platforms to connect and transact with clients, business partners, and suppliers (Behesti & Salehi-Sangari, 2006). More entrepreneurs are embracing the Internet in recent years as a mean to expand and develop their businesses. Rosli et al. (2020) found that the mastery of ICT, particularly the Internet, is the key capital prompting university students to conduct online business. Their findings showed that the advantages of engaging in online business for university students include low-cost operations, learning numerous marketing strategies, the inexistence of no geographic boundaries, exposure to limited impact of internet-based operations, as well as cheaper and quicker exchange of information.

Utari and Hermawati (2020) classified students doing online business into two categories: (1) those taking the role of resellers by purchasing products from wholesalers or suppliers at below-market prices and resell them for a profit, and (2) those running online manufacturing business by making and selling products. The former category is more common as the internet business model as a reseller is the easiest to implement and requires no substantial cost. It was also found that partaking in online business during the studying period can benefit students by training and honing their entrepreneurship ability as well as shaping their identity, behaviour, and way of thinking as entrepreneurs. Despite the challenges, online business is still a viable option for university students as it imposes fewer geographical restrictions, allowing students to conduct business activities outside their current residence. There are also various effective virtual platforms that can be utilised to promote their businesses. These benefits thus prompt many university students to start their online businesses and become young entrepreneurs.

However, a challenge that online business entrepreneurs may face is that some customers may refuse to incur the risk of making online purchases. This is because customers often associate risk with trustworthiness (Walker et al., 2002). Perceived risk can result in customers' refusal to accept new technology-based services (Rotchanakitumnuai & Speece, 2004). Among the reasons include their lack the confidence to trust sellers whom they have never met in the real world and the high probability of being cheated and scammed when transferring money online without any guarantee on the legitimacy of the online transactions. Customers are also concerned about the failure of technology-based service delivery systems, hence affecting their confidence over the efficacy of how problems caused by the system are resolved (Walker et al., 2002). Besides that, some customers are concerned about the possibility of delivery delays and other unexpected issues such as receiving defective products. These concerns owe to unforeseen complications or sellers' lack of accountability, consequently causing customers' hesitance and distrust with online purchasing. Therefore, entrepreneurs need to know the finest client acquisition techniques to deal with these challenges (Rosli et al., 2020).

***Shariah-Compliant Business***

Shariah is an Arabic term that refers to the entirety of Allah's instructions, which govern every aspect of a Muslim's life (Doi, 1984). It describes a set of laws derived from the Quran and Sunnah that Muslims should follow to establish a just society, including in the aspect of business (Millar & Anwar, 2008). From the *Fiqh Muamalah* perspective, Shariah compliance is a broad term that embraces all aspects of human existence, particularly human relations (Ahmad Jazlan et al., 2014). The concept of compliance has a considerably broader Shariah-based scope since it embraces all aspects of Muslim conducts, including economic transactions. It is believed that financial acts or transactions must achieve economic fairness to be considered Shariah-compliant (Rosnah Muhammad, 2011).

Recently, the Shariah compliance concept is becoming more common in the market for a variety of products and services, including foods and beverages, cosmetics, medication, and financial systems. This demonstrates the raising awareness among a broader range of stakeholders on the need to conduct businesses in accordance with the Islamic principles (Mohd Shahrizal Nasir, 2017). Numerous verses in the Quran describe the fundamental aspects of shariah compliance, particularly on how to conduct purchasing and selling activities according to the Islamic standards.

**Research Methodology**

The objective of this study was to gain insights on the stages of Shariah compliance among online businesses. The investigation was achieved by employing a qualitative approach through library research. Such research approach entails the collection of data on variables in the form of notes, papers, books, articles, journals, and the Internet (Arikunto, 2009). There were three main steps involved in conducting a library research, namely gathering relevant information, data collection process, and presenting the summary of findings. The required data was obtained from the selected databases, including previous research, religious sources, books, reports, as well as electronic sources. The process involved searching for information based on criteria such as Shariah compliance, online business, knowledge, and entrepreneurs.

**Findings**

Shariah compliance is more than merely a catchphrase in the online and offline business sectors; it indicates the obligation for Muslims to operate a legitimate business. Shariah-compliant online businesses are governed by a number of Shariah compliance norms and regulations. Meanwhile, business refers to a company or an entrepreneurial entity engaged in commercial, industrial, or professional activities. These enterprises may be for-profit or non-profit and may be dedicated to a charitable mission or social cause (Adam Hayes, 2021). Table 1 summarises several important points regarding the basic principles of online business from the Islamic perspective (Mohd Shahrizal Nasir, 2017).

Table 1: The Basic Principles of Muamalat in the Quran and Hadith

No.	Items	Quranic Verses
1	Tawhid as the basic foundation	O ye who believe! When the call is proclaimed to prayer on Friday (The Day of Assembly), hasten earnestly to the Remembrance of God, and leave off business (and traffic): that is the best for you if ye but knew! (al-Jumaah: 9)
2	Moral & ethical values in business	"And O my people! Give just measure and weight, nor withhold from the people the things that are their due: commit not evil in the land with intent to do mischief. (Hud: 85)
3	Voluntary principle in dealings	"O ye who believe! Eat not up to your property among yourselves in vanities: But let there be amongst you traffic and trade by mutual goodwill: Nor kill (or destroy) yourselves: for verily God hath been to you Most Merciful! (al-Nisa': 29)
4	Ta'awun concept in business & reasonable profits	"Whoever relieves a believer of one hardship from the hardships of this world, surely Allah will relieve him of one hardship from the hardships on the Day of Resurrection. Whoever eases the affairs of those who are in difficulty, surely Allah will ease his affairs in this world and the hereafter. (Narrated from Muslim).

Islam promotes employment in general and trade and business in particular. For instance, Prophet Muhammad (SAW) was a merchant before becoming a prophet and he was bestowed the honorific title "Trustworthy" due to his reputation for integrity (Mohd Zulkifli et al., 2011). As mentioned in the Quran:

"God has permitted for you to trade and prohibited interest." (2:275)

"And He has subjected to you, as from Him, all that is in the heavens and on earth: behold, in that are Signs indeed for those who reflect." (45:13)

Shariah is a term that frequently appears in discussions about the law of hakam and serves as a key indicator on the adherence of businesses to Islamic principles. It pervades all aspects of human life by providing Shariah laws, policies, and best practices derived from the Quran, Al-Hadith, and fatwas (Mohd Daud Bakar, 2018). Shariah-compliant products are structured in an Islamic manner and contain elements and transactions that adhere to Shariah law. The Shariah compliance concept is also used in financial management practices, such as in determining business operating costs that are halal and contain no Shariah-prohibited benefits (Fauziah Mahat, 2019). In a case study of the livestock and aquaculture industries, researchers emphasise the importance of entrepreneurs having Shariah compliance knowledge to avoid customers from being sceptical of Islamic products. Additionally, any business contract that complies with Shariah should be free of prohibited items such as *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling) (Norazlina et al., 2004). The concern on Shariah compliance has also been highlighted in several fields, including spa products and services (Siti Farah Aliya & Farah Ayuni, 2017) as well as healthcare services (Majdah & Khadijah, 2017).

Grais and Pellegrini (2006), in the introduction of their book, highlighted that apart from difficulties due to the lack of disclosure of reliable financial information and a patchwork of laws on permissible transactions, stakeholders and market players are unlikely to have adequate knowledge of Shariah and financial principles or even both. This issue later leads to the inability to appraise Islamic financial services. Awan and Bukhari (2011) also reached the same conclusion, claiming that bank employees in Pakistan were ill-versed with the religious concepts underlying the various financial instruments offered by Islamic banks.

The study of Shariah-compliant online business is crucial since Islamic users form a considerable portion of the internet population (Muhammad et al., 2013). The level of knowledge and understanding to the principles of Shariah compliance in *Muamalat*, especially in online business matters, is important in order to accept and implement these principles in current transactions. However, empirical investigation on shariah compliance in online business is still limited. According to Norazlina et al. (2004), many Muslims are at vague about whether the status of their business transactions is aligned with the Shariah law and business ethics. Irawan Febianto (2011) also noted that further studies are necessary to reduce the gap between present business practices and Islamic business practices in order to meet the ideal of Shariah-compliant business.

On the other hand, Ullah (2014) found that respondents in his study had a poor understanding of Shariah compliance in Islamic banking. According to Elias et al. (2016), Muslim owners are still lacking the knowledge, awareness, and comprehension of the halal concept that may contribute to a decline in halal elements in business transactions. Thus, it is important to gauge the level of understanding among Muslim entrepreneurs since they are directly involved in business transactions. In order to aid the understanding of Shariah-compliance online business, Norazlina et al. (2004) interviewed Dr. Mustafa Omar from the Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia (IIUM) and introduced a five stages contract that can assist entrepreneurs in performing Shariah-compliant online business. The present study adopted the five stages and details of each fundamental contract are presented below:

1) *Al-Ta'aqud*

The first stage is *Al-Ta'aqud*, which translates as initiating a contract. It refers to the offering and acceptance between two parties. Both parties will be well-informed and adhere to the pillars of a shariah contract, namely *sighah*, contracting parties, and subject matter. Customers will conduct searches on products as well as information about the company and those who are interested in the products will later perform necessary online transactions.

2) *Sihha*

The second stage is *Sihha*, which refers to confirming the validity of a contract. It occurs during the negotiation process between two parties. Any contract, both electronic and paper-based, must be free of *riba*, *gharar*, and *maysir*. To ensure the contract's validity, any offer must be approved by the other party. Therefore, all parties in the contract must fully comprehend and understand the entire agreement as well as all the contract's obligations (Norazlina Zainul et al., 2004).

3) *Nafath*

The third stage is *Nafath*, which refers to implementation. In this regard, the party offering a product must be the true owner and possess authority over the product. Additionally, the product must be free of all liabilities.

4) *Ilzam*

The fourth stage is *Ilzam*, which refers to the act of binding a contract. A contract must be signed by both contracting parties to be valid and legally binding. For reference, the seller must keep the order in any format, whether paper or electronic.

5) Delivery

The final stage is Delivery, which refers to the exchange of price and product. During this stage, both contracting parties will trade the product with the amount to be paid. The buyer will inspect and analyse the product to determine whether it meets the agreed-upon



conditions and specifications. The buyer can exercise any options (*khiyar*) included in the contract.

Figure 1 shows the five stages of Shariah compliance, namely *Al-Ta'aqud*, *Sihha*, *Nafath*, *Ilzham*, and Delivery. Following the rapid growth of the online purchasing trend, many advocate that now is the right high time for these stages to be seriously introduced and applied among online entrepreneurs to ensure that Shariah requirements are upheld, especially by Muslim entrepreneurs. With that in mind, this paper suggests an in-depth study on each stage to have a better understanding of Shariah compliance in online business.

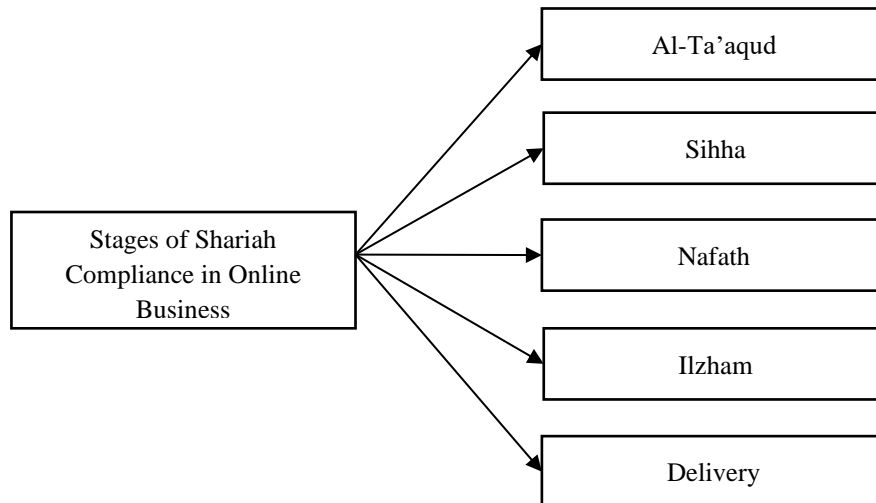


Figure 1: Theoretical Framework

### Discussion

Due to technological advancements that have reached a pinnacle in recent years, today's entrepreneurs have seen remarkable progress in their company practices. Furthermore, a significant increase in demand for Shariah-compliant online businesses has raised the community's awareness on this issue. Islam recognises that human beings require the comforts and riches of life; hence, it holds the responsibility to support businesses as it boosts a country's economy and provides a wide range of services to suit societal demands. This is in line with Prophet Muhammad (SAW) who stated that businesses provide nine out of ten sources of subsistence.

The Malaysian government has announced dozens of new initiatives to boost the people's income. For instance, the 2017 Budget allotted a total of 100 million for MDEC to implement the eUsahawan dan eRezeki programmes, which benefitted approximately 300,000 individuals. These budget allocations by the government thus provide both new and existing entrepreneurs with a wide network of online businesses. Furthermore, IR 4.0 has boosted the expansion of enterprises, especially online businesses; however, such growth poses significant difficulty for clients to track a company's status in order to identify businesses that operate in accordance with the Islamic law. Additionally, cases of frauds, misunderstandings, and sales issues have exacerbated online businesses in Malaysia, including product specifics, marketing psychology, and shared product information.

This study is expected to deliver both conceptual and practical contributions. A thorough review of the literature and existing findings indicates that the study on Shariah compliance in online business is critical (Elias et al., 2016; Irawan Febianto, 2011; Muhammad et al.,

2013; Norazlina et al., 2004; Ullah, 2014). Therefore, this study conceptually contributes to the discussion by highlighting the critical need for online businesses to be aware of and acquire the five stages of Shariah compliance as proposed by Norazlina et al. (2004), namely *Al-Ta'aqud*, *Sihha*, *Nafath*, *Ilzham*, and *Delivery*. The study also offers practical contributions to the topic by demonstrating how to manage and practise an online business that complies with the shariah principles for the benefit of both online businesses and customers. It also provides insights on the direction for future research by proposing further investigation on the development of measurement items for each stage of shariah compliance in online business, and later verified by experts. This can then be extended by conducting empirical qualitative and quantitative research to gain deeper and more concrete conclusions.

### **Conclusion**

The main objectives of this study are to gain insights into Shariah compliance among online businesses and to reintroduce the stages of Shariah compliance as guidelines for entrepreneurs to conduct their online businesses according to the Shariah laws and principles. The literature posits on the essentiality of Shariah compliance in online business across all entrepreneurs, especially Muslims. Failure to do so will not only impose negative consequences on the economy but also be against the commands and an impediment of blessing from Allah SWT. Thus, it is crucial for online businesses to ensure the validity of their transactions for the benefit both in this world and hereafter. It is believed that practising Shariah compliance in business will create confidence among consumers and reduce their sceptics towards the business operations. To ensure the optimum implementation of Shariah compliance values and principles, it is necessary for online businesses to have adequate information on the stages of Shariah compliance.

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