



UNIVERSITI  
TEKNOLOGI  
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# FBM INSIGHTS

UNIVERSITI TEKNOLOGI MARA CAWANGAN KEDAH

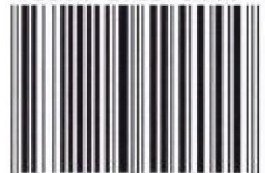
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# TABLE OF CONTENTS

<b>Editorial Board</b>		iii
<b>Rector’s Message</b>		iv
<b>From The Desk Of The Head Of Faculty</b>		vi
1.	<b>JAWHAR AND WAQF DEVELOPMENT IN MALAYSIA</b> <i>Dahlia Ibrahim, Zuraidah Mohamed Isa &amp; Norhidayah Ali</i>	1
2	<b>INTRODUCTION TO MICROCREDIT INDUSTRY IN MALAYSIA</b> <i>Zuraidah Mohamed Isa, Dahlia Ibrahim, &amp; Norhidayah Ali</i>	3
3	<b>UNDERSTANDING WOMEN’S EMPOWERMENT</b> <i>Nurul Hayani Abd Rahman &amp; Zuraidah Mohamed Isa</i>	5
4	<b>GRIT AND SUCCESS. A BRIEF OUTLOOK</b> <i>Azfahanee Zakaria &amp; Syed Mohammed Alhady</i>	7
5	<b>AN OVERVIEW OF FOOD DELIVERY BUSINESS</b> <i>Azyyati Anuar, Zainuddin Mohd Piah &amp; Siti Noor Syalwani Mustapa</i>	10
6	<b>FOOD DELIVERY BUSINESS: A NEW TREND IN 2020</b> <i>Siti Noor Syalwani Mustapa, Azyyati Anuar &amp; Zainuddin Mohd Piah</i>	13
7	<b>EMOTIONAL INTELLIGENCE AND WOMEN ENTREPRENEURS</b> <i>Shazwani Mohd Salleh, Berlian Nur Morat &amp; Sitti Aminah Baharuddin</i>	16
8	<b>USAGE OF ANIMATIONS AS ADVERTISING TOOLS</b> <i>Baderisang Mohamed &amp; Malawanis Mohd Noor Kamal</i>	20
9	<b>THE INFLUENCE OF SERVICESCAPE UPON RETAILERS ON CUSTOMER VALUE IN MALAYSIA</b> <i>Baderisang Mohamed &amp; Aliaa Adriana MohdDamanhuri</i>	23
10	<b>ONLINE CUSTOMER REVIEWS AS A POWERFUL MARKETING TOOL</b> <i>Baderisang Mohamed &amp; Nor Fitrah Anaik Ali</i>	27
11	<b>IMPACT OF COVID-19 ON AIRLINES INDUSTRY</b> <i>Baderisang Mohamed &amp; Maryam Nabila Muhammad</i>	31
12	<b>DIGITAL MARKETING IN ONLINE SHOPPING</b> <i>Baderisang Mohamed &amp; Aimy Zatul Akhmar Muhamad Nor Azeri</i>	34
13	<b>STRATEGIC MANAGEMENT ON MANUFACTURING INDUSTRIES IN MALAYSIA</b> <i>Baderisang Mohamed &amp; Nurul Nisa Mat Jamail</i>	37
14	<b>DIVERSIFICATION AS AN EFFECTIVE BUSINESS STRATEGY</b> <i>Baderisang Mohamed &amp; Siti Nurhidayu Sharin</i>	41
15	<b>PEST FORCES ON AGRICULTURE SECTOR</b> <i>Baderisang Mohamed &amp; Nurul Najiha Azhar</i>	44

16	<b>MISSION AND VISION IN INDUSTRY DEVELOPMENT</b> <i>Baderisang Mohamed &amp; Nurul Amira Ahmad Murad</i>	47
17	<b>DO WE RECOGNISE THE HALAL LOGO?</b> <i>Sitti Aminah Baharuddin, Shazwani Mohd Salleh &amp; Berlian Nur Morat</i>	51
18	<b>VOLUNTARY PARTICIPATION IN RESIDENTS ASSOCIATION: A PROPOSED STUDY AT A MATURED TOWNSHIP</b> <i>Mahadzir Ismail, Junaida Ismail, ETTY Harniza Harun &amp; Muna Abdul Jalil</i>	62
19	<b>ECONOMIC WELL-BEING AND QUALITY OF LIFE IN THE ERA OF COVID-19 PANDEMIC: A PRELIMINARY REVIEW</b> <i>Mahadzir Ismail, Jamilah Laidin &amp; Siti Qurratuaini Mahadzir</i>	66
20	<b>THE DIGITAL ERA: WILL YOU TRUST ME?</b> <i>Norhidayah Ali, Zuraidah Mohamed Isa &amp; Dahlia Ibrahim</i>	70
21	<b>WORKPLACE HAPPINESS MATTERS</b> <i>Rosliza Md Zani &amp; Shuhaimi Samanol</i>	72
22	<b>POWER DISTANCE AND EMPLOYEE SILENCE: A REVIEW IN THE SUPERIOR SUBORDINATES RELATIONSHIP</b> <i>ETTY Harniza Harun, Hasni Abdul Rahim, Musdina Mohamad Salleh &amp; Junaida Ismail</i>	75
23	<b>COVID-19 AND JOB STRESS</b> <i>Rosliza Md Zani &amp; Shuhaimi Samanol</i>	79
24	<b>PARADIGM SHIFT: ONLINE DISTANCE LEARNING (ODL)</b> <i>Norhidayah Ali &amp; Azni Syafena Andin Salamat</i>	81
25	<b>BUSINESS FAILURES AND PROBLEMS IN MALAYSIA</b> <i>Law Kuan Kheng &amp; Wan Irham Ishak</i>	83
26	<b>WOMAN IN AVIATION, REALLY?</b> <i>Yong Azrina Ali Akbar, Syahirah Atikah Mohd Sabri &amp; Siti Liyana Yusrizan</i>	89
27	<b>ORGANIZATIONAL LEARNING AND ORGANIZATIONAL EFFECTIVENESS: A BRIEF INSIGHT</b> <i>Azfahanee Zakaria &amp; Syed Mohammed Alhady</i>	92
28	<b>UNTOLD HEALTH ISSUE: COMPUTER VISION SYNDROME</b> <i>Mohd Fazil Jamaludin, Mohd Shafiz Saharan &amp; Khairul Azfar Adzahar</i>	94
29	<b>COMPARATIVE STUDY ON FINANCING LIMIT, MARGIN OF FINANCING AND SAFEKEEPING FEES AMONG AR RAHNU OPERATORS</b> <i>Mohd Shafiz Saharan, Mohd Fazil Jamaludin, Khairul Azfar Adzahar &amp; Norwahida Wagiran</i>	96
30	<b>A COMPARISON OF TRADITIONAL VERSUS ELECTRONIC WORD OF MOUTH AS MARKETING TOOLS</b> <i>Ramli Saad &amp; Rosliza Md Zani</i>	100
31	<b>THE ROLES OF SOCIAL MEDIA AS A PLATFORM FOR CUSTOMER ENGAGEMENT</b> <i>Ramli Saad &amp; Wan Shahrul Aziah Wan Mahamad</i>	103

# INTRODUCTION TO MICROCREDIT INDUSTRY IN MALAYSIA

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In Malaysia, the provision of microcredit is nothing new. Malaysia's microcredit institutions have different types of lending systems, specifically the group-based lending system and the individual lending system. Malaysia's microfinance institutions also have a standardised lending contract apart from offering limited microfinance products. In this regard, Malaysia's microfinance institutions only offer microcredit loan with no microsavings or microinsurances. The limitation of the financial services is due to the restriction by the Malaysia Banking and Financial Act 1989 that states "No person shall carry on banking services, including receiving deposits on current account, deposit account, saving account or no other similar account, without a licence as a bank or financial institutions".

Earlier microcredit programmes were mainly carried out by Non-Governmental Organisation (NGOs), credit unions, co-operatives and specialised credit institutions (Jasman, Junaidi, & Rosalan, 2011). *Majlis Amanah Rakyat (MARA)*, a trustee body for the *bumiputera*, and *Amanah Ikhtiar Malaysia (AIM)*, are some of the pioneers in Malaysia's microfinance institutions. Malaysian commercial banks are also involved in offering microcredit facilities. In May 2003, a microcredit scheme was launched by *Bank Negara Malaysia* (The Central Bank) as part of the government's effort to boost small and medium enterprise activities and agricultural production activities. This programme has provided business development and expansion opportunities for almost half million small medium enterprises in the country. Moreover, in 2006, the National SME Development Council (NSDC) approved a comprehensive microfinance institutional framework proposed by *Bank Negara Malaysia* (The Central Bank) to develop a sustainable microcredit industry. The participating institutions included banking institutions, the Development Finance Institutions (DFIs) and credit cooperatives.

Meanwhile, *Bank Negara Malaysia* (2016), there are 11 local banks offering microcredit products. These banks include Agrobank Bhd, Bank Kerjasama Rakyat Bhd, Bank Simpanan Nasional, Alliance Bank Bhd, AMBank Bhd, CIMB Bank Bhd, EONCAP Islamic Bank Bhd, Public Bank Bhd, United Overseas Bank Bhd, Bank Muamalat and Malayan Banking Berhad. Furthermore, there are nine (9) non-bank microcredit institutions offering microcredit products, namely, *Amanah Ikhtiar Malaysia (AIM)*, *Yayasan Usaha Maju*, *Koperasi Kredit Rakyat*, *Koperasi Kredit Pekerja*, Partners in Enterprise Malaysia, *Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN)*, *Majlis Amanah Rakyat (MARA)*, Malaysia Building Society Berhad and Sabah Credit Corporation. The microcredit industry framework in Malaysia is illustrated below (see Table 1).

*Majlis Amanah Rakyat (MARA)* and *Amanah Ikhtiar Malaysia (AIM)* are some of the pioneers which introduced microcredit programmes to the poor. Meanwhile, Agrobank Berhad is a credit institution that provides microcredit to the agricultural sector. There are also other commercial banks and Islamic banks that provide microcredit financing. These financing offered by commercial and Islamic banks are complementary to Government-backed microcredit programmes. Aside from the banking institutions, there are also NGOs engagements in providing

the microcredit to the poor. Among them are *Yayasan Usaha Maju (YUM)*, *Koperasi Kredit Rakyat (KKR)*, Credit Guarantee Corporation Berhad (CGC), Sabah Credit Corporation and others.

Table 1  
*A Microcredit Industry Framework in Malaysia*

Non-Bank-Microcredit Institutions	Bank-Microcredit Institutions
<i>Amanah Ikhtiar Malaysia (AIM)</i>	Agrobank Berhad
<i>Yayasan Usaha Maju (YUM)</i>	Bank Kerjasama Rakyat Berhad
<i>Koperasi Kredit Rakyat (KKR)</i>	Bank Simpanan Nasional
<i>Koperasi Kredit Pekerja</i>	Alliance Bank Berhad
Partners in Enterprise Malaysia	AMBank Berhad
<i>Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN)</i>	CIMB Bank Berhad
<i>Majlis Amanah Rakyat (MARA)</i>	EONCAP Islamic Bank Berhad
Malaysia Building Society Berhad	Public Bank Berhad
Sabah Credit Corporation	United Oversea Bank Berhad
	Malayan Banking Berhad
	Bank Muamalat

Source: *Bank Negara Malaysia* (2016)

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