

**COMPETITIVE STRATEGIES ADOPTED BY ISLAMIC BANKS IN
KENYA TO ENHANCE PERFORMANCE**

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree course in this or any other university.

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This research project has been submitted for examination with my approval as a University Supervisor.

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DEDICATION

To my parents Muktar and Fatuma both who are the noor of my eyes.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENTS	iii
DEDICATION	iv
ABBREVIATIONS AND ACRONYMS	viii
LIST OF TABLES	ix
LIST OF FIGURES	x
ABSTRACT	xi
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Concept of Strategy	3
1.1.2 Competitive Strategies	4
1.1.3 Organizational Performance	5
1.1.4 Competitive Strategy and Organizational Performance	6
1.1.5 Concept of Islamic Banking	6
1.1.6 Islamic Banking in Kenya	8
1.2 Research Problem	9
1.3 Research Objective	12
1.4 Value of the Study	12
CHAPTER TWO: LITERATURE REVIEW	14
2.1 Introduction	14
2.2 Theoretical Foundation	14
2.2.1 Resource Based View Concept	14
2.2.2 Dynamic Capability Theory	17

2.3 Competitive Strategies	18
2.4 Measurement of Organizational Performance	20
2.5 Empirical Studies and Research Gaps	21
CHAPTER THREE: RESEARCH METHODOLOGY	23
3.1 Introduction.....	23
3.2 Research Design.....	23
3.3 Population of the Study.....	23
3.4 Data Collection	24
3.5 Data Analysis	24
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....	26
4.1 Introduction.....	26
4.2 Background Information	26
4.2.1 Position of the Respondents.....	26
4.2.2 Respondents' Gender.....	27
4.2.3 Duration of Time Worked in the Company.....	28
4.3 Competitive Strategies adopted by Islamic banks in Kenya to Enhance Performance.....	28
4.3.1 Cost Leadership Strategy.....	29
4.3.2 Differentiation Strategy.....	32
4.3.3 Focus.....	34
4.4 Inferential Statistics	35
4.5 Discussion.....	38

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	43
5.1 Introduction.....	43
5.2 Summary	43
5.3 Conclusions.....	44
5.4 Limitations of the study	46
5.5 Recommendations for Policy and Practice	46
5.6 Areas for further research	48
REFERENCES	49
APPENDICES	58
APPENDIX I: DATA COLLECTION INTRODUCTORY LETTER	58
APPENDIX II: QUESTIONNAIRE	59
APPENDIX III: BANKS OFFERING ISLAMIC BANKING	66

ABBREVIATIONS AND ACRONYMS

ANOVA: Analysis of Variance

CBK: Central Bank of Kenya

FCB: First Community Bank

GAB: Gulf African Bank

ICT: Information and Communications Technology

KCB: Kenya Commercial Bank

R& D: Research and Development

RBV: Resource Based View

WB: World Bank

SD: Standard Deviation

LIST OF TABLES

TABLE 4.1: Respondents' Position	26
TABLE 4.2: Cost Leadership Strategy.....	29
TABLE 4.3: Differentiation Strategy.....	32
TABLE 4.4: Focus Strategy.....	34
TABLE 4.5: Model Summary.....	36
TABLE 4.6: Annova Regression.....	36
TABLE 4.7: Coefficient of Determination.....	37

LIST OF FIGURES

FIGURE 4.1: Respondents' Gender	26
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ABSTRACT

The banking industry in the last few years has experienced changes both in terms of changing regulatory framework and customer needs. These coupled with the highly competitive environment has forced most banks to formulate strategies that will ensure they gain competitive advantage over their rivals. The competitive strategy that an organization selects determines the success or failure of a firm. Islamic banking being a relative new phenomenon in Kenya has adopted different competitive strategies to gain and sustain competitive advantage. Islamic banks have to come up with strategies to penetrate the highly competitive banking industry in order to improve on how they perform. This research was carried out with the aim of determining the competitive strategies undertaken by Islamic financial institutions to enhance performance. This study only concentrated on the three generic competitive strategies. Descriptive research design was adopted in this study. 7 banks took part in this study in which only 5 banks duly responded. Primary was used in this study. Questionnaires were used to collect the data. The respondents held the position of managers in their respective organizations. Descriptive statistics and especially SSPS were used to analyze the data. The relationship between competitive strategy and performance was investigated using Regression model. From this study the researcher found out that Islamic banks use cost leadership, differentiation and focus strategy to enhance performance. Limitations faced in this study were time constraints, scope of the study that was limited to Islamic banks and securing appointments with the respondents. These studies recommended policy makers in Islamic banks to market their products to a wider market and also undertake educational seminars to raise awareness about the products and services they offer especially among the non-Muslims. This study also recommends for Islamic banks to aim beyond Muslims and aim for non-Muslim clients too. Islamic banks should also invest in ICT to enable it to cut down on costs and minimize system downtimes. Further studies should be undertaken to establish the strategies used in related industries like Islamic insurance and Islamic Saccos. In addition studies should be conducted to understand other variables that affect a firm's performance other than competitive strategies.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Environments that businesses operate have become unpredictable, volatile and highly competitive. Therefore businesses have to come up with competitive strategies to get the competitive edge and be able to survive. Porter (1985), defines competitive strategy as the pursuit of an advantageous competitive place in the industry. According to Arasa & Githinji, (1985), competitive strategy requires determining the causes of competition in the fast paced industry and coming up with strategies that fit the firm's capabilities to the environmental changes. According to Porter (2000) competitive strategies can be broken down into three categories namely low cost leadership strategy, differentiation and focus strategy. This study specifically concentrated on the three generic competitive strategies by Porter.

The study adopted the resource based view and the dynamic capability theory. Makadok (2001) urges that RBV theory holds that organizations achieve economic advantage by being better at choosing resources than their competitors while dynamic capability theory argues that organizations achieve competitive economic advantage by being more competent than their competitors at utilizing resources. The RBV approach views organizations with superior resources having better profits than their rivals because they achieve notably lower costs or offer better product quality and performance. (Teece, Piano & Shuan, 1997).

Dynamic Capability theory urges that firms can achieve competitive edge through demonstrating timely responsiveness plus fast development of products and services and the capacity of the managers in the organization to adapt and utilize the competences (Teece *et al*, 1997). Dynamic capabilities approach assumes that the firm's critical competencies will be used to change the competitive position in the short term resulting in long term competitive edge (Teece *et al*, 1997).

Islamic banking is experiencing estimated yearly growth of 20% (Ahamed, 2008). This has resulted in a huge number of global, regional and local organizations investing into this billion dollar industry by commencing shariah compliant products. Islamic banks are therefore playing key roles in the global economy. Locally, Islamic banks have contributed to economic activities like creating employment opportunities, adding to Kenya's GNP and contributing to financial inclusion of the Muslim population that adhere to the Shariah requirements of their religion. The existence of Islamic banks ensures the development of the financial sector through improvement of the infrastructure. Islamic banks face stiff competition among themselves and also from conventional banks and the strategies they undertake to overcome the competition and establish competitive edge is worth knowing hence the motivation for carrying out this research.

Over the past few years there has been stiff competition in the banking industry resulting from increase in innovations among the banks and the increasing number of new entrants into the banking industry (Kathuni & Mugenda, 2012). Islamic banking is a fairly new sector in the Kenya financial sector. Islamic banking was introduced by Barclays bank of Kenya when it came up with La Riba account an interest free account catering for Muslims in the year 2006.

The two fully compliant Islamic banks started operations in the year 2007 way after conventional banks had established themselves. The late entry coupled by the drastic changes in the banking sector in the last few years in terms of services and products targeting different customer segments plus the increased and cut throat competition has led to Islamic banks coming up with competitive strategies to establish sustainable and profitable position against their competitors.

1.1.1 Concept of Strategy

The concept of strategy has been underscored by various management scholars and practitioners (Kariuki 2012). Strategy is concerned with the future direction of the firm and the strategic plans it undertakes over the long term in order to achieve organizational objectives in order to achieve stakeholder satisfaction (Kavale, 2013).

All organizations operate within an environment and strategic concept is important because it determines the direction and decisions the firm will take so as to utilize the opportunities in the environment and adopt to the threats the organization will face. Strategy is the design of major goals, purposes or objectives, which help the company to define the core activities of the firm and how much it contributes to the economy.

Johnson & Schools (1997) state that strategy is concerned with the direction the organization will take in the future while matching the resources of the organization to its fast paced and ever changing environment with the aim of achieving stake holder's expectations.

Strategy can be seen as a way of building defenses against competition and finding positions in the industry where competition is weak. (Pearce & Robinson, 1997). Porter (1980) argues that strategy is about achieving competitive edge, about differentiating the organization goods and services from its rivals, about increasing productivity using a blend of unique activities. Strategy is therefore a tool that organization use to cope with the turbulent environment it faces.

1.1.2 Competitive Strategies

Competition determines how well a firm will do in the market whether it will succeed or fail. Competition can be used to determine how a company's action can add to its profitability through actions like innovation and good company culture (Porter, 1985). Competitive strategy can be viewed as the total moves and approaches an organization has undertaken and is undertaking to draw buyers, face competition, and better its position in the industry.

Porter (1985), states that the aim of competitive plan is to enable a firm achieve profitability, establish a competitive spot in the market relative to the competitors. Competitive plan enables a company to hold an edge over the competitors in appealing to consumers and guarding its place by producing goods and services that are of high quality at low costs thereby selling them at a lower price to the consumers, as well as

offering the consumer superior quality that they can get value for their money and offering goods and services that have a blend of superior and attractive prices, quality, service and features (Kariuki, 2014).

Porter (1988) established 3 useful strategies. These are, focus, differentiation and cost leadership. Cost leadership involves producing at the lowest cost. It is normally associated with economies of scale where a firm largely offers standard products (Kariuki, 2014). Differentiation involves offering products and services that have unique attributes that can differentiate a company from its competitors resulting in a higher than average price. Focus strategy is determined by focusing on a limited competitive scope.

1.1.3 Organizational Performance

Firms undertake different activities in order to achieve company goals. These day to day activities that are repeatable use the organization processes and therefore must be measured against the set objectives to determine how the organization has performed with the aim of management making informed decision to deal with the variance in performance (Jenatabadi, 2015).

According to Lusch (1989) how a company performs is the result of the economic activities it undertakes. Thompson, Friedlander & Pckle (1968), consider performance as a theme that continuously happens in paradigm of management.

1.1.4 Competitive Strategy and Organizational Performance

Past research has shown that there is a direct correlation between competitive strategy and performance. Bowen & Ostroff (2004) state that having a competitive edge over the competitors can lead to the organization performing better than its rivals by increasing its market share and returns. Therefore firms should focus on achieving and preserving competitive edge over their competitors. These will lead to superior performance.

Fahy (2000) states that organizations center on competitive strategy with the aim of improving their resource pool. Johnson & Scholes (2002), say that competitive strategy is what enables an organization establish on which a competitive edge in its industry. According to Thompson *et al*, (2007) competitive advantage is the basis for a firm achieving beyond average financial and profitability performance. This he says is due to the factor that a higher consumer demand for the firm's business will result in superior sales and ability to demand higher prices resulting in higher revenues and eventually higher profitability and performance.

1.1.5 Concept of Islamic Banking

These banks follows laws that have been set to govern the legal aspect of Muslims lives and especially when they're undertaking transactions. These laws can be traced to start of Islam and are based on risk sharing and prohibition of interest (Schaik, 2001). The legal concepts are based on Sharia principles.

The main objective of Islamic banking is to enforce social fairness and equality as well as ensuring equitable distribution in resources among the followers of Islam (Iqbal, 1997). Islamic banking prohibits taking and offering interest (riba) and encourages profit sharing (Marimuthu, Jing, Gie, Mun and Ping, 2010). When two or more parties become partners by pooling together their resources and investing in a venture while equally sharing the resulting profit and loss it is called Profit sharing (Chong and Liu, 2005).

The prohibition of interest is the main difference between Shariah compliant banks and other non-compliant institutions. Other differences are the prohibition Of Gharar, and how money is used (profit sharing) (Hassan, 2012). Riba originates from Arabic language and it means interest. The reasoning behind Riba being prohibited is that it is seen as exploiting fellow humans by ensuring wealth accumulates in the hands of the rich therefore reducing human being concern for each other (Karsten, 1982). In addition Islam forbids any financial undertaking gain unless both the parties in the transaction shoulder the resulting loss or profit. The religion of Islam encourages amassment of riches through hard work and views wealth accumulated through imposing interest as exploitation and selfishness (Marimuthu *et al* 2010). Money is viewed as a product that can be bought and sold through interest by conventional banks a concept that is prohibited in Islam (Alkassim, 2005).

Gharar are defined as speculative transactions that can cause harm to the Muslim society (Metwally, 2006). This is due to the fact that Islam demands honesty and openness and both parties in the contract should understand perfectly potential lose and profit in the transaction and the contract terms should be clear without any hidden clauses. (Marimuthu, *et al*, 2010). Examples of Gharar are futures and options.

Islamic finance is heavily influenced by the religion into two major ways: The aim of Islam is to establish a fair and just society both in the economy and social arms of society. It encourages its followers to yield and enjoy the God-given resources which are seen as an Amanah (trust) bestowed to humans by God, but dislikes and forbids taking advantage of fellow humans and unfairness in the amassing of income and riches (Issak & Kaswira, 2012).

Global Islamic services are estimated to grow at 10%-15% from 1995-2005 (Khan, Hassan, & Shahid, 2007). The success of Islamic Banking has led to many known conventional banks in the world such as HSBS, Standard Chartered Bank, Deutsche Bank, Citi Bank, Barclays Bank, Morgan Stanley, UBS, Goldman Sachs to set up different windows that offer Islamic finance products to its clients (Awan, 2009). Likewise, global organizations like International Monetary Fund, WB, International Finance Corporation, African Development Bank have all setup special units to look at Islamic banking (Awan, 2009).

1.1.6 Islamic Banking in Kenya

In Kenya, Barclays bank became the first 1st bank in December 21st 2005 to launch Islamic banking products when it launched La Riba account an interest free bank account. On May 29th 2007 FCB was the pioneering bank in Kenya authorized by the CBK under Cap 488 of the Banking Act to operate as a full-fledged Sharia Compliant banking institution and it commenced operations on 1st June 2008 (First Community Bank, 2016). In the same year Gulf African Bank opened its doors and become the second fully shariah compliant bank in Kenya.

Several conventional banks have started offering Islamic banking services. These include Chase bank (Chase Iman), National Bank (National Amanah), Standard Chartered (Saadiq) and KCB (Sahil). Initially, Islamic banking had some challenges. Among the challenges that faced Islamic banking in Kenya was a lack of sharia compliant investment vehicles such as the Sukuk bond. This was because the banking Act only referred to interest and Sukuk bond do not charge interest. Consequently CBK in order to regulate Islamic banking and products made some changes to the banking Act in 2008 to include the phrase “or a return in the case of an institution carrying out business in accordance with Islamic law” when referring to interest chargeable on a savings account (Mazera, 2016).

Islamic banking accounts to 2% of the share market in Kenya where Muslims make up 15% of the population of 40 million (Vizcaino, 2016). As such the 2 fully fledged Islamic banks are in tier 3 of banks in Kenya. There is therefore need to explore strategies by this banks to attract customers and increase their market share in the highly competitive banking industry.

1.2 Research Problem

Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter, 1985). It is part of business strategy that deals with management plan for competing successfully. According to Porter (1980), the essence of formulating competitive strategy is to relate a company to its environment. Environment is what gives organization their means of survival and it is also the source of the most immediate layer surrounding the organization (Johnson & Scholes, 2008).

According to Ma (1999) competitive advantage can lead to higher performance. As such managers who are responsible for the future success and survival of the organization have to understand the concept of competitive advantage in order for them to implement strategies that will ultimately lead to a company's long term survival and success (Rose, Abdullah, Ismad&Uli, 2012).

Islamic banking only makes up 2% of the total banking business in Kenya while the Muslim population is roughly 15% of the total 40 million (Vizcaino, 2016). Studies such as Erol & El-Bdour (1989) and Haron, Ahmad & Planisek (1994) have shown that religion is not the main factor attracting customers to bank with Islamic banks, other factors such as efficient services reputation and confidentiality influence a person's decision to use Islamic banking facilities. These studies have concluded that Islamic banks have had to look beyond religion to attract customers. As such Islamic banking should understand that religion factor should not be the only strategy used to attract consumers. This realization has forced Islamic banks to come up with competitive strategies that will aim to give them competitive edge over their rivals and also attract customers across all religions.

Research has been conducted both locally and in the global arena A number of local to establish the use of strategy in Islamic banks. Al-Ajlouni (2007) did a study in Malaysia to establish the strategies Islamic banks need to use to overcome the future challenges of financial globalization and concluded that Islamic banks need to adopt single bank level, operational and globalization strategies. Haron & Azmi (2005), conducted a study in Malaysia to establish the marketing strategies that Islamic banks use and concluded that that strategy that focuses on acquiring new clientele and retaining them should be used.

Elsiefy (2016) urges that there exist a direct correlation between practicing strategic management and how well an entity performs. Solichun, Syafei, Setiawam & Soliman (2013) sought to establish Islamic bank analysis of marketing Strategy and concluded that Islamic banks should be able to satisfy the needs of their clients in both religion (religious motive) and economic terms (economic motive) and that if Islamic banks do not put in place strategies that will meet customer needs and preferences, the customers will go and get it from competitors.

In Kenya, Issak & Kaswira (2012) studied the strategies that are used to achieve growth among banks that offer shariah compliant products and concluded that these financial institutions need to ensure there is strict following of shariah in their day to day operations.. Essajee (2011), studied the difficulty in enforcing strategy at FCB in Kenya and concluded that the challenges include lack of knowledge on the offerings of these banks in the market and no much differentiation among the products within Islamic banking and difficult in changing the perception of the customers. Wendo (2010), studied what strategies these Shariah compliant banks use to respond to rivalry in the commercial banking industry and established that Islamic banks use both strategic and operational strategies to face to the fierce rivalry. Kibibi (2011), studied the strategic plans undertaken by Islamic banks to pursue those clients who do not follow the Islamic faith attract and concluded Islamic banks uses low cost strategy, differentiation, pricing and delivery and distribution strategy in order to attract Non-Muslim customers. All these studies did not establish competitive strategies used by Islamic banks to enhance performance and this study intends to fill this gap.

Competitive strategies give edge to firms over their rivals and studies such as Bowen & Ostroff (2004), have shown that competitive strategies leads to improved performance. Islamic banking is a fairly new phenomenon in Kenya. The banking industry in Kenya is very competitive e Islamic banks cannot only rely on religious factor as it was seen not to be attractive enough to pursue the adherents of the Islamic faith to use the facilities of these shariah compliant banks (AbuBakar 2003). It is very easy for customers to switch from one bank to another, operate various accounts in different banks and access different facilities from more than one bank at the same which will impact the performance of these banks. Therefore Islamic banks need to apply competitive strategy so that they can establish profitable and sustainable position in the highly competitive industry. Hence there is need to ask what are the competitive strategies adopted by Islamic banks to enhance performance?

1.3 Research Objective

To determine the competitive strategies adopted by Islamic Banks in Kenya to enhance performance.

1.4 Value of the Study

It is important to undertake this research as it helped policy makers in Islamic banks understand strategies that are used in the Islamic banking industry to improve performance. This helped them understand their shortcomings and reevaluate and redesign the strategies they use. This research is of value to government regulatory bodies and the bodies that compose policies as it helped assist in coming up with policies and laws that would catalyze the Islamic banking industry.

The result of the study would be important to the scholars, academicians and researchers in investigating the influence of context, validating previous research and contributing to the current knowhow in the field of strategic management. This study also helps scholars interested in further studying the concept of strategy in Islamic banking.

This study helped in facilitating theory testing. It contributed to the current knowhow on RBV and dynamic capability theory. It helped in investigating the main concept of RBV that links the growth of an organization to how the resources of the organization are utilized. The study also helped in testing the concept of dynamic capability theory that an organization needs to exploit its current internal and external organization specific capabilities to gain competitive advantage.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this section analysis of previous works to offer a theoretical and empirical basis for the current study will be discussed. This section offers an in-depth understanding of the relationship between resources based view; dynamics capability and competitive strategies and also establishes the research gap that this study intends to fill

2.2 Theoretical Foundation

This research adopts the resource based view and dynamic capability theory. For companies that need to develop strategies the RBV and the dynamic capability theory are said to be the two popular and competent ways of developing organizational strategy Williamson, (1991). The resources and capabilities of an organization has a huge influence on the long term strategy of the organization because of two reasons; firstly, the profit of the company is derived from the resources and capabilities of the organization and secondly, the direction the firm intends to undertake or is already undertaking will be heavily influenced by the resources and capabilities Grant (2001).

2.2.1 Resource Based View Concept

Among the early studies on the concept of RBV was by Penrose (1959) who proposed that an organization's uniqueness is derived from the heterogeneity rather than the homogeneity of the productive services available. The concept of an organization's resources heterogeneity is the main theme of Resource based view. According to Penrose (1959) both the internal and external growth of an organization through means such as merging and acquisition and diversification can be determined by how well the

organization's resources are deployed. An organization is made up of a combination of valuable resources and these resources can only contribute to an organization competitive advantage if they're deployed and used in a way that these productive resources are easily accessible to the organization. As such firms have to understand what their strengths and weakness are so that they can come up with strategies on how to beat their rivals using the available resources (Wernerfelt, 1984).

Each and every individual organization can be viewed as a unique bundle of tangible and intangible resources and capabilities (Wernerfelt, 1984). Resource may be termed as any particular thing that gives a company an advantage or disadvantage relative to its rivals. The intangible and tangible assets of an organization at any given time are defined as resources (Wernerfelt, 1984). This could be all the assets such as human resource, physical assets, commercial, organizational assets, financial assets as well as technological assets that firms deploy so that they can innovate, manufacture and convey services and products to their clients (Barney, 1991).

RBV holds that organizations valuable resources are the ones that determine the performance and competitiveness of the firm. RBV states that the major forces that influence and impact on the competitive advantage and how excellent an organization performs is derived from the features of the company's resources and capabilities which are both valued and hard to imitate (Barney, 1991). Through RBV firms can design and carry out their firm strategy by looking at the position of their internal resources and capabilities Sheehan & Foss (2007).

Wernerfelt, (1984), argues that while there is a direct relation between how a company performs and the performance of its own offerings in the market, organizational performance is also impacted indirectly by the resources that are utilized in the production process. Therefore for organizations to achieve above average performance and returns they have to identify, know and acquire these resources that are core to the development of the products that are demanded by the customers. A firm resource has to be valuable, scarce and hard and costly to copy for the organization to achieve sustained competitive edge (Barney 1991). Two assumptions govern RVB. One, it assumes that organizations that operate in an industry that are viewed as being in the same strategic circle may differentiate themselves through the resources they possess. Two, it assumes that these differences may last way into the future because these resources cannot be transferred from one company to another because they are not portable (Barney, 1985).

Resources can contribute to a firm achieving competitive edge over their rivals if they possess resources that are unique and difficult to imitate (Barney, 2003). An organization is viewed as having achieved competitive advantage when it undertakes a strategy that creates value and the aforementioned strategy is not being undertaken by its rivals and these rivals cannot copy the strategy or its benefits (Barney, 1991).

2.2.2 Dynamic Capability Theory

This can be defined as the capacity of an organization to build, combine and reconfigure internal and external competences in order to cope with the fast paced environment (Teece *et al*, 1997). The term 'capabilities' emphasizes the key role of strategic management inappropriately adapting, integrating, and re-configuring internal and external organizational skills, resources, and functional competences toward changing environment (Teece & Picano, 1994).

Dynamic capabilities encourage innovation in addition to organizational learning and change. Organizations that achieve competitive advantage do this by exploiting their internal and external capabilities while encouraging innovation and organizational change and learning (Giniuene & Lolita, 2015).

Teece (2009), divides the capabilities that are dynamic into three. These are sensing capability; seizing capability; and reconfiguring capability. Organizations sense capabilities when they scan the environment through research and development and establish the opportunities in the environment. When this opportunities that have been identified are analyzed and their potential value established it is known as seizing capability. This is employing the correct technology and determining the correct clients of the organizations. When the organizations use their resource to take advantage of the opportunities in the industry it is known as reconfiguring capability.

2.3 Competitive Strategies

Competition determines if a company succeeds or fails (Porter, 1985). Competition will determine how appropriate activities that a firm undertakes contribute to its performance. Competitive strategy are the specific actions and plans that management puts in place and undertakes so that the company can acquire an edge in terms of competition over their rivals (Thompson, Stickland *et al* 2008). Competitive strategy is the plan that managers undertake in order to achieve superior performance and deliver value to the customer. Porter, (1985), defines competitive strategy as the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. The main objective of competitive strategy is to achieve superior performance that can be sustained in the long run against rivals (Porter 1985

Firms implement competitive strategy so that they can a achieve competitive edge in the industry by being in the best position to face the five forces namely threat of competitors, threat of buyers, substitutes, buyer power and threat from new entry. (Porter 1998). According to Bharadwaj (1993) the resources and capabilities that are available to the firms that are unique, not easily accessible to rivals and are hard to copy lead to competitive advantage.

Organizations require a sustainable and working competitive strategy to compete successfully in the industry against both current and potential rivals (Achoki, 2013). The choose of a competitive strategy to will be used to gain edge over rivals is an exact process (Capon, 2008). Capon (2008) also argues that for competitive advantage and superior performance to be achieved strategy is a critical factor in any firm.

According (Porter, 1985) there are three generic strategies which can be used to gain competitive advantage. They are cost leadership strategy, differentiation strategy, focus strategy. When a firm becomes the cost leader in the industry by producing at low costs and applying economics of scale it is said to have adopted cost leadership strategy. Cost leadership can be successful if a firm enjoys a huge market share relative to its rivals For (Hyatt, 2001).

Differentiation strategy is offering products and services that have unique features and attributes. According to Svatopluk and Ljuba (2006) differentiation strategy objective is to establish the main differences between the products the firm offers and those of its rivals. This unique differences are the ones that ensure these firms can demand for a premium price. This results in better returns and ultimately better performance than the firm's rivals.

Porter (1994) states that focus strategy involves identifying a niche and narrow segment in the market and developing products to satisfy the niche customers. This could lead to an increased customer and brand loyalty to the products and services of the firm. By focusing the marketing mix on the narrowly defined market the business can position itself to increase brand loyalty and customer satisfaction (Maina, 2014). By concentrating the small but demanding segment who are willing to pay for premium prices a firm can achieve superior profits and overall performance (Anderson, 2006). Focus strategy is based on serving a narrow scope that most competitors do not get involved with (Maina, 2014).

2.4 Measurement of Organizational Performance

The monitoring of organization systems and processes then comparing the performance to the firm's goals and targets is known as performance measurement. This is done by collecting data from the organization systems and processes. The information that is derived from the performance measurement exercise is important for the decision making process of the organization. Decisions that are made include how to improve the efficiency and effectiveness of the firm's systems and processes. Data is collected to reflect how its processes are working, and that information is used to drive an organization's decisions over time. The strategies that an organization adopts impact the overall performance of the organization (Mutuku, 2005). Hunger and Wheelen (1995) say that strategies determine the long-term performance of the firm.

Performance can be measured in different ways like shareholder satisfaction, return in investment and quality of the organization's products Chakravarthy (1986). Measure of organization performance depends on the organization and the objectives it sets out to achieve. According to Thompson et al, (2007) there are two ways of measuring performance. Performance can be measured strategically and it can also be measured financially. Performance can be measured strategically by looking at the company's market share, its competitiveness and its future forecasts (Thompson et al, 2007).

Research that has been carried out on a firm's performance adopts both financial and non-financial performance. Most studies on organizational performance use a variety of financial and non-financial success measures.

Performance can be measured financially through profitability (Staw & Epstein, 2000 & Wan & Hoskisson, 2003), sales and market share (Salamon & Robinson, 2008, Gong, Law, Chang, & Xin, 2009), return on investment (Ilooley and Lynch, 1985), and total sales (Frazier and, 1983). Performance can be measured non-financially through the level of innovation, Non-financial measures include innovativeness, customer service (Salamon & Robinson) and share of the market.

2.5 Empirical Studies and Research Gaps

Several studies have been conducted on competitive advantage. Locally, Achoki (2013) carried out a study on the competitive strategies adopted by Bank of India and found that Bank of India, Kenya uses focus strategy. Murage (2011), did a strategy on the strategies used by companies in the petrol industries and concluded that these companies adopt differentiation as a way of gaining competitive edge over their rivals. Gichohi (2007) conducted a research on the strategies used by Salons and concluded that hair salons used differentiation strategy and this strategy influenced performance positively.

Studies done specifically on Islamic banking include by Kibibi (2011) who studied strategies used by Shariah compliant banks in attracting followers of the Islamic faith by and found out that out that Islamic banks uses low cost strategy, differentiation, pricing and delivery and distribution strategy in order to attract Non-Muslim customers. The banks do not use focus strategy as they do not want to concentrate on a particular target customers.

Wendo (2010), studied the response strategies of Islamic banks to competition in the commercial banking sector and established that Islamic banks use both strategic and operational strategies to cope with the fierce competition in the banking sector. To the best of my knowledge I have not come across any study that has been carried out on competitive strategies and how they enhance performance.

Past research has concluded that there is a direct correlation between profitability and the strategies that firms implement when competing (Gichohi, 2007, Bowen & Ostroff, 2004). Competitive strategies lead to competitive advantage and according to Maa (1999), competitive advantage leads to superior returns. According to Jonsson & Devonish (2009) organizations that implement well thought out strategies tend to perform better than their rivals. Strategies that are competitive can lead to superior returns, satisfied clients and the ability to cope with rivals (Arasa & Githinji, 2014).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The methods that have been used in undertaking this research will be discussed in this section. The data collection method, the design used and how data was analyzed was discussed in this section.

3.2 Research Design

This can be defined as the plan that the researcher used when conducting the research including the collection and analysis of data (Kothari, 1990). It explains how the researcher conducted the collection, analysis and measurement of data and it defines what and how the researcher conducted the study (Kothari, 1990).

A descriptive research design was used in this study. This design helped the researcher have a better understanding of the subject matter under study and helped the researcher have a view of areas for further studies. This design helped in providing solutions to questions on matter under study. This design helped us answer the question of which competitive strategies are used by Islamic banks.

3.3 Population of the Study

Population is the whole group of individuals under study and they have common characteristics. The population that will take part in the data collection is the target population Mugenda & Mugenda, (2003). The target population for this study were the two fully complaint Islamic banks and five other conventional banks that offer Islamic banking services and products in Nairobi.

3.4 Data Collection

Primary data was adopted in this study. Semi structured questionnaires were used when primary data was being collected. These questionnaires was developed keeping in mind the research objective of this study. The use of the questionnaire made it easy to collect large amount of data within a short time. It also facilitated anonymity and confidentiality of respondents personal and business details as they were not forced into disclosing their identity when filling out the questionnaire.

The use of questionnaire is expected to enhance responses rate and limit bias as the respondents needed not worry that their information will reach their business competitors. The respondents were managers in the organization. The questionnaires were dropped and after being filled were picked later.

3.5 Data Analysis

The data that was collected was cleaned, validated, edited and coded. Descriptive statistics such as percentage, frequency distribution, mean score and standard deviations were used.

Analysis was done through SPSS. SPSS helped the researcher in effective data management and better output organization while offering a wide range of options of screening and cleaning the data.

The multiple regression model below was adopted. It was used to determine the effect of competitive strategies adopted by Islamic banks in Kenya to enhance performance.

$$(Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon) \quad \text{Where;}$$

Y = Performance

X₁ = Cost leadership strategy

X₂ = Differentiation strategy

X₃ = Focus

B₀ = constant

β₁, β₂, β₃ = Régression coefficients

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section deals with the data that was collected on the topic under study. The sample size of this research was seven respondents. Five respondents fully participated and returned the questionnaire. This equals a response rate of 71.1%. According to Mugenda & Mugenda (1999), any rate above fifty percent is acceptable. The findings were presented in tables and charts.

4.2 Background Information

The first part of the study is on background information of the participants i.e. the position they hold in the organizations, gender, and period of time they have worked in the bank and period of time bank had offered Islamic banking products and services. This was sought so as to understand the appropriateness of the participants in offering answers to the topic under study

4.2.1 Position of the Respondents

The participants were required to demonstrate the positions they held in their companies.

Table 4.1 Respondents' Position

Position	Frequency	Percent (%)
Relationship Manager	3	60
IT Manager	1	20
Human resource manager	1	20
Total	5	100

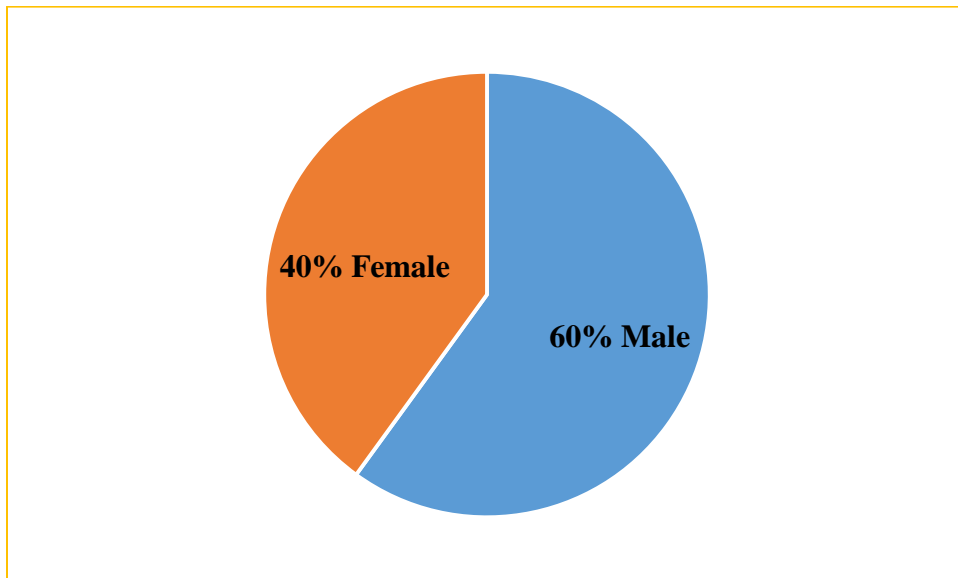
Source: Research Data (2016)

From Table 4.1 we can deduce that (60%) of the respondents were relationship managers, 20% were human resource managers, while another 20% of the respondents indicated as IT managers. These are mostly respondents who deal with clients and systems of the bank on a daily system and will therefore know the strategies that the bank put in place.

4.2.2 Respondents' Gender

It was required for the respondents in this study to indicate their gender. The chart in Figure 4.1 shows the findings.

Figure 4.1: Respondents' Gender



Source: Research Data (2016)

From Figure 4.1, we can conclude that 60% of the participants in the research were male while the female respondents were 40%. This shows that the majority of the participants were male.

4.2.3 Duration of Time Worked in the Company

This researcher requested the respondents to indicate for how long they have worked for their respective companies. It was established that the respondents' worked for the banks for a period of 3-10 years. This allows them to have enough knowledge on the banks' activities aimed at improving the competitive strategies. Further the study sought to investigate for how long the banks had offered Islamic banking products and services. The respondents indicated a period of 5 and above years implying that the respondents were conversant with the competitive strategies used by the Islamic banks to enhance performance.

4.3 Competitive Strategies adopted by Islamic banks in Kenya to Enhance Performance

Over the past few years there has been a stiff competition in the banking industry resulting from increase in innovations among banks and the increasing number of new entrants into the banking industry (Kathuni & Mugenda, 2012). Therefore banks must come up with strategies to gain competitive edge in this highly competitive industry.

Competitive strategy is the pursuit of competitive edge in the market by coming up with strategies that will give the firm a better competitive position compared to its rivals. Islamic banking is a fairly new phenomenon in Kenya with the sector being barely ten years old. This late entry coupled with the stiff competition among banks in Kenya has meant that Islamic banks have to come up with competitive strategies to improve their performance as discussed below.

4.3.1 Cost Leadership Strategy

The participants were requested to respond to what extent they agreed with statements below. A five likert scale was used to place the answers from the participants with 1 representing strongly agree and 5 representing strongly disagree. An above 3 mean score is viewed as a satisfying measure of the test variables. Standard deviation (SD) demonstrates the variation or dispersion from the average. A standard deviation that is on the lower side shows that the data points are closer to the mean. When the SD is high it shows that data is spread out over a large range of values.

Table 4.2: Cost Leadership Strategy

Statement	Mean	Std. dev.
Aggressive pursuit of automation to lower the cost of service delivery	4.3421	.5554
Designs, production, and marketing of a comparable products more efficiently than its competitors	4.1184	.6725
Rigorous pursuit of cost reductions from experience (experience curve) and Outsourcing process to other firms which enjoy cost advantages	4.0132	.6830
Tight cost and overhead controls	3.9737	.5819
Emphasis on maximum capacity utilization of resources	3.9474	.9664
Avoiding marginal customer a/cs	3.8811	.8481
Reducing costs in certain areas of the organization like research and development and advertising	3.8553	.2487
Increased efficiency through repetition and routine tasks	3.8421	.9521
Backward or forward integration to reduce costs	3.8026	.9247
Basing jobs on limited and specialized tasks	3.7500	.9114
Merges to achieve economies of scale	3.7237	.7938

Source: Research Data (2016)

From Table 4.2 we can conclude that the participants agreed with aspects of cost leadership adopted by Islamic banks in Kenya to enhance performance such as; Aggressive pursuit of automation to lower the cost of service delivery (Mean=4.3421); Designs, production, and marketing of a comparable products more efficiently than its competitors (Mean=4.1184); the stringent search for lower costs resulting from experience (Mean=4.0132); stringent control on expenses and overhead costs (Mean=3.9737), Emphasis on maximum capacity utilization of resources (Mean=3.9474); avoiding marginal clients' accounts (Mean=3.8811); Reducing costs in certain areas of the organization like research and development and advertising (Mean=3.8553); Increased efficiency through repetition and routine tasks (Mean=3.8421); and basing jobs on limited and specialized tasks (Mean=3.7500). This implies that Cost Leadership as a competitive strategy positively affects the Islamic banks performance in Kenya.

Cost leadership is effected through aggressive pursuit of automation that will lead to efficiency and leading to lower costs. Most Islamic banks have put into place systems and processes that ensure efficiency in the day to day operations. Systems that are efficient and customer friendly such as mobile banking, internet banking and agency banking ensure it saves customers banking time and queues ensuring that banking halls are not crowded which means that the banks can employ less tellers to man the counters reducing on overhead costs.

Islamic banks use cost leadership strategy in order to attract customers from conventional banks and in order to penetrate the market and increase their market share. Islamic bank also outsource services such as security and cleaning that will give them cost advantage.

This is consistent with studies such as Mkumba (2011) that found cost leadership strategy is used in Islamic banks and implemented through outsourcing of services.

Islamic banks also use cost leadership strategy by minimizing costs in areas like sales force and advertising. Most Islamic banks engage in niche advertising and rarely will you find them advertised on large scale media like television. Most of the advertising is done through sponsoring events such as Islamic forums and on Islamic publication such as Friday bulletin. This sought of advertising is cheaper compared to large scale advertising in mainstream television and radios.

Islamic banks also achieve competitive advantage by increasing efficiency through repetition and routine tasks. This is done through training of staff to ensure high efficiency and specialization ensuring every staff member knows what is expected of them and conduct out their role efficiently and effectively resulting in high productivity levels.

Islamic banks also have introduced low cost products that are of superior value in order to attract customers that will eventually lead to higher revenues. Islamic banks have among the lowest cost products with superior returns. The fact that Islamic banks are bound to give contracts that do not have hidden clauses helps them to gain competitive advantage over their rivals.

4.3.2 Differentiation Strategy

The respondents were requested to respond to what extent they agreed with the statements below. A 5 likert scale was used to place the answers from the participants with 1 representing strongly agree and 5 representing strongly disagree. An above 3 mean score is viewed as a satisfying measure of the test variables. Standard deviation (SD) demonstrates the variation or dispersion from the average. A standard deviation that is on the lower side shows that the data points are closer to the mean. When the SD is high it shows that data is spread out over a large range of values. Table 4.3 shows a summary of the results.

Table 4.3: Differentiation Strategy

Statement	Mean	Std. dev.
My organization frequently introduce new products targeting clients	3.9079	.3509
My organization frequently improves existing Islamic customers products	3.7763	.9331
The bank I work for has wide branch network to take care of Islamic customers	3.6184	.7935
Offering a variety of services relative to your competitors	3.5789	.93447
We engage our Islamic clients by use of the latest technology	3.4474	.8065
Our clients receive customized services	3.3026	.5247
My organization ensures our clients receive specific value in the products offered	3.1842	.8942

Source: Research Data (2016)

The results from Table 4.3 indicate that the participants agreed with aspects of differentiation adopted by Islamic banks in Kenya to enhance performance such as; Organizations frequently introduce new products targeting clients (Mean=3.9079); organizations frequently improves existing Islamic customers products (Mean=3.7763),

The banks had wide branch network to take care of Islamic customers (Mean=3.6184), Offering a variety of services relative to your competitors (Mean=3.5789), We engage our Islamic clients by use of the latest technology (Mean=3.4474), Our clients receive customized services (Mean=3.3026) and My organization ensures our clients receive specific value in the products offered (Mean=3.1842). The result implies that differentiation as a competitive strategy positively affects the Islamic banks performance in Kenya.

Islamic banks have frequently introduced new products targeting clients. They're a variety of products that have been introduced to target existing and current clients. Islamic banks have products and services that suit the needs of women, children, and business to small and medium enterprises.

Islamic banks also have a wide range of networks especially in areas that are populated by Muslims. These banks have two or more branches in places that have a high Islamic population to take advantage of their target market needs.

Islamic banks also ensure differentiation through customized service to their clients. Whatever needs their clients have Islamic banks have products that are tailored to them ensuring that these banks are a one stop shop for all the customer needs.

4.3.3 Focus

The participants were requested to respond to what extent they agreed with statements below. A 5 likert scale was used to place the answers from the participants with 1 representing strongly agree and 5 representing strongly disagree. An above 3 mean score is viewed as a satisfying measure of the test variables. Standard deviation demonstrates the variation or dispersion from the average. A standard deviation that is on the lower side shows that the data points are closer to the mean. When the SD is high it shows that data is spread out over a large range of values.

Table 4.4: Focus

Statement	Mean	Std. dev.
Building brand and vision around specific customer promise	4.3421	.55504
Making brand and vision visible to our niche market	4.3026	.63287
Making sure that there is a distinct understanding of the corporate customer experiences	4.3016	.61144
Investing smartly in excellent customer targeting particular niche markets	4.2510	.59161
Ensuring the customer experience is centered on specific points of superior	4.2500	.67577
Ensuring any activity that is customer focused has its roots in economic objectives and is not limited to satisfaction	4.2368	.69028
Targeting hearts and minds of specific niche markets to drive attitudinal loyalty	4.1974	.63287
Putting in place a company structure that has niche customer centricity at the core of its decision making	4.1974	.67369
Training the employees so that they can develop skills that will help in niche customer centric objective	4.1842	.68723

Source: Research Data (2016)

From Table 4.4 it can be deduced that the participants agreed with aspects of focus adopted by Islamic banks in Kenya to enhance performance such as; Building brand and vision around specific customer promise (Mean=4.3421); Making brand and vision visible to our niche market (Mean=4.3026); Making sure that there is a distinct understanding of the corporate customer experiences (Mean=4.3016); Investing smartly in excellent customer targeting particular niche markets (Mean=4.2510); Ensuring the customer experience is centered on specific points of superior (Mean=4.2500), Ensuring any activity that is customer focused has its roots in economic objectives and is not limited to satisfaction (Mean=4.2368); Targeting hearts and minds of specific niche markets to drive attitudinal loyalty (Mean=4.1974); Putting in place a company structure that has niche customer centricity at the core of its decision making (Mean=4.1974) and Training the employees so that they can develop skills that will help in niche customer centric (Mean=4.1842). This implies that Focus as a competitive strategy positively affects the Islamic banks performance in Kenya.

4.4 Inferential Statistics

This research used general linear model to establish and predict to what extent competitive strategies affect performance of banks offering Islamic products and services. This included regression analysis, the Model and coefficient of determination. Regression analysis, the model and coefficient of determination together with SPSS was used to calculate the multiple regressions measurements. The extent to which changes in the depended variable (performance) is influenced by the changes in the independent variables of the three generic competitive strategies.

Table 4.5 Model Summary

Model	R	R Square	Adjusted R2 Square	Std. Error of the Estimate
1	.873 ^a	.821	.788	.25308

a. Predictors: (Constant), Cost leadership strategy, Differentiation strategy and focus.

Source: Research Data (2016)

From Table 4.5 we can deduce that the three independent variables in the study influence 78.8% of performance of Islamic banks as shown by R^2 . The adjusted R^2 , also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average adjusted coefficient of determination (R^2) of 0.788 which implied that 78.8% on the variations of the bank performance is explained by the independent variables understudy. It can be concluded from above that other variables not in the totaling 21.2% affect performance of Islamic banks. In addition, there exists positive relationship between the competitive strategies and performance meaning increased strategies lead to increased performance.

Table 4.6 Anova of Regression

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	18.072	3	6.024	12.611	.000 ^b
	Residual	9.698	26	.373		
	Total	27.770	29			

Source: Research Data (2016)

The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting how Cost leadership strategy, Differentiation strategy and Focus strategy affect Performance of Islamic banks in Kenya. The F calculated at 5% level of significance was 12.611. Since F calculated is greater than the F critical of 2.33, this shows that the overall model was significant.

Table 4.7 Coefficient of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1.113	.127		.438	.679
	Cost Leadership Strategy	.533	.130	.400	1.122	.061
	Differentiation Strategy	.162	.106	.117	1.427	.073
	Focus	.188	.073	.271	2.482	.011

Source: Research Data (2016)

From Table 4.7, multiple regression analysis was conducted to determine the extent to which each independent variable influences the performance of Islamic Banks in Kenya.

As per the SPSS generated table above, the regression equation is:

$$(Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon) \text{ becomes:}$$

$$(Y= 1.113+ 0.533X_1+0.162 X_2+ 0.188X_3+\varepsilon)$$

From table 4.7 we can deduce that Islamic banks use Focus strategy the most since focus strategy is the only one with a significance level below 0.05. The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and $\alpha=0.05$. If the probability value was less than α , then the predictor variable was significant otherwise it wasn't. Only focus strategy was significant in the model as its probability values was less than $\alpha=0.05$ while Cost leadership and differentiation had a probability value more than $\alpha=0.05$. The study revealed that a unit change in focus strategy would change the bank competitiveness by a factor of .188.

4.5 Discussion

The current business environment is volatile and unpredictable. In order to survive organizations have to come up with strategies that will help them to take advantage of their strengths and opportunities while at the same time adapting to their weakness and threats from the environment.

Porter (1985), defines competitive strategies as the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy can be split into three approaches (Porter, 2000). These are cost leadership strategy, focus and differentiation strategy. Cost leadership is striving to be the low cost producer. This can be done through minimizing overhead costs, aggressive pursuit of automation to lower the cost of service delivery, capacity utilization and outsourcing activities. Islamic banks have used all the above to enhance performance. Differentiation strategy is offering a variety of products which are characterized by valuable features such as quality, innovation and customer service

Focus strategy is serving a narrow segment of the market and tailoring products to suit the needs of the niche markets. Islamic banks use focus strategy to enhance performance through means such as building brand and vision around specific customer promise, making brand and vision visible to our niche market and ensuring a clear understanding of the customer experience. This increases customer loyalty and customer satisfaction increasing the market share ultimately resulting in better performance.

According to Kotler (2001) a firm can use focus strategy to target small markets. This can help a firm be a leader in small/niche market rather than a follower in a large market. Islamic banks have used focus strategy by identifying small and medium businesses and also corporate customers rather than concentrating on retail marketing that most bank aim for. Islamic banks have effectively used focus strategy to target Muslims in Kenya who had felt left out by financial institutions in Kenya.

Islamic banks have used focused strategy by segmenting the markets and providing products for an identified niche market. For example Islamic banks have identified pastoralists that rare animals like camels for business purposes and came up with specific Shariah compliant products to offer to this market. Islamic banks also have identified corporate customers and have developed products that are targeted to this niche segment. These banks have come up with branches that only serve the corporate customers. The ambience and environment is usually different for these customers. Islamic banks have also used focus strategy by identifying high end customers and targeting them by coming up with products that are tailored to them.

Most Islamic banks also use focus strategy by building their brand and vision around specific customer promise. They promise to have the customer's interest at heart. Most Islamic banks also have a vision to that includes to be the preferred Shariah compliant bank this is particular aimed at those who follow Islamic Shariah and can be said to be a particular niche segment. Islamic banks also make their brand and vision visible to the niche market. Islamic banks also use focus strategy to identify a niche market and advertise the products to these niche segment. This is done by centering the customer experience on a few key touch points of superior. Islamic banks also target the heart and minds of specific niche markets by advertising to these niche markets and coming up with products that suit the need of these niche market. For example Islamic banks have Hajj accounts that are accounts intended for those who want to save and go to Hajj. Islamic banks also target the hearts and minds of specific customers by ensuring that they adhere to what these specific customers hold true to. For example Islamic banks close on Friday between noon and 2PM for the Friday Islamic prayers.

Islamic banks also have tailored their advertising and marketing to the specific niche market of those who need sharia compliant product and service. Islamic banks do not advertise on all platforms rather on specific platforms that are meant for Muslim customers. For example using radios that broadcast Islamic content.

Islamic banks also name their products depending on which niche customers they're targeting. Islamic banks have identified a niche market in the insurance sector. There is a small and unique segment that has been identified that needs shariah compliant insurance products. Islamic banks serve this segment by introducing Shariah compliant insurance products and services. Most Islamic banks have products and services that have Islamic

Arabic names meaning that their focus is on Muslim customers. These are meant for niche marketing when targeting specific group. For example Hajj account is for those who intend to take pilgrimage to the Holy mosque in Mecca.

Penrose (1957) argues that for a firm to achieve competitive position, they must exploit their resources to take advantage of the opportunities presented and adapt to the threats in the firms' environment. According to Chaharbaghi and Lynch (1999) in order for an organization to navigate the competitive pressures in the market they must modify and develop their resources. This is in line with RBV theory that states that the fundamental sources and drives of firm's competitive advantage and superior performance are associated with the attributes of their resources and capabilities which are both valuable and costly to copy (Barney, 1986). Islamic banks have achieved competitive advantage through deploying unique resources and coming up with products that are different from their competitors. For example Islamic banks pride themselves as having among the best technology.

According to Teece (2009) the dynamic capability theory argues that for a firm to achieve competitive advantage requires firms to exploit their current internal and external organization specific capabilities and establishing unique ones. This can be done through innovation and organizational learning. This study also found out that Islamic banks have to put into place systems and processes that will help it to cut down costs and improve on existing products and services through rapid innovativeness and ability of the management to deploy internal and external competencies.

The findings of these study show that competitive strategies influence how a firm performs. There is a positive relationship between competitive strategies and performance. This is consistent with studies such as Bowen & Ostroff (2004) who concluded that competitive advantage can lead to superior performance. According to Thompson *et al*, (2007) competitive advantage is the basis for a firm achieving beyond average financial and profitability performance. This he says is due to the factor that a higher consumer demand for the firm's business will result in superior sales and ability to demand higher prices resulting in higher revenues and eventually higher profitability and performance.

These findings share common themes with previous literature. Kibibi (2011) while studying the strategies that Islamic banks use to attract non-Muslim customers concluded that Islamic banks use cost leadership and differentiation to attract non-Muslim customers. Mkumba (2011) however argues that Islamic banks do not use focus strategy to attract non-Muslim customers.

These findings also corroborates the findings of Kariuki (2011) who when studying competitive strategies used by banks commercial locally concluded that commercial banks adopt a blend of cost leadership, focus and differentiation. This research was also consistent with findings by Maina (2014) that commercial banks use a mixture of cost leadership, differentiation, focus and resource based strategy.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section deals with the summary, conclusion and recommendations on the subject under study. Findings have been summarized alongside the objective of the study, conclusions have been drawn from the study and the recommendations for action are also given. This chapter covers Introduction, summary of findings, conclusion, recommendations, limitations of the study and suggestions for further study.

5.2 Summary

The study found out that Islamic banks used focus strategy to enhance performance. While Islamic banks use cost leadership and differentiation to a limited extent the main strategy they use is focus strategy. The study found that there was aggressive pursuit of automation to lower the cost of service delivery, tight cost and overhead controls, Emphasis on maximum capacity utilization of resources and cost reduction in areas like sales and marketing. In addition the study found that there was increased efficiency through repetition and routine tasks and backward or forward integration to reduce costs.

The study found that there was frequent introduction of new products targeting clients and improvement of the existing Islamic customers' products. Further the study found that the banks had wide branch network to take care of Islamic customers that offered a variety of services relative to their competitors. In addition the study found that the banks engage their Islamic clients by use of the latest technology.

The study found that there was building brand and vision around specific customer promise and that they made brand and vision visible to their niche market. Further the study found that the banks ensured a clear understanding of the corporate customer experiences that matter across the customer journey in each segment and Invested intelligently in superior customer experience in a systematic and economically viable manner targeting specific niche markets. In addition the study found that the banks established an organizational structure that enabled niche customer centricity in business decisions.

5.3 Conclusions

Islamic banking industry is a new phenomenon with it barely being 10 years old. Islamic banking entered the banking industry when other conventional banks had established themselves. As such the Islamic banking industry has to develop strategies that will give it a competitive position in the market. This will help it to undertake defensive or offensive maneuvers with the objective of defending its market against the 5 competitive pressures. This study has established that Islamic banks use focus strategy to enhance performance. The bank used cost leadership and differentiation to a limited extend to compliment focus strategy.

Islamic banks use cost leadership to attract and retain customers by offering low cost products that are high quality such as savings accounts that have no monthly charges while still having the benefit of earning profit from your accounts. Islamic banks also prohibit hidden clauses in their contracts ensuring that the cost agreed on will not go up at any time.

Differentiation strategy is also applied in Islamic banks through offering unique products and services. This has helped it attract customers across all demographics. These banks have women, children, hajj accounts, corporate and small and medium enterprises accounts.

Islamic banks also use focus strategy. Most of these banks use niche marketing only marketing to Muslims using mediums that are popular with Muslims. Islamic banking is focused on providing shariah compliant goods and services and therefore their main target are Muslims. Their products have Islamic names while the Islamic banks themselves call themselves using Arabic names. Islamic banks have also identified narrow and lucrative markets such as business men who rear animals such as camels for business purposes and provided loans to them. Islamic banks have also identified the mortgage market that initially excluded Muslims because of the prohibition of interests. This is a narrow market and Islamic banks have taken advantage of the lack of shariah compliant products and have come up with products that satisfy these markets.

The study concludes that that the competitive strategies adopted by Islamic banks in Kenya to enhance performance is focus strategy. Cost leadership and differentiation strategy are used but to a limited extent. The study also concludes that competitive strategy can lead to improvement in how banks perform and that there is a positive relationship between competitive advantage and performance.

5.4 Limitations of the study

In the process of carrying out the research there was difficulty in getting appointments with the participants with some showing their clear displeasure and unwillingness to take part in this study. In addition the time allocated for the study was short and the data collection process took longer than expected.

Confidentiality being a primary weakness of descriptive survey; some answers that were viewed as sensitive were not provided by the participants. Another limitation of the study was the scope. This study concentrated on banks that offer Shariah compliant banking products and services and hence the research findings cannot be used to make generalizations on the entire banking industry.

5.5 Recommendations for Policy and Practice

This research suggests for Islamic banks to put in place systems and processes that will reduce overhead costs leading to minimum costs. This will ensure that Islamic banks get cost advantage over their rivals. This can be done through continuous automation of systems. Training of employees on ways of implementing cost strategies will also ensure Islamic banks are able to implement the cost leadership strategy.

This study recommends for Islamic banks to aim beyond Muslim clients and aim for non-Muslim clients. Most Islamic banks name their products using Arabic terms that non-Muslims cannot understand and relate to which gives the impression that Islamic banking is only for Muslims.

There is a need for Islamic banks to also share information on the products and services that they offer. Islamic banks should hold seminars and educational forums to educate the public on their core values. Islamic banks should educate the public on the principals that govern them. The layman doesn't understand the concept of profit sharing and how Islamic banks make profit while not offering interest.

Islamic banks should also invest heavily on ICT. ICT has been seen to give Islamic banks competitive advantage through making the processes efficient and cutting down on the costs. The core banking system should be linked to the support systems. Constant improvement in ICT will ensure downtimes are minimized leading to increased customer satisfaction.

Islamic banks should start advertising their products and services on the mainstream media. Islamic banks advertise their products on media that is popular by Muslims. This will help it reach a wide population resulting in more people knowing about their products and services and even attracting non-Muslim customers.

Islamic banks should apply the dynamic capability theory and resource based theory to achieve competitive advantage. Islamic banks are encouraged to exploit their internal and external capabilities through organizational learning and innovation. Islamic banks should also develop unique resources that are valuable and hard to imitate.

5.6 Areas for further research

These study was only done on banks that offer Islamic products and services and hence cannot be used to generalize all the banks in Kenya that do not offer Islamic banking and hence there is a need to undertake further research on all the banks in Kenya to find out if the findings will be similar in order to make generalizations.

There is need to understand the variables that influence how an organization performs other than competitive strategy. Studies should be conducted to understand competitive strategies that other related firms like Islamic Saccos and Islamic insurance use to enhance performance.

The study suggests that further research be done on the views of banks and clients on the success of implementation of Islamic products and services. This will help raise understanding of the role and potential of the products in addressing different needs of Islamic banking and services.

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APPENDICES
APPENDIX I: DATA COLLECTION INTRODUCTORY LETTER



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2050162
Telegrams: "Varsity" Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 20/09/2016

TO WHOM IT MAY CONCERN

The bearer of this letter ASLI MUKTAR ABDI

Registration No. DG1/74315/2014

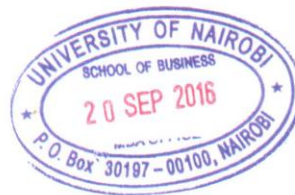
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS



APPENDIX II: QUESTIONNAIRE

This research was undertaken with the aim of the competitive strategies adopted by Islamic banks to enhance performance. Any information received from you will be dealt with the highest levels of confidentiality and will be used only for academic reasons.

PART I: Background Information

Bank Name

Gender

Position in the Organization

How long have you worked in the bank?

How many years has your bank been offering Islamic banking products and services?

PART II: COST LEADERSHIP STRATEGY

To what extent do you agree that your organization engages and emphasizes the following activities relating to cost leadership to enhance performance?

	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
Aggressive pursuit of automation to lower the cost of service delivery	[]	[]	[]	[]	[]
Designs, production, and marketing of a comparable products more efficiently than its competitors	[]	[]	[]	[]	[]
Rigorous pursuit of cost reductions from experience (experience curve) and Outsourcing process to other firms which enjoy cost advantages	[]	[]	[]	[]	[]
Tight cost and overhead controls	[]	[]	[]	[]	[]
Emphasis on maximum capacity utilization of resources	[]	[]	[]	[]	[]
Avoidance of marginal customer a/cs	[]	[]	[]	[]	[]
Reducing costs in certain areas of the organization like research and development and marketing	[]	[]	[]	[]	[]
Increased efficiency from repetition and	[]	[]	[]	[]	[]

routine tasks					
Backward or forward integration to reduce costs	[]	[]	[]	[]	[]
Merges to achieve economies of scale	[]	[]	[]	[]	[]
Basing jobs on limited and specialized tasks	[]	[]	[]	[]	[]

In your opinion, how else has your organization adopted cost leadership strategy to enhance

performance?.....
.....
.....
.....

PART III: DIFFERENTIATION STRATEGY

To what extent do you agree that your organization engages and emphasizes the following activities relating to differentiation to enhance performance?

	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
My organization frequently introduce new products targeting clients	[]	[]	[]	[]	[]
My organization frequently improves existing Islamic customers products	[]	[]	[]	[]	[]
The bank I work for has wide branch network to take care of Islamic customers	[]	[]	[]	[]	[]
Offering a variety of services relative to your competitors	[]	[]	[]	[]	[]
We engage our Islamic clients by use of the latest technology	[]	[]	[]	[]	[]
Our clients receive customized services	[]	[]	[]	[]	[]

My organization ensures our clients receive specific value in the products offered	[]	[]	[]	[]	[]

In your opinion, how else has your organization adopted differentiation strategy to enhance

performance?.....
.....
.....
.....

PART III: FOCUS

To what extent do you agree that your organization engages and emphasizes the following activities relating to focus strategy to enhance performance?

	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
Building brand and vision around specific customer promise	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making brand and vision visible to our niche market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making sure that there is a distinct understanding of the corporate customer experiences	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investing smartly in excellent customer targeting particular niche markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ensuring the customer experience is centered on specific points of excellence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ensuring any activity that is customer focused has its roots in economic objectives and is not	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

limited to satisfaction					
Targeting hearts and minds of specific niche markets to drive attitudinal loyalty	[]	[]	[]	[]	[]
Putting in place a company structure that has niche customer centricity at the core of its decision making	[]	[]	[]	[]	[]
Training the employees so that they can develop skills that will help in niche customer centric objective	[]	[]	[]	[]	[]

In your opinion, how else has your organization adopted focusing strategy to enhance performance?.....

.....

.....

.....

THANK YOU.

APPENDIX III: BANKS OFFERING ISLAMIC BANKING

1. Barclays Bank of Kenya
2. Kenya Commercial Bank
3. Chase Bank
4. First Community Bank
5. Gulf African Bank
6. National Bank
7. Standard Chartered Bank

Source: Central Bank of Kenya (2016).