STRATEGIES ADOPTED BY ISLAMIC BANKS TO ATTRACT NON-MUSLIM CUSTOMERS

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature ....?V........................... Date C$1.1.1. ISA

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

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DEDICATION

I would like to dedicate this project to my family and friends' .There is no doubt mind that without their continual support and counsel I could not have made it.

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My foremost gratitude goes to Allah (SWT) who renewed my strength at every single stage of doing this proposal. A lot of thanks go to my supervisor Florence Muindi who has relinquished without complain many hours of positive criticism, comments and suggestions that have enabled me to come up with a refined proposal. I also thank the Marketing Managers, First Community Bank and Gulf African Bank for their support and understanding during the entire time that 1 have worked on the project.

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ABSTRACT

The intensity of competition in an industry is not a matter of luck. Rather, competition is rooted in underlying industry economics and goes well beyond the established competitors. Not all industries have equal potential. They differ fundamentally in their ultimate profit potential as the collective strength of the forces of competition differs; the forces range from intense in industries like tires, paper and steel, where no firm earns spectacular returns, to relatively mild in industries such as oil field equipment and services, cosmetics and toiletries, where high returns are common. Building long-term relationships with customers has become a critical strategy for most financial institutions in today's competitive financial markets. The banking industry must develop profitable, long-term relationships with its customers in order to survive in the competitive retail banking environment. Banks want a zero customer defection rate of profitable customers to reduce the churn rate and minimize the acquisition costs of new customers

The research design was a cross sectional descriptive study of the Islamic banks operating in Kenya. The study was used to identify the strategies used by the Islamic banks to attract non-Muslim customers. The data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the organization.

The findings from the study were that the Islamic banks uses low cost, differentiation, pricing and delivery and distribution strategies to attract Non-Muslim customers. The usage of the strategies resulted to formulation of policies and procedures which enhance the strategy, business plan formulated on low cost strategy, continuous innovation of new customer friendly products, formation of group based microfinance products to attract low income customers and outsourcing of services. The bank also creates unique position, advertise the products, customer segmentation, analysis of competitor cost structure to set the prices, opening of more branches and installation of more ATM facilities, adoption of information technology and deployment of a combination of marketing strategies.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In global and highly competitive markets, organizations strive to be innovative and agile enough to meet customers' demands. Competitiveness, based on organizational capabilities and production strategies, may lead to quality, efficiency and flexibility. In the pursuit of 'mass customization', flexibility and scale economies are followed simultaneously. The search for a system's flexibility, responsiveness and reliability on the one hand, and low costs on the other, has led to the reconfiguration of the design and production activities and thus advocated the changes in the overall supply chain management (Suri, 1998).

As the current economic environment becomes more competitive and introducing new brands becomes increasingly costly, companies must find new strategies to increase their capacity and competitiveness (Lipponen et al., 2004). Organizations are a system made up of subsets of systems, much like biological entities. It is not possible for the entire system to exist without the subsystems. All parts of the organization are interdependent and all have a stake in each other's success. "If they do not satisfy the requirements and preferences of their internal and external customers, they prevent those customers from being successful" (Freedman, 1995, p. 8). That is, they affect the quality of the relationship with their own internal systems as well as with the external systems which the organization encounters in the environment. Today's market is enormously more complex. Henceforth, to survive in the market, the company not only needs to maximize its profit but also needs to satisfy its customers and should try to build upon from there (Slater and Olson, 2001). Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage, and successful firms apply them in new organizational strategies that put into question many conventional tenets on organizations and their management (Nandi, 2002).

The intensity of competition in an industry is not a matter of luck. Rather, competition is rooted in underlying industry economics and goes well beyond the established competitors. Not all industries have equal potential. They differ fundamentally in their ultimate profit potential as the collective strength of the forces of competition differs; the forces range from intense in industries like tires, paper and steel, where no firm earns spectacular returns, to relatively mild in industries such as oil field equipment and services, cosmetics and toiletries, where high returns are common (Kroll *et al.,* 1999). The essence of competitive strategy for a company is to find a position in its industry where it can best cope with these competitive forces or can influence them in its favor. Knowledge of the underlying sources of competitive pressure can reveal the basic attractiveness of an industry, highlight the critical strengths and weaknesses of a company, clarify the areas where strategic changes may yield the greatest payoff and pinpoint the industry trends that promise the greatest.

1.1.1 Concept of Strategy

Different scholars and practitioners have very different definitions or even understanding about what strategy is and how it should be defined. Chandler (1962) in his definition of strategy emphasized the determination of basic long term goals and objectives the adoption of courses of action to achieve them, and allocation of resources as being central to the concept of strategy. Ansoff (1965) recommended growth strategies that firms could use. The growth strategies suggested were market penetration, market development, product development and diversification. Perry (1987) suggested that for small businesses the most appropriate growth strategies are therefore product development and market development.

Andrews (1971) argues that with respect to corporate strategy, strategists address what the firm might and can do as well as what the firm wants to do. However, he also argues that strategists must address what the firm ought to do. The "ought to do", in Andrews' parlay, refers to corporate social responsibility. He suggested that business firms are not responsible to society, but rather that the obligation of social responsibility falls upon the managers of business firms. Mintzberg (1988) proposes five formal definitions of strategy as plan, ploy, pattern, position and perspective. Strategy is a plan, some sort of consciously intended course of action, a guideline (or a set of them) to deal with a situation. Strategy can be a ploy, just a specific 'maneuver' intended to outwit an opponent or competitor. Strategy is a pattern, specifically a pattern in a stream of actions. Strategy is a position, this means specifically identifying where the organization locates itself in what is known in the management literature as 'environment' for a business firm, usually a market. Strategy is a perspective, its content consists not just a chosen position but an ingrained way of perceiving the world.

Porter (1996) defined strategy as "the creation of a unique and valuable position involving a different set of activities that are different from rivals". Porter (1996) continues to say that strategy is making trade-offs in competing. The essence of strategy is choosing what not to do. Without trade-offs there would be no need for choice and thus no need for strategy. Porter (1996) argues that strategy is about selecting the set of activities in which an organization will excel to create a sustainable difference in the market place. The sustainable difference may be to deliver great value to customers than competitors or provide comparable value at a lower price than competitors. He states 'differentiation arises from both the choice of activities and how they are performed'.

Johnson and Scholes (2000) define strategy as "the direction and scope of an organization over long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations". He concludes that strategy can be seen as the matching of the resources and activities of an organization to the environment in which it operates. This is sometimes known as search for strategic fit. The concept of strategy is therefore built around winning. Strategy helps to achieve success whether in business or otherwise, success in this context refers to the realization of objectives that are desired. Effective strategy is formulated around four factors. These are, the goals and objectives are simple, consistent and relate to the long term, there is profound understanding of the competitive environment, there is an objective appraisal of the resources available and that there is effective implementation (Hitt *et al.,* 2008).

1.1.2 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system (CBK annual report, 1996). There are several challenges that banking industry in Kenya currently face. These have to do with the changes in the environment such as legal changes, political changes, and economic conditions such as recession, social factors and technological advancements. These changes warrant appropriate strategic responses.

According to the CBK annual report (2010), there are a total of 45 licensed commercial banks in the country and one mortgage finance company. Out of the 45 institutions, 32 are locally owned and 13 are foreign owned. The locally owned financial institution comprise 3 banks with significant shareholding by government and state corporations, 28 commercial banks and 1 mortgage finance institution. However out of all the banks only 10 of them are listed in the Nairobi stock exchange having met the conditions of listing and applied for the same. The (CBK annual report, 2009) categorizes the financial institutions into three tiers; Large, Medium and Small in terms of net assets. Out of the 45 institutions, 13 were in the large peer group with aggregate net assets of over Ksh. 15 billion. The medium peer group comprise of 17 institutions with net assets ranging between Ksh. 5 billion and 15 billion, whereas the small peer group had 15 institutions with net assets of less than Ksh. 5 billion.

Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in East Africa community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf products. The (CBK annual report, 2009) emphasizes that the banking institutions will need to cope continuously with changing business environment and a continuous flood of new requirement via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever. Hence banks will continue aggressively design new products that leverage on ICT to remain competitive. Down streaming into the retail market segment will also be expected to continue particularly with the anticipated licensing of deposit taking Microfinance Institutions.

1.1.3 Islamic Banks in Kenya

The Shariah compliant banking services in Kenya have made huge strides since its introduction in 2007. The bank boasts of two exclusively Shariah compliant banks, First Community Bank and Gulf African Bank. According to the CBK annual report (2010) the two banks collectively commanded a market share of 0.9% of the banking sector with gross assets of Kshs 16.54 billion, net loans and advances of 9.23 billion and deposits of Kshs. 13.76 billion. The two banks had 58,101 deposit accounts and 2,609 loan accounts in less than 4 years of operation.

The First Community Bank was the first Bank to be approved by Central Bank of Kenya (CBK) under cap 488 of the Banking act to operate as a full-fledged Shariah compliant banking institution. It made the bank the first Shariah compliant banking not only in Kenya but in indeed in the entire East and Central Africa region (CBK annual report, 2007). The First Community Bank is owned by East African businessmen and has 17 branches across Kenya, with a heavier concentration in the south of the country. The bank has opened an Islamic Finance Training Centre, received approval to set up First Community Bank Capital, an investment banking subsidiary and they have already reached the target of 1 billion Kenyan shillings in capital set as a 2011 target by the central bank, well ahead of many of Kenya's other banks (First Community Bank Annual Report, 2010).

The Gulf African Bank is principally backed by Middle Eastern investors and has 12 branches in Kenya, but their plans to venture into other East African countries are more concrete than those of First Community Bank. The bank plans plan to open branches in Uganda and Tanzania in 2011. The bank plans to launch takaful business early this year as well. Principal investor, Gulf Cap Investments will be expected to raise $1 billion Kenyan shillings in capital to underwrite the move into takaful (Gulf African Bank Annual Report, 2010). Among the challenges facing Kenya's ambition to be a hub of Shariah compliant investment products to compliment the Islamic banking in the country are lack of; Shariah compliant investment vehicles, an enabling legal and regulatory framework and awareness by the majority population that hinder the uptake of these investments.

1.2 Problem Statement

Building long-term relationships with customers has become a critical strategy for most financial institutions in today's competitive financial markets. As the current economic environment becomes more competitive and introducing new brands becomes increasingly costly, companies must find new strategies to increase their capacity and competitiveness (Lipponen *et al.,* 2004). As customer loyalty is considered a vital objective for a firm's survival and growth, building a loyal customer base has not only become a major marketing goal but it is also an important basis for developing a sustainable competitive advantage. It has been well accepted that the cost of obtaining a new customer is relatively high and the profitability of a loyal consumer grows with relationship duration (Chiou and Droge, 2006). Understanding loyalty cultivation or retention is thus considered to be a key element in delivering long-term corporate profitability as profits can be increased over the lifetime of a customer through his/her retention.

The Islamic banks are barely four years old in the Kenyan banking industry and in order to compete effectively with the established banks in the country, they need to diversify their customer base to include non-Muslims as their customers. Religion is no longer an important factor in bank patronage and that religious factor is not conclusive enough to drive Muslims to use Islamic banking facilities. In light of this revelation, Islamic banks have to better understand the needs, preferences and behaviour of their target group customers in order to stay in the game. Hence, strategies that are tailored to customer acquisition and retention should be properly addressed. This becomes increasingly crucial as foreign players enter the market and as products and services become more undifferentiated. Hence, Islamic banks have to be innovative and creative if they wish to establish a strong competitive position and gain competitive advantage.

A number of studies have been done locally on strategies to attract customers. Siboe (2006) did customer retention strategies used by internet service providers in Kenya and established that internet service provider tried to retain customers through provision of quality service, commitment to customer satisfaction, integration of customer satisfaction in a firm's goal and vision, being responsive to customer complaints, having a high and continuous level of interaction with customer Keeping a record of company's loyal customers and having an efficient and effective complaint handling. Munuve (2003) did customer's perceptions of the differentiating features of fuel cards offered by firms in the Kenyan oil industry and found out that there is no significant difference in managements' and customers' perceptions of the fuel card attributes. Imbuga (2005) researched on determinants of customer satisfaction in supermarkets in Nairobi and found out that the customers in Nairobi are satisfied with the services offered by supermarkets. They were specifically they were satisfied with the store layout, cleanliness of the facilities, convenient operating hours and ease in finding things. The commercial banks must use competitive marketing strategies and pay particular attention to the behaviour of their customers if they are going to compete in a global banking environment. As can be evidenced in the above studies, they fail to capture the strategies used by Islamic Banks to attract non-Muslim customers. This study tried to seek the answer to the questions; "what strategies does Islamic banks adopt to attract non-Muslim customers?"

1.3 Research Objectives

To determine the strategies adopted by the Islamic Banks to attract Non- Muslim customers.

1.4 Value of the Study

This study will be of importance to the management of Islamic banks in the country who will be able to know the strategies which they can adopt in order to market themselves and thus attract more customers and at the same time the strategies which they can implement so that they can compete effectively with other established commercial banks.

The study will also be important to the banking fraternity in the country as they will be able to know the strategies which they can adopt to attract new customers. The policy makers will obtain knowledge of the strategies that are used to attract and thus use the information in designing appropriate policies that will regulate the industry.

The study will provide a platform for future research on both private and public organizations customer attraction strategies. For academicians, this study will form the foundation upon which other related and replicated studies can be based on.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

Grant (1998) stated that strategy concept is about a "winning" game plan. Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to actions and decisions of an organization. It is the ability to recognize opportunities when they appeared and have the clarity of direction and flexibility necessary to exploit these opportunities. Levicki (2003) defined strategy as a document or set of concepts that form the plan for the future of an organization. Every organization will need a different plan which has to be tailor made for its particular and unique history, circumstances and capacity.

Strategy is the direction of an organization over the long term, which achieves advantage in the changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Johnson and Scholes, 2003). This means that organizations should provide value to their customers better than their competitors. The concept of strategic planning is concerned with where are we now, where do we want to be, how do we get there, who must do what and how are we doing (Bateman and Zeithaml, 1993). Miles and Snow (1978) argued that companies develop their adaptive strategies based on their perception of their environments. Hence, the different organization types view their environments in different ways, causing them to adopt different strategies.

Theories are important as they contain the basic assumption about key relationships in business life. Theories tell us what to look out for, what the first steps should be, and what do expect as a result of the actions, saving the organization from going back to the first principles at each stage.

Evolutionary approach emphasize on competition between firms driven by co-evolution of mechanisms that create variety and selection. A policy prescription that emerges from this view is for managers to maintain diversity within their organizations, so that the probability is higher that one of the activities in the organization matches the needs of the unpredictable environment Lindbolm (1959). It seems that business is not peopled with the "ideal of economic man". Not only do managers fail to set output at the theoretically profit-maximizing level where marginal coast exactly equal marginal revenue, but most managers have no idea what their marginal cost and revenue curves are.

According to Henderson (1989) economists adjusted to this business "stupidity" by letting the markets do the thinking. With this view of the world, markets not managers choose the prevailing strategies within a particular environment. For those strategists who adhere to the evolutionary view of competition, survivors may appear to be those who have adapted themselves to the environment. Competition is the most effective form of "weeding out inefficiency" or lack of adaptation, thus easy entry into markets is the way to insure healthy industries. Evolutionary approaches to strategy are less confident about top management's ability to plan and act rationally, as well relying on manager to secure profit maximization.

Systemic perspectives argue that economic activity cannot be placed in a separate sphere of impersonal financial calculation because of our social embeddedness. Economic behaviour is embedded in a network of social relations; families, the state professions (Huff 1990). These networks influence both the means and the ends of action, defining what appropriate and reasonable behaviour is for their members. Thus, personal histories which include educational background, religion, gender, family position, and ethnicity all shape economic activity. This social constructivist view suggests that the norms which guide strategy are not cognitive, but cultural. Culture, defined as a series of social systems, effects and is affected by firms, industries and economies (Gergen 1994).

2.2 Porter's Generic Business Strategies

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, an organization finds its industry niche and learns about its customers (Porter, 1985). He asserts there are basic businesses strategies differentiation, cost leadership, and focus and a company performs best by choosing one strategy on which to concentrate. However, many researchers feel a combination of these strategies may offer a company the best chance to achieve a competitive advantage (Hlavacka et al., 2001). Whatever strategy a business chooses, it must fit with the company and its goals and objectives to gain a competitive advantage (Ross, 1999).

According to Suutari (1999) the theory advanced by Porter that companies must be competitive to become an industry leader, to be successful both nationally and abroad, and these strategies for gaining competitive advantage apply to all industries in most nations. Porter's (1980) generic strategies can yield competitive advantage and also ensures long-term profitability, the firm must make a choice between one of the generic strategies rather than end up being "stuck in the middle"

2.2.1 Cost Leadership Strategy

To survive in today's highly competitive business environment, any organization must achieve, at least temporarily, a competitive advantage. A low cost/price strategy focuses on providing goods or services at a lower cost than the competition, or superior goods or services at an equal cost. This strategy requires as well a tight cost-control system, benefiting from economies of scale in production, and experience curve effects. To achieve a low-cost advantage, an organization must have a low-cost leadership mindset, low-cost manufacturing with rapid distribution and replenishment, and a workforce committed to the low-cost strategy. The organization must be willing to discontinue any activities in which they do not have a cost advantage and may outsource activities to other organizations having a cost advantage (Freeman, 2003). There are many ways organizations achieve cost leadership including mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials.

According to Srivannboon (2006) cost leaders work to have the lowest product or service unit costs and can withstand competition with their lower cost structure. This strategy emphasizes efficiency. By producing high volumes of standardized, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features. To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input.

According to Allen *et ah,* (2006), when a firm designs, produces and markets a product more efficiently than its competitors such a firm has implemented a cost leadership strategy. Cost reduction strategies across the activity cost chain will represent low cost leadership. Attempts to reduce costs will spread through the whole business process from product design to the final stage of selling the product. Any processes that do not contribute towards minimization of cost base should be outsourced to other organizations with the view of maintaining a low cost base (Akan *et al.,* 2006). Low costs will permit a firm to sell relatively standardized products that offer features acceptable to many customers at the lowest competitive price and such low prices will gain competitive advantage and increase market share. These explains that the cost efficiency gained in the whole process will enable a firm to mark up a price lower than competition which ultimately results in high sales since competition could not match such a low cost base. If the low cost base could be maintained for longer periods of time it will ensure consistent increase in market share and stable profits hence consequent in superior performance. However all writings direct us to the understanding that sustainability of the competitive advantage reached through low cost strategy will depend on the ability of a competitor to match or develop a lower cost base than the existing cost leader in the market.

A firm attempts to maintain a low cost base by controlling production costs, increasing their capacity utilization, controlling material supply or product distribution and minimizing other costs including advertising. Mass production, mass distribution, economies of scale, technology, product design, learning curve benefit, work force dedicated for low cost production, reduced sales force, less spending on marketing will further help a firm to main a low cost base

(Trogovicky *et al.* 2005). Decision makers in a cost leadership firm will be compelled to closely scrutinize the cost efficiency of the processes of the firm. Maintaining the low cost base will become the primary determinant of the cost leadership strategy. New entrants or firms with a smaller market share may not benefit from such strategy since mass production, mass distribution and economies of scale will not make an impact on such firms.

According to Kim *et al.* (2004) a low cost may act as entry barriers since new entrants require huge capital to produce goods or services at the same or lesser price than a cost leader. Further some factors such as technology which may be developed through innovation and some may even be resources developed by a firm such as long term healthy relationships build with distributors to maintain cost effective distribution channels or supply chains. Similarly economies of scale may be an ultimate result of a commitment made by a firm such as capital investments for expansions. Also raising barriers for competition by virtue of the low cost base that enables the low prices will result in strong strategic positioning in the market. Low cost leadership could be considered as a competitive strategy that will create a sustainable competitive advantage.

2.2.2 Differentiation Strategy

Differentiation has come to mean implementing a variety of instructional approaches to modify content, process, and products in response to learning readiness. When using this strategy, a company focuses its efforts on providing a unique product or service (Hlavacka *et al.,* 2001). Since, the product or service is unique; this strategy provides high customer loyalty. Product differentiation fulfils a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

Services are largely intangible offerings and they are normally experienced simultaneously with the occurrence of production and consumption. Often, the interaction between the buyer and the seller renders the service to customers. Since the interactions between a customer and a service provider create opportunities for customers to evaluate services, service quality can be broadly conceptualized as a customer's overall impression of the relative inferiority/superiority of the organization and its service provisions (Gronroos, 2000). Lewis and Soureli (2006) noted that loyalty in the services sector is more difficult to conceptualize than in the product domain due to the characteristics of services. As the relationship is developed between their service provider and customer, it is less likely for customers to switch. Services are also intangible and heterogeneous. Customers also generally associate higher risk with services more than with goods. The evaluation of services quality is not simple. Often customers will rely on credence attributes to evaluate services quality (Javalgi and Moberg, 1997). Moreover, lack of standardization may lead to concern about reliability and affect confidence in building or maintaining loyalty.

As a service oriented business, image is a central factor in a bank's effort to differentiate itself from competitors (Campbell and Hunt, 2000). Generally, the way products or services are made available to customers helps to create the image of the particular institution in the mind of the customers. This image is reflected in the customer's perceptions and feelings about the products or services offered. This is important because customers experience with a particular product or services will affect their attitude towards the bank and other product and services as well even if they had never used the other products. Under the strategy, customer must also be able to link a specific image with a specific since customers purchase products and services to satisfy their needs and wants, banks have to understand the nature of these needs and want in order to appreciate the kind benefits customers expect to receive. Among the different kinds of benefits that people expect to get when buying goods and services includes good value for money, novelty, availability, and ease of use.

According to Lewis and Soureli (2006) benefits enter into the equation when a customer decides to use one product in preference to another. It is the benefits received, which makes a product or services attractive to a customer. In view of this, banks should give more attention to the benefits it creates for the users when marketing a product or a service. Relating this to banks, they have to be able to communicate these benefits convincingly to public, either directly or indirectly, in order to persuade the public to use the facilities and products being offered. Since banking is an alternative to conventional banking, banks needs to innovative in terms of products and services. Only through innovation in products and services can Islamic banks sustain their competitive advantage against other conventional or foreign banks that offer similar facilities.

2.2.3 Focus Strategy

This is a strategy about identification of a particular customer segment or geographical market and coming up with products suitable for that segment. It is built around serving a particular target very well and once the segment is identified, then the firm may pursue either cost or differentiation strategies (Porter, 1980). The target segment may be identified by geographical uniqueness, specialized requirements in using the product or by special strategy that focuses on a particular buyer group or a geographic market and attempts to serve only this niche. It seeks a cost advantage in its target segment (Hunger, 1995). Differentiation focus concentrates on a particular buyer group, product line segment while seeking differentiation in its target segment. It seeks to offer segment members something they perceive is better. A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

This strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. It is hoped that by focusing its marketing efforts on one or two narrow market segments and tailoring its marketing mix to these specialized markets, a firm can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. It is most suitable for relatively small firms but can be used by any company. A focus strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment. Organizations can make use of the focus strategy by focusing on a specific niche in the market and offering specialized products for that niche. This is why the focus niche is sometimes referred to as the niche strategy (Lynch, 2003).

2.3 Pricing Strategy

The second element in the marketing mix is pricing. Pricing strategy is another marketing technique that can be used to improve a bank's overall competitiveness. The key to success is to have a well planned strategy, to establish policies and to constantly monitor prices and operating costs to ensure profits. An important part of the pricing strategy is determining how product or service is priced. It has been proven in many previous research that majority of customers do not use religion as the main factor when establishing a relationship with banks. In the case of corporate customers for example, they believe that it is the cost and benefit element that is the most important factor when selecting financial institution (Ahmad and Haron, 2002). Most customers still seek the highest return and lowest charges imposed when deciding which bank to place a deposit or obtain funding from.

An organization may also seek to gain strategic advantage by its pricing strategy. In this situation, the management accounting function can assist by attempting to assess each competitor's cost structure and relate this to their prices. Particularly, Simmonds (1981, p.29) suggested that it may be possible to examine the cost-volume-profit relationship of competitors in order to predict their pricing responses. By monitoring movement in the market share of major products, a firm can find out the strengths of their market position; the market share also indicates the strengths of different competitors. That information may not be reflected in company's annual report, but according to Simmonds' argument, the market share details can help management accounting more strategically relevant.

Price is an attribute that must be given up or sacrificed to obtain certain kinds of products or services (Zeithaml, 1998). Customers are normally price conscious in their purchasing behaviour and price is also an important factor in choice situations as a consumer's choice typically relies heavily on the price of alternatives. Varki and Colgate (2001) identified that the role of price, as an attribute of performance, may have a direct effect on customers' satisfaction and behavioural intentions. The findings studied on bank customers' switching behaviour in Australia and New Zealand identified price as the most important switching determinant, followed by service failures and denial of services. In Keaveney's (1995) seminal research, the "pricing" factor includes all critical switching behaviours that involve prices, rates, fees, charges, surcharges, service charges, penalties, price deals, coupons, and/or price promotions. In the financial service industry, price has a wider implication than in several other services industries. For example, in the financial service industry, price includes fee implementation, bank charges, and interest rates charged and paid (Gerrard and Cunningham, 2004). He maintains that pricing influences switching behaviour among bank customers as price has a wider implication for bank customers than customers of other services.

Customers tend to focus on the fairness of price, especially on price increases and any price increases that customers perceive as unfair may result in switching actions (Campbell, 1999). In the banking industry, Gerrard and Cunningham (2004) suggest that price, when compared to service failures and inconvenience, plays a more influential role in influencing customers' to switching banks. The authors reveal that imposing higher charges on customers can encourage outward switching and discourage inward switching. In general, unfavourable price perceptions can influence customers to switch banks.

2.4 Delivery and Distribution

This component of the marketing is related to the distribution of services to the ultimate customers. Services that require the customer to go to the producer must be as accessible as possible. Hence, an important consideration in the distribution strategy for companies is location of their branches. The task before the management is to select the place where the actual sale is to take place and this should be in the face of conveniences and comforts to the customers. To the extent it is possible; they should reach to the doorsteps of the customers. Thus it is pertinent that the branches are located at a suitable point (Haron *et al.,* 1994). Changing lifestyles and increased affluence have led to higher service expectations by the customer and this has made distribution the key marketing variable. This statement gained 84 per cent agreement in the survey (Hilbers, 2000). The traditional delivery channel is the branch network. The mass marketing era saw the establishment of branches on every main thoroughfare, however as this investment took place it was not fully recognized that these new non-business customers did not have the same discretionary time to visit the branches as the business community on which businesses had traditionally focused.

Information technology has become a strategic asset which can help improve business processes and change the function of markets. Thus, it is necessary for organizations to continue their efforts in developing and implementing the up-to-date technology. Nevertheless, many organizations still hesitate to adopt new information technology and some even believe information technology does not matter as a strategic response because of its commoditization

(Carr, 2003). Automation of business processes has led to a drastic improvement in productivity and reduction in costs while telecommunications has improved the speed with which information is transmitted thus facilitating speedy decision making. Information technology has become indispensable ingredient in organizations in several strategic to meet challenges of change they include internet, intranets that support business operations, develop new products, services, processes and capabilities that give a business a strategic advantage over the competitive forces it faces in its industry (O'Brian, 2002).

As all the banks embraces information technology, the overall mix of bank distribution channels is also changing. As the number of commercial banks increases, the number of branch locations increased increases also and at the same time the number of ATMs (automated teller machines). At the same time, the definitions of branch and ATM are changing. Some banks are converting their ATMs into kiosks that combine a telephone, an ATM, and an Internet terminal. Increasingly, limited service branches are located in supermarkets or other retail establishments, and some of these mini-branches feature Internet kiosks in place of, or along with, teller windows (DeYoung, 2000). This movement toward a less-centralized distribution system affects both customer convenience and banking costs. Convenience may increase because customers do not have to travel as far to perform basic banking transactions, and banks could potentially have lower overhead expenses as the number of full service branches declines. These distribution channels are not perfect substitutes. Checking an account balance, transferring funds, paying bills, and applying for credit cards do not require personal contact or a large physical space, and hence are well suited for delivery over the Internet channel. But setting up a new account, applying for a business loan, retirement planning, closing a mortgage and other complex transactions often require a secure physical space and/or person-to-person communication.

Furthermore, getting cash is impossible over the Internet and requires either branches or ATMs. Because some banking transactions are more conducive to some channels than to others, and because some customers prefer certain delivery channels, most (but not all) banks deploy a combination of delivery channels.

Most large and mid-sized banks treat different distribution channels as complements, and augment their physical branch locations with ATMs, call centers, and transactional Internet websites. Although maintaining a network of branch offices requires substantial overhead expenditures, this strategy provides both convenient high-tech distribution and low-tech branch based service options, and allows banks to sell a full range of banking services to a wide range of customers. Sometimes click and mortar banks use a trade name strategy, in which they create a separate brand identity for their Internet channels. This is simply a marketing distinction trade name banks do not have separate banking charters and do not report separate financial statements and this strategy is successful only if the separate brand identity generates enough additional revenue to offset the additional marketing expenditures (Sullivan, 2000). The traditional brick and mortar banking strategy may be profitable for community banks that specialize in products or customers that require person-to-person service. But as customers become more familiar with the Internet, there may be less room in the market for banks that completely exclude the Internet channel

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets to explain the research design, the population of interest, data collection procedure that was adopted and the data analysis techniques adopted.

3.2 Research Design

The research design was a cross sectional descriptive study of the Islamic Banks operating in Kenya. The cross sectional study was adopted because it provided a quick snapshot of what was going on with the variables of interest for our research problem. The study was used to identify the strategies used by Islamic Banks to attract Non-Muslim customers.

3.3 Population of the Study

The population of the study consisted of all Islamic Banks operating in Kenya. According to (CBK Annual Report, 2010) there are two (2) Islamic Banks operating in Kenya. Given that there are only two Islamic Banks, it was a census.

3.4 Data Collection

The study used primary data which were collected through a face to face interview with the researcher. An interview guide was used to collect data on the strategies adopted by Islamic Banks to attract customers. An interview guide is a set of questions that the interviewer asks when interviewing. The respondents to be interviewed were the head of marketing of the two banks. These are considered to be key respondents for this research. In addition the departments in which the intended respondents are key host of strategies adopted in the organization. The results were expected to provide an insight in understanding how the banks employs the strategies in order attract Non-Muslim customers. The researcher believes that this made it possible to obtain data required to meet specific objectives of the study.

3.5 Data Analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis is adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the object of study. This method of analysis is most desirable as it enabled the researcher to have an insight of the strategies used by Islamic banks to attract Non-Muslim customers.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The objective of the study was to establish the strategies adopted by Islamic banks to attract Non-Muslim customers. This chapter presents the data analysis, results and discussion with regard to the objective of the study. The respondents comprised the sales and marketing manager of the two Islamic Banks operating in Kenya. The researcher interviewed all the respondents who were intended for the study.

4.2 Respondents Background

One of the respondents has worked for the bank since its inception that is four years and whiles the other one has worked for a period of two years. Both the respondents had masters' degree (Master of Business Administration) and this came out clearly as they proved to be knowledgeable on the strategies applied in their respective banks and helpful in answering all the questions that were put across.

4.3 Strategies Adopted by Islamic Banks to Attract Non-Muslim Customers

Strategy is an essential part of any effective business plan. There are several businesses strategies that can be employed by a business entity namely; differentiation, cost leadership, focus, pricing and delivery and distribution. This section sorted information on these strategies.

4.3.1 Low Cost Strategy

The respondents indicated that the banks use low cost strategy to attract Non- Muslim customers. The strategy was achieved by the banks through adopting both reducing balance and flat rate profit rates which are charged on loans advanced to customers as opposed to the fluctuating rates charged by other banks. In the Islamic banks, loans advanced up to Kshs one million is charged a flat rate of 14-16%, one million to ten million a rate of 12-14% and above ten million a rate of 10-14% while in Kenya Commercial Bank and Barclays Bank of Africa loans are charged between 22-24% and 20% respectively, depending on the category of whether it is personal or Small and Medium Sized Enterprises. The respondents indicated that the competition in the banking industry was very high and this therefore calls for the adoption of the strategies which will ensure that the banks compete effectively with other banks. The respondents indicated that they achieve low cost leadership through formulation of policies and procedures which enhances the strategy, business plan formulated on low cost strategy, continuous innovation of new customer friendly products and formation of group based microfinance products to attract low income customers.

The results indicates that the banks employees and the management are committed to low cost strategy which they achieve by working towards costs reduction on all aspects and at the same time they have been trained on the strategy. The bank has outsourced services like cleaning and security services while at the same time transferring some services to the corporate clients from the common clients as they are expensive but the corporate clients were ready to enjoy the services. The respondents indicated that the adoption of the lowest product or service unit costs by the banks has withstood competition as the banks have gained 25,000 customers through introduction of superior low service costs products.

The respondents indicated that the banks has achieved strategy continuous search for cost reduction through continuous innovation and training of staff and these will make the bank to make available products which suits all kind of customers. The difficulties encountered by the banks which they need to work on so that they remain competitive include market perception that Islamic Banks are meant only for Muslims, lack of information on the kind of products being offered by the banks, competition and legal framework which is still a hurdle.

4.3.2 Differentiation Strategy

The results on the adoption of differentiation strategy by the banks to attract Non-Muslim customers were that the banks adopt the strategy which differentiates the banks with other commercial banks. The respondents indicates that the banks focuses on providing unique products which other banks have not been providing and these creates market for their products. The uniqueness of the products has attracted Non-Muslim customers mostly through referrals by their Muslim and Non-Muslim friends. The Muslim banks create a unique position in the market through having products that are more competitive in terms of value as compared to what is available in the conventional market and ensuring that the banks becomes a one stop shop for all the needs of the customers and these gives the banks a higher attraction rate compared to its competitors. The banks charges a premium for having differentiated themselves against other banks because the corporate products/services are meant for a certain class of the society, then they are made to pay more to cater for the features which comes along with the products.

The respondents indicated that an example of a differentiated product is the principle of shared risk in Islamic finance is fundamentally different from the practice of charging interest. This has created an interesting situation where, for small business loans, the bank is not only the financier but a co-owner of the business and has an interest in its success as they have equity. Islamic banks are more involved to ensure the success of the business since the concept of profit and loss sharing is highly regarded and a loss in the business is considered a loss for the bank as well. In conventional banks, the banks are only a financier and not co-owners of the business. Certainly there are many Non-Muslims who believe in the kinds of principle that are behind this system of banking. Non-Muslims are fascinated by Islamic banks more so because of the better service that they get and the ethical dimension involved.

The respondents indicated that the adoption lowest cost has withstood competition through products like microfinance and lower cost product personal accounts. The banks advertise their products in order to inform the public of what they offer through the press, tents, brochures and seminars are used to create awareness among the customers. Bank managers should develop effective advertising strategies that enhance the communication channels between customers and their bank and encourage new customers from other banks. Once customers understand the offerings and processes of their current bank, the probability of switching to an alternative bank is reduced. With the emergence of high technology such as the internet, television and radio are not the only ways to communicate information and advertise a bank's offerings. The internet enables potential and existing customers to be informed about services globally and in a matter of seconds. However, television and radio may still be the most effective method to advertise banking services to the older age segment. Therefore, multiple advertising media and messages are required to target different demographic groups.

4.3.3 Focus Strategy

The respondents indicated that the banks in which they work for does not use focus strategy in order to attract Non-Muslim customers. The bank however identifies customer segment and comes up with products which are suitable for customers who in these case increases their customer base as the products are for both Muslim and Non-Muslim customers. The banks pursues both low cost and differentiation strategies once the segment has been identified as the banks will be able to come up with products which fits well to the identified segment and which are different from what is offered by other competitors and at a lower costs. In order to identify the target markets, the banks use individual net worth, demographic factors, geographic location and psychographic segmentation. An example of geographic location as done by the banks in the north eastern part of the country includes Garissa, Wajir, Mandera, Hebaswein and Marsabit and psychographic factors like farming or livestock keeping are considered. This will ensure that the banks categorize the customer in the appropriate segment. The banks performed psychographic segmentation in these areas by studying the areas lifestyle which is livestock keeping and capitalized on this opportunity by introducing microfinance products i.e. Boresha Mifugo which is a livestock financing and market access product that is done in conjunction with Kenya Meat Commission. This is achieved by the livestock farmers selling their livestock to the Kenya Meat Commission and collecting the money immediately from the banks before the commission settles the amount due with the banks. This will enable the farmers to receive their money instantly without waiting for a very long time for the commission to pay them.

The results on what the focus strategy depends upon in the bank were that it depends on the volume of business from the customers which guides the banks to come up with products which suits that particular segment. The respondents indicated that the banks targets markets that are less vulnerable to substitutes or where competition is weakest as they will be able to introduce their products to the customers and at the same time preparing themselves for competition incase a new competitor enters the target market.

4.3.4 Pricing Strategy

The findings on whether the banks use pricing strategy to attract Non-Muslim customers was that the banks use the strategy while at the same time they were of the opinion that the banks does not use religion as the main factor when establishing relationship with banks as customers are more aware of what they want which has to add value to their money. The attraction and retention of customers depends largely with the prices charged for the products which they need and therefore the banks assess what the competitors' charges for the products before setting theirs. The Islamic banks have achieved the strategy by charging lower costs for their services in comparison to other banks like the charges being charged on drawing of bankers cheque which is charged at Kshs 100 in comparison with commercial banks like Kenya Commercial Bank, Bank of Baroda and Bank of India which charges Kshs 200 while Standard Chartered Bank charges between Kshs 200 and Kshs 500 respectively. The banks have also maintained their operating costs at minimum levels to ensure profitability. The Gulf African Bank operating costs for the year ended 2010 was Kshs 809,834,000 while for First Community Bank was Kshs 645,547,000 enabling them to make profit and proving the price strategy is working.

Due to the complicated nature of the banking industry, price includes not only fees implementation and bank charges, but also the interest rates charged and paid. Bank management of the Islamic banks needs to develop pricing strategies that are markedly different from their major competitors. Simply offering high deposit rates, imposing minimum charges on customers, and increasing fee rates at the same time is not an effective way to reduce customer defection rates. Increasing bank charges may result in negative effects, such as encouraging customers to switch to another bank that provides better price options. Bank management also needs to develop innovative service product strategies that help to reduce the number of customers who switch. For example, electronic banking plays an important role in reducing service costs. Customers using electronic banking can experience lower fixed and variable costs that are associated with banking operations, due to reductions in human error and savings in labour costs. Similarly, note that cost savings through electronic banking make a significant contribution to reducing bank costs, and a portion of these lower costs could be passed on to the customer.

The banks provide unique product quality and after sale support in order to attract customers because the customers needs value for their money and these can only be achieved by having quality products and services. Bank management needs a strategic focus on delivering high service quality as a competitive differentiation method. Service product initiatives such as ease of access to accounts, provision of financial information, and introducing innovative products, can enhance customer loyalty. Bank management should focus not only on their range of service products, but also on the people who deliver the service. The service characteristics of the banking industry create numerous inter-actions between customers and employees. Bank staff should have good banking knowledge, act professionally, and have a courteous attitude towards all customers. An appropriate people management strategy is necessary in order for professional service staff to consistently deliver high-quality services.

4.3.5 Delivery and Distribution Strategy

In today's banking environment, banks are continuously looking to better use technology by attempting to move low-value transactions away from the branch counter to ATM networks and to the internet and mobile banking. As a consequence, most commercial banks have launched web sites to offer online services to bank customers. They are beginning to use the internet as a new distribution channel in the belief that the future of service lies in electronic banking. The respondents indicated that the banks use delivery and distribution strategy which involve opening of more branches, electronic banking and installation of ATM service machines by the banks. The location of the bank branches has attracted Non-Muslim customers as there could be no other bank in their town but mostly due to the services offered by the banks. The banks have also partnered with Kenswitch (over 700 ATMs) and Pesapoint (120 ATMs) where the customers can access the ATM services and these adds to the banks own ATM outlets and these makes it easier for the customers to access the services anywhere and at anytime throughout the country.

Although maintaining a network of branch offices requires substantial overhead expenditures, this strategy provides both convenient high-tech distribution and low-tech branch based service options, and allows banks to sell a full range of banking services to a wide range of customers. This movement toward a less-centralized distribution system affects both customer convenience and banking costs. Convenience may increase because customers do not have to travel as far to perform basic banking transactions, and banks could potentially have lower overhead expenses as the number of full service branches declines. The banks have embraced the use of technology in order to attract customers and these ensured that the banks compete effectively with the other banks as competition among the banks has shifted to the kind of technology which the banks uses to serve its customers. Emergence of new technology in the financial service industry has also impacted on the behaviour of consumers of financial services. The customers are now able to transact their business using their mobile phones. The mobile banking technology has enabled the bank's customers to transact what would otherwise have been done in the banking hall and these attracts the customers since they will not visit the banks frequently and also it enhances their security. Consumers now have the ability to purchase nearly identical financial products provided by retail banks, be able to bank and subsequently, consumers are also more prone to changing their banking preferences. The competitiveness of banking combined with the relative homogeneity of banking products and services appears to make banking particularly susceptible to customer switching behaviour. Therefore, bank management must understand the behaviour of their customers if banks are going to influence their customers. If bank management can develop a thorough understanding of the factors impacting on bank their customers', banks can effectively avoid the harmful consequences of customer defection, and enhance long-term relationships with their customers. In order to serve their customers well the banks have call centre's where customers can call in case they have an issue which they need to sort out quickly and these enhances the services been offered as they can be served without been in the banking hall.

The distribution channels are not perfect substitutes as checking an account balance, transferring funds, paying bills, and applying for credit cards do not require personal contact or a large physical space, and hence are well suited for delivery other delivery systems. But setting up a new account, applying for a business loan, retirement planning, closing a mortgage and other complex transactions often require a secure physical space and/or person-to-person communication. Because some banking transactions are more conducive to some channels than to others, and because some customers prefer certain delivery channels, the banks deploy a combination of delivery channels. The banks have used the ATM as a multipurpose facility as the banks are able to advertise their products and at the same time the customers can use the facilities to perform various transactions without having to visit the banking hall. The deployment of a combination of marketing strategies by the banks has led to an increase in customer base and also customer referrals and retention thus increasing market share of the bank.

CHAPTER FIVE: SUMMARY, CONCLUSION AN RECOMMENDATIONS

5.1 Introduction

The chapter will deal with the summary of the findings, conclusions and the recommendations.

5.2 Summary

The respondents have worked in the banks for over two years with one of them having worked for four years which is since the inception of the banks in the country. The study established that the Islamic Banks adopts the low cost strategy in order to attract Non-Muslim customers through formulation of policies and procedures which enhances the strategy, business plan formulated on low cost strategy, continuous innovation of new customer friendly products and formation of group based microfinance products to attract low income customers.

The profit rate charged on the loans also gives Islamic Banks an edge over the conventional banks in that the rates charged on loans advanced are mostly on flat rate while on these other banks it's on a reducing balance which keeps on fluctuating. The management and employees of the banks are committed to ensuring that the costs in the banks are as low as possible and these include outsourcing of services which would otherwise have added costs to the banks. The adoption of the unit costs by the banks has withstood competition as the products introduced by the banks are of high quality thus attracting and retaining customers.

The banks have achieved continuous search for cost reduction through continuous innovation and training of staff and at the same time the banks face difficulties when trying to meet the demands of the customers which includes market perception that Islamic banks are meant only for Muslim, lack of information on the kind of products being offered by the banks, competition and legal framework which is still a hurdle. The results indicate that the banks adopt differentiation strategy and at the same time provide a unique product or service in order to differentiate through loans advanced which are not merely for the bank to earn an interest without the customer benefiting, rather the bank and the customer co-owns the business such that they give advice on the ways to ensure success of the business and in turn reduces default on loan repayment due to business collapse.

The findings indicates that the banks charges premium for services rendered only to the corporate as the features which comes along with the products and also the treatment which they receive when they want to transact. The banks do not use focus strategy in order to attract customers because that would limit the customers they are going to attract as that implies coming up only with products for the specific customers. The bank however identifies customer segment and comes up with products which are suitable for customers who in these case increases their customer base as the products are for both Muslim and Non-Muslim customers.

The results indicate that the focus strategy depends on the volume of business from the customers which guides the banks to come up with products which suits that particular segment. The banks use the pricing strategy to attract Non-Muslim customers. The banks have also maintained their operating costs at minimum levels to ensure profitability. The two Islamic banks adopt delivery and distribution strategy which involves opening of more branches, installation of ATM networks, adoption of internet and mobile banking. The banks at the same time have embraced technology by enabling the customers to use the availability of technology to perform various transactions without having to visit the bank physically. The banks have also partnered with Kenswitch and Pesapoint where the customers can access the ATM services and these adds to the banks own ATM outlets and these makes it easier for the customers to access the services anywhere and at anytime throughout the country.

5.2 Conclusion

The study found out that the 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.

Strategies are essential for effective functioning of any organization. The study established that banks uses low cost strategy which has guided the bank to focus on providing goods or services at a lower cost than the competitors. The banks have achieved the strategy through formulation of policies and procedures which enhances the strategy, business plan formulated on low cost strategy, continuous innovation of new customer friendly products and formation of group based microfinance products to attract low income customers. The management and the employees the bank are committed towards ensuring that they maintain the costs at low levels and these has led the banks to outsource some of the services and at the same time change some of the products from the normal customers to corporate.

The banks have achieved cost reduction through continuous innovation and training of staff. The banks provide unique products which have attracted the customers. The banks create unique position through having products that are more competitive in terms of value as compared to what is available in the conventional market and ensuring that the banks becomes a one stop shop for all the needs of the customers. The bank advertises their products through the press, tents, brochures and seminars are used to create awareness among the customers.

The pricing strategy has led the banks to analyze competitors cost structure before deciding the amount to charge which will enable them to set prices which are competitive. The banks provide superior value through product quality, features and after sale support. The bank adopts a delivery and distribution strategy by opening more branches, mobile and internet banking and installing more ATM networks. The embracement of technology has resulted to the customers performing their transactions without necessarily having to visit the banks. The deployment of the marketing strategies has led to increase in the number of customers. The challenge facing Islamic banks is not only to offer products that cover the same scope as those of conventional banks, but also to ensure that their products are different from those of their Islamic peers. In this regard, having a well-honed product development capability is paramount.

5.3 Recommendations

The study recommends that the bank management ensures that they put in place policies which ensures that they maintain the costs at minimum level as they can so that they can still make profits despite the low income. The bank should continue training their employees on how to maintain the low cost strategy and at the same time they should not incur the costs which they can do away with by outsourcing so that they can concentrate on their core business. The bank should at the same time continue innovating products which will compete with other banks products and at the same time they should do aggressive marketing in order to change the perception which the customers have regarding the operations of the banks as not belonging only to Muslims.

The bank has created unique position in the market through provision of goods and services it is therefore recommended that they continue investing in coming up with unique products so that they can differentiate themselves. The banks should provide the services to all customers by not focusing on some specific ones while at the same time targeting those which adds value to them. The banks should ensure that before pricing its products, they should study what the market charges so that they set at a price which is acceptable to the current and potential customers. Although the bank uses technology to attract customers, they should embrace the concept whole heatedly by adopting electronic banking as the next battle for the banks will be the technology usage which should be one which offers customers more features.

5.4 Recommendations for Further Research

The study dwelt on the strategies which have been used by the Islamic banks to attract Non-Muslim customers, however the competition in the banking industry has become intense and this therefore necessitates the study to establish the strategies used by the commercial banks to attract customers.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

University of Nairobi

School of Business

Department of Strategic Management

P. O. Box 30197

Nairobi

30th August, 2011

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, at the School of Business. In order to fulfill the degree requirement, I am undertaking a management research project on strategies used by Islamic Banks to attract Non-Muslim customers.

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filling out the accompanying questionnaire. The information/ data you provide will be exclusively for academic purposes. My supervisor and I assure you that the information you will give will be treated with strict confidence. At no time will you or your organization's name appear in my report.

Kibibi Mkumba — **Florence Muindi**

Student no: D61/70202/2009 — **Supervisor**

APPENDIX II: INTERVIEW GUIDE

Goals of the interview process

1. To determine the strategies adopted by Islamic Banks to attract Non-Muslim customers.

PART A: RESPONDENTS BACKGROUND

- For how long have you been holding the current position?
- What is your highest level of education?

PART B: STRATEGIES ADOPTED TO ATTRACT CUSTOMERS NON-MUSLIM CUSTOMERS

a) Low cost strategy

1. Does your bank adopt a low cost strategy to attract Non-Muslim customers?
2. How would you rate the state of competition in the banking industry?
3. Does your bank focus on providing goods or services at a lower cost than the competitors, or superior goods or services at an equal cost in order to attract non-Muslim customers?
4. How have the management of the bank achieved the low cost-leadership?
5. Does the bank have a workforce committed to the low-cost strategy aimed at attracting Non-Muslim customers? Elaborate.
6. Has the bank outsourced or discontinued any services which they do not have a low cost strategy in order to attract Non-Muslim customers?
7. How has the adoption of the lowest product or service unit costs by the bank withstood competition?

8. How has the bank achieved a strategy for continuous search for cost reduction in all aspect of their business?
9. Please indicate some of the difficulties you encounter in trying to meet the needs of your customers?

b) Differentiation strategy

10. Does your bank adopt differentiation strategy to attract Non-Muslim customers?
11. Does your bank focus its efforts in providing a unique product or service in order to differentiate itself with other banks thus attracting non-Muslim customers?
12. Does the uniqueness of the product provide a high Non-Muslim customer loyalty and attraction?
13. Does the creation of unique product or service give the bank an opportunity to charge a premium price to capture market share through non-Muslim customer attraction?
14. How does the bank create a unique position in the market through provision of goods or services that are valued for their uniqueness or fit to the needs of non-Muslim customers?
15. Does the bank charge a higher price for their product based on the product characteristics, the delivery system, the quality of service, or the distribution channels after following a differentiation strategy in order to attract Non-Muslim customers?
16. Has the adoption of the lowest product or service unit costs by the bank withstood competition thus attracting non-Muslim customers?
17. Does the bank advertising persuade the public to use the facilities and products being offered thus attracting non-Muslim customers?

c) Focus strategy

18. Does your bank adopt focus strategy to attract Non-Muslim customers?
19. Does your bank identify a particular customer segment or geographical market and come up with products suitable for the segment? Does it attract non-Muslim customers?
20. Does your bank pursue either cost or differentiation strategies once the segment is identified?
21. What do you use to identify the target segment?
22. What does the organization focus strategy depend upon in your bank?
23. Does the bank target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment in order to attract Non-Muslim customers?

d) Pricing strategy

24. Does your bank adopt pricing strategy to attract Non-Muslim customers?
25. Do you think customers use religion as the main factor when establishing a relationship with banks?
26. Do you assess each competitor's cost structure and relate this to their prices when setting the prices to charge on your products?
27. Do you provide unique or superior value to the customer through product quality, features, or after-sale support in order to attract non-Muslim customers?

e) Delivery and Distribution strategy

28. Does your bank adopt delivery and distribution strategy to attract Non-Muslim customers?
29. How does the location of your bank branches attract non-Muslim customers?

30. Does the bank embracement of the use of information technology to attract non-Muslim customers?
31. How does the bank use the ATM as a multi-purpose facility in order to attract non-Muslim customers?
32. How does the deployment of a combination of marketing strategies for different use by the customers attract non-Muslim customers?