



## Ethical Integrity and Regulatory Compliance in Sharia-Compliant Multi-Level Marketing

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**Abstract:** *Sharia-compliant Multi-Level Marketing (MLM) has emerged as an ethical alternative to conventional MLM models, aiming to align business practices with Islamic economic principles. However, the stigma of money game schemes continues to undermine consumer trust. This study investigates how Sharia-compliant MLM differentiates itself from exploitative schemes through ethical frameworks, structural mechanisms, and regulatory compliance. A qualitative approach was employed, combining semi-structured interviews with regulators, practitioners, and consumers (n=18) and document analysis of fatwas, regulatory frameworks, and company reports. Thematic analysis revealed four key findings: (1) Sharia-compliant MLM is product-driven and structured to eliminate riba, gharar, and maysir; (2) consumer skepticism persists despite fatwa endorsements, highlighting the need for stronger consumer education; (3) regulatory oversight varies across jurisdictions, with Malaysia and Indonesia providing benchmarks through formal fatwas and supervisory frameworks; (4) digital innovations such as blockchain and ethical e-marketing offer transparency but require ethical guidance and regulatory alignment. This study contributes by integrating Islamic business ethics, legitimacy theory, and consumer trust theory to explain how Sharia-based MLM can enhance legitimacy. Practically, it offers policy recommendations for regulators and governance frameworks for industry practitioners.*

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### Introduction

Multi-Level Marketing (MLM) has emerged as a popular business model worldwide, offering individuals the opportunity to earn income through product sales and recruitment of new members. However, the model has been widely criticized due to its similarities with pyramid schemes and money games, which prioritize recruitment over actual product sales, leading to financial losses for participants (Alhaddi, 2019; Peterson & Wotruba, 1996). In

response to these concerns, Sharia-based MLM has been introduced as an ethical alternative that aligns with Islamic economic principles, ensuring transparency, fairness, and sustainability (Hassan & Lewis, 2019; Asutay, 2020). Despite these efforts, MLM in general continues to face public skepticism, particularly in the Muslim world, where distinguishing between legitimate Sharia-compliant MLM and exploitative money game structures remains a challenge (Rahman & Kassim, 2021; Ali, Omar, & Amin, 2022). This study seeks to explore how Sharia-based MLM can effectively mitigate the stigma of money games and establish itself as a legitimate and ethical business model.

The negative perception of MLM stems primarily from the exploitative nature of pyramid schemes, which lack a tangible product and generate profits mainly through new recruitments rather than sales (Taylor, 2011; Keep & Vander Nat, 2014). Money game structures operate in a similar manner, creating unsustainable financial cycles that disproportionately benefit those at the top while causing financial harm to lower-tier participants (Bosley & McKeage, 2015; Coughlan & Grayson, 2020). Several studies highlight that unethical MLM practices, such as exaggerated earnings claims and aggressive recruitment strategies, contribute to the negative image of the industry (Bhattacharya & Mehta, 2000; Bloch, 1996). In contrast, Sharia-based MLM emphasizes ethical business conduct, the sale of legitimate products, and fair compensation structures that adhere to Islamic financial principles, including the prohibition of *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling) (Dusuki & Abdullah, 2007; Htay & Salman, 2013).

Islamic economics promotes business models that prioritize justice, transparency, and social welfare, aligning with the *maqasid al-shariah* (objectives of Islamic law) (Chapra, 2008; Kamla, 2009). In this regard, Sharia-compliant MLM must meet specific criteria to differentiate itself from unethical practices. The business model should be product-focused, ensuring that earnings are derived from genuine sales rather than recruitment fees (Amin, 2017; Farooq & Wehinger, 2020). Furthermore, compensation plans must be structured in a way that rewards effort and performance rather than incentivizing passive income through the mere addition of new members (Obaidullah & Abdul Karim, 2018). The presence of Sharia supervisory boards within MLM companies also plays a crucial role in ensuring compliance with Islamic principles, offering legitimacy and fostering trust among consumers (Muhamad, Melewar, & Alwi, 2012; Tieman & Ghazali, 2013).

Despite the theoretical alignment of Sharia-based MLM with ethical business standards, skepticism remains prevalent among regulators and consumers. Studies indicate that one of the key challenges facing Islamic MLM is the lack of consumer awareness regarding the differences between legitimate Sharia-compliant MLM and money game schemes (Akhter, 2010; Kayed & Hassan, 2011). This confusion often stems from misleading marketing tactics employed by some companies that claim to operate under Islamic principles while engaging in unethical practices (Wilson, 2006; Saeed, Ahmed, & Mukhtar, 2001). Additionally, the regulatory landscape for MLM varies across jurisdictions, with some countries imposing strict limitations on MLM operations to prevent fraudulent activities, while others provide minimal oversight, allowing unethical schemes to flourish (Pérez & Avendaño, 2021; John & Allen,

2019). The effectiveness of Sharia-based MLM in addressing these concerns relies on robust regulatory frameworks, corporate governance mechanisms, and ethical marketing strategies that uphold Islamic business ethics (Lewis & Algaoud, 2001; Hamid & Nordin, 2019).

To ensure the credibility of Sharia-based MLM, scholars emphasize the importance of regulatory alignment between Islamic financial institutions, consumer protection agencies, and business licensing authorities (Elasrag, 2016; Azmi, 2021). Fatwas issued by Islamic scholars also serve as a critical tool in validating the legitimacy of MLM operations, as demonstrated in Malaysia and Indonesia, where the National Sharia Councils play an active role in issuing guidelines for Sharia-compliant businesses (Saad & Haniffa, 2014; Rahman, 2019). Nonetheless, empirical research on the actual impact of these fatwas and regulations on consumer trust and business sustainability remains limited (Khan, 2015; Hassan & Haron, 2021). Prior studies largely focus on the conceptual distinction between Islamic MLM and pyramid schemes, yet empirical investigations into regulatory frameworks, consumer trust mechanisms, and the role of technological innovation remain limited. Furthermore, little is known about how ethical compliance and regulatory enforcement interact to enhance legitimacy in Sharia-based MLM.

Given these challenges, this study aims to examine how Sharia-compliant MLM differentiates itself from money game schemes by analyzing structural mechanisms, ethical underpinnings, regulatory frameworks, and technological integration. The study will explore the role of transparency in business operations, ethical marketing strategies, and regulatory frameworks in shaping consumer perceptions of Sharia-compliant MLM. Additionally, this research will assess the effectiveness of Sharia supervisory boards, corporate governance, and Islamic business ethics in preventing exploitative MLM practices. By addressing these issues, this study seeks to contribute to the broader discourse on ethical business models in the Islamic economy and provide practical insights for policymakers, industry leaders, and consumers.

## **Research Methods**

The study employs a qualitative research methodology to explore how Sharia-compliant Multi-Level Marketing (MLM) businesses differentiate themselves from money game schemes and mitigate associated stigmas. A qualitative approach is appropriate for this study as it allows for an in-depth examination of participants' perceptions, regulatory frameworks, and ethical business practices (Creswell & Poth, 2018). This research relies on semi-structured interviews with key stakeholders, including MLM practitioners, Islamic finance scholars, regulatory authorities, and consumers who have engaged in Sharia-based MLM businesses. Semi-structured interviews provide flexibility in probing participants' experiences and perspectives while ensuring consistency in the core research themes (Denzin & Lincoln, 2018). The study also incorporates document analysis, reviewing Islamic financial regulations, fatwas issued by authoritative Islamic councils, corporate governance reports, and marketing materials of MLM companies to assess compliance with ethical business principles. This triangulation of interview data with documentary evidence enhances the credibility and validity of the findings, ensuring that the conclusions drawn reflect both theoretical and practical realities (Patton, 2002).

Data collection is conducted following purposive sampling to select participants with relevant expertise and experience in Islamic MLM and regulatory frameworks (Merriam & Tisdell, 2016). Thematic analysis is employed to systematically identify patterns and themes that emerge from the interviews and documents, ensuring a structured interpretation of qualitative data (Braun & Clarke, 2006). The analysis process follows coding techniques to categorize data into key themes such as ethical business practices, compliance with Islamic law, marketing strategies, and regulatory enforcement (Saldaña, 2021). To enhance the rigor and reliability of the findings, member-checking is conducted by allowing interview participants to review and validate the interpretations of their statements (Lincoln & Guba, 1985). Additionally, peer debriefing is applied, where findings are discussed with independent researchers in the field of Islamic finance and business ethics to ensure objectivity and eliminate researcher bias (Tracy, 2010). By integrating multiple data sources and analytical techniques, this study provides a comprehensive understanding of how Sharia-compliant MLM operates within the ethical and regulatory landscape while addressing public skepticism regarding its legitimacy.

## **Result and Discussion**

### ***Differentiation Between Sharia-Compliant MLM and Money Game Schemes***

The study's findings indicate that Sharia-compliant Multi-Level Marketing (MLM) businesses fundamentally differ from money game schemes based on their adherence to Islamic business ethics, transparency in financial transactions, and emphasis on product-based revenue generation. Money game structures prioritize recruitment over actual sales, leading to unsustainable economic cycles and financial losses for participants at lower levels of the hierarchy (Grayson & Coughlan, 2021). In contrast, Sharia-compliant MLM follows Islamic economic principles, ensuring that participants earn income through legitimate product sales rather than solely from recruitment incentives (Yousef, 2019). The prohibition of *gharar* (excessive uncertainty) and *maysir* (gambling) plays a crucial role in ensuring that business models align with Islamic finance ethics, distinguishing ethical MLM structures from exploitative money game operations (Ahmed & Nor, 2020).

Furthermore, compensation models in Sharia-compliant MLM are structured to promote fairness and prevent unjust wealth accumulation. The study found that Islamic MLM companies utilize *ju'alalah* contracts (performance-based commission agreements) and *mudharabah* (profit-sharing mechanisms) to ensure income is derived from genuine sales rather than recruitment fees (Rahman et al., 2021). These compensation structures align with Islamic legal principles, reducing the risk of deception and financial exploitation (Ismail & Oseni, 2019). Companies operating under Sharia principles also eliminate elements of *riba* (usury) by ensuring that commissions are not excessive or disproportionately benefit early participants, a characteristic often associated with fraudulent pyramid schemes (Ali, 2022).

### ***Consumer Trust and Perceptions of Sharia-Based MLM***

The findings further reveal that consumer skepticism toward MLM remains high, even when companies adhere to Sharia principles. A significant number of respondents expressed

concerns over deceptive marketing tactics, misleading income projections, and the aggressive recruitment strategies employed by some MLM firms (Latif et al., 2022). Studies indicate that the historical association of MLM with unethical practices contributes to consumer distrust, making it difficult for legitimate Sharia-compliant MLM businesses to gain widespread acceptance (Zulkifli & Khan, 2020). However, transparency in product pricing, clear contractual agreements, and compliance with Islamic finance principles can enhance consumer trust and confidence in Sharia-compliant MLM (Mustapha et al., 2021).

Additionally, the study highlights the role of Islamic scholars and fatwa councils in legitimizing Sharia-based MLM models. Consumers are more likely to trust MLM businesses that have received endorsements from recognized Islamic financial institutions and regulatory bodies (Rahim et al., 2021). Companies that obtain certification from Sharia boards and adhere to Islamic financial regulations demonstrate greater credibility and market acceptance (Hassan & Haron, 2023). However, findings suggest that fatwa certification alone is insufficient to overcome negative perceptions unless complemented by ethical business conduct and effective consumer education initiatives (Basri & Karim, 2021).

### ***Regulatory Challenges and Compliance in Sharia-Based MLM***

A key challenge identified in the study is the varying regulatory frameworks governing MLM businesses in different jurisdictions. While some countries impose strict consumer protection laws to prevent fraudulent MLM operations, others have minimal regulatory oversight, allowing unethical schemes to flourish (Mahmood & Aziz, 2022). The study found that Malaysia and Indonesia have introduced specific fatwa guidelines that define permissible MLM structures under Islamic law, providing a regulatory benchmark for ethical business practices (Aziz & Rahman, 2021). However, in other regions, the absence of standardized Sharia-compliant MLM regulations creates ambiguity, increasing the risk of money game activities being falsely marketed as Islamic MLM (Kamarudin et al., 2020).

The study also emphasizes the role of government oversight in preventing fraudulent MLM practices. Regulatory authorities such as the Otoritas Jasa Keuangan (OJK) in Indonesia and the Securities Commission Malaysia (SCM) have implemented measures to monitor and enforce compliance among MLM companies (Ismail et al., 2022). Findings suggest that collaboration between financial regulators, Islamic scholars, and consumer protection agencies is necessary to enhance the credibility of Sharia-based MLM and eliminate exploitative practices (Siddiqi, 2021). Additionally, public awareness campaigns and financial literacy programs play a critical role in educating consumers on the differences between legitimate MLM structures and fraudulent money game operations (Shafie et al., 2023).

### ***Ethical Business Practices and Corporate Governance in Sharia-Based MLM***

Findings from the study indicate that strong corporate governance mechanisms are essential in maintaining the ethical integrity of Sharia-based MLM businesses. Companies that prioritize ethical leadership, transparency in financial disclosures, and adherence to Islamic business principles are more likely to gain consumer trust and regulatory approval (Hameed & Wahid, 2022). The study highlights that corporate social responsibility (CSR) initiatives also

contribute to the legitimacy of Islamic MLM firms by demonstrating commitment to social welfare and ethical business conduct (Nasir et al., 2021).

Furthermore, internal Sharia compliance units play a crucial role in ensuring that MLM operations remain aligned with Islamic legal principles (Hassan et al., 2022). These units monitor sales practices, commission structures, and contractual agreements to prevent unethical activities such as price manipulation, misrepresentation of earnings potential, and undue pressure on new recruits (Abdullah & Saad, 2023). Findings suggest that companies that actively engage in ethical audits and compliance reporting are more likely to sustain long-term business success and avoid reputational risks associated with fraudulent MLM schemes (Mohamad et al., 2022).

### ***The Role of Digital Platforms in Sharia-Based MLM Growth***

Another significant finding from this study is the impact of digital transformation on Sharia-based MLM operations. The use of e-commerce platforms, social media marketing, and mobile applications has enabled Islamic MLM businesses to expand their reach while maintaining transparency in sales transactions (Yusoff & Ibrahim, 2023). Findings suggest that digital marketing strategies must align with ethical Islamic principles, avoiding misleading advertising or exaggerated financial claims (Ismail & Rahman, 2022).

The study also highlights that blockchain technology and smart contracts have the potential to enhance transparency and accountability in MLM transactions (Rahmat et al., 2021). By integrating decentralized ledger technology, companies can ensure secure and tamper-proof financial records, reducing the risk of fraud and enhancing consumer confidence in Sharia-compliant MLM models (Hassan & Aziz, 2023). However, findings suggest that technological advancements must be coupled with regulatory oversight to prevent misuse in digital MLM operations (Mahmood et al., 2023).

The findings of this study highlight the critical distinction between Sharia-compliant Multi-Level Marketing (MLM) and money game schemes, emphasizing the role of Islamic ethical principles, transparent business operations, and regulatory oversight in ensuring the legitimacy of Sharia-based MLM models. Unlike conventional MLM structures, which often rely heavily on recruitment-driven income models, Sharia-compliant MLM adheres to Islamic economic principles that mandate fairness, transparency, and the elimination of exploitative financial mechanisms such as *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling) (Ahmed & Nor, 2020). This ethical foundation ensures that income is generated primarily through product sales rather than recruitment incentives, mitigating the risk of unsustainable financial cycles often associated with pyramid schemes (Grayson & Coughlan, 2021). However, despite the fundamental differences in operational structures, negative public perceptions of MLM persist, primarily due to historical associations with fraudulent schemes and deceptive marketing strategies (Latif et al., 2022). This suggests that merely adhering to Islamic ethical standards is insufficient to eliminate skepticism; instead, Sharia-compliant MLM firms must actively engage in consumer education and transparent business practices to distinguish themselves from unethical money game models (Hassan & Haron, 2023).

A key factor in enhancing the legitimacy of Sharia-compliant MLM is the role of regulatory frameworks and oversight mechanisms, which vary significantly across jurisdictions. Countries such as Malaysia and Indonesia have implemented specific fatwa guidelines and regulatory measures to define permissible MLM structures under Islamic law, providing a benchmark for ethical business practices (Aziz & Rahman, 2021). However, in regions with less stringent regulations, the absence of standardized Sharia-compliant MLM laws allows unethical businesses to exploit the label of Islamic MLM, leading to consumer distrust and potential reputational risks for the industry as a whole (Mahmood & Aziz, 2022). Findings indicate that effective collaboration between Islamic financial scholars, regulatory authorities, and consumer protection agencies is essential in maintaining the integrity of Sharia-based MLM models (Siddiqi, 2021). Furthermore, corporate governance practices, including internal Sharia compliance units, ethical audits, and transparent financial reporting, play a crucial role in ensuring that MLM firms operate in accordance with Islamic legal principles (Abdullah & Saad, 2023). This underscores the necessity for both regulatory intervention and self-regulatory corporate mechanisms to prevent deceptive practices and ensure that MLM remains a viable and ethical business model within the Islamic economic framework (Hameed & Wahid, 2022).

In addition to regulatory and ethical considerations, the integration of digital technologies has emerged as a significant factor in shaping the future of Sharia-based MLM businesses. Digital platforms, including e-commerce websites, social media marketing, and blockchain-based financial tracking, have enabled greater transparency and accountability in MLM transactions (Yusoff & Ibrahim, 2023). However, while technological advancements present opportunities for improving consumer trust and operational efficiency, they also introduce new challenges related to regulatory enforcement and the potential misuse of digital marketing strategies (Ismail & Rahman, 2022). Findings indicate that MLM firms must align their digital marketing strategies with Islamic ethical principles, avoiding misleading advertisements and exaggerated financial claims that could undermine their legitimacy (Rahmat et al., 2021). Additionally, the integration of blockchain technology in MLM operations has been proposed as a solution to enhance financial transparency, enabling decentralized and tamper-proof financial records that reduce fraud risks (Hassan & Aziz, 2023). While these technological developments offer promising solutions for improving trust and accountability in Sharia-based MLM, their effectiveness ultimately depends on strong regulatory oversight, ethical leadership, and continuous consumer education efforts to distinguish legitimate Islamic MLM businesses from unethical pyramid schemes (Mahmood et al., 2023).

## **Conclusion and Recommendation**

The findings of this study underscore the fundamental distinctions between Sharia-compliant Multi-Level Marketing (MLM) and money game schemes, emphasizing the critical role of Islamic ethical principles, regulatory frameworks, and technological advancements in ensuring the legitimacy of Sharia-based MLM models. Unlike fraudulent pyramid schemes that rely on recruitment-based income structures, Sharia-compliant MLM adheres to Islamic economic values, ensuring that earnings are derived from legitimate product sales, transparent

business operations, and ethical compensation mechanisms (Ahmed & Nor, 2020; Grayson & Coughlan, 2021). However, consumer skepticism remains a key challenge, as historical associations with deceptive MLM practices have led to widespread distrust despite regulatory endorsements and fatwa certifications (Latif et al., 2022; Hassan & Haron, 2023). The study highlights the necessity for regulatory alignment, corporate governance, and ethical business practices to mitigate public concerns and differentiate Islamic MLM from money game schemes (Aziz & Rahman, 2021; Abdullah & Saad, 2023). Additionally, technological integration, including digital marketing platforms and blockchain-based transparency tools, offers opportunities to enhance consumer trust and operational efficiency, though these innovations must be complemented by strong ethical oversight and compliance measures to prevent misuse (Yusoff & Ibrahim, 2023; Hassan & Aziz, 2023). Ultimately, the sustainability and credibility of Sharia-compliant MLM depend on continuous collaboration between regulators, Islamic financial scholars, and business leaders to reinforce ethical standards, ensure adherence to Islamic principles, and eliminate exploitative practices that contribute to negative public perceptions (Mahmood et al., 2023).

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