



## FROM THE DEAN'S DESK

*In the name of Allah, the Most Benevolent and the Most Merciful.*

**WELCOME** to the latest issue of 'Muamalat', the official newsletter of the **Faculty of Economics and Muamalat (FEM), University Sains Islam Malaysia (USIM)** for this year. The objective of 'Muamalat' is to exchange ideas, thought and information between the Faculty members, university members within and outside USIM as well as the community at large. 'Muamalat' has received positive feedback from both academic and practitioner ever since it is being introduced. The articles and commentaries on issues related to Islamic banking and finance, muamalat and Islamic economics are published and contributed by both within and outside FEM. I would like to welcome any articles, commentaries or announcements from all to be published in 'Muamalat' and I hope 'Muamalat' will benefit all readers.

I would also like to take this opportunity to congratulate Prof. Dr. Muhamad Muda on his appointment as the new Deputy Vice Chancellor (Academic and International Affairs) of USIM. His contributions to FEM as the founding Dean for the past six years are invaluable and highly appreciated. FEM is now well known in the fields of Islamic Banking and Finance and Muamalat Administration due to the hard work of Prof. Dr. Muhamad Muda and his Deputy, Puan Nor Haziiah Hashim. Thanks to both of them for their endless efforts, commitment, dedication and contributions to FEM. My best wishes to Puan Nor Haziiah Hashim in her Phd Studies.

My heartfelt thanks to Y. Bhg. Dato' Prof. Dr. Abdul Shukor Haji Husin, Vice Chancellor of USIM for

giving me the opportunity to lead FEM. I pledge to do my best to ensure FEM is not only recognized as the center for Islamic Banking and Finance, but also in accounting taxation, zakat, corporate administration, marketing and Islamic financial products. To make this a success, commitment and cooperation from the academic and administration staffs are very important. Research and publication work in FEM need to be strengthened. More concerted efforts in research and publication will be undertaken to ensure FEM is recognized as the center for Muamalat and accounting studies in Malaysia.

I take this opportunity to welcome the new students of Bachelor of Muamalat Administration (Honors) and Bachelor of Accounting (Honors) to FEM. You have made the right choice to study at USIM. But please be reminded that you have been selected from thousands of applicants who want to study at USIM. Do not waste the opportunity given to you, but strive hard to complete your studies with good grades that will enable you to get jobs after graduation. While you are here for the next four years, do take the opportunity to participate in the various activities in the campus that will improve your soft skills and enrich your experience. The skills and experience gained at USIM will be useful when you enter the job market. I also would like to welcome the senior students back to the campus after a long semester break. Many activities and programs have been lined up for the coming session. Your involvement in the activities and programs are highly appreciated.

Congratulations also to Puan Kasumalinda Alwi who has been appointed as the Deputy Dean of FEM. I look forward to work with her and all of you. It is my hope that FEM, in the years to come, continue to strive forward based on the solid foundations that had been laid out by Prof. Dr. Muhamad Muda. Lastly, I seek Allah swt. blessings for our efforts and commitments towards this noble cause.

Wassalam.

**Prof. Dr. Hajah Mustafa Mohd Hanefah**

### FROM THE DEAN'S DESK

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CONGRATULATIONS  
AND  
THANK YOU



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**PUAN KASUMALINDA ALWI**

*Deputy Dean of Faculty of Economic and Muamalat (FEM),  
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First of all, Faculty Economics and Muamalat (FEM) would like to congratulate our **ex Dean, Prof. Dr. Muhamad Muda** who had recently being promoted to become **Deputy Vice Chancellor (Academic & International Affairs)**, Universiti Sains Islam Malaysia (USIM). His six years with this faculty are a testament to his vision and dedication in building the reputation of this faculty. Prof. Dr. Muhamad Muda has performed his job in spirited style and always in good humors. He has brought excellence and excitement to the faculty. Words are not enough to thank Prof. Dr. Muhamad Muda for all the outstanding contribution, guidance, support and excellent services. Thanks Prof. and we pray for your success in your new position.

Not to be forgotten is our **ex Deputy Dean, Puan Nor Haziah Hashim** who have worked closely with the Dean. She has done so in a very positive, encouraging way that brings out the good image of the faculty. FEM wishes all the best in her PhD studies. In addition, faculty is also delighted to congratulate both new Dean and Deputy Dean of the Faculty.

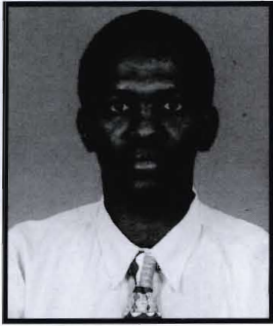
In addition, faculty is also delighted to congratulate both new Dean and Deputy Dean of the Faculty. **Congratulations Prof. Dr. Hajah Mustafa Mohd Hanefah** on his well-deserved appointment as **Dean of Faculty**, commencing on 3rd May 2007. Professor has a PhD in Accounting from Universiti Utara Malaysia (UUM) in 1997 with a Doctoral coursework at University of Memphis, Tennessee, USA. Previously he was an associate professor at UUM. His research interests include tax compliance, tax systems and financial reporting. Given his extensive experience and his noteworthy credentials, we are confident Professor will provide strong leadership and guidance for the faculty.

**Congratulations** also go to **Puan Kasumalinda Alwi** who has been appointed as **Deputy Dean** effective 3rd May 2007. Puan Kasumalinda has a Master of Business Accounting from Monash University, Australia. She is a member of Chartered

Management Accounting (CMA), Australia. Her research interests have been primarily on Management Accounting. She also began her teaching career at UUM. Faculty is assured that she will serve well in her new appointment with her vast experiences.

Once more, members of the faculty would like to extend a warm welcome to Prof. Dr. Hajah Mustafa and Puan Kasumalinda as a new management team for the faculty. We promise to express the certain sentiment of working together in full harmony for the excellence and excitement of the faculty and University in the future.

# BUSINESS PRACTICES IN ARAB SOCIETY



By: Dr. Mohamed Sharif Bashir  
Mohamed Elsherif<sup>1</sup>

## Introduction

The Arab Society extends five and quarter million square miles, with eighty percent being desert environment. Urbanization and industrialization due to heavy Western influence have changed the demographical concentration of the Arab people. Almost half live in cities, where both men and women have more educational, as well as employment opportunities.

The twin pillars of Islam and Arabic language hold the Arab world together. Within a seemingly homogenous whole, there are however enormous variations in history, culture, business practice and political stability. The Arab world includes some of the world's wealthiest countries such as Kuwait, Saudi, but there are also countries such as Yemen that are only beginning to emerge from poverty and underdevelopment. The small oil-rich states of the Gulf rely intensively on expatriate workers and imported expertise, and are very open to international trade.

The new society of Arab still holds close to traditional values and morals. Loyalty to the family has always, and continues to be the top priority of the Arab. Religion is also a focus in how they live their lives. Islamic religion was centered mainly to the nomads Arab in the desert, but Arabs of today are only one fifth of the total Muslim population around the world. Muslims follow the holy Qur'an. They hold the Qur'an high, and it is followed in all areas of life, from religious to governmental and social issues.

## Structure of Arab Culture

The Arab world is culturally rich, complex and diverse. The Arab world includes most of North Africa, the Middle East and the Arabian Peninsula. It includes many diverse countries and cultures with different levels of economic development, social attitudes and business practices. The main concentrations of population in the Arab world are along the southern and eastern coasts of Mediterranean, the Nile Valley and the gulf. Arab world includes more than 22 countries; it is the cradle of the three monotheistic world religions, each of which is itself diverse; political loyalties and worldviews of every sort; as well as differences of locality, region, kinship and social class.

The Arab world is cosmopolitan, not an isolated and insulated culture. It has always been the crossroads of the world. At their height the Arab and Muslim empires were central parts of a vast civilization, which united territories stretching from the Atlantic coast of Spain and Morocco across the Levant far into central and south Asia. Within that civilization, there was a free flow of commerce, trade, culture and ideas. The Muslim empires united a multitude of peoples. Their culture was the product of these diverse peoples, who mutually influenced one another through the ages. Some elements of Arab culture are still shared throughout much of the region ruled by these empires.

## Arabs Business Practices

Companies and enterprises in the Arab world are often more hierarchical and structured much more rigidly than in Europe or South East Asia. Getting to the right person who has the authority to make decisions is critical. This means that if someone needs to establish who has the authority to make decisions. The deal will only be secure when that person signs the order. Business decisions can sometimes take much longer than you might be used and patience is essential. In most Arab countries, no serious business decisions will be taken in the religious holidays of Ramadan and Hajj and the daily prayer breaks should also be taken into consideration when scheduling business meetings.

The Arab world has a long trading history, and Arab business people are used to bargaining and then bargaining again. Once agreed to, they will stick to the term of the agreement. Arab business people can be guarded in their dealings with new business contact and it takes time to gain their confidence. Personal relationship will form any business activity.

Arab business people are unlikely to finalize any serious negotiation without such a face-to-face meeting, as doing business in the Kingdom is still mostly personal. Proper attire at business meetings is essential, as it is a sign of respect for the person with whom you are meeting. Conservative business suits are recommended. Business cards exchanged are usually printed in English on one side and Arabic on the other. Meetings are conducted at a leisurely pace, with the parties involved enjoying cordial discussion over coffee and tea. Saudi business executives like to feel comfortable with their business partners before agreements or contracts are signed. This can mean a number of initial meetings where no substantive business is discussed. However, these meetings can be as important as serious business negotiations. Substantial time should be allotted for such business appointments, as they are often long in duration. Arab business executives are also prone to welcome visitors and outside phone calls during such meetings; a lack of privacy is not uncommon in personal appointments. Confidentiality is likely to increase when it comes time to actually finalize an agreement.

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# JURISTIC DISPUTE OVER VARIABLE RATE FINANCING IN MALAYSIAN ISLAMIC BANKING

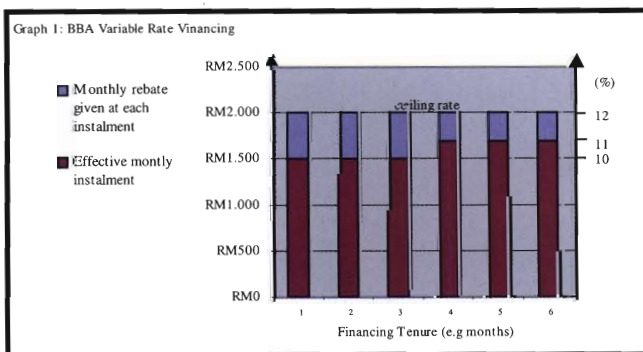


By: Amir Shaharuddin<sup>1</sup>  
Yasmin Hanani Mohd Safian<sup>2</sup>

**MALAYSIA** has been considered as one of the leading countries in introducing advanced Islamic financial instruments to cater sophisticated needs of Muslims as well as non-Muslims clients. Recently, Islamic banks in Malaysia have introduced variable rate financing (VRF) in *baic bithaman ajil*, which is applicable to house, property and term financing. This new mode of financing is growing significantly. In year 2004, the Bank Islam Malaysia Berhad (BIMB) recorded RM1.3 billion profit from the said instrument, an increased of 26.6 percent from the previous year (BIMB, 2004).

One has to appreciate the fact that the VRF is a duplication of floating rate in the conventional lending based system. Due to this, many are still in doubt with regard to the *halalness* of this instrument, as the implementation makes no difference with the conventional one. Hence, the present article highlights the juristic debate on whether the new instrument complies with the principles of *sharicah* or it consists any element of *gharar* (uncertainty) that is prohibited in Islamic commercial law.

The concept of BBA financing with variable rate repayment is found very similar with the *istijrar* contract implemented in Pakistan. Though the former is designed for long-term financing and the latter is invented for derivative instruments, both have at least two similar characteristics that are (1) predetermined ceiling rate of profit and (2) changeable price or installment during the contract period. As the discussion on the method of *istijrar* transaction is beyond the scope of this article, the focus will be on the *modus operandi* of VRF in BBA. For better elucidation please refer to the graph 1 below.



(Adapted with modification from Bank Negara Annual Report, 2003)

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As illustrated in graph 1, the BBA under the VRF contract will be executed when the bank buys asset from customer for cash and then sell it to the same party immediately with deferred repayment. Upon the contract both parties will agree on ceiling rate of profit (12 percent in our example). Computed at a ceiling rate of profit 12 percent per annum, the contractual monthly installment is RM2000 over the loan period. However, in order to reduce the monthly installments to match the current market level, rebate known as *ibra'* will be granted to the customer on a monthly basis. For instance, if the BLR reduce to 10 percent during the first month, the bank will give RM500 rebate which is the different between ceiling rate of profit 12 percent and effective rate of profit of 10 percent. Likewise, if the BLR increase to 11 percent during the fourth month the bank will give RM300 rebate.

The amount of rebate given by the bank to the customer is adjusted based on the rise and fall of BLR. Higher BLR in the market means lower rebate for the customer and vice versa. However, in the case where the BLR increases above 12 percent, then the effective rate will remain at the agreed ceiling rate. This means the customer will never be charged more than the predetermined ceiling rate of profit.

The subject of controversy raised by the opponents focus on three main issues (1) the similarities with floating rate system (2) *gharar* (uncertainties) and (3) *hilah* (artifice). Muslim scholars who opposed the implementation of VRF instrument demand a more 'genuine' Islamic financing product that is entirely different from the conventional banking facilities. They criticize the way the VRF instrument has been applied since the adjustment of rebate depends on the movement of BLR. Thus, when the rebate is calculated on the basis of the same formula applied in conventional banks it leads to perception that there is no difference in the profit charged by Islamic banks and the interest charged by their conventional counterparts.

However, the proponents assert that the VRF instrument is valid from the *sharicah* point of view based on three solid evident. There are (1) no prohibition neither from the Qur'an nor the hadith (2) *modus operandi* on the basis of *ibra'* concept and (3) the concept of *masalih mursalah*. One of the principles in Islamic legal maxim connotes that the original status of any commercial transaction is permissible (*al aslu fi al-mu'amalat al-ibahah*). The legal maxim implies that the jurists will approve any business transaction as long as no clear-cut and decisive (*qat'i*) ruling mentioning the invalidity of such transaction either from the Qur'an or the hadith. The reason for such lenient approach is because Islam recognizes the various needs and wants of mankind in different societies and times especially in the business and finance pursuits. Looking from the Islamic legal maxim perspectives, neither the Qur'an nor the hadith prohibit the transaction thus the VRF's legal rule remains permissible. In other words, since the *modus operandi* of

the financing instrument is not contradicting with both primary sources of Islam therefore the transaction is considered valid.

As mentioned earlier, the innovation of VRF instrument is developed based on the interest or *maslahah* of Islamic banks as well as their customers. The VRF instrument is crucial for Islamic bank in order to diversify the financing portfolio from over-reliance on fixed rate financing. As at end-December 2003, the fixed rate financing accounted 87.8 percent of total Islamic financing (Bank Negara, 2003). The problem with the fixed rate system is that it has inadequate hedging mechanism to mitigate the risk of fluctuation in the financing rate for long-term period. Such hedging mechanism is pertinent especially because 58.8 percent of fixed rate financing in Islamic banks are predominantly on long-term tenure and majority of them are funded by short-term bank deposit. This situation makes the Islamic banking institutions find it difficult to give a satisfactory return to their depositors particularly when the market rate increases. This is because the constant income streams from the financing are tied to a fixed profit rate, which is relatively lower when compared to a conventional floating rate loan.

The lack of competitiveness element in Islamic banking facilities would cause a switching of Islamic funds to conventional funds. Perhaps it is not a surprising phenomenon in the case of Malaysian Islamic banking industry since the profit motive is the most important factor for customer patronizing Islamic bank. Ahmad and Haron

(2002) found out that Malaysian customer who places their deposits at saving and investment account facilities are guided by the profit motive.

The authors are of the opinion that the VRF instrument is considered legal and lawful in Islam. Examining the *modus operandi* of the VRF, it clearly indicates that the instrument is significantly different from the practice of floating rate in conventional lending-based facilities. In the floating rate system the customer cannot determine the actual monthly repayment over and above the total cost of financing. Whereas in the VRF instrument the ceiling price has been mutually agreed by both parties and thus eliminate the element of *gharar*.

In conclusion, may be we should bear in mind that the thinking of majority Muslim customer is profit maximization in making their economic decision. Though in theory it should not be the attitude of Muslim in establishing relationship with Islamic banks but it is the real fact does happen in the society. It is not an easy task to ensure Muslim really adhere to the Islamic concept of wealth. Furthermore, since the Islamic banks are operating in parallel with conventional banks, the customers can easily compare the monetary profit between both. Apparently this makes the competition getting stiffer. Perhaps, the entire above scenario explain the reason for Islamic banks to continuously adapt the conventional banking facilities with necessary Islamic changes such as in the VRF instrument.

FROM PAGE 3...

Many Arab countries have spent immense amounts of financial and human resources in an attempt to improve the capabilities and performance of their national economies and toward generating change in their political systems and innovations in technology. Today, however, most Arab states are ruled by authoritarian political regimes that do not encourage, or allow, public participation in decision-making.

Many Arab business executives have an impressive history of trade experience, experience with foreigners, and a command of the English language. They prepare carefully for meetings and have a good grasp of the important details surrounding negotiations, relying more heavily on memory than on papers and notes. The Arab people are very hospitable and will go to great lengths to make guests feel welcome and comfortable. Foreign business executives can expect to be served first and will be ushered first through doorways. If an invitation is extended to an Arab colleague for a meal or coffee, it is customary for the person who issued the invitation to pick up the bill. Some Arabs will decline an offer at least one time out of politeness.

Doing business in Arab society is somewhat more challenging for women. There is gender separation in many Arab countries. Many public places, like hotels and restaurants, will have family rooms where women are served with their husbands. Women

are expected to dress conservatively, with long skirts most appropriate, sleeves at elbow length or longer, and necklines that are unrevealing. It is generally uncommon for a Muslim man to shake hands with a woman or engage in the conversational body contact that is common when speaking to another man, although Arabs who have experience with Western culture may be inclined to do so.

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# DISCLOSURE ON DIRECTORS' REMUNERATION IN MALAYSIA



By: Norhazlina Ibrahim<sup>1</sup>

## Introduction

**ALL COMPANIES** need human expertise and skill to manage the company. The management of the company's affairs is usually referred to a group of people called directors. Directors are deemed to be the agent and they are responsible in managing the resources owned by the shareholders collectively known as principal. For the services, legal obligation and the ever-increasing responsibility put on their shoulders it would be reasonable to pay them accordingly. In certain extent, it may look reasonable for directors to draw and enjoy a certain portion of the wealth generated by the company through their services towards the company. Malaysian Code on Corporate Governance (MCCG) suggests that the levels of remuneration should be sufficient to attract and retain directors needed to run the company successfully.

The growing public concern that business executives are paid exorbitantly and that their pay increases in recent years have not been matched by the performance of the firms they run (Culpan et al., 1992). Directors' remuneration is often criticized on the grounds that either it is unrelated to firm profitability or that it is related to short term rather than long-term profitability (Deckop, 1988). Not to mention, there are vast public interest concerning some directors receiving large salary increases despite declining firm performance.

The statement made by our former Prime Minister of Malaysia, Tun Dr. Mahathir to the Organisation of Islamic Conference (OIC) in his keynote address at the OIC Business Forum on October 15, 2003 should be taken seriously. He proposed to set up Muslim business school where Muslim business ethics can be developed, expanded and taught systematically. Furthermore he said:

"there is too much greed, profiteering and usurious practices are rampant. Business is about making profits but it should not be such that others would suffer."

At the end of the day, the most frequently asked question by the public at large is, "Are the compensation paid, especially to chief executives, well deserved?". Some of the researchers criticize the salaries paid to top executives are too excessive, while some defend that top executives are worth every nickel they get. However, there are many controversial issues involved in directors' remuneration, for example some executives are awarded millions in salary while many ordinary workers have problems obtaining a modest living wage.

## Directors' Remuneration Disclosure

What would be your reaction if your remuneration is being revealed to everyone? Many would agree that how much you earn should be confidential, however to what extent could you deprive such information. Who should draw the line? Many would not dispute that by working with public companies, more disclosure would be expected from you. Most of the times the excuses such as security risks and confidential are used as the reasons why most public-listed companies (PLCs) refused to disclose the exact amount they pay their directors. Only a handful of listed companies are disclosing this, although they are encouraged to do this under the Code of Corporate Governance.

In its move to encourage greater transparency and accountability of listed companies, Bursa Malaysia introduced various guidelines in January 2001 in relation to directors' remuneration disclosure. Unlike before, other than company, the directors themselves can now also be subjected to sanctions, for failure to make disclosures under the Bursa Malaysia Listing Requirements or making a false misleading disclosure. These provisions were made to protect shareholders' interest through disclosure of directors' remuneration.

According to principles adopted under Islamic view, the purpose of accounting information is to serve the public interest, it follows that in an Islamic context the ummah has the right to know about the effects of the operations of the organization on its well-being and to be advised within the requirements of shariah as to how this has been achieved. Accountability is thus interpreted as being, first and foremost, accountability to God through making information freely available. Truthful and relevant disclosure of information is important, in different aspects of Islamic life (Lewis, 2006).

Six verses in the Holy Qur'an refer to 'relevance'. One meaning of the 'relevance' referred to is disclosure of all facts (Surah 2:71) '*... Now hast thou brought the truth ...*' also, based on (Surah 4:135) '*O ye who believe! Stand out firmly for justice ...*'.

Reliable information must also be presented correctly and fully, including details of all the transactions undertaken. Surah 11:84-85, for example, says '*... give full measure ...*'. True disclosure of financial facts, and the provision of them without any deceit or fraud in order to satisfy users' requirements, is thereby essential for accomplishing such obligations and to facilitate the making of decisions on investment and business matters (Lewis, 2006).

Therefore, the view taken by MCCG is aligned with Islamic perspective. However, the next question is how detailed should the disclosure be made. At the moment, the Listing Requirements do not require companies to reveal detailed information on directors' remuneration, merely stating the remuneration bands of individual director (successive bands of RM50,000)

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would suffice. These remuneration bands are merely the minimum disclosure standards ruling by Bursa Malaysia and it seems that many companies are sticking to them.

Details of disclosure on executive compensation are observed in United States, United Kingdom, Canada and Australia, where companies provide information on total compensation of executives including stock options, golf membership, personal use of company cars, houses, jets and other fringe benefits. In the US and UK, each executive's compensation package must be revealed while in Australia and Canada, companies need to disclose the remuneration of the top five executives.

### Needs for greater transparency

Shareholders are asking for better transparency by companies that they invest in. They are also going to want to be sure that the remuneration amounts that are given to directors are justified. The last thing companies should do these days is over pay and under disclosed (Viknes, 2003). Companies could no longer use security or confidentiality as the reason for not disclosing their remuneration. Some bizarre answers during interviews with some of these directors are, they were afraid that their children would be kidnapped if they disclosed such information to the public. The shareholders acting as the owner has the right to know how much they are paying those people working under them to make sure that these payouts are really justified.

The government's aspiration for Malaysia to be an international Islamic capital center could be another concrete reason why these companies should disclose more than before. Effort such as shariah Index, establishment of the shariah Advisory Council and the maintenance of the ever-growing list of shariah compliant securities on Bursa Malaysia should enhance the progress of Corporate Governance. As at April 2004, there were 743 companies listed on Bursa Malaysia, which were deemed to be shariah compliant, covering close to 80% of all shares traded on the exchange. As at April 2004, there were 743 companies listed on Bursa Malaysia, which were deemed to be shariah-compliant, covering close to 80% of all shares traded on the exchange.

As mentioned earlier, many laws and listing rules have been introduced to promote greater corporate governance especially on the disclosure issues. One thing for sure, to change the mindset and persuading people to embrace the real meaning and true spirit of corporate governance is not an easy task, or the compliance on corporate governance will be just on mere paper.

Even though by disclosing more could not necessarily mean the company can make more profit, however by doing so, the companies can gain trust from the shareholders and this effect may only be seen in the long run. For example Vicknes (2003) in his study revealed that out of the 900 odd companies on the Bursa Malaysia, only 7.5 per cent or less than 80 are totally transparent on the amount that directors earn. In another survey done by Shanmugam (2002), out of 696 companies, only 31 disclosed what their executives received. Some disclosed the exact details, some stated the remuneration band and in extreme cases, some companies disclosed the remuneration of the directors who were no longer on the board.

### Details of Disclosure

Interestingly in study done by Vicknes (2003), sitting at the top of the pack in terms of the largest payout to directors is leading gaming operator, Genting Bhd. It paid RM86.2 million to its directors in 2002. It was also disclosed in the Genting annual report, that one of its executive directors is paid between RM68,500,000 to RM68,550,000, making that person the highest paid director amongst Bursa Malaysia companies. However, the name of the director was not disclosed.

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### Staff on Study Leave in 2006 and 2007

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## CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF THE FIRMS



By: *Suhaila Abdul Hamid*<sup>1</sup>

**CORPORATE** governance has become a catchphrase in the corporate world after many corporate failures occurred throughout the world despite reporting 'healthy' annual reports (Mallin, 2007). In essence, corporate failures affect all of us and they could be prevented if effective corporate governance is practiced. Generally, corporate governance refers to a system that directs and controls the organization to ensure those who contribute to it receive their returns. A more comprehensive definition is provided by the Finance Committee Report on Corporate Governance which describes corporate governance as "the process and structure used to direct and manage the business prosperity and affairs of the company...with the ultimate objective of realizing long term shareholder value, whilst taking into account the interest of other stakeholders" (Nik Mustapa & Shaikh Saifuddin, 2002). According to the code of recommendation, it does not only focus on the interest of shareholders as finance providers but to the stakeholders which may comprise among others the employees, suppliers, society and government.

In understanding the relationship between ownership of the firms and corporate governance, we need to understand the various underlying theories, which form the discussion of this relationship. There are four main theories, which contribute to the development of corporate governance, which are agency theory, transaction cost economics, stakeholder theory and stewardship theory (Mallin, 2007). The main distinctive issue in the four theories is the priority of satisfying the needs of different groups. However, there is one common issue in all of the four theories, which is the separation between ownership and control leads to misalignment of interest. The misalignment of interest may be due to the different attitude towards risks or the existence of information asymmetry.

Unlike the Western theories, Islam outlines that there is no absolute ownerships since everything in this world belongs to God, the Al-Mighty. Based on the concept of tawhid, the true faith of monotheism a man in Islam is regarded as a trustee and a leader. Thus, the accountability in Islam is beyond the accountability to human, environment or this universe. The ultimate accountability is to Allah s.w.t and therefore, a man is accountable for their trusted wealth before Allah on the Day of Judgment.

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Despite the problems that ownership structure creates, it is however noteworthy that ownership of the firms is also being used as one of the mechanisms to reduce the misalignment. A survey on the international corporate governance practices indicates that ownership structure is one of the two main internal corporate governance mechanisms being used by the firms in the United States (Dennis & McConnell, 2003). It also indicates that ownership structure is the most extensive corporate governance mechanism being studied worldwide.

In the Anglo-Saxon economies for instance the United States and the United Kingdom, the ownership structure is more dispersed. The existence of minority shareholders is more significant compared to other parts of the world. A study suggests that, throughout the world the ownership structure is either more on controlling shareholders or owned by family (La Porta et. al, 1999). However, based on the common law being practised by the Anglo-Saxon economies and other former British colonies they have more stringent laws protecting the minority interest. The civil law, which follows the Roman and practised by many other European countries as well as Latin America on the other hand emphasized more on codification. Thus, there is less investor's protection (Mallin, 2007).

It is interesting to note that it is a common practice among the Asian countries including Malaysia to demonstrate ownership structure which is more family-owned, concentrated, pyramidal and cross-shareholding. It is also noteworthy that Malaysia is a former British colony, adopts the common law and follows largely the code of corporate governance recommendations established by the United Kingdom. Another unique structure of ownership in Malaysian firms is the allocation of equity for Bumiputra, which has been introduced not only for economic purpose but for social purpose as well.

In order to encourage social and economic equilibrium among the races in Malaysia, the government has introduced and implemented enormous efforts especially after the tragedy on the 13th May 1969. Eliminating the poverty and reducing the economic gap among the races have always been the main priorities of the government. Indeed, they are also given emphasis by the government in the Ninth Malaysian Plan. After the tragedy on the 13th May 1969, among the significant approaches taken by the government was to introduce the New Economic Policy (NEP), which was implemented from 1970 to 1990. The expiration of NEP was continued with the establishment of another economic plan known as the National Development Policy from the period 1991 to 2000. Currently, the Third Outline Perspective Plan is in effect which is from the period 2001 to 2010. All the economic plans imposed the requirement of allocating 30% equity ownership in firms listed in Bursa Malaysia to Bumiputra ethnic.

In addition to that, privatization has also become an acceptable idea globally. Malaysia for instance had introduced the privatization policy in 1983. It was introduced with the aim to reduce the financial burden of the government as well as improving the economic growth of Malaysia. Under the policy, many services, which were previously under the direct administration of the government, are now being taken over by private firms. However, the government still holds significant amount of ownership through its agencies and investment arms and these firms are known as Government-linked companies. The existence of Government-linked companies is also a common practice in other parts of the world.

Since ownership is given to the management to reduce the misalignment of interest between them and the shareholders, many studies attempt to look into the effect of managerial ownership as a corporate governance mechanism with performance of the firms. Generally, the empirical evidence provided on the relationship between managerial ownership and performance of the firms demonstrates a mixture of positive, negative or undefined relationship (Ang et. al., 2000; Chen, 2001 and Welch, 2003). In addition to that, there is also a growing interest in investigating the effect of block holders or institutional shareholders in a firm with its performance. The existence of block holders or institutional shareholders is argued to provide more effective monitoring especially with disperse ownership. Individual shareholders may not have the incentive to monitor the management individually due to the high cost; thus they are argued to benefit indirectly from the block holders' monitoring activities.

However, it has a drawback since the monitoring may be used by the block holders to pursue their private benefits, which, may not necessarily benefit the individual shareholders (Gibson, 2003). Generally the evidence on the relationship between block holders or institutional ownership with performance also points towards a mixture of positive and negative (Yeo et. al., 2002; Holderness, 2003 and Leng, 2004). The different types of ownership structure are important in understanding the effect of ownership in corporate governance issue.

Given the unique structure of ownership in Malaysian firms yet adopting the Anglo-Saxon common

law in its governance system, it is interesting to explore the effect of ownership structure in Malaysian corporate governance practices. The knowledge may assist the regulators and industry to better understand the best combinations of corporate governance mechanisms for Malaysia.

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## iECONS 2007

The faculty has successfully organized the 2nd Islamic Economics Conference (iECONS 2007) on 17 - 19 July 2007. The theme of the conference was "Comprehensive and Balance Development Among Islamic Countries: Cooperation, Opportunities and Challenges". It was held at Berjaya Times Square, Kuala Lumpur. The main objective of this seminar is to become as a catalyst to the economic development and social progress of Islamic countries.

This iECONS 2007 was officiated by YB Datuk Seri Syed Hamid Syed Jaabar Albar, Minister of Foreign Affairs, Malaysia. The participants were both from local and international universities as well as institutions.

The next iECONS will be held in 2009

## DO YOU REALLY NEED CREDIT CARD? CONSIDER THE FOLLOWING ADVANTAGES AND DISADVANTAGES



*By: Syahidawati Haji Shahwan<sup>1</sup>*

**CREDIT CARD** is plastic money issued by a bank or other companies that allows customers to obtain credit at a large number of retail outlets. In banking system, credit can be defined as a method of purchasing goods or services where it involves an arrangement or a contract whereby a person can purchase and take a possession of something and pay it later. It has been the most convenient method of transaction in recent years. The term credit card was first used by Edward Bellamy in 1887. Later, in 20th century the first credit card was issued by Flatbush National Bank in the United States. This first interest-based credit card was emerged in 1947 served to both customers and non-customers of the bank. Subsequently, hundred of banks ventured into this kind of business, but only a few of them are still survived until today. In Malaysia however, credit card was first introduced in 1973 with the advent of Diners Club Card. Then in 1978, Bank of America introduced VISA Card followed by American Express in 1979 and Hong Kong Bank with Master Card in the same year.

Today in Malaysia, people cannot reject the importance of credit card in their lifestyle. There are many advantages and uniqueness of credit card that drive people to apply for it. It is undeniable that credit card is the most perfect alternative for cash transactions. Normally in practical, a cardholder uses credit card when he or she purchases goods in a big amount. Therefore, using the credit card is the best way instead of calculating the money in front of the cashier. This will help parties, the buyer and the cashier in reducing time to calculate the cash money and avoiding any unseen error in their calculations.

Besides, credit card also is an advisable cash security. Consider this situation; an old man just came out from a bank holding a plastic or an envelope where a few thousands Ringgit were inside it. He was intended to buy a piano as a birthday present to his grandson. This situation might invite intended thieves and unintended ones to steal the money and nothing will leave to that unlucky old man. But, having credit card will help a lot in avoiding such situation to happen. A customer just gives his or her credit card to the cashier and the cashier will swipe the card and automatically transaction will take place. Besides, this also will avoid the customer to keep thousand Ringgit in his or her wallet and it is much safer to the customer.

In some situations, a customer is about to pay his or her transaction, but then he or she notices that the cash is not so that much. This is a situation where credit card can become a good companion during emergency. The customer can just present the credit card to the cashier or go the nearest Auto Teller Machine (ATM) and withdraw needed advanced cash. This condition might help a cardholder especially during festive sessions and end of the month. It also can avoid humiliation to the customer's part when unexpected situations as above happen.

In this 21st century, purchasing through Internet is the most convenient way of transaction. A customer just need to click his or her choice from personal computer, then make an order from the internet and wait for a few seconds for approval. Upon approval goods purchased will be sent within two or three working days depending on the location. This easy and simple kind of business transactions makes many people today prefer to buy and sell through internet rather than wasting time to shop outside and queuing to pay at the cashier. This type of transaction will not take place if there is no credit card.

When the transaction has taken place, it is time to pay the amount that a customer has used during the previous transactions. Another advantage of credit card is that a person can pay the amount in full or partial. Besides, the credit card's issuer allocates certain period of time for customer to pay back the credit in the future. This practice allows the customer to foresee his or her financial planning and avoid making unnecessary purchases. Besides, in some circumstances paying in the future also helps the cardholders to save and invest their money first and get certain amount of profit, and then pay the credit when the bill comes.

Financial management is an important thing to be observed by everybody. Thus, having credit card indeed is a way to enhance responsibility towards personal financial management. Credit transactions manage to control owner's buying attitudes and make the owner considers a lot before continuing the transactions. Later, in the future this training process will lead to positive attitude developed within the cardholders. He or she automatically will be responsible towards his or her own transactions and will try to reduce the credit.

Moreover, some companies introduce many interesting packages and benefits to promote their cards. Some of them offer free life insurance for the cardholders and insurance coverage for the credit being used. This is to ensure that the non-payable credit will be covered if any unpredictable incidents happen to the cardholders such as accident, death and others. There are also companies that offer points accumulation to encourage cardholders to purchase goods by using credit card. When the accumulated points have reached certain desirable targets, cardholder will receive tokens or gifts as a reward.

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# THE USE OF CREDIT INFORMATION IN UNDERWRITING INSURANCE APPLICATION



By: *Nor Haziah Hashim*<sup>1</sup>

**TODAY**, to have a good credit information or credit records are essential, as it affects many things in one's life. Credit records will greatly affect one's chances in job applications, securing loans, setting up utilities, leases and rentals and buying insurance policies. The information is normally used as a tool for background checks, employment screening and the ability to repay loans. Thus, those who could manage their debt well and have good credit history will benefit from the use of credit information

The use of credit information in the financial services industry has been practiced for a long time. In the United States of America for instance, with the enactment of the Fair Credit Reporting Act in 1970, insurance companies have been allowed to use credit reports in underwriting insurance application. Credit related information is used for two things, namely in the underwriting process and for rating the premiums. Underwriting is the process composed of four main tasks, which are, selecting potential policyholder, recognizing and evaluating risks, determining the premium charged and making decision as to whether to accept, reject or accept with condition an insurance application. Rating on the other hand is the process of determining how much a policyholder will pay when the insurer places him into a specific rating 'tier' or level. In short, credit information will help the insurer to accurately assess and price a risk.

In the case of insurance, especially auto and homeowners insurance, insurers reviewed consumers' credit information before issuing insurance policies. This is because the insurance credit score are highly accurate predictors of future loss in auto and homeowners insurance. According to Robert P. Hartwig (2003), in conjunction with other risk factors such as driving experience, previous accidents, types of car or home and the applicant's home address and workplace, credit-based insurance scores allow insurers to differentiate between lower and higher insurance risks. Many studies have shown there is a strong correlation between credit standing and loss ratios in both auto and homeowners insurance. In other words, the higher the credit score, the lower the policyholder's losses are likely to be and vice versa (Insurance Information Institute, 2003). As a matter of fact, the statistical correlation between good credit standing and low insurance losses only confirms the reasonable assumption, that financially stable individuals will exhibit stability in other aspects of life. On the other hand, individuals with financial stress can

lead to behaviors that produce more losses, such as improper maintenance of homes and cars.

Credit-based insurance scores are based on credit history. It measures how well individuals manage their financial affairs, especially within the last 12 months. Normally the factors used in determining credit scoring differ among the insurance company. However, according to the National Association of the Insurance Commissioners (USA), there are several common factors used in many insurance scoring models. Each factor is assigned a weighted number that, when applied to a specific credit information and added together, equals three-digit scoring ranging from 0 – 999, depending on the credit scoring model used. The higher the score, the more financially responsible the consumer, thus lower the risk. Conversely, the lower the score, the greater the risk. Common factors and the effects on insurance score are explained in Table 1.

*Table 1: Common Factors Influencing Credit Scoring*

Factors	Example of Information	Effect on Insurance Score
1. Adverse public records	Bankruptcy, collections, foreclosures, liens	Negative effect on credit score
2. Past payment history	The number and frequency of late payments	Information on late payments will have a negative effect on credit score
3. Length of credit history	The amount of time been in credit system	A longer credit history will improve insurance credit score
4. Inquiries for credit	The number of times applied for new credit; eg: mortgage loans, utility accounts and credit card accounts	High new credit application tends to have a negative effect on insurance score
5. Number of open lines of credit	The number of major credit cards, department store cards actually opened	Too much credit cards have a negative effect on credit score
6. Type of credit in use	Major credit cards, store cards, finance company loans, etc	Major credit cards may be treated more favorably than other types of consumer credit
7. Outstanding debt	The ratio of how much owed compared to available credit	Too much outstanding debt will have a negative effect on credit score

Source: National Association of Insurance Commissioners (2002): *Understanding How Insurers Use Credit Information*.

Insurers use insurance scoring because in addition to other applicant's information, insurance score provides an objective, and accurate tool to better anticipate auto and homeowners insurance claims. Insurance scores do not include personal information such as race, religion, gender, family or marital status, handicaps, nationality, age or income. This is in tandem to its objective, which is to measure how well individual manage their financial affairs, not to measure individual's financial assets.

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## “THOUSAND STEPS” IN TWO DAYS



By: *Aimulashikin Marzuki*<sup>1</sup>

“**Seribu Langkah**” programme, themed “Thousands Steps towards Career Path” was organized for final year students from Faculty of Economics and Muamalat (FEM) on 25th to 26th November. This programme was held at Hotel Seri Malaysia, Bagan Lalang, Selangor. The main objective of this meaningful event is to prepare the final year students for their future career path. Through this programme, students were exposed to necessary techniques and skills needed when looking for employment.

A total number of 137 students attended this programme on the respective dates. They were accompanied by two administrative staffs. At 8 o'clock sharp, the allocated buses departed from the students' hostel towards the destination. Fifty minutes later, the students arrived at Hotel Seri Malaysia and registered at 9 am. The master of ceremony then welcomed all of the participants. This was followed by a warm welcome by me as the adviser. At 10 am, the programme was officially launched by Prof. Dr. Muhamad Muda, the Dean of FEM. Later, a token of appreciation was presented to him.

The first session of the programme commenced at 11 am, after a tea break. A talk on “Job Opportunities in Islamic Banking and Finance Industry” featuring Tn. Hj. Mahmud bin Hj Buntat, the Head of Islamic Banking Division, OCBC Bank started the programme. The talk was a definite eye opener for the participants and would be very helpful for the students in understanding the industry further. Students were given a better understanding of the job opportunities in the industry as well as skills required of a fresh graduate. In the talk, the speaker listed the potential employer in the industry such as Al-Rajhi Bank, Kuwait Finance House, Bourse Malaysia and Islamic Banking Division of OCBC Bank. He also took the opportunity to welcome the students to submit their resume directly to him, knowing that the students have good Shariah background and at the same time are exposed to subjects related to banking and finance in their degree programme.

The second session kicked off at 12 pm. En. Khalid Abdullah, Senior Manager, Human Resource of Sapura Technology Berhad shed the students some light on the talk “What Industries Look for in Human Resources Selection and How to Meet the Requirement”. According to him, though good grades is a criterion in selecting suitable applicants, interpersonal skills and the presentation of oneself are the main criterion that employers are looking for. He also emphasized that due to globalization, fluency in English Language is very important and there is a need for students to master their language proficiency.

At 1 pm, a lunch and prayer break of one and a half hour was given. This was then followed by the third session of the talks. The speaker for the talk themed.

“Finding a Job and Preparing Resumes” was En. Mohammad Noorizzuddin Nooh, USIM's very own lecturer. In this session, En. Mohammad Noorizzudin enthusiastically and generously shared some tips with the participants on how to write up an eye-catching resume and how to dress up for interview. He also discussed some of the “Dos” and “Don'ts” during an interview. According to him, first impressions very much determine the success or failure of the applicants in getting the job.

The fourth session of the programmes was a charismatic talk on “Graduates' Prospects in Entrepreneurships” by Tn. Hj. Nordin Abdul Aziz, Secretary of Human Resources Division, Pusat Pentadbiran Kerajaan Persekutuan. Participants were exposed to the list of government agencies providing training and financial assistance to those interested in entrepreneurship. Emphasis was given in terms of loan amount, interest rate and application procedures, which includes how to prepare business proposals and other documents required for submission. There were encouraging feedbacks from students as the majority of them are interested to start their own business after they graduate.

After four enlightening and constructive talks, a high tea break and Asar prayer break of half an hour was given. At 5.30 pm, recreational activities were carried out. During the recreation time, an interesting gender-switch game was organized. The boys were playing netballs while the girls were playing footballs. Even though they had never tried the game before, they managed to finish it and more importantly, they really enjoyed themselves.

The programme later continued at 8.15 pm after dinner and Maghrib prayer. This session started with another talk by USIM's lecturer and also the coordinator of industrial training, Pn. Wan Rasyidah Binti Wan Nawang. In this session, Pn. Wan Rasyidah discussed the “Employer's Perception on FEM Graduates”, which was gathered from the feedbacks of employers' of students who underwent the industrial attachments. According to her, overall, employers were satisfied with the students' performance. However, there were concerns over students' time management and communication skills. It was also found out that the students were not proactive or initiative enough in performing a task. Constant monitoring and guidance were needed which means that students were not independent enough in job performance. This information is important for the students to know so that they will not repeat it when they really join the industry.

As a programme adviser, it is a practice that I have to take up one session in this programme. Knowing that the majority of graduates lack knowledge in current issues, I believe it is timely to expose the students to the importance of keeping themselves update on issues in the newspapers. Issues relating to their areas of studies for example, financial issues and other issues particularly national and international issues are important not only for their personal knowledge but also to make themselves marketable, as some of the issues might be discussed

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## BOOK REVIEW

### Title : **HUMAN CAPITAL and TRADE STRUCTURE of MALAYSIA'S MANUFACTURES**

Author : *Dr. Mohamed Sharif Bashir*

Publisher : *Islamic University College of Malaysia, Kuala Lumpur*

By : *Amir Shahrudin*

Dr. Bashir is a young and prolific writer in the area of development economics. He has published numerous articles and technical reports in journals, which cover a variety of topics ranging from international trade, development economics and input-output economics. He has also presented many papers in seminars and conferences in Malaysia and overseas. Currently he is a chief editor of "Muamalat" newsletter of the faculty of Economics and Management, Islamic University of Science Malaysia (USIM) and lead research team in the area of "Economic Impacts Analysis" and "Input-output Technique".

Overall objective of this book is to examine and analyze production, trade and resource allocation in the Malaysia manufacturing industry. It deals with the issues of labor skill and comparative advantage of the Malaysia's manufacturing industry during the period of 1978-1996. As far as the research methodology is concerned, the book is considered as quantitative in nature. Hence, perhaps the intended audience will be the academicians, researchers and post-graduate students.

The book is divided into seven chapters. Chapter 1 of this book highlights some of the contributing factors towards the success of Asian Newly Industrialized Countries (NICs). Among the contributing factors are high level of savings, quality of the labor force, support of local entrepreneurial efforts and foreign technology transformation, encouraging export and macroeconomic stability. Chapter 2 presents an overview of Malaysian economy with special reference to the performance of manufacturing export sector. During the study's period, Malaysia has successfully developed from a commodity-based economy to one focused on manufacturing. In fact Malaysia has achieved the 18th largest exporter in the world in 1990s.

Moving forward, chapter 3 discusses the structural change of manufacturing value-added and some related issues of the Malaysian external trade.

This includes the discussion on the salient features of Malaysia's exports, exports trends, commodity and geographical concentration, stability of exports and terms of trade. Chapter 4 employs Keesing's approach, utilizing Malaysian labor skills and trade data to examine the country's resource allocation in production and trade. It is found that the skill level in the manufacturing sector is rising but at different rate between both unskilled and skilled categories. The former increases faster than the latter.

In chapter 5, the impacts of trade on skilled and unskilled labor demand had been investigated by using Leontief's input-output model. The results suggest that Malaysian export competitiveness can be improved by adopting two measures (1) increase labor productivity through capital augmentation in the economy's capital stock and diversifying its exports composition. Chapter 6 focuses on determinants of foreign trade in Malaysia's manufacturing industries. Employing regression analysis of cross section data on 31 industry groups the author tries to establish recognition to disaggregate labor between skilled and unskilled in explaining factors influencing the country's foreign trade.

Policy recommendations from the study are presented in chapter 7. Of the important is the call for training and education in order to improve the productivity of Malaysia labor workforce and at the same time maintaining the country's rapid growth.

I strongly recommend this book to those who are interested in the area of economics development especially for the upper level reader for several reasons. This book sheds light on the empirical approach using input-output technique that has been widely used by both developed and developing countries. It can be used as a case study in post-graduate class. In addition, the book merits reading particularly for the regulators as it suggests valuable policy recommendations.

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during an interview. Unlike the previous sessions, an interesting approach was used in order to attract student's attention. Students were divided into ten groups and required to choose an issue to be discussed in a role play

On 26th November 2006, after having breakfast, students gathered at the hotel lobby for a treasure hunting activity. They were divided into ten groups and were given clues to locate the treasurer. This is the only activity in the programme where the winner would be presented with hamper. The subsequent slot was the seventh session of talks featuring En. Nuaradli Ridzwan Shah Bin Mohd Dali, lecture in USIM. The centre of discussion for the talk themed "The Importance of Networking in Getting Job and Doing Business" was the need of establishing contacts in different industries.

After the teatime at 10.30 pm, the programme was officially ended with a closure speech and presentation of a hamper to the winner. This was followed by a photo session and luncheon. At 1pm, all of us checked out and set off to USIM. Although there were some hiccups in the programme, but overall it was a success. It is hoped that the students benefited from the programme and are well prepared either to be a marketable and sought after employee of their chosen industry or to run their own businesses after leaving the university.

On the other hand, there are also disadvantages of credit cards that people should aware of. Normally, when a person owns a credit card, he or she tends to over spend and does not aware of his or her transactions. This will affect the whole budget of the cardholder and might invite disaster at the end of the month. Besides, the cardholder also sometimes does not concern with his or her previous transactions and this will be accumulated into their monthly statement of account. Consequently, cardholder has to always aware on their daily transactions especially by using credit card and to avoid themselves from being declared as bankruptcy.

In addition, most of the companies charge high interest rates to gain profit. This practice is to ensure that the cardholders pay their credit regularly and constantly. Furthermore, by charging high interest rate, the banks at the same time try to remind the cardholders to properly use their cards and manage their personal transactions. For the cardholders' part, they have to ensure that they are not being locked in this debt trap. The issue should be taken into consideration and worry about is the debt amount that has to paid every month.

In today's internet-based world, it is good to have credit card in order to purchase goods through internet, but it should be reminded that thieves are also exist in the internet. There are many brilliant people in this invisible world can unveil other people's passwords and steal money from these innocent victims. Besides getting money, they also can access through personal data of the cardholders and can change the credit history of the cardholders. Therefore, a persistent awareness and cautious should be done by cardholders themselves and government to avoid such thing.

Besides Internet fraud, there are also cases where cards have been cloned by irresponsible people. They clone the original cards by using special tools and then use the cloned cards to purchase goods. Thus, credit burden will fall under the responsibility of the cardholder where his or her card has been cloned. This unjust and illegal type of business does really affect the personal financial running of the cardholders.

It is indisputable that credit cards have advantages and disadvantages. However, the decision makers are customers and cardholders. If they know the purposes of having credit cards, they should always check their monthly transactions. Otherwise, the rules and regulations listed in the agreement may trap them into chaos. Proper education also should be implemented to Malaysian customers to ensure that credit awareness is there. Above all, the government should play an outstanding role to improve the internet-based businesses' security system. In a nutshell, customers are always right, so the choices are in their hand, they are the chooser so they are obligated to their choice.

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## WELCOME HOME!

Faculty members would like to extend our warm welcome to Dr. Zurina Shafii to the faculty and the university after she completed her PhD studies at Durham University (2004-2007). Dr. Zurina also obtained her Master Degree at the same University. She is the first university tutor to further PhD studies and her expertise is in Islamic Personal Finance. Faculty hopes that Dr. Zurina will share her skills and knowledgable for the betterment of the faculty, the University and the society at large. Faculty also wishes her all the best in her future undertakings.



## AKTIVITI PELAJAR FEM

Selain dari aktiviti kokurikulum dan aktiviti-aktiviti lain yang dianjurkan oleh universiti, pelajar FEM juga perlu mengikuti dan menganjurkan aktiviti yang ditetapkan oleh fakulti. Pelajar FEM bagi setiap tahun mempunyai program yang khusus yang perlu dilaksanakan oleh kumpulan mereka dan dibantu oleh pensyarah yang bertindak sebagai penyelar.

### Tahun 1

Pelajar Tahun 1 perlu mengadakan lawatan sambil belajar ke institusi atau organisasi pilihan. Semua pelajar Tahun 1 perlu mengikuti lawatan tersebut. Pada sesi 2006/2007 pelajar telah mengadakan lawatan ke kilang Gardenia di Shah Alam, Lembaga Urusan dan Tabung Haji dan Bank Negara Malaysia. Objektif lawatan adalah untuk memberi pendedahan kepada pelajar aktiviti operasi dan pengurusan organisasi dan institusi tersebut.

### Tahun 2

Pelajar Tahun 2 pula dikehendaki menganjurkan misi antarabangsa ke mana-mana negara di seluruh dunia. Pemilihan negara untuk dilawati adalah dipertanggungjawabkan kepada pelajar sepenuhnya. Sehingga kini pelajar FEM telah pun mengadakan misi antarabangsa ke Indonesia, Brunei, Beijing, China dan yang terbaru, sesi 2006/2007, ke Hanoi, Vietnam. Pelajar yang terlibat perlu menjalani sesi pemilihan untuk menentukan siapa yang layak untuk menyertai lawatan tersebut disebabkan bilangan pelajar yang dibenarkan adalah terhad.

### Tahun 3

Manakala pelajar Tahun 3 pula dikehendaki menjalani latihan industri di institusi dan organisasi pilihan masing-masing. Latihan Industri merupakan salah satu kursus yang ditawarkan sebagai syarat untuk memperolehi ijazah. Walaubagaimana pun gred yang akan diperolehi pelajar tidak akan diambil kira dalam CGPA tetapi akan direkodkan sama ada LULUS atau GAGAL di dalam transkrip akademik. Kursus ini dibahagikan kepada 4 bahagian dan setiap bahagian mempunyai peratusan pemarkahan yang tersendiri:

1.	Modul Persediaan	20%
2.	Latihan Praktikal	40%
3.	Pembentangan Laporan	20%
4.	Penulisan Laporan	20%

Pelajar dikehendaki menghadiri ke semua 4 bahagian tersebut dan kegagalan menghadiri salah satu dari bahagian yang ditetapkan akan direkodkan sebagai GAGAL. Markah LULUS pula adalah 50%.

Bagi Modul Persediaan, dijalankan selama 5 hari, yang dibahagikan kepada 2 bahagian iaitu:

1.	Modul dalaman	2 hari
2.	Modul luaran	3 hari

Pelajar akan diterangkan mengenai keterampilan, kemahiran berkomunikasi, etika kerja yang baik, kemahiran mengadakan pembentangan laporan, kemahiran menulis laporan dan kemahiran interpersonal dalam modul dalaman. Manakala bagi modul luaran, pelajar akan didedahkan dengan kepentingan kerja berkumpulan dan membina semangat tahan dan kental dalam menghadapi pelbagai situasi sama ada secara fizikal ataupun mental.

### Tahun 4

Pelajar Tahun 4 dikehendaki menganjurkan pengurusan acara atau 'event management'. Penganjuran acara sebegini semakin diterima ramai pada masa sekarang. Program ini juga dirasakan bersesuaian dengan pelajar tahun akhir yang mana mengajar mereka untuk menjadi usahawan dan lebih berdikari. Secara tidak langsung juga mungkin tahap pengangguran graduan lepasan universiti dapat dikurangkan. Program ini dinamakan ICEPS iaitu Islamic Convention of Entrepreneurships dan telah pun berjalan pada sesi 2005/2006 dan sesi 2006/2007. Program ini diuruskan sepenuhnya oleh pelajar dan semua pelajar tahun akhir melibatkan diri dalam setiap jawatankuasa yang ditetapkan. Pada sesi 2007/2008 ICEPS akan dianjurkan pada Januari 2008.

### *Sekitar Aktiviti Pelajar Sepanjang Modul Persediaan Latihan Industri Di Kem Lambaian Danau, Jasin, Melaka.*

