STRATEGY IMPLEMENTATION CHALLENGES ASSOCIATED WITH ISLAMIC BANKING IN KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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This research project has been submitted for examinations with my approval as the university supervisor.

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I dedicate this work to my Father Godana Halake, Mother Buke Jirmo, my Brother and Sisters.

ABSTRACT

Strategy implementation is the action aspect of the strategic management process through which strategy is translated into action. The objective of the study was to assess the challenges of strategy implementation facing Islamic Banks in Kenya. The study was descriptive survey study and utilized primary data. The study identified the challenges encountered by Islamic banks in the implementation of its strategies associated with Islamic banking in Kenya. Islamic banks in Kenya are the target population. Primary data was obtained through administering of questionnaires. Questionnaires were administered to individuals responsible for strategy implementation within the organizations. The findings indicate that Some of the key challenges to strategy implementation in Islamic banks that affect the organizations to a very great extent is Poor understanding of the concept of Islamic banking by clients and policy makers in Kenya, the fact that the concept of Islamic banking is perceived to be too complex and hence delaying the process of policy amendments, Poor strategy formulation, organization culture particularly within government stakeholders, poor resource allocation, uncertain, dynamic and turbulent environment where change pressures are continuous and changing, The availability of resources, in terms of staff, skills, knowledge, finance and time, changing environment, is one of the key challenge to implementation of Islamic banking. Other challenges include the Banking Act and subsidiary regulation from Central Bank. This has resulted from the lack of knowledge of Islamic Banking by the regulators and the absence of legislative and institutional framework for Islamic Banks in this country. Lack of requisite knowledge in Islamic Financial system is unwittingly translating itself into policies that restrict the growth of Islamic Banking. The Central Bank tools of monetary policy is skewed against Islamic Banks in the sense that these banks cannot use the lending functions of the lender of last resort for liquidity management, cannot participate in the secondary money market and are excluded from all interest-based inter-bank borrowing and lending. Current legislative framework is therefore inadequate to handle an industry that includes Islamic Banks. In order to aid the development of Islamic Banking in Kenya and reap the most benefit for the country, a legislative framework should be put in place to enhance the regulation of the industry. This means both the Central Bank Act as well as Banking Act should be amended to incorporate Islamic Banking concepts.

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ABBREVIATIONS AND ACRONYMS

CBK Central Bank of Kenya

CEO Chief Executive Officer

FCB First Community Bank

IO Industrial Organization

KBA Kenya Bankers Association

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

In the most recent two decades, the banking sector has seen the rise and the improvement of new financial product: the Islamic banking (Goaied, 2015). The Islamic banking framework developed as a focused and a reasonable substitute for the customary banking framework. Islamic Banking has grown generously and has ended up as one of the world's quickest developing financial divisions. This industry is described by banking operations excluding the utilization of the loan cost and it depends on the hidden basic idea of justice and additionally sharing of risk (Benhayoun, 2014). Islamic banking emanated from Islam which discourages convergence of riches in a couple hands thus the significance of Islamic banking framework is to bridge any gap between the rich and the poor by altering the dissemination of wealth and economic resources for the less fortunate (Ismail, 2010).

This study was anchored on the industrial organization (IO) theory which expresses that the fit between a business procedure and its surroundings has significant implications on its development and Resource-based theory which expresses that organizations ought to look at the resources within the organization to gain competitive advantage. A firm’s assets or core abilities ought to be profitable, uncommon, imperfectly imitable and non-substitutable (Barney, 1991). The resource-based theory consequently gives a method of rationale to assessing procedure execution challenges and enhancing such shortcoming to improve firm execution. The industrial organization (IO) theory contends that a comprehension of what contributes to the accomplishment of organizations in a constantly changing environment, for example, changes in the working environment; convergences in economic frameworks and innovative change encourage the need for consistent assessment of strategy implementation challenges.

Recently, Islamic Banking had grown substantially with financial shocks and volatility giving a decent chance for the sector as non-Muslim bank clients choose for the relative security of institutions based on the standards of Islam (Tabash and Dhankar, 2014). Despite the expansiveness of services on offer the degree of Islamic banking and finance is restricted in Kenya, and the business must be viewed as being in its early stages.

Relatively few institutions are involved in Islamic finance, and although some of these have dedicated Islamic banking units, there are few wholly Islamic banks. The local Muslim community remains largely unbanked. Islamic banking is still a new idea in Kenya, because of that Islamic Banks are likely to face various strategic challenges. Despite this growing importance, no further attempts have been made to comprehensively study strategy implementation facing sharia banking. A buildup of literature in the Kenyan setting is needed. Looking towards all exploration studies conducted, it is established that there is inadequate research work done on this subject consequently leaving a knowledge gap that this study seeks to fill.

1.1.1 Strategy Implementation

Strategy implementation is the activity phase of the key administration process through which strategy is converted into action. Strategy implementation boils down to managing change and the resistance thereof. The implementation process may involve significant changes in the organization structure, culture and systems (Pearce and Robinson, 1998). According to Pearce & Robinson (1988) implementing and executing procedures is an operation driven movement rotating around the administration of individuals and business forms. Pearce and Robinson (1998) cited out that it is important for an organization to understand and adjust to their environments if they have to achieve their goals and objectives. Implementation challenges arise in organizations as a result of failure to match these elements to the strategies.

Strategy comprises of aggressive moves and business ways to deliver effective performance. Rowe (2008). According to Rowe (2008) implementing a strategy is to change an organization or its processes of thinking, its process of structure and its process of culture. According to Ngala (2010) the problem of strategy implementation relates to situations and processes that are unique to a particular organization or industry even though some problems may be common to all organizations. Strategy Implementation is a changing process that brings real challenges for many organizations which may include: change in our thinking, changes in our culture or changes in our structure or some combination of them. The implementation of strategy is not the direct outcome of thinking one up.

The process of strategy implementation is one that calls for extreme, diligent and committed effort with regards to close coordinated effort between an organization staff and any external specialist involved. Pearce and Robinson (1991) cited that the firms structure, organization leadership, organization culture and ultimately individual organization member and particular key managers as being important determinants for successful strategy implementation. According to Tan (2004) it is important to establish the right match between strategy and trends in a firm’s environment. Despite the fact that directors may expect that their implementation approach has been effective, frontline staff may experience different issues which have not been contemplated before the implementation.

1.1.2 Challenges of Strategy Implementation

According to (Yang, 2008) strategy implementation has turned into the most critical administration challenge which a wide range of partnerships face nowadays. The White Paper of Strategy Implementation of Chinese Corporations in 2006 survey by Yang, 2008) found out that 83 percent of the reviewed organizations failed to implement their strategy easily, and just 17 percent felt that they had a steady strategy implementation process. The challenge for organizations are numerous and the components that impact the accomplishment of strategy implementation range from the general population who communicate or implement the strategy to the frameworks, to the systems set up for co-appointment and control (Yang, 2008). Among these challenges are: strategy formulation, organization structure and culture, changing environment, operation planning.

Strategy formulation is an essential part of the general strategic management process. According to Tan (2014) strategy implementation stage is the acknowledgment procedure of the strategy that has been produced in the formulation stage. In this way, if the formulation stage is not done well, it will directly effect on the implementation stage, possibly turning into a challenge to implementation. He identifies themes that can potential be a challenge; poor understanding of the strategy, strategies being too complex, unrealistic expectation placed on the implementation team and absence of commitment or purchase into strategy. There is also a tendency of having two groups' people for formulation and implementation.

Raps (2014) suggests that the top managers challenge in the social setting is to set the way of life's tone, pace, and character to see that it's helpful for the key changes that the administrators are charged with actualizing. While implementing strategy, the most essential feature is top managers' absence of duty to the key bearing itself. In fact, this dedication is essential for strategy execution, so top managers need to demonstrate their devotion to the effort. Another challenge is assumption made by top management. Senior administrators must not expect that lower-level managers have similar impression of the key strategic and its implementation, its fundamental basis, and its desperation. Instead, they should accept they don't, so the officials must convince representatives of the legitimacy of their thoughts.

According to Raps (2014) Communication is a key achievement factor within technique strategy. A typical source of correspondence problems in implementation is that divergent functional viewpoints may not be adjusted to the general strategy. Human resource management assumes a vital role in strategy implementation and at some point strategy formulation. Real reasons why strategy implementation endeavors fails is that individuals were prominently absent from strategic arrangement. Absence of comprehension on how the strategy ought to be implemented is also one of critical challenge faced by organization. Besides, the issues that emerge from unsuccessful strategy execution may just show up over the long run. This would bring about undesirable outcomes to the organization, whether they are of little or incredible effect (Sterling, 2013).

1.1.3 The Banking Industry in Kenya

Banking sector in Kenya is regulated by Companies Act, the Banking Act, the Central Bank of Kenya Act and other important policies set by the Central Bank of Kenya (CBK). The banking industry was changed in 1995 and trade controls lifted. The CBK is in charge of formulating and implementing monetary policy and cultivating the liquidity, solvency and legitimate working of the monetary related framework. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking industry interests. As at June 30, 2014, the Kenyan banking consisted of 43 commercial banks, 1 mortgage finance organization and 127 foreign trade agencies.

The Kenyan banking industry is mostly characterized by conventional/commercial banks, that is, these banks do not base their practices on religious practices. Islamic banking in Kenya began getting its popularity in 2007 after the Kenyan government provided licence to First Community Bank (FCB). The increasing popularity of Islamic finance Kenya can be attributed to a rising awareness in Sub-Saharan Africa of the growing trade interactions with the Middle East. Islamic banking is securing money for members as per the values and ethos of Islamic sharia. Sharia is an Arabic word that means practicing as per the Islamic values and law. The Islamic law i.e. the sharia prohibits Muslims from dealing in riba (interest), which actually implies increment, expansion, rise or growth (Khattak & Rehman, 2010).

The apparent maintainability and attractiveness of Islamic finance as an optional monetary management model in a post worldwide financial emergencies keeps on thriving in new regions as nation’s attempts to banking regulations and laws to encourage the presentation of such institutions and products in their respective jurisdictions. According to CBK, the Islamic finance sector has a great deal of potential in initiating the development of the financial industry.

1.1.4 Islamic Banking

An Islamic bank is a financial organization that works with the aim to implement and materialize the economic and financial standards of Islam in the banking industry. It is characterized as a financial and social establishment whose destinations and operations as well as standards and practices must conform to the ethics of Islamic Shariah (Jurisprudence), and which must maintain the interest from the enthusiasm for any of its operations (Islamic Development Bank, 2007). The Islamic bank is an establishment which it principle action, prone to routine bank, is the activation of funds from the bankers and the offer of these funds to the specialists having a shortage (organizations, representatives) and lead all banking exercises without the utilization of financing cost (Goaied, 2015). An Islamic banking and budgetary framework exists to give an assortment of religiously worthy monetary administrations to the Muslim society. Notwithstanding this uncommon capacity, the banking and financial institutions, similar to every other part of Islamic community, are relied upon to contribute lavishly to the accomplishment of the major financial objectives of Islam (Hassan and Lewis, 2007). Islamic banking is a financial related framework whose primary target is to accomplish the lessons of the Koran.

The essential standards of Islamic banking are borrowed from the aphorisms of equity and harmony with reality on one hand and the human instinct on the other end. The principle attributes of Islamic banking incorporate the prohibition of interest, deceptive speculation and motivation. Islamic banks are additionally portrayed by the emphasis of efficiency, even-handed contracts and benefit sharing. Islamic banks have created numerous financial systems that embrace the above attributes and consent to Islamic sharia standards (El-Galfy & Khiyar, 2012). The key norm for Islamic methods of financing is their immediate and imperceptible connection to the physical exchanges. Sharing modes are feasible for profitable undertakings that include genuine organizations that increase quantity, enhance nature of genuine products and enterprises.

As indicated by Alio and Aburime (2009) the prohibition of premium, low consumer loaning, benefit and loss sharing and high real sector contributing are essential attributes of Islamic banks. Islamic bank is marginally not the same as the traditional banks in light of the fact that the Islamic banks offers benefit and loss with its depositors yet the ordinary bank gives fixed rate of profit for the investment deposited by the investors (Ashraf, 2013). In Islamic banks, there are account holders that deposit their funds on a profit-and-loss sharing premise (Musharakah), or on a profit-sharing and loss-bearing promise (Mudarabah). Support of these accounts in Islamic banks qualifies them to be seen as benefit and loss sharing beneficiary (Fatai, 2012).

1.2 Research Problem

Most organizations fail not because they had a bad strategy but how the strategy was executed. The process of strategy implementation faces many challenges leading to most organizations failing to successfully implement their strategies. (Sabrina 2011) Many times strategy implementer faces challenges but may not know what the source of these challenges are. Challenges in strategy implementation can arise from many sources: resistance to change, inadequate resources, ineffective communication, and inappropriate system, structure, culture, leadership, policies, support and reward system. Knowing the cause can help to come up with approach to overcome challenges to facilitate strategy implementation (Sabrina, 2011).

A lot of studies have been carried out on strategy implementation and its challenges. Johnson (2002) argues that implementation of appropriate strategies remain one of the most difficult areas of management considerable though, energy and resources is given over to devising a strategic plan. (Tai, 2007), discovered the challenges to implementing strategy as including ineffective management, poor reward system, poor communication, poor measurement and poor prioritization of strategy. Thompson et. al. (2007) successful strategy execution relies upon the skillful staff and successful internal business frameworks. Li and Eppler (2008) did a study on challenges of strategy implementation and found that a clear structure provides the organization's relationships among different units and departments.

Ngala (2010) studied challenges of strategy implementation at I & M Bank Ltd and noted that the problem of strategy implementation is related to situations and processes that are unique to a particular organization or industry even though some problems may be common to all organizations. Nyakundi (2010) studied strategy implementation and its challenges at Citibank N.A. Kenya. He acknowledged the fact that a strategy may be good, but if its implementation is poor, the strategic objective for which it was intended may not be achieved. It is therefore important for organizations to establish a clear link between strategy formulation and strategy implementation. The context and concepts in which the above studies have been carried out differs, none of the above focused on strategy implementation in Sharia Compliant banking thus giving justification for the same study area. (Sabrina 2011) studied the challenges of strategy implementation at Gulf African Bank (GAB). This was a case study. The findings suggested that the challenges ranged from lack of awareness of the existence of the product to, shortage of trained staff on Islamic banking.

Islamic banking is still a new idea in Kenya, because of that Islamic Banks are likely to face various strategic challenges. Despite this growing importance, no further attempts have been made to comprehensively study strategy implementation facing sharia banking. A buildup of literature in the Kenyan setting is needed. Looking towards all research studies completed it is observed that there is insignificant research work done on this topic hence creating a knowledge gap that this study seeks to fill leading to the following research question: What are the strategy implementation challenges facing Islamic Banks in Kenya?

1.3 Research Objective

To assess the challenges of strategy implementation facing Islamic Banks in Kenya.

1.4 Importance of the Study

This study will provide direction and solutions to managers and board of directors of Sharia compliant banks in Kenya with information on the general challenges faced during strategy implementation and how to overcome and cope with the challenges. Management will gain a better understanding on effective strategy implementation having gained full knowledge of the strategy implementation challenges associated with Islamic banking; in that regard, their organizations will be able to gain market leadership and business competitiveness.

The result of the study would be important to the scholars, academicians and researchers in investigating the influence of context, validating previous research, facilitating theory building and contributing to the existing body of knowledge in the area of strategic management and strategy implementation. The study can also be a source of reference material for future reference to those academicians who undertake the same topic in their studies. In addition, academic researchers may need the study findings to stimulate further research in this area and as such form a basis of good background for further researches.

Policy makers are usually informed by research findings that attempt to explain a phenomenon or address an existing knowledge gap. The findings and recommendations of this study will enhance effectiveness of policy decisions made by policy makers as such policy decisions are backed up by actual research findings. This study will also be important to Central Bank of Kenya’s regulator who are currently facing certain challenges in implementing Sharia system in Kenya banking regulation by coming up with banking policies which will incorporate both Islamic and non-Islamic banking policies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the knowledge of study available in field of strategy implementation. It is a summary of the findings, recommendations and theories postulated from studies done by scholars and researchers in the field of strategy implementation and strategy implementation challenges. This chapter will give us an insight on the findings of other studies, and to acknowledge their contribution to the body of knowledge.

2.2 Theoretical Foundation

In the study of strategic management, there are several theories that attempt to explain the concept of business strategic implementation challenges and its impact on business. The theories discussed below form the theoretical foundation of this study. Among these theories are the open system and the Resource based theory. The main purpose of this literature review is to identify and examine what has been done by other scholars and researchers in relation to the area of study.

2.2.1 The Open system Theory

The open systems theory comes from the relationship that emanates from the operation of an organization as a system. Organizations are thought of as systems with interrelated subsystems that process various inputs to generate various outputs, pleasing users and customers in the process. They depend therefore on the environment for their survival. Some modest environmental shifts can easily alter the results of management decision within organization. As open systems they need structures to deal with forces in the world around them (Scott, 2008). Organizations as open systems remain efficient and effective by adapting to the shifts in their environment.

The decisions the organization make have to fit in two environments internal and external. These forces influence condition in every organization; however the most influential force in one organization may have little impact on other organizations. Managers continually ought to scan and monitor the environment. This allows managers to determine their organizations best response to an environmental change. The systems therefore that interact with the environment are therefore open systems. Open systems consists of five basic elements of inputs, a transformation process, outputs, feedback and the environment (Scott, 2008).

2.2.2 The Resource Based View

The resource-based view stipulates that the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Peteraf & Bergen, 2003). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime. The resource-based theory argues that any firm is essentially a pool of resources and capabilities which determine the strategy and performance of the firm; and if all firms in the market have the same pool of resources and capabilities, all firms will create the same value and thus no competitive advantage is available in the industry (Barney, 1991).

The basis of the resource-based view is that successful firms will find their future competitiveness on the development of distinctive and unique capabilities, which may often be implicit or intangible in nature. Thus, the essence of strategy is or should be defined by the firm’s unique resources and capabilities. Furthermore, the value creating potential of strategy, that is the firm s ability to establish and sustain a profitable market position, critically depends on the rent generating capacity of its underlying resources and capabilities (Conner, 1991). The resource based theory suggests that competitive advantage and performance results are a consequence of firm-specific resources and capabilities that are costly to copy by other competitors (Barney, 1991).

These resources and capabilities can be important factors of sustainable competitive advantage and superior firm performance if they possess certain special characteristics. They should be valuable, increasing efficiency and effectiveness, rare, imperfectly imitable and non-substitutable. According to resource based theory, organizations wish to maintain a distinctive product (competitive advantage) and will plug gaps in resources and capabilities in the most cost-effective manner. This theory emphasizes that resources internal to the firm are the principal driver of a firm's profitability.

Every firm plans and implements various strategies in order to create competitive advantages so that they could outperform their competitors and earn a higher rate of profits in their industry. To achieve superior competitive advantage, Besanko et al., (2003) argue that a firm must create more values, which depends on its stock of resources and distinctive capabilities of using those resources. For long-term profitability, a firm must ensure its successful strategies and the created competitive strategies are sustainable.

2.3 The Concept of Strategy

According to Johnson and Scholes (1999) strategy is the direction and scope of an organization over a long-term which achieves advantage for the organization through the configuration of resources within a changing environment to achieving the objective of meeting the needs of markets and to fulfill stakeholders' expectations. Quinn (1980) believes that the strategic process which allows for strategies to emerge, allows organizations to respond more effectively to the changes in the environment. Managers need to take into consideration the situation of change for the organization. As the environment and market conditions changes with time, organizations need to formulate new strategies for it to remain competitive.

Pearce and Robinson (1991) define a strategy as a set of decision and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. He states that a strategy is a game plan which result in future oriented plans interacting with the competitive environment to achieve the company's objectives. Successful strategy implementation requires the input and cooperation of all players in the company; it requires linkage in two dimensions vertical and horizontal (Pearce & Robinson, 2002).

Formulation of new suitable strategies requires top management to consider all aspects of dynamic environments and understand the needs to take the future into account and establish capable strategy to deal with the change that are taking place in the environment to meet company's objective. According to Porter (1985) strategy implementation is not only affected by environmental forces and resources availability but also by the values and expectations of those who have power in and around the organization. In some respects, strategy can be thought of as a reflection of the attitudes and beliefs of those who have most influence on the organization.

Mintzberg (1987) defines strategy with a variety of views; as a plan, ploy, pattern, position and finally as a perspective. Strategy as plan, it's some sort of consciously intended course of action, a guideline to deal with a situation. It deals with how leaders try to establish direction for organizations, while as ploy it takes us to the realm of direct competition; maneuver intended to outwit an opponent or competitor to gain competitive advantage. As a pattern strategy focuses on a stream action that is consistent in behavior and is a key to achieving organizational goals. Strategy as a position encourages.

Organizations in their competitive environments in order to protect avoid or subvert competition. Strategy as a perspective is an ingrained way of perceiving the world. Michael et el (1993, cited in Sheila, 2008) define strategy that has no existence apart from the ends sought. It is a general framework that provides guidance for actions to be taken and, at the same time, is shaped by the actions taken. This mean that the necessary precondition for formulating strategy is a clear and widespread understanding of the ends to be obtained. Without these ends in view, action is purely tactical and can quickly degenerate into nothing more than a flailing about.

2.4 Factors in Strategy Implementation

The implementation of organization strategy involves the application of the management process to obtain the desired results. According to Pearson and Robinson (2002) the purpose of implementation is ensuring that the planned results of the strategic decisions are realized. Implementation involves several tasks doing what must be done to make the strategy successful. It is here that strategy is activated to achieve the organization objectives. Two elements that are fundamental in strategy implementation process are institutionalizing and operational zing the strategy. To be effective, strategy implementation must be integrated and coordinated. Depending on how much consensus building, motivating and organizational change is involved; the implementation process can take several months to years (Shimechero, 2008).

Particularly, strategy implementation includes, creating and designing an effective organization's structure, allocating resources, developing information and decision process, and developing strategy supportive culture, redirecting marketing efforts, preparing budgets, developing and utilizing information system and managing human resources, including such areas as the reward system, approaches to leadership, and staffing linking employee compensation to organizational performance. Effective implementation requires continual monitoring of progress in implementing the plan, of the competitive environment, of customers' satisfaction, and of the financial returns generated by the strategy (Sterling, 2003).

According to Rensburg (2008) shared values are the core of the organization, the guiding principles, and the fundamental ideas around which an organization is built. The corporate culture creates and, in turn, is created by the quality of the internal environment; consequently, culture determines the extent of cooperation, degree of dedication, and depth of strategic thinking within an organization. Marginson (2002) argues that strategy implementation evolves either from the process of winning a group commitment through a coalitional form of decision-making, or as a result of complete coalitional involvement of implementation staff through a strong corporate culture.

According to Pearce and Robinson (2007) organizational leadership is the process and practices by key executives of guiding and shepherding people in an organization toward a vision over time and developing that organization's future leadership and organizational culture. They further state that the leadership challenges are to galvanize commitment among people to embrace change and implement strategies to ensure that the organization succeeds in a vastly different future. Today's business world, strategy implementation is inseparable from effective leadership and communication with the company.

Alexander (1985) points out that communication is mentioned more frequently than any other single item promoting successful strategy implementation. The content of such communications includes clearly explaining what new responsibilities, tasks and duties need to be performed by the affected employees. It also includes the why behind changed job activities, and more fundamentally the reasons why the new strategic decision was made firstly.

Yang et al (2008) suggests that strategy implementation perspective demands systems with criteria different from those of conventional systems. How well the system can monitor and track the implementation process should be the center of interest. In the past, implementation-related activities were tracked manually or launched on an ad hoc basis so that there was a lack in mandatory installed business processes.

According to Raps (2004) human resources represent a valuable intangible asset and human resources are progressively becoming the key success factors within strategy implementation. This will include the level of performance as part which will influence their attitude through motivation. Pearce and Robinson (1991) suggest that the execution of strategy ultimately depends on individual organizational members, particularly key managers. In addition, motivating and rewarding good performance by individuals and organizational units are key ingredients in effective strategy implementation. If strategy accomplishment is a top priority, then the reward system must be clearly and tightly linked to strategic performance.

2.5 Challenges of Strategy Implementation

According to the White Paper of Strategy Implementation of Chinese Corporations in 2006, strategy implementation has become "the most significant management challenge which all kinds of corporations face at the moment". The survey reported in that white paper indicates that 83 percent of the surveyed companies failed to implement their strategy smoothly, and only 17 percent felt that they had a consistent strategy implementation process. The key challenge for today's organizations are many (soft, hard and mixed) and the factors that influence the success of strategy implementation, rang from the people who communicate or implement the strategy to the systems to the mechanisms in place for co-ordination and control (Yang et al, 2008).

Among the challenges discussed below are: strategy formulation, organization structure, organization culture, changing environment, operation planning, poor communication, resource allocation, and poor execution. Strategy formulation is an integral part of the overall strategic management process. According to Tan (2004) strategy implementation stage is the realization process of the strategy that has been developed in the formulation stage. Therefore, if the formulation stage is not done well, it will have a direct impact on the implementation stage, potentially becoming a challenge to implementation.

According to Raps (2004) strategy implementation processes frequently results in problems if the assignments of responsibilities are unclear. Who's responsible for what? To add to this problem, responsibilities are diffused through numerous organizational units that tend to think in only their own department structures. That's why cross-functional relations are critical to an implementation effort. Bureaucracy makes this situation even more challenging and can make the whole implementation a disaster. He suggests that the top management's principal challenge in the cultural context is to set the culture's tone, pace, and character to see that it's conducive to the strategic changes that the executives are charged with implementing.

When implementing strategy, the most important facet is top management's lack of commitment to the strategic direction itself. In fact, this commitment is a prerequisite for strategy implementation, so top managers have to show their dedication to the effort. Another challenge is the assumption made by top management. Senior executives must not assume that lower-level managers have the same perceptions of the strategic plan and its implementation, its underlying rationale, and its urgency. Instead, they must assume they don't, so the executives must persuade employees of the validity of their ideas (Al-Ghamdi 2005).

Thompson (1993) observes that many organizations compete in uncertain, dynamic and turbulent environment where change pressures are continuous and changing. New opportunities and threats appear at short notice and requires speedy response. This dynamism is a real challenge to strategy implementation. Hence, if there are significant changes in the environment, an organization needs to react to these changes or may find that the strategies that they want to implement may no longer be viable for the organization. This in itself makes environment uncertainty a possible barrier to strategy implementation.

Operational planning are set of actions is usually concerned with addressing sequence of activities, allocation of resources and scheduling of work required for the implementation process. Johnson and Scholes (1999) point out the assumption that top management can plan strategy implementation at the top then cascade down through the organization is not tenable.

It should be argued on how top management conceives strategies as not the same as how those lower down in the organization conceive them. Top managers often complain that their middle or operating managers lack the ability to implement strategies successfully. More often than not it is not the abilities of the managers; it is more likely to be a problem of poor middle management understanding and commitment to the strategy (Tan, 2004). According to Noble (1999) the consensus about a company's strategy may differ across levels: If members of the organization are not aware of the same information, or if information passes through different layers in an organization, a lower level of consensus may result. This lack of shared understanding may create obstacles to successful strategy implementation.

The availability of resources, in terms of staff, skills, knowledge, finance and time, is thought to be a crucial part of strategy implementation. Many executives underestimate the amount of time needed and don't have a clearly focused view of the complexities involved when implementing strategies. Basically, it's difficult enough to identify the necessary implementation steps and even more difficult to estimate an appropriate time frame, so you have to determine the time-intense activities and harmonize them with the time capacity (Al-Ghamdi 2005).

Hussey (1988) argues that, it is imperative to ensure that the people who carry out the action have the skills and knowledge. Lack of adequate skills, knowledge and capabilities to implement the strategy can be an issue if the employees have incomplete understanding of the concepts they are trying to implement. Human resource management plays an important role in strategy implementation and sometime strategy formulation. Major reasons why strategy implementation efforts failed is that people were conspicuously absent from strategic planning. Lack of understanding on how the strategy should be implemented is also one of critical challenge faced by organization. Although managers may assume that their implementation has been successful, frontline staff may encounter various issues which have been taken into consideration before the implementation phase.

Strategy execution is less glamorous than strategy formulation. People overlook it because of a belief that anyone can do it; people are not exactly sure what it includes and where it begins and ends (Mwangi, 2008). Good execution cannot overcome the shortcomings of a bad strategy or a poor strategic planning effort (Hrebiniak, 2006 cited in Yang et al, 2008). According to Tan (2004) 90% of well-formulated strategies fail due to poor execution. Why is strategy execution so hard? The answer lies in the way the nature of business has changed in the past 30 years. And referring to the shift from value based in tangible assets to value based in intangible assets, he points out that back in 1980s, most of the market value of companies could be attributed to tangible assets, and as time went by, more and more knowledge-based economy and services-oriented companies appears and changed the ratio to a further shift that most of the market value can be attributed to intangible assets. And such moves make the whole" measuring the performance" part even more difficult, and therefore, so is the management within the implementation process of the overall strategy.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections include; research design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

Burns and Grove (2003) define a research design as a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings. Parahoo (1997) describes a research design as a plan that describes how and when data are to be collected and analyzed. According to Burns and Grove (2003), descriptive research is designed to provide a situation as it naturally happens. It may be used to justify current practice and make judgment and also to develop theories.

The research design is regarded as a blue print, a master plan that specifies the methods, techniques and procedures for collecting and analyzing the needed information or simply a framework or plan of action for the research (Charmaz 2003).

The study was descriptive survey study and utilized primary data. The study identified the challenges encountered by Kenyan Islamic banks in the implementation of its strategies.

3.3. Target Population

Population of study includes all the items under consideration in any field of inquiry constitute a 'universe' (Kothari, 2004). Target population refers to the entire group of individuals or objects from which the study seeks to generalize its findings (Cooper and Schindler, 2008). Islamic banks in Kenya are the target population.

The target population comprise of the two fully-fledged Islamic banks in Kenya. These organizations are The Gulf African Bank (K) Ltd and First Community Bank (FCB). These are the organizations which have been identified as having adopted fully the concept of Islamic banking.

3.4 Data Collection

Primary data was obtained through administering of questionnaires. The Questionnaires was divided into three sections. Section (A) captured information about general characteristics of the organization and the respondents; section (B) captured information on management perception on strategy implementation challenges associated with Islamic banking. Section(C) captured management recommendations.

Questionnaires were administered to individuals responsible for strategy implementation within the organizations. Top management which include Chief executive officers, strategy managers and operation mangers of the said two organizations are the ones responsible for strategy implements and were therefore the target respondents. In each organization 20 Questionnaires were administered. The collected data was analyzed with a view to determine relationship as identified in the conceptual framework.

3.5 Data Analysis

Once the data is collected, it was summarized, coded, classified and tabulated. Data classification reduces data into homogeneous attributes that enabled establishment of meaningful relationships between variables. Two statistical methods; descriptive and inferential analysis was applied to measure and determine the relationship that exists among the collected data.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the research findings drawn from the research instrument by way of data analysis. This chapter presents the analysis and findings of the study as set out in the research methodology. The research data was gathered exclusively through questionnaires as the primary research instrument. The questionnaire was designed in line with the research objectives of the study.

4.2 Respondents' demographic characteristics

This section is an analysis of the demographic information of the individual respondents and the respondent's organization. This was done so as to understand the background of the respondents and their work ability to give relevant data useful to the study.

4.2.1 Response Rate

The study targeted 40 respondents in collecting data. 32 out of 40 target respondents filled in and returned the questionnaire resulting in an 80% response rate. This response rate is considered adequate since according to (Mugenda and Mugenda, 1999) a response rate of 70% and over is excellent and adequate for analysis and reporting.

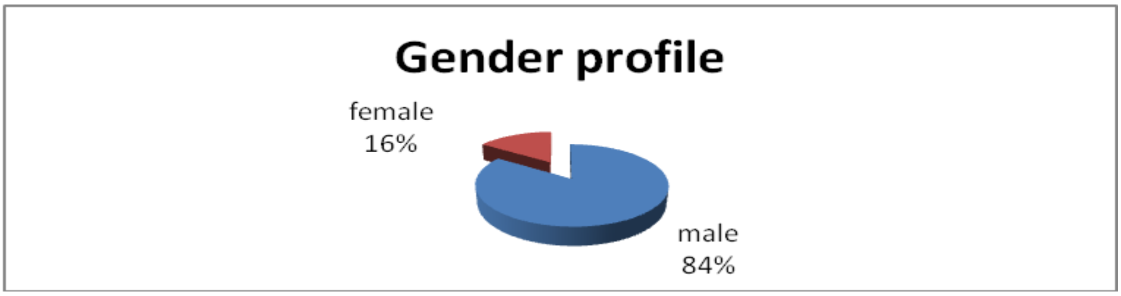
Table 4.1 Response Rate

Target Population	40
Reponses	32
Response Rate	80%

4.2.2 Gender of the Respondents

The study sought to find out the gender of the respondents. Gender was important in this study because gender will enable us to deduce how the different genders of respondents and to understand the impact of gender disparities on Islamic banking.

Figure 4.1: Graphical representation of the gender profile



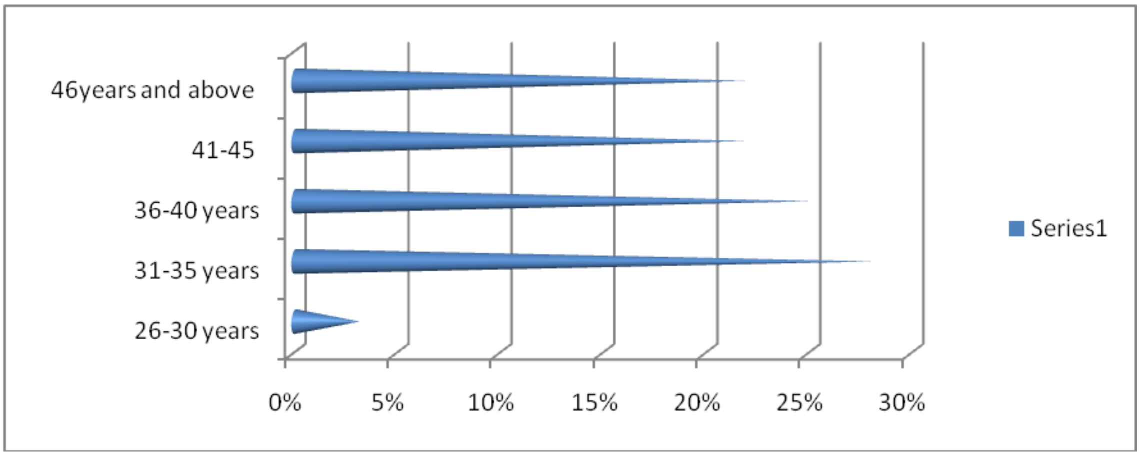
Source: Author (2016)

The study found out that 84% of the respondents were male while 16% were female. The findings indicate that males are more than females by a significant margin an indication of a gender imbalance brought forth by cutural and religuos pratices associated with islamic institutions.

4.2.3 Ages of the Respondents

The study sought to establish the age bracket of the respondents. Age is important in this study because age and technology acceptance are highly correlated according to technology acceptance theory. The findings are shown Figure 4.2.

Figure 4.2: Ages of the Respondents



Source: Survey (2016)

From the results study found out that 3% of the respondents were aged 26 years to 30 years, 22% were aged 41-45 years, 25% were aged 36-40 years, 28 % were aged 31-35 years, and 22% were aged above 46 years. This indicates that the majority of the respondents (28%) were in the age bracket of 31-35 years.

4.2.4 Length of Time in the Islamic Banking industry

The researcher sought to find out the length of time the respondents had worked in the Islamic Banking industry. The findings are shown in Table 4.2.

Table 4.2: Length of Time in the Islamic Banking industry

1 - 2 Years	3	9%
3 - 5 Years	17	53%
6 - 10 Years	12	38%
11 - 15 Years	0	0%
16 - 20 Years	0	0%
21 - 25 Years	0	0%
Over 25 years	0	0%
	32	100%

The findings in table 4.2 indicate that 9% of the respondents had worked in the Islamic Banking Industry for 1-2 years, 53 % for 3-5 years, 38% for 6-10 years and 0% for over 10 years. This indicates that majority of the respondents have been in the Islamic banking industry for less than 10 years which is an indication that Islamic banking is arguably a recent concept in Kenya. The study concludes that the length service is significant towards enhancing the competence of individuals in the Islamic banking sector and their understanding of emerging technological advancements in the industry.

4.2.5 Highest Level of Education

The researcher sought to find out the respondents highest level of education. The findings are shown in Table 4.3.

Table 4.3: Highest Level of Education

Level of Education	Frequency	percentage
O level	6	19%
Undergraduate Degree	18	56%
Postgraduate Degree	8	25%
Other (Specify)	0	0%

The findings in Table 4.3 indicate that most of the respondents (56%) were undergraduate, 25% had post graduate degrees; while 19% had O level qualifications only. This indicates that majority of the study respondents had requisite educational level to give reliable information.

4.3 Strategy Implementation Challenges Associated with Islamic Banking

The objective study was to find out strategy implementation challenges associated with Islamic banks in Kenya**.** The table below is the mean and the standard deviations of the identified strategy implementation challenges associated with Islamic banking. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Not at all, 2= little extent, 3= Moderate extent, 4= Great extent, 5= very great extent.

Table 4.4: Strategy implementation challenges

strategy implementation Challenges	**MEAN**	**SD**
Poor understanding of the concept of Islamic banking	5	0
The concept of Islamic banking is perceived to be too complex	4.63	0.375
Poor strategy formulation is one of the key challenge to implementation of Islamic banking	4.41	0.5
organization culture, is one of the key challenge to implementation of Islamic banking	4.41	0.5
poor resource allocation is one of the key challenge to implementation of Islamic banking	4.41	0.5
Bureaucracy is one of the key challenges to implementation of Islamic banking	4.41	0.5
uncertain, dynamic and turbulent environment where change pressures are continuous and changing one of the key challenge to implementation of Islamic banking	4.41	0.5
The availability of resources, in terms of staff, skills, knowledge, finance and time,	4.41	0.5
changing environment, is one of the key challenge to implementation of Islamic banking	4.03	0.65625
Lack of commitment or buy in to strategy.	2.53	0.5
poor operation planning, is one of the key challenge to implementation of Islamic banking	2.41	0.625
poor communication, is one of the key challenge to implementation of Islamic banking	2.34	0.59375
poor execution is one of the key challenge to implementation of Islamic banking	2.25	0.53125
Unrealistic expectations placed on the implementation team	2.13	0.5
company's strategy may differ across levels:	2.13	0.5
organization structure, is one of the key challenge to implementation of Islamic banking	2.03	0.65625

The table below is the percentage representation of the identified strategy implementation challenges associated with Islamic banking .the percentage is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Not at all,2= little extent ,3= Moderate extent,4= Great extent,5= very great extent.

Table 4.5: Percentage analysis of strategy implementation challenges

strategy implementation Challenges	Not at all	little extent	Moderate extent	Great extent	very great extent
Poor understanding of the concept of Islamic banking	0%	0%	0%	0%	100%
The concept of Islamic banking is perceived to be too complex	0%	0%	0%	38%	63%
organization culture	0%	0%	9%	41%	50%
poor resource allocation	0%	0%	9%	41%	50%
Bureaucracy	0%	0%	9%	41%	50%

4.4 Discussion of the Findings

The findings in table 4.4 show poor understanding of the concept of Islamic banking is the most important challenge to strategy implementation in Islamic banks in Kenya with 100% of the respondents indicating it to be the most significant challenge that affects the organization to a very great extent, with a standard deviation of zero indicating that no respondent had a different opinion. The second most important challenge was fact that the concept of Islamic banking is perceived to be too complex with 63% of the respondents acknowledging that it affects the organization to a very great extent. The third most important challenges were poor strategy formulation, organization culture, poor resource allocation, bureaucracy, uncertain dynamic and turbulent environment, change pressures, availability of resources, in terms of staff, skills, knowledge, finance and time and changing environment, are some of the challenges that 50% of respondents indicated as being significant to a great extent as challenges to strategy implementation in Islamic banks in Kenya.

CHAPTR FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, conclusions and recommendations of the study. Section 5.2 summarizes the key results found, while section 5.3 draws the conclusions. Section 5.4 notes the recommendations from the findings of the study. Section 5.5 outlines the limitations of the study while section 5.6 gives suggestions for further research.

5.2 Summary and Findings

The objectives of the study were to access strategy implementation challenges associated with Islamic banking in Kenya. The findings on the demographic information of the respondent's greatly enhanced the reliability of the research findings. The study findings indicate that the majority of the respondents had good experience in the sector and had the prerequisite education level and technical competence needed to enhance the reliability of the information that they provided. The study established that most of the respondents had an understanding on strategic management practices in the organization and the challenges associated with Islamic.

In summary, the study revealed that the respondents are aware of the strategies adopted by Islamic banks and strategy implementation challenges thereof. The knowledge about the operation in the organization has been experienced by the respondents despite of being worked there in a short period and also due to the fact that all of the respondents were engaged in the day-to-day management and operations of its strategy formulation and implementation of the firm. As a result of the above, the researcher felt that the results obtained reflects the true position as in the organization.

The findings indicate that Some of the key challenges to strategy implementation in Islamic banks that affect the organizations to a very great extent is Poor understanding of the concept of Islamic banking by clients and policy makers in Kenya, the fact that the concept of Islamic banking is perceived to be too complex and hence delaying the process policy amendments, Poor strategy formulation, organization culture particularly within government stakeholders , poor resource allocation ,uncertain, dynamic and turbulent environment where change pressures are continuous and changing ,The availability of resources, in terms of staff, skills, knowledge, finance and time, changing environment, is one of the key challenge to implementation of Islamic banking.

Other challenges include The Banking Act and subsidiary regulation from Central Bank. This has resulted from the lack of knowledge of Islamic Banking by the regulators and the absence of legislative and institutional framework for Islamic Banks in this country. Lack of requisite knowledge in Islamic Financial system is unwittingly translating itself into policies that restrict the growth of Islamic Banking. The Central Banks tools of monetary policy is skewed against Islamic Banks in the sense that these banks cannot use the lending functions of the lender of last resort for liquidity management, cannot participate in the secondary money market and are excluded from all interest-based inter-bank borrowing and lending. Current legislative framework is therefore inadequate to handle an industry that includes Islamic Banks.

The study reveals that Shari'ah compliance regulation in this infant industry is inadequate. There is no overall supervisory authority for Shari'ah compliance that regulates the actions of industry players. This has resulted in all banks that provide Islamic Banking products to employ their own Shari'ah boards. There is a moral hazard issue at stake in the current arrangement such that there are no regulations governing qualification, membership, reporting relationships, information management and Shari'ah audit standards. Lack of external auditing, reporting and oversight structure is also a challenge to the validity of the claim of Shari'ah compliance of Islamic Banking in this country.

In the pursuit of achieving implementation success of the organization strategies, the banks have faced a number of challenges. The challenges ranged from: lack of awareness of the existence of the products in the market, no much differentiation among the products within Islamic banking; difficult in changing the perception of the customers, practitioners, and regulators in understanding Islamic concepts, lack of proper infrastructure available in location areas were banks operates, shortage of trained staff about Islamic banking and staff not having adequate knowledge about Islamic banking, Interest-free Financial Instruments in Kenya supporting Islamic banking in the country, Insufficient legal protection governed by the Companies Act in Kenya banking industry of Controlling and Supervision basis of Islamic Shariah by Central Bank of Kenya because all banking and financial rules and regulations are established in favor of conventional banking practices.

5.3 Conclusion

Despite the breadth of services on offer the extent of Islamic banking and finance is limited in Kenya and the industry must be regarded as being in its infancy. The Banking Act and subsidiary regulation from Central Bank has been identified as being the greatest challenge facing the nascent Islamic Banking industry in Kenya. This has resulted from the lack of knowledge of Islamic Banking by the regulators and the absence of legislative and institutional framework for Islamic Banks in this country. Lack of requisite knowledge in Islamic Financial system is unwittingly translating itself into policies that restrict the growth of Islamic Banking.

5.4 Limitation of the Study

This study had various limitations. Some of the senior officers were too busy to take time off and respond to the questionnaires even after several requests. The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image of the institutions. The researcher handled the problem by carrying an introduction letter from the university and assured them that the information they would offer would be treated confidentially and it was to be used purely for academic purposes.

5.5 Suggestion for Further Research

This study concentrated on the challenges of strategy implementation at Islamic banks in Kenya and findings cannot be generalized because other banks and sectors face varied challenges such a political interference, government legislations, currency fluctuations in the international market. There is therefore need to do more research in other sectors in order to get a broader view on challenge to strategy implementation. The research therefore should be replicated in other conventional banks that have opened Islamic windows in order to meet the requirements of the consumers and to retain their customers such as Barclays bank, Chase bank and the results compared so as to establish whether there is consistency among the challenges facing such firms in their strategy implementation and for benchmarking.

5.6 Recommendations for Policy and Practice

In line with the objectives of this study, the following recommendations can be deduced from the conclusions of the research: In order to aid the development of Islamic Banking in Kenya and reap the most benefit for the country, a legislative framework should be put in place to enhance the regulation of the industry. This means both the Central Bank Act as well as Banking Act should be amended to incorporate Islamic Banking concepts. A National Shari'ah Supervisory Board should be constituted to guide a process of Ijtihad led standardization and convergence of products, set qualification and certification of Banks' Shari'ah Board members and set rules for Shari'ah control. The Central Bank should constitute a Shari'ah Advisory Board that will add value to its regulatory relationship with the Islamic Banking industry. Active restructuring of the government public debt to include sukkuk components in order to allow for active participation of Islamic Banking industry in Kenya.

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APPENDICES

Appendix I: Questionnaire

SECTION A: BACKGROUND INFORMATION

1. What is your Gender? Male [ ] Female [ ]

2. In which age bracket does your age fall?

25 years or less ……………………………………….……………... [ ]

26-30 years……………………………………….…………………….. [ ]

31-35 years……………………………………….…………………….. [ ]

36-40 years……………………………………….…………………….. [ ]

41-45 years ……………………………………….……………………. [ ]

46years and above ……………………………….…………….. [ ]

3. How long have you worked in the banking industry?

Less than 1 year………………………………………………………… [ ]

1 - 2 Years……………………………………….…….………………..[ ]

3 - 5 Years……………………………………….…………….………..[ ]

6 - 10 Years……………………………………….…………….………[ ]

11 - 15 Years……………………………………..……….……….……..[ ]

16 - 20 Years……………………………………..……………….……..[ ]

21 - 25 Years……………………………………..……………….……..[ ]

Over 25 years…………………………………..………………….…….[ ]

4. What is your highest level of education?

O level……………………………………….………………………......[ ]

Undergraduate Degree…………………………………….…………[ ]

Postgraduate Degree…………………………………….…………...[ ]

Other (Specify)……………………………………….……………….. [ ]

SECTION B: STRATEGY IMPLEMENTATION CHALLENGES

Tick in the appropriate box to indicate the extent to which the following statements relating to strategy implementation challenges associated with Islamic Banking deem to be true.

1= Not at all 2= little extent

3= Moderate extent 4= Great extent

5= very great extent

strategy implementation Challenges	1	2	3	4	5
Poor strategy formulation is one of the key challenge to implementation of Islamic banking					
Poor understanding of the concept of Islamic banking					
The concept of Islamic banking is perceived to be too complex					
Unrealistic expectations placed on the implementation team					
Lack of commitment or buy in to strategy.					
Organization structure, is one of the key challenge to implementation of Islamic banking					
Organization culture, is one of the key challenge to implementation of Islamic banking					
changing environment, is one of the key challenge to implementation of Islamic banking					
poor operation planning, is one of the key challenge to implementation of Islamic banking					
poor communication, is one of the key challenge to implementation of Islamic banking					
poor resource allocation is one of the key challenge to implementation of Islamic banking					
poor execution is one of the key challenge to implementation of Islamic banking					
Bureaucracy is one of the key challenges to implementation of Islamic					

banking					
uncertain, dynamic and turbulent environment where change pressures are continuous and changing one of the key challenge to implementation of Islamic banking					
company's strategy may differ across levels:					
The availability of resources, in terms of staff, skills, knowledge, finance and time,					

In your own words explain some of the strategy implementation challenges associated with Islamic banking in Kenya that seem not to have been captured in the survey question --
----

SECTION C: RECOMMENDATIONS

Based on your experience with the banking industry what are your recommendation and or opinion in relation enhancing strategy implementation?

Thank-you

Appendix II: Percentage analysis of strategy implementation challenges

strategy implementation Challenges	Not at all	little extent	Moderate extent	Great extent	very great extent
Poor understanding of the concept of Islamic banking	0%	0%	0%	0%	100%
The concept of Islamic banking is perceived to be too complex	0%	0%	0%	38%	63%
organization culture, is one of the key challenge to implementation of Islamic banking	0%	0%	9%	41%	50%
poor resource allocation is one of the key challenge to implementation of Islamic banking	0%	0%	9%	41%	50%
Bureaucracy is one of the key challenges to implementation of Islamic banking	0%	0%	9%	41%	50%
uncertain, dynamic and turbulent environment where change pressures are continuous and changing one of the key challenge to implementation of Islamic banking	0%	0%	9%	41%	50%
The availability of resources, in terms of staff, skills, knowledge, finance and time,	0%	0%	9%	41%	50%
changing environment, is one of the key challenge to implementation of Islamic banking	0%	0%	31%	34%	34%
poor operation planning, is one of the key challenge to implementation of Islamic banking	22%	28%	38%	13%	0%
poor communication, is one of the key challenge to implementation of Islamic banking	25%	25%	41%	9%	0%

Lack of commitment or buy in to strategy.	3%	50%	38%	9%	0%
poor execution is one of the key challenge to implementation of Islamic banking	22%	31%	47%	0%	0%
organization structure, is one of the key challenge to implementation of Islamic banking	31%	34%	34%	0%	0%
Unrealistic expectations placed on the implementation team	19%	50%	31%	0%	0%
company's strategy may differ across levels:	19%	50%	31%	0%	0%