STRATEGIES ADOPTED BY ISLAMIC BANKS TO INCREASE THEIR PROFITS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted to any other university for academic award.

Sign…… … Date………23rd May 2022…..…………………………..

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This research project has been submitted with my approval as the appointed University supervisor.

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ACRONYMS AND ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ABSA	Amalgamated Banks of South Africa
ATM	Automated Teller Machine
BNM	Bank Negara Malaysia
CBK	Central Bank of Kenya
DIB	Dubai Islamic Bank
FCB	First Community Bank
FDIC	Federal Deposit Insurance Corporation
FSA	Financial Services Authority
FSS	File Storage Service
GAB	Gulf African Bank
GNP	Gross National Product
ICM	Islamic Capital Market
ICT	Information Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IRA	Insurance Regulatory Authority of Kenya
POS	Point Of Sale
QIB	Qatar Islamic Bank
ROE	Return on Equity
TDB	Trade and Development Bank
UK	United Kingdom

US	United States
VISA	Visitors International Stay Admission

ABSTRACT

The Islamic banks in Kenya continue to face stiff competition in the industry. This has necessitated these banks to design and adopt strategies that can contribute to their performance and profit increment. Despite this, Kenya's Islamic banks have recorded low market share rate as linked to conventional banks. These banks have recorded a declining trend in terms of profits where First Community Bank(FCB) total net gain plunged into almost half and Gulf African Bank(GAB) slowed their growth. It is therefore, against this backdrop that this study arose to examine the strategies adopted by Islamic banks to increase their profits in Kenya. The investigation embraced a comparative case study approach to provide an insight understanding of strategies adopted by Islamic banks to increase their profits in Kenya. The study covered two Sharia Compliant Banks in Kenya namely Gulf African Bank (GAB) and First Community Bank (FCB). The researcher interviewed one (1) middle and (1) top management staff in Nairobi of the two Sharia Compliant Banks. From the analysis of the findings, it was concluded that most Islamic banks embraced cost leadership, differentiation and focus strategies. The findings also indicated that the brand and vision was instituted around the specific customer promise making it visible to the niche market. The findings of the study also indicated that Islamic banks have introduced aspects of technology to include the impact of internet, emerging technological impact, reduction in communication costs, technological incentives, activities in regard to R&D, rate at which technology was changing and levels of automation. From the study results, it was therefore recommended that employees of both GAB and FCB should be trained on the ways of implementing cost strategies to ensure banks are able to implement the cost leadership strategy. This will ensure that all the Islamic banks get cost advantage over their rivals and this can be conducted through continuous automation of systems. The study also recommends that Banks to aim beyond Muslim clients and aim for non-Muslim clients as most Islamic banks name their products using Arabic terms that non-Muslims cannot understand and relate to which gives the impression that Islamic banking is only for Muslims. The most basic requirement is the need for an Islamic bank to work perfectly on the demand of, or response to its customers ‘needs and wants. Moreover, these banks should invest on ICT infrastructure which should help the bank to grow towards achieving the set goals. Islamic banks need to come up with ICT strategies which are in line with the ever changing business environment. ICT strategies adopted by Islamic bank should focus on reducing cost of doing business. Both banks should asses the marketing strategies effectiveness by coming up with quantitative characteristics which can be obtained from Islamic banks sample. Islamic banks should change their sales strategies according to the changing business environment. Marketing strategies should help banks in understanding the types of expectations so as to appreciate benefits customers expect to receive. They should also constantly evaluate their marketing strategies. Further, Islamic banks should strive for quality customer service as a way of increasing the number of customers.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategies adopted by Kenyan banks are very significant in the 21st century. This is as a result to the increased competition which has constantly threatened the attractiveness of this industry resulting to reduced profitability and revenue (Ludwig & Pemberton, 2011). Thus, as Islamic banks continue operating in the same environment full of competition, they must remain agile and make things happen through adopting effective strategies for their survival (Pearce &Robinson, 2005). According to Kayale(2013) the concept of strategies involve with the future direction and plans of a company to undertake over a long period of time in order to attain the set objectives of the organisation. Consequently, Islamic banking institutions are required to identify areas and adopt strategies which will enable them to remain a float. Therefore, it is against this backdrop that this study arose to establish strategies adopted by Islamic banks to increase their profits in Kenya.

This study was guided by three thematic theories including the resource-based theory, dynamic capability theory and systems theory. Resource-based theory was developed by Penrose, (1959) and it posits that every individual organisation gains competencies from the resources and if the available resources are utilized well, they become a basis for competitiveness in an organisation. Dynamic capability view theory was launched by Teece (1990). Dynamic capability theory argues that it is neither capabilities nor knowledge assets that matter in most firms and organisations. On the same vein, systems theory developed by Ludwig von Bertalanffy (1930) argues that all elements of the organisation are connected to modification among the variables under investigation which can result to the changes in the business environment. Various organisations and firms are regarded as an open system where they are constantly relating to each other in the business environment. The premise of open systems theory is in some instances non-linear associations which can exist among the variables where a slight change of one element can result to a massive variations in another and big changes in another element can only contain a nominal result on the other variable.

Islamic banking has experienced an annual growth rate of 20% (Ahamed, 2008). This has resulted to a huge number of global, regional and local organizations investing into this billion dollar industry by commencing shariah compliant products. Islamic banks are therefore playing key roles in the global economy. Locally, Islamic banks have contributed to economic activities like creating employment opportunities, adding to Kenya's GNP and contributing to financial inclusion of the Muslim population that adhere to the Shariah requirements of their religion. The existence of Islamic banks ensures the development of the financial sector through improvement of infrastructure. Islamic banks encounter solid competition in themselves and they emanate from conventional banks and the strategies they adopt to overcome the competition in the market and build a competitive edge in an effort of increasing their profit is worthwhile thus the gap which motivated the current investigation.

1.1.1. Concept of Strategy

The term strategy has been used by various scholars and field practitioners (Kariuki, 2012). This component provide with the direction of the firm in the future and also it provides strategic goals to be undertaken by the organisations in order to achieve stakeholders' satisfaction level (Kavale, 2015). All companies work in an environment and it is necessary to have a strategic concept because it defines the course and decisions the business can take to take advantage of the environmental opportunities and take on the challenges faced by the organization. Strategy is the creation of major priorities, objectives or goals that allow the organization to identify the company's core activities and how much it contributes to the economy.

According to Nupur (2010), strategies entail conventional of verdicts and actions that rise to ratify and implement strategies which are created in order to attain the set objectives of the organisation which translate into what occurs in the organisation's business environment. Porter (2004) described that the operational responses of the organisation is the part involved in the formulation process that is tasked with the goals and operations of the organisation at large. The operations of the firm are more inclined with policies in which utilize the resources of the company to support strategies with regard to the competition in the long-term period. These strategies are perceived to contain the demand and supply side of the strategic scope which possess strategic strength. Porter classify the streams of strategies to include costs leadership, differentiation and focus. strategies.

On the same breadth, Osman et al. (2009) described strategies using the approaches employed by various businesses in the achievement of edge in the competitive market in a specific business setting. The fusion strategy has emphasized on the component of business environment which is given by porters' model on prices and element to which differentiation strategy is incorporated. Therefore, strategy contain a tool which enable organisations to manage their uncertain business environment.

1.1.2 Increment of Profitability

Globally, the banking industry aim at growth through acquiring new clients, profitability, networks, growing deeper and aligning themselves strategically with expenses versus profits opportunities. But attaining this growth is puzzling because of the turbulent business environment. Small interest rates progress to set pressure on the growth margins. In connection to this, FDIC Quarterly Banking Profile (2020) described growth in terms of profits has modest and the total interest and the reserve rates enable loans to produce more which also triggers the competitive pressure for bank deposits which limit the profit margin. But in this case, it is not applicable for the Islamic banking-hence, getting the best profit growth entail the central idea facing this sector and this entreats for the new channels of success.

1.1.3 Islamic Banks in Kenya

Islamic banks were introduced in Kenya when Barclays bank now ABSA launched Islamic banking products in the year 2005 and two years later, First Community bank came into being in the year 2007 where Gulf African Bank(GAB) followed in the year 2008. The development trend has progressively grown where other conventional banks for example the Kenya Commercial banks offer Sharia compliant through the special Islamic windows. In the year 2010, through financing Act, the Kenyan government authorities revised section 45 of the CBK Act permit on the Banks' administrative financial representative to allow disbursement of earnings other than the interest on securities. In this manner, it opened up the avenue of the Sharia compliant savings in Kenya (Ndung'u, 2011). In the year 2013, Standard Chartered Bank of Kenya introduced the Islamic banking window which added to the present window and the two developed Islamic banking institutions functioning in Kenya. As the end of 2013, these banks contained about two percent of the sum total of banking businesses in Kenya (IMF, 2014). Therefore, these banks are forced to adopt growth strategies for them to generate profits at their disposal. According to Dordonne, (2013) growth is the main purpose of upcoming with various strategies which can enable an organisation to grow and increase its profits on its businesses. Therefore, it is against this backdrop that this study sought to explore strategies adopted by Islamic banks to increase their profits in Kenya

1.2 Research Problem

The Islamic banks in Kenya continue to face stiff competition in the industry. This has necessitated these banks to design and adopt strategies that can contribute to their performance and profit increment (Porter, 2004). Despite this, Kenya's Islamic banks have recorded low market share rate as linked to conventional banks (CBK, 2018). The report of CBK (2017) indicate that the market share holding of Kenya's Islamic banks was 26.10 percent as compared to conventional banks which stood at 52.94% percent of the market share. Moreover, these banks have recorded a declining trend in terms of profits where First Community Bank(FCB) total net gain plunged into almost half and Gulf African Bank(GAB) slowed their growth (Herbling, 2014). Therefore, it is against this backdrop that this study sought to examine the strategies adopted by Islamic banks to increase their profits in Kenya.

Kenya's Islamic banking makes up 2 percent of the total banking business while the Muslim population is roughly 15% of over 50 million Kenyans (Vizcaino, 2016). Challenges associated with the low market share rate has been seriously affected these banks where in most cases the instruments related to Islamic finance is greatly misinterpreted to denote terrorism linked instruments. Also, there is a misunderstanding that these banks belong to Muslims only, they are riskier and very expensive as compared to conventional ones (Shabir & Rehman, 2019). The irregular market share distribution in which conventional bank system contain higher market share value as compared to Islamic banks system would result to adverse effects or inflation for a nation's banking industry products (Deloitte, 2019). This result ultimately would be affected by the population in Kenya who depend on banks for their daily financial transactions which affect the entire economy.

Several empirical investigations have been conducted both globally and locally in Kenya to examine different aspects of Islamic banking. Globally, researches have been conducted looking into aspects such as success of operation rates, rates of default, returns obtained from sharing of profits and the general level of interest rates charged by the conventional banks (Obeid & Kaabachi, 2016, Su'un et al., 2018, Amina et al., 2019). Tabash and Dhankar, (2014) also carried a study on the function of Islamic banks and economic growth using a number of countries for example Northern African nations, Bahrain, Qatar, and other Middle East nations. Nevertheless, the investigations were conducted in state that had comprised Islamic banking for a long period of time making it impossible to generalize the findings of the study in the Kenyan setting which embraced Islamic Banks just ten years ago.

Locally in Kenya, Abdi(2016) examined competitive strategies incorporated by Kenyan Islamic banks to improve performance; Hassan and Ongeri(2020) analysed the influence of Islamic banking development on economic growth in the Kenya; Halake, Rintari, Mutea(2021) examined the effect of Islamic Auto Financing Instruments on Financial Performance f Kenyan Commercial banks in Isiolo County, Kenya; Mulama, Maina, Muathe, (2021) examined Islamic banks strategies on Kenya's commercial banks performance in Nairobi County. Nevertheless, in Kenya, few investigations have been conducted on strategies adopted by Islamic banks to increase their profits. Therefore, this created a gap and a reason for conducting this research. The study answered the following fundamental question: what are the strategies adopted by Islamic banks to increase their profits in Kenya?

1.3 Research Objective

The objective of this study was to establish the strategies adopted by Islamic banks to increase their profits in Kenya.

1.4 Value of the study

The study would be significant to researchers, as it will act as a basis for further research on market penetration of Islamic Banking in Kenya. Previous research on the subject is outdated, and given the dynamic nature of the industry, there is a need for more current study on the subject. Islamic Banking is still considered an emerging area and there is a lot of ignorance and misunderstanding of the subject and hence the need for demystification. Important issues not addressed by this study can be explored in future research studies.

The study is envisioned to avail information to policy informers in identifying market challenges and proposed solution to the challenges facing the growth of Islamic Banks. The study would be of significance to policy informers including the Kenyan government and the Central Bank of Kenya whom will develop policies regarding the financial system. In addition, this investigation would be of importance to other Kenyan commercial banks engaged in provision of Sharia compliant products, since it provides an insight on solutions to growth challenges facing Islamic banking. This will aid in formulation of policies that will aid in development of goods and services aligned to the customer needs.

The study would provide insight to the management of Islamic and enable them to formulate appropriate responses. The study would be useful in determining policies to be embraced by Islamic banks to increase their profits in Kenya proposed solutions. The study would be of importance especially in determining the role that management play towards growth of the bank, it will help them identify challenges facing the bank as well as give solutions which will help improve on service and product offering so as to remain competitive. The research will help in testing the dynamic capability theory that are required by companies and organizations to fully exploit on the internal and external capabilities in order to gain competitive advantage.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section is a discussion and review of literature. The thematic areas covered included theoretical foundations where theories of resource-based, dynamic capability and systems theory were discussed. The study also provided empirical studies and research gaps.

2.2 Theoretical Foundation

This segment provided a discussion of theories underpinning the current study. In addition, it examined the critiques of the propounding theories and their respective linkages of the studied variables. This research was premised on RBV, dynamic capability view and systems theory.

2.2.1 Resource-Based View

The RBV was pioneered by Penrose, (1959) who posits that every individual organisation gains competencies from the resources and if the available resources are utilized well, they become a basis for competitiveness in an organisation. The theory specifically emphasizes on the internal components in which a firm can take control of more than the external components which are beyond organisational control. These capabilities offer the building blocks in designing a firm's strategy. Therefore, firms vary fundamentally due to possession of unique resources which are both tangible and intangible assets (Barney, 1991).

Further, RBV posits that those resources and capabilities that the firm possesses play a critical role for improving organisational performance (Galbreath & Galvin, 2008). King (2007) supports this when he argued that specific capabilities possessed and are in control of an organisation, have a possibility to create competitive edge which contributes to high performance of the organisation. These resources range from intangible resources, physical resources and organisational capabilities (Mayer, Davis & Solomon, 2006). This theory is useful to the current study as it provides information connected to the strategies which can be adopted by banks to increase their profits in Kenya.

2.2.2 Dynamic Capability Theory

This theory was developed by Schumpeter, in the year of 1950. This theory argue that dynamic capability is a rent-creating mechanism grounded on various competences of the organisation. Dynamic capability encompasses a set of explicit and recognizable procedures that are distinctive in detail and dependent on their occurrence (Eisenhardt & Martin, 2000). Investigations with regard to this theory is grounded to RBV by Wernefelt in 1984. Dynamic capacities of organizations may perhaps account for the introduction of differential of firm performances in the industry. Blending insights both from organizational theory and strategic management established that firm performance is a significant attribute of dynamic capacities in timing dynamic capability utilization and learning to install dynamic capabilities (Zott, 2000).

This theory acts as a cushion between unstable business setting and the resources contained by the firm enabling a firm to regulate its capabilities resulting to the sustainability of competition in the market (Protogerou, Caloghirou, & Lioukas, 2012). Some scholars have, however, challenged this theory on the grounds of its operational and functional competencies by stressing on change (Winter, 2003). Despite the criticisms, the theory is applicable to the present research as it describes the ability of the organization purposefully to generate, modify and extend its resource-base which refers to the choice of the organizational strategy adopted to attain its goals.

2.2.3 Systems Theory

This theory was pioneered by Bertanlanffy (1956) and further advanced by the works of Emery and Trist in the year 1960. Open systems theory is grounded on the change management which was developed to generate a resilient, healthy, and innovative environment in todays' fast shifting and uncertain environment. Organisations frequently encounter novel challenges that they are required to be addressed efficiently, timely and effectively for their long-term survival. Organizations therefore, close down or are renovated when their requirements are fulfilled or no longer exist or are swapped by other requirements (Thompson, 1967). Open Systems theory considers the organization as a set of interrelating functions that obtain inputs from a particular setting, then practice and release them to the outside setting (Daft, 2001). This theory is applicable to the present study as it emphasizes on the activities occurring in the outside business environment of the organization that can influence its operations.

2.3 Strategies Used by banks to Increase their profits

The foundation of strategy thinking can be traced to Chandler (1962) who described strategy as determining the long-term objectives of an organisation and the adoption of courses of action whereby the vital resources are allocated to attain these set objectives. Ansoff (1965), states that strategy is the common thread, which is arrived at through the use of product-market scope. According to Mintzberg (1994) a strategy is described as a pattern of streams in decisions and actions. He describes strategy using 5p 's: plan, pattern, ploy, position, and perspective. Porter (1985), in his book of competitive strategy, uses resource based view of the firm to build barriers and sustain monopolistic structures. Strategy is therefore a device, which bid for important assistance for managing the turbulence often faced by businesses.

2.3.1 Focusing on Competition and Increasing Efficiency

Measuring efficiency entail one of the methods of assessing performance for a firm. European Central Bank (2010) offers three methods of assessing efficiency which include profit maximisation, cost minimisation, and output maximisation. Most banks employ return on equity(ROE) to assess their performance but this is not the efficient part of the story because ROE may either denote a good level of profitability or a limited equity making resulting to efficiency to be a crucial component for all banks. Generally, efficiency is sub-categorized into two elements where a firm is technically taken as efficient if it is capable to acquire an optimum output from a certain kind of inputs or minimise its inputs embraced in producing certain products with the sole aim of avoiding wastes (Kumbhakar & Lovell, 2003).

Koopmans (1951) considers producers to be strategically efficient where they are unable to conduct production of some products devoid of production less of that product or more usage of that inputs. Therefore, efficiency entail an optimum blend of both the outputs and inputs at any specified price. The main goal manufacturers consist of the utilisation of a given input in order to optimize its revenues section; to produce a certain product with the lowest costs ever and allocation of both the outputs and inputs in order to optimize on profit (Kumbhakar & Lovell, 2003). Numerous markets in the banking sector have grown from being a niche which offer the mainstream of financial services with a supplementary financial facilities establishment in the business environment before (Vayanos et al, 2008).

Competition in the market is a good idea in the business environment as it safeguards the production costs which lead to efficiency (Nickell, 1996). Increment of competition force the banking institutions to conduct their businesses in an efficient manner for survival and growth in the industry otherwise they will be outshined by others.

Therefore, these result to them producing goods and services with high demand in the market. A study by Mokhtar et al (2008) on fully-fledged banks in Malaysia, established that though development of banks were more active compared to Islamic windows, they were not as proficient as the conventional banks

In this competitive market, strategies in regard to marketing of products are the most critical decisions that are required to be examined by the banking institutions policy informers. A comprehensive strategy of marketing seems to be superior as the banks conduct their businesses where service quality is conceived as very crucial to their customers. Due to globalisation, banks have encountered a stiff competition globally which afford Islamic banking through their respective windows or the subsidiaries (Mokhtar, Abdullah & Alhabshi, 2008). These institutions also must conduct their respective businesses with the conventional banks because of their experience in banking and level of expertism (Henry & Wilson, 2004). Attached with ever increasing competition in the market both in the sector and customer perception, it is significant for these institutions to measure their effectiveness of their marketing strategy (Al-Omar & Abdel-Haq, 2006).

2.3.2 Development of Capital Markets and Consumer Awareness

The capital market and the monetary market contain the landmark development of the banking institution (Kadir, 2005). Therefore, various mechanisms have been introduced in an attempt of facilitation in the management of funds and the liquidity effectively in banks. This has resulted to the smooth transfer of money in the monetary system of these banks. The introduction of ICM motivates the main banking institutions to offer *sukuk* which are the bonds used. Thus, awareness levels of these banks is vital for development and success of these institutions in the future. Programmes to educate consumers are necessary in addressing the requirements of their products and services

(Aziz, 2005). These banks afford products of both Muslims and non-Muslim society including individuals and organisations who include women, companies, men, non-Muslims, students, Muslims, and business people (The Banker, 2008).

2.3.3 Enactment Banking Laws

Mahmood (2005) denote that embracing banking laws in these banks forms very critical part of entire processes involved. Traditional banks that offer financial products may be required to adjust their banking laws to permit them to engage in a trade associated activities and other multifaceted roles. Policies connected to the investments of the government are required to be modified to allow the issuance of investment in regard to Islamic products to enable liquidity transactions by such banking institutions (Musa, 2007). It is also important to ensure neutrality between these and traditional banking products, with a legal brotherhood proficient in both sharia and civil law, including tax law (Mahmood, 2005).

According to Benaissa, Jopart, and Tanrikulu (2007), restrictions are availed in an attempt to poise both the economic realities and conformance to the religious values and beliefs that are offered by these organisations. Numerous states and governments for both non-Islamic and Islamic communities have designing an ambitious initiative, legislations and infrastructure which aim at the construction of banking institutions resulting to the attraction of a portion of industry’s vast assets. Countries are making significant modifications to their legislations, rules, procedures and laws to accommodate this system in their present market (Hisham, Samaun, & Rohani, 2008). Even the nations that formerly rejected developing these institutions in their financial system such as Italy, France, and Australia, are now enacting legislation to allow them to function. Further, the US which opposed this type of banking is now revising or enacting new laws to specifically target these banks.

In Italy, despite being a non-Islamic country, the government has introduced regulations and mechanisms to introduce these banks in the Italian business environment. Bakkar (2008) stipulate that an effective a lawful framework is significant in the process of development in all sectors of country's economy. In France, the government requested for a report from the financial markets authorities in Paris in April 2008 to analyze the steps necessary to make the market competitive in the global provision of goods and services. Later, in a month the then senate conducted a roundtable meeting with various politicians and leaders, experts of Shariah, the bankers in order to raise awareness on how to provide support with regard to financing where the legal framework was adjusted in regard to banking and tax structure (Ramadier, 2008).

Large banks for example DIB and QIB have introduced banking institutions both in Western nations and Muslim states whereby the Shariah law has been observed to rather for the individuals and investors who are interested to invest in these institutions. The first French Qatar Islamic Bank opened in year 2010 (Souilem et al. 2009). In the global market, central banks have designed mechanisms and strategies in the laws of banks permitting the Islamic banks and Islamic bank counters to operate in the traditional banks (Bakkar, 2008). The UK government is taking very critical milestones in the promotion of Islamic banking and financing. Through the FSA, the banking in England approved the Islamic Bank for the British which was the first fully-fledged retail banking in the first fully retail bank in a non-Islamic nation (Ainley et al., 2007).

Central banks around the world are paving way for all the Islamic banking institutions to contain licences in their operations (Haque et al., 2009). The example of Malasyian Central Bank which introduced a banking Act which authorized more than eight banks both locally and globally. The BNM also passed the establishment of numerous subsidiaries and Islamic windows (Rosly, 2005).

2.3.4 Linkages between Strategies adopted and Profit Increment

Past empirical investigations have indicated that there exist an association between strategies adopted and profit increment in the banking industry. Bowen & Ostroff (2004) state that having designed suitable strategies over the competitors can result to the organization performing better than its rivals by increasing its market share and returns. Therefore, firms should focus on achieving and preserving suitable strategies over their competitors. These will lead to superior performance which will in return increase their revenues. Fahy (2000) states that organizations center on competitive strategy with the aim of improving their resource pool. Johnson & Scholes (2002), say that suitable strategies adopted enables an organization establish on which a competitive edge in its industry. Thompson et al, (2007) describe competitive benefits as the basis for a firm achieving beyond average financial and profitability performance. This he says is due to the factor that a higher consumer demand for the firm's business will result in superior sales and ability to demand higher prices resulting in higher profitability and performance.

2.4 Challenges Faced by the Banking Sector

2.4.1 Risk Management Strategies and Corporate Governance

Several challenges are encountered in the banking sector. The banking institutions are presently on a variety of risks such as defaults, interest rates and liquidity (Garbois et al., 2012). On the same vein, Hobson (2006), sukuk issues include risks associated with Shariah law compliance, interest rates, credit and foreign exchange but banks are traditionally grounded on interest rates, speculation and gambling which are barred by Shariah law. These banks are experienced with protracted problems of extreme liquidity the Finance News, 2006). Liquidity is about 40% higher than traditional banking institutions because they are Shariah non- compliant which make then to engage on long-term investment tools and channels. They spend 95% of their money on short-term Ihara, Murababa and Musharaka products (Islamic Finance News, 2006). In a given context, good governance can make a significant contribution to contribute to the efficiency of organisational structure (Alvi, 2006).

2.4.2 Human Capital

The banking is a vast-paced sector that lacks capital but makes up for it with skill and consistency (Laidi, 2009). As the industry grows, it's more critical than ever for banks to make sure their personnel have the skills and resources they need to meet the Sharia requirements and regular compliance requirements. Banks must move quickly to give workers with paperwork and training. The financial organizations can only thrive and compete if their employees are well-informed and educated (Eagle, 2009).

Haji et al. (2009) investigation indicated that the chief encounters of the banks is that no team of experts to conduct the Sharia review. Therefore, in most cases the tasked auditors and the Shariah staff lack the skills and capacity in handling the Shariah-compliant activities and operations. Thus, there exist a sharp decline in terms of human capital in the banking industry where most of them are sourced from the traditional banks. They are not properly trained and are not dedicated to embrace the Shariah-compliant mechanism. These staff are only involved in the elimination of interests from these institutions without due consideration of its true purpose of the exercise (Adulmalik, 2006).

2.4.3 Lack of Standardisation

Lack of standardization entail additional impediment for the industry. For issues with regard to ethics in the sector, questions of integrity are posed for some of the products given. As a result, standardization and regulation continue to raise challenges, so mere

Sharia compliance is not a significant differentiator (Garbois et al., 2012). Hemed (2009) described various interpretations in accepting various goods which result to difficulties in complying with Shariah regulations. For example, is the similar monetary product which may be rejected by one Shariah committee and accepted by another. This is because Shariah's decisions of these committees are based on an understanding of the underlying Shariah principles (Hemed, 2009). Due to geographical differences, different Shariah committees can provide different interpretations within the country. Unless the standardization of the bank's regulatory framework is expressively enhanced Shariah arbitrage will continue to exist and grow. Shariah's consent is attained from the bank in a way that is suitable for the needs of the customer and the conditions of the individual product or transaction. The lack of collective standards and transparency in the application of Shariah law places a great burden in the marketing of financial services (Benaissa et al., 2005).

2.4.4 Government Regulation

In the Kenyan context, the challenge is for CBK and the administration to open up markets and change banking law and regulatory guidelines to replicate the present reality as in United States of America, Canada, South Africa and Europe. The same incidents were in far East, and Australia (Hemed, 2009). Kenya like Bahrain has probability to be the epicentre of these banks in the region. The involvement of Islamic Development Bank, Islamic Banks, IFC, TDB Bank and Middle Eastern investors all demonstrate essential efforts of trying to attain all the set goals with regard to Islamic banking. The market in the region is big for Muslims and non-Muslims to employ this type of banking which afford compassionate partnerships, transparency and no uncertainty brought by charging of interest rates (Central Bank of Kenya, 2009).

In many non-Islamic nations, Islamic banks and traditional banks are not on an equal footing, as many legal and tax restrictions make Islamic banks more difficult to compete. For example, Islamic real estate lending has caused double taxation in many legislations due to the decline of Musharaka's method, and it is obligatory to transfer real estate when buying real estate (Khan & Bhatti, 2006). Additionally, challenges of these institutions is not only on how to cater for products in the same scope but also ensures that those products differ from their competitors. With this regard developing quality products is very critical (Dusuki & Abdullah, 2007).

2.5. Empirical Studies and Research Gaps

Various investigations have been conducted on strategies adopted and profitability. Obeid & Kaabachi, (2016) examined the major factors which resulted to espousal of Islamic banks by conventional banks in Tunisia. The study results demonstrated that assurance to religion, amount of data held by the users on Islamic banking, relative merits of Islamic investment and its compatibility with the users and banking habits were predictors of adoption. The findings of the investigation also found that lack of information in regard to Islamic banks existed among the users. The study analysed factors which influenced adoption but not strategies embraced to Kenyan Islamic banks to increase their profits. Kenyan setting is also a unique business environment which cannot be compared with Tunisian context. Su'un et al., (2018) looked into the reasons of Islamic banks approval in various religious clusters in Ghana. The study results demonstrated that attitudes of customers, readiness to obey the Sharia law, perceived innovativeness, perceived knowledge, religious promotion, perceived knowledge and benefits significantly influenced adoption of Islamic banking. However, the study omitted to analyse strategies of adoption and this research was also conducted in Ghana which is a different context from Kenya. Amina (2019) analysed factors influencing the implementation of Islamic type of banking in Ghana. The study employed reputation, religion, networking, awareness as the variables investigated. From the study results, it was deduced that all the studied variables positively influenced adoption of Islamic banking. Tabash and Dhankar, (2014) also carried a study on the function of Islamic type of banking on the economic growth. The study results found that the level total savings contained positive association with economic growth. However, the study was in countries that had contained Islamic banking for a long period of time making it impossible to apply the study results in the Kenyan setting.

In the Kenyan Context, Abdi (2016) examined the competitive strategies embraced by Islamic banks to improve performance. From the study results, it emerged that Islamic banks used focus, differentiation and cost leadership strategy to enhance their performance. Ongeri (2020) examined on the influence of Islamic baking development on economic growth. The study results showed a positive and significant link between Islamic Bank finance and economic growth in Kenya. Halake, Rintari, Mutea(2021) examined influence of Islamic Auto financing instruments on financial performance. The study indicted a significant relationship with financial performance. Mulama, Maina, Muathe, (2021) examined Islamic banking strategies and performance of selected commercial banks. The investigation established that Islamic banking strategies influenced performance of the commercial banks. Nevertheless, few researches have been conducted in Kenya to examine the strategies adopted by Islamic banks to increase their profits in Kenya. This was the research gap which was intended to be filled by the current study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the survey approaches used to conduct the investigation. This section gave a description of the procedures and techniques used to gather, process, and analyse data. In particular, it contained the following subsections: Study design, subjects, data collection tools, data collection processes, and finally how the collected data was analysed.

3.2 Research Design

The investigation adopted comparative case study approach to provide an insight understanding of strategies adopted by Islamic banks to increase their profits in Kenya. Ragin (2014) described both variable-oriented and case-oriented procedures to study to indicate that a comparative case method permit both the approaches hence suitable to be used for an investigation. In the comparative case approach, the investigator gather information on the key variables which are perceived to be significant to just a single case but also open-minded to other necessary information unique to that case. This approach may be established on theoretical grounds (Charmaz, 2006). This simply means that the conceptual groupings and the various themes are left to emanate from the gathered information other than attempting to rigidly use the theory in regard with the data. Comparative case investigations encompass the examination and synthesis of similarities, the differences and the patterns across two or more scenarios that contain similar goals in a manner that yields to knowledge that is simple to specify on the causal questions-how and why specific policies are able to work or fail in the business environment.

This type of a design contains an empirical inquiry that examine a phenomenon within its real-life setting of the organisation. It provides a systematic way of looking at events, gathering of data, analysing the information and reporting of the results. As result the investigator is able to gain insights of why the instance occurred as it did and what might become important to look at more extensively in future (Yin, 2002). The studies which have successfully used this approach include Mugita, Ongus and Nyamboga, (2018) and Saharan, Matelski & Kumi (2021). This study aimed at assessing the strategies adopted by Islamic banks to increase their profits in Kenya. The study sought to gather opinions from the respondents on strategies adopted by Islamic banking to increase profits in Kenya, and the challenges that have hindered the growth of these banks.

3.3 Population of the Study

According to Mugenda and Mugenda (2003), a population encompass the entire group of individuals studied and they contain similar features. This study covered two Sharia Compliant Banks in Kenya which included First Community Bank (FCB) and Gulf African Bank (GAB). The study targeted both top and middle of management staff working in Nairobi. These comprised of the branch managers, relationship managers or department heads from the finance, legal, operations, risk, human resource, business, audit and marketing departments. Since the population of the study was small, a census approach was adopted thus sampling and sample size was deemed as unnecessary.

3.4 Data Collection

The research employed primary sources of information where an interview guide was adopted to collect the data. The interview guide aided in gathering an in-depth qualitative data in order to attain a better understanding and more insightful interpretation of findings of the investigation. The study covered two Sharia Compliant

Banks in Kenya namely Gulf African Bank (GAB) and First Community Bank (FCB). The researcher interviewed one (1) middle and (1) top management staff in Nairobi of the two Sharia Compliant Banks. These consisted of branch managers of the 16 Nairobi branches of the two banks, relationship managers and managers or department heads drawn from the finance, legal, operations, risk, human resource, business, audit and marketing departments. The investigation employed an interview guide to collect information from 32 respondents who came from senior and middle level management so as to give all-inclusive information.

3.5 Validity and Reliability of Research Instruments

3.5.1 Validity of Research Instruments

Validity refers to the degree to which evidence and theory support the interpretation of test scores entailed by use of tests. The validity of instrument is the extent to which it does measure what it is supposed to measure. According to Mugenda and Mugenda (1999), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the variables of the study. The research instrument was validated in terms of content and face validity. The content related technique measures the degree

3.5.2 Reliability

Reliability is the ability of a research instrument to consistently measure characteristics of interest over time. It is the degree to which a research instrument yields consistent results or data after repeated trials. If a researcher administers a test to a subject twice and gets the same score on the second administration as the first test, then there is reliability of the instrument (Mugenda and Mugenda, 1999). Reliability is concerned with consistency, dependability or stability of a test (Nachmias and Nachmias, 1996). The test re-test technique was used to estimate the reliability of the instruments.

3.5.3 Pilot Testing

This study also conducted piloting so that to detect and have information on some of the difficulties and challenges likely to arise during the data collection exercise. This exercise was conducted by interviewing 5 respondents who were not included in the final study.

3.4 Data Analysis

This study analysed qualitative type of data which was collected from the interview guide. Therefore, content analysis techniques was applied for data analysis for the collected data from the interviewees. Kothari (2004) describes content analysis techniques as analysing the contents of documentary and verbal material. It is used to make inferences through systematic and objective identification of specified characteristics of message.

3.5 Ethical Considerations

The investigator sought the clearance from the University of Nairobi and ensured an accompanying letter of introduction is attached to each questionnaire indicating the need for the current research as well as the rights of the respondents. Further, the respondents were assured of their confidentiality and that the research was solely for academic purpose. Information collected was organized in various thematic areas to build a profile about the strategies adopted by banks to increase their profits margins.

CHAPTER FOUR: DATA ANAYISIS, RESULTS AND DISCUSSION

4.1 Introduction

The main purpose of this investigation was to analyse strategies adopted by Islamic banks to increase their profits in Kenya. The chapter dealt with the data collected from the field where the investigation interviewed 32 top and middle management staff from the two banks that is Gulf African Bank (GAB) and First Community Bank (FCB). This included the relationship managers and managers or department heads drawn from the finance, legal, operations, risk, human resource, business, audit and marketing departments. Twenty eight(28) respondents were able to participate and they provided answers sought by the researcher. This translated to a response rate of 87.5 percent which concur to Mugenda & Mugenda(1999) who indicated that any rate of fifty percent and above is suitable and acceptable. The study applied content analysis in making generalization of the statements for the data collected.

4.2 Strategies Adopted by Banks

The banking industry in Kenya has been faced with stiff competition which has been as a result of increased innovations and new entrants in the banking sector. Hence, banks have to adopt strategies to enable them increase their profits and attain superior performance. Islamic banking is a fairly new phenomenon in Kenya with the sector being barely ten years old. This late entry coupled with the stiff competition among banks in Kenya has meant that Islamic banks have to come up with strategies to improve their revenues and performance. Therefore, the researcher found it paramount to examine on the strategies adopted by Gulf African Bank (GAB) and First Community Bank (FCB) in order to maximize on their profits.

The responses from interviewees in Gulf African Bank (GAB) listed differentiation, focus and cost leadership as the main strategies employed by Islamic banks. They indicated that cost leadership was effected through aggressive pursuit of automation that led to efficiency resulting to lower costs. They have put into place systems and processes that ensured efficiency in the day to day operations. Systems that are efficient and customer friendly such as internet banking, agency banking and mobile banking ensured that it saved customers banking time and queues ensuring that banking halls are not crowded which meant that the banks can employ less tellers to man the counters reducing on overhead costs.

Islamic banks used cost leadership strategy in order to attract customers from conventional banks and to penetrate the market and increase their market share. Islamic bank also outsourced services such as security and cleaning that will give them cost advantage. Islamic banks also introduced low cost products that with superior value in order to attract more customers that eventually led to higher profit margins. Islamic banks were among the other banks, who had the lowest cost of products with superior returns. The fact that Islamic banks are bound to give contracts that do not have hidden clauses helps them to gain edge in competition over their rivals. Islamic banks also increase their profits through increasing their efficiency by replication and repetitive tasks. This was conducted through staff training to attain greater efficiency and specialization warranting each staff member is informed about the individual expectations and conduct out their role effectively to result greater productivity.

On differentiation strategy, the interviewees indicated that they are frequently introduced with new products targeting clients. They're a variety of products that have been introduced to target existing and current clients. They contained products and services that suit the needs of women, children, and business to small and medium enterprises. They also had a wide range of networks especially in areas that are populated by Muslims. The bank had two or more branches in places that have a high Islamic population to take advantage of their target market needs. They also ensured differentiation through customized service to their clients. Whatever needs their clients have they contain products that are tailored to them warranting them to act as a one stop centre for all the customer requirements.

Further, the respondents revealed that the focus strategy was catered for where the product and vision was built around the particular client promise hence creating it visible to the niche market; there is a distinction understanding of the corporate customer experiences; investing smartly in excellent customer targeting particular niche markets; warranting the client experience is centred on particular points of superiority; ensuring any activity that the customer focused has its roots in economic objectives and was not restricted to satisfaction; targeting the hearts and minds of particular markets to determine the attitudinal loyalty to put in place a firm structure that contain customer centricity in terms of decision making and training the workers in order to attain abilities that can enable the respective customer centric objective. It was also established that most of these strategies were charged by top management team of these banks.

On the other hand, the responses from the interviewees of First Community Bank (FCB) listed strategies on their products, penetration in terms of pricing, distribution, Shariah Board Committee, and Sukuk. On the products, the respondents indicated that the banks concentrated more on producing goods and services which are more attractive as compared to their competitors in the business setting. Therefore, they embraced both Murabaha (Cost plus) and Musharaka (equity participation) as the two main strategies. Murabaha as a strategy basically imply a cost plus profit financing transaction where the tangible assets are bought by the bank upon request of its client from the supplier. The respective bank then resale the same product to its client on prompt sales basis with a hike which is termed as the bank profit. Musharaka on the other hand is related to the joint venture where the bank and an agent mutually invest in some project. They said the party agrees on some prearranged profits and losses. From the field responses, it was also mentioned that penetration was one of the pricing strategy adopted by the bank. It was also indicated that the bank contained the Lulu account for women population which was ignored by other institutions but it increased profit for the bank.

It was also established that the bank has commenced to invest in community projects as a promotion strategy which have enabled people to benefit more in employment creation. The respondents indicated that they started to work with Youth Enterprise Development fund to address the economic empowerment of the youth through enterprise development and strategic partnership. The also indicated that the bank had adopted distribution strategy in terms of location of their branches to increase their customers countrywide. Shariah" board committee was also appointed who had in depth knowledge on every transaction made in regard to Islamic banking. The segment was qualified and well equipped with the Islamic laws, regulations and economics and they understood the Islamic principles of conducting the right and ethical practices. They further explain that the committee ensured that the bank is in line with Shariah in regard to developing of products and services, facility applications and ethics at workplace. The respondents also mentioned the Sukuk as an Islamic financial vehicle similar to a bond.

4.2.1 Marketing Strategies adopted by the banks

Both banks have classified their clients into two specific groups that is retail and exclusive banking. These banks have also brought on board new products regarding to exclusive banking and they have added new attributes to previous products in the past one year. In the exclusive banking; for the salaried employee's products like Elite and Elegant accounts, Alpha, corporate foreign accounts and for Businesses - Biashara foreign currency and Biashara club have been introduced. Under the retail Banking, FCB has brought on board products for example a free insurance cover and indiscreet facilities up to a certain limit. The principle aims for introducing new clients' accounts and adding more attributes to the current ones is connected to the bank's strategic plan of investing into the new business markets. Bancassurance service which was established in the year 2008 called in the FCB Takaful cover Brokers Limited which is exclusively a possessed subsidiary of FCB. Takaful Insurance of Africa is registered and licensed firm and recognized by the insurance regulatory authority of Kenya (IRA). FCB capital is also another subsidiary of FCB which is fully fledged Shariah compliant investment fund manager.

Both banks that is FCB and GAB contain debit cards ATM which are connected to the VISA network, connected to client accounts and to M-PESA and Mobile banking. These banks have also established Mortgage and ABF centres committed to serve customers who need to purchase cars, residential and commercial buildings. New products were introduced in the market in order to enable the bank to effectively compete in the business environment while addressing various needs and preferences of clients. Connecting of clients' accounts to Mobile banking and M-PESA products was intended to result to FCB's services into the client's reach in the utmost affordable, faster, secure, and appropriate manner. The VISA ATM were also established so that to permit the bank clients/customers to conduct their transactions at the place of their convenience and also use their respective cards in purchasing of goods and services at point of sale (POS)/ suppliers outlets without any cash transactions. With Mobile Banking, the clients and customers are capable to send their money from the M-PESA account to their bank accounts. They can also check their bank balances, order a cheque book, a mini-statement, and buy airtime among other services.

These bank have established mobile and agency banking as a direct banking channels. They have integrated the M-PESA with different delivery channels resulting to a more convenient delivery of services to their clients and customers to accessing of their funds through using mobile banking, agency banking and ATMs services. These banks have formed a partnership with Kenswitch to enable their clients access over 500 Kenswitch Enabled ATMs nationally-allowing them to conveniently pay bills, access cash and enquire on their bank balance among others. They introduced new delivery channels in order to deliver services in a reliable and convenient manner to the customers.

4.2.2 Innovation Strategies(ICT) Embraced by Banks

The study sought to establish the significance of information communication technologies to the banks in increasing of revenues. The key technological environment aspects highlighted were impact of internet, emerging technological impact, reduction in communication costs, technological incentives, activities in regard to R&D, rate at which technology was changing and levels of automation. The marketing agents in these banks understand the major role played by technology in customer service.

Further, the interviewees indicated that these banks encountered problems of complexities of their customer needs as a result of openness to finances and alternatives offered in the investment and finance. They argued that the human resource aspect should be paramount in delivery of banking services. This component may be deemed important for these banks in the future challenges due to globalization in the financial sector. The findings further indicate that automation of Islamic banks affect the extent of satisfaction of customers which influences the behaviour and loyalty of customers.

From the field responses, the interviewees responded that all banks who practice Islamic banking should ensure that their innovations is capable to provide a support to their existing requirements in planning their businesses. This will be necessitated by putting more emphasis on value technology investments, invest more resources on projects which are critical as compared to the maintenance of these banks. They also described that solutions provided can go in hand to assist them in the managing of risks to benefit clients and customers from these innovations in a reliable and efficient manner. Islamic banking institutions can optimize on their investment value on innovations through aligning IT to the needs of the business, management of risks, increment of business agility through optimization of information technology infrastructure.

It was further indicated that ICT lowered costs of business processes as hence most Islamic banks should align themselves to ICT business strategy. They further argued that ICT is a critical factor for Islamic banks to realize their objectives. Therefore, Islamic banks are required to engage in developing ICT strategies for decision making at both levels of management that is lower, middle and top management. It was further revealed that effective leadership is mandatory for the proper implementation of information communication technology (ICT). The respondents indicated that development of ICT can support and strengthen the realization of organization plans. The respondents argued that Islamic banks are required to understand and identify the perception of with regard to information communication technology and what is being needed of them.

For example, iMAL at FCB was introduced to the bank to offer support in customer management, calculation of profits, administration of operations, client accounts, treasury, trade finance and Islamic investments. This solution was integrated with various third applications for example internet and mobile banking, the ATM Switch and a local government tax solution. Since its introduction in 2008, it has enabled FCB bank to be in a running Path Solution iMAL offering which was selected a head of the competition from the Oracle FSS's Flexcube. From the responses gathered in the ICT department, the bank was eyeing for a compliant system with Islamic banking procedures to meet the set criteria. At that period, this solution entailed the only system in place which was built from the scratch level with total compliance with Shariah law in contrary to being conventional and partly Islamic. Also, it entailed the only system with the software provider that was qualified by the AAOIFI.

4.2.3 Challenges Encountered by Islamic Bank Institutions

The interviewees from GAB bank stipulated that they face various obstacles and challenges in the execution of strategies which entailed the insufficiency in leadership. Being in the leading team for strategy execution involve a balancing act which is capacity of working closely with the respective partners so that to build cohesion and offer support for the company's strategy while preserving the objectivity needed in formulating complex decisions. In most cases, strategy execution tend to fail because of the weak leaders placed in management who are unwilling to embrace the hard decisions approved in the planning of the entire organisation. To compound with the problem, the respective partners in the organisation regularly fail to contain those leaders accountable for driving execution of strategies, which ultimately result into the loss of both the company's investments in developing of strategies as well as opportunities connected in the establishment differentiation in the business market and attaining competitive advantage.

Containing weaknesses or unsuitable strategy practice were also identified as some of the challenges facing these banks. In the process of strategic planning, lack of a realistic and honest evaluation of the company will result into the development of inappropriate or potentially unattainable strategy. Weakness in strategy execution may also lead from overly aspirational or unrealistic organisational leaders or partners who embrace an ill-fitting strategy in respect to the company's present position or market competition. Without a practical strategy, organisations struggle to take actions to successfully execute the plan identified.

Further, the field responses revealed that quality of staff employed was also composed as the major challenge for these banks as most of the participants agreed that majority of the staff were not fully conversant with the concept of Islamic banking and most of the customers served felt that there was a shortage of qualified professionals in the Islamic finance sector. Thus, the high numbers of respondents who felt that the staff were not fully conversant with Islamic banking and that there was a shortage of professionals in that sector should be a great concern for Islamic banks. This is especially true if the banks want to provide services that are genuinely differentiated from those that are offered by conventional banks and banks that only offer Islamic banking windows.

The study also set to establish on issues with regard to accessibility of accounts by the customers. The respondents were asked about their opinion on non-Muslims being able to hold accounts with Islamic banks. The question was addressed at the bank‘s customers but it can potentially shed light on a potential challenge that could be faced by Islamic banks that try to attract interested non-Muslim customers. The overwhelming majority of the customers felt that non-Muslims should be allowed to have accounts with Islamic banks. This is good news for banks especially those who are Shariah compliant meaning that they would not stand to lose their Muslim customers if non-Muslim customers joined the bank.

The study also revealed that customers faced challenges of bank branches whereby majority of customers covered long distances for them to access Islamic banks. Other challenges encountered were for example the service and product range, branch opening hours and the competence of staff. The limited number of branches was a significant challenge as customers may feel that for convenience, they may have to open an account at a bank that is viewed by a competitor. It is therefore up to the bank to open more branches or seek other solutions that will benefit their customers. According to Gulf African Bank (2012), customers can do their banking through all branches of National Bank and Cooperative Bank countrywide for only cash and cheque deposits.

The interviewees were requested to respond their challenges facing First Community Bank (FCB) Limited during strategy implementation. The respondents attested that the challenges facing First Community Bank (FCB) were fast growth, structure strain, processes and the procedures are not documented for future reference and insufficient capital to meet big borrowing required by the clients. Profitability and inadequate capital limited the rate in which this institution would open various branches in regions where they will earn greater returns for the company. On the vein, the interviewees indicated that staff turnover was also a problem as it affected reliable service delivery.

Also, the perceptions from various respondents that these institutions only serve Muslim faithful leaving other segments in the community. This resulted to non-Muslim customers to be adamant before they could purchase any product of subscribe to their services. The knowledge gaps among the staff members was also classified as the challenge as these individuals were unable to handle technical areas of Islamic finance and banking overall. Therefore, this contained a trigger for the management on the manner they review and carefully align themselves the human skills with expertise needed in the business market without offending the employees or disrupting services for customers as a result of rapid developing Islamic financial needs.

The responses received in this section investigating the challenges faced by Islamic banks in Kenya focused mostly on the fact that staff are not fully conversant with the concept of Islamic banking and a lack of qualified professionals in the Islamic finance sector. The respondents felt that Islamic banking should be open to people from all religious backgrounds meaning that Islamic banks that want to expand their customer base to include more non-Muslims would not face resistance from its customers.

4.2.4 Discussion of the Findings

The main purpose of this study was to establish strategies adopted by Islamic banks to increase their profits in Kenya. The study employed three thematic theories which were resource based view, dynamic capability theory and systems theory. The investigation used a comparative case study approach to provide an insight understanding of strategies adopted by Islamic banks to increase their profits in Kenya. An interview guide was used to collective qualitative data where content techniques were embraced to analyze the narrations from the respondents.

According to the responses gathered from the targeted interviewees, it emerged that Gulf African Bank (GAB) and First Community Bank (FCB) banks majorly embraced differentiation, cost leadership and focus strategies. The respondents revealed that cost leadership was influenced by aggressive pursuit of automation that result to high efficiency resulting to the lowering of costs. It was identified that both banks have put in place systems and processes that ensured that there is efficiency in day to day operations. Customer friendly systems for example internet banking, agency banking and mobile banking ensure that it saves the customers; banking time and at the same time long queues warranting that all the banking halls are not congested which meant that the banks can employ less tellers to man the counters reducing on overhead costs.

The study indicated that cost leadership was effected through aggressive pursuit of automation that led to efficiency resulting to lower costs. The field responses also indicated that the differentiation strategy was conducted through Islamic banks introducing new products targeting clients. Islamic banks had products and services that suited the needs of women, children, and businesses connected to small and medium enterprises. While the focus strategy was catered where the brand and vision was built around the specific customer promise hence making it visible to the niche market and the distinction understanding of the corporate customer experiences. These findings is in line with Mokhtar, Abdullah & Alhabshi, (2008) who indicates that a comprehensive strategy of marketing seemed to be superior as the banks conduct their businesses where service quality are conceived as very crucial to their customers which made the Islamic banking to afford windows some services to their subsidiaries.

The study also set to establish some of the challenges encountered by these banks in an effort to offering banking services. From the responses analyzed, it was found that issues of financing emerged, competition, long term projects with low yield projects, small businesses, non-participating loans to running businesses, legislation, re - training of staff. tax regulations, excess liquidity, and regulating and supervising Islamic finance. The analysis of the findings also revealed that quality of staff employed was also composed as the major challenge for these banks as most of the participants agreed that majority of the staff were not fully conversant with the concept of Islamic banking and most of the customers served felt that there was a shortage of qualified professionals in the Islamic finance sector. Also most customers felt that non-Muslims should be allowed to have accounts with Islamic banks. The study also revealed that customers faced challenges of bank branches whereby majority of customers covered long distances for them to access Islamic banks.

Other challenges encountered were for example the service and product range, branch opening hours and the competence of staff. These findings were in connection with Gulf African Bank (2022) who suggested that customers to do their banking through all branches of National Bank and Cooperative Bank countrywide for only cash and cheque deposits. The findings also are consistent with Haji et al. (2009) investigation who indicated that the chief encounters of these banks did not contain team of experts to conduct the Sharia review. Therefore, in most cases the tasked auditors and the Shariah staff lacked the skills and capacity in handling the Shariah-compliant activities and operations. Thus, there exist a sharp decline in terms of human capital in the banking industry where most of them were sourced from the traditional banks.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the key findings of the study as well as the conclusions, limitations of the study, and recommendations for further research. This was based on the subject matter on the strategies adopted by Islamic banks to increase their profits in Kenya. The responses analyzed by the interviewees were critically analyzed purposely to reach a final conclusion and make recommendations for policy improvement.

5.2 Summary of the Research Findings

The study sought to establish strategies adopted by Islamic banks to increase their profits in Kenya. On the strategies adopted by banks, it was established that cost leadership, differentiation and focus strategies were the major ones embraced by these banks. The respondents indicated that cost leadership was effected through aggressive pursuit of automation that led to efficiency resulting to lower costs while differentiation strategy introduced a variety of products to target existing and current clients. The study also revealed that the focus strategy was covered where the brand and vision was erected around the specific customer promise hence making it visible to the niche market.

The analysis of the findings also revealed that new products have been introduced regarding to exclusive banking and they have added new features to previous products in the past one year. In the exclusive banking; for the salaried employees products like Elite and Elegant accounts, Alpha, corporate foreign accounts and for Businesses - Biashara foreign currency and Biashara club have been established. Under the retail Banking, FCB has brought introduced products for example a free insurance cover and indiscreet facilities up to a certain limit. Both banks contained debit cards ATM which were connected to the VISA network, connected to client accounts and to M-PESA and Mobile banking. These banks have also established Mortgage and ABF centres committed to serve customers who need to purchase cars, residential and commercial buildings.

Further, the study highlighted aspects of technology to include the impact of internet, emerging technological impact, reduction in communication costs, technological incentives, activities in regard to R&D, rate at which technology was changing and levels of automation. The marketing agents in these banks understood the major role played by technology in customer service. Moreover, iMAL at FCB was also introduced to the bank to offer support in customer management, calculation of profits, administration of operations, client accounts, treasury, trade finance and Islamic investments. This solution was integrated with various third applications for example internet and mobile banking, the ATM Switch and a local government tax solution. Since its introduction in 2008, it has enabled FCB bank to be in a running Path Solution iMAL.

The analysis of the findings also revealed that issues of financing emerged, competition, long term projects with low yield projects, small businesses, non-participating loans to running businesses, legislation, re - training of staff, tax regulations, excess liquidity, and regulating and supervising Islamic finance comprised some of the challenges encountered by these banks. Also the study indicated that quality of staff employed was a major challenge for these banks as most of the participants agreed that majority of the staff were not fully conversant with the concept of Islamic banking and most of the customers served felt that there was a shortage of qualified professionals in the Islamic finance sector. Also most customers felt that non-Muslims should be allowed to have accounts with Islamic banks. The study also revealed that customers faced challenges of bank branches whereby majority of customers covered long distances for them to access Islamic banks.

5.3 Conclusion

From the analysis of the findings, it was concluded that a majority of Islamic banks embraced cost leadership, differentiation and focus strategies. It was concluded that cost leadership was effected through aggressive pursuit of automation that resulted to efficiency leading to lowering of costs while differentiation strategy introduced a variety of products to target existing and current clients. The analysis of the findings deduced that the brand and vision was instituted around the specific customer promise hence making it visible to the niche market.

The analysis of the findings also deduced that Islamic banks have introduced aspects of technology to include the impact of internet, emerging technological impact, reduction in communication costs, technological incentives, activities in regard to R&D, rate at which technology was changing and levels of automation. iMAL was also introduced at FCB to offer support in customer management, calculation of profits, administration of operations, client accounts, treasury, trade finance and Islamic investments.

Further, the findings of the study listed challenges of finance, competition, long term projects with low yield projects, small businesses, non-participating loans to running businesses, legislation, re-training of staff, tax regulations, excess liquidity, and regulating and supervising Islamic finance as the main challenges encountered by these banks. The quality of staff employed was also a challenge as most participants indicated that the staff were not fully equipped with the concept of Islamic banking and most of the customers served felt that there was a shortage of qualified professionals in the

Islamic finance sector. Also most customers felt that non-Muslims should be allowed to have accounts with Islamic banks.

5.4 Limitations of the Study

The researcher experienced obstacles where some individual respondents refused to cooperate during the interviewing sessions. However, the researcher assured the participants that any bit of information gathered from them was strictly confidential and will be used purposely for academics. Insufficiency in terms of information was experienced by the investigator as most participants were unwilling to cooperate as a result of fear and victimization. This was attributed to a low response among the targeted individuals. Despite this, the researcher explained to all participants that the exercise was meant only for academic's purposes and their views were confidential

5.5 Recommendations of the Study

From the analysis of the findings, the following recommendations were made for policy implications and practice:

The study recommends for training of employees of both GAB and FCB on ways of implementing cost strategies to ensure banks are able to implement the cost leadership strategy. This will ensure that Islamic banks get cost advantage over their rivals and this can be conducted through continuous automation of systems. The study also recommends that Banks to aim beyond Muslim clients and aim for non-Muslim clients as most Islamic banks name their products using Arabic terms that non-Muslims cannot understand and relate to which gives the impression that Islamic banking is only for Muslims. The most basic requirement is the need for an Islamic bank to work perfectly on the demand of, or response to its customers'needs and wants.

Both the banks should invest on ICT infrastructure which should help the bank grow towards achieving goal. Islamic banks need to come up with ICT strategies which are in line with the ever changing business environment. ICT strategies adopted by Islamic bank should focus on reducing cost of doing business. Islamic banks should identify and understand how its perception towards technology.

GAB and FCB banks should asses the marketing strategies effectiveness by coming up with quantitative characteristics which can be obtained from a Islamic banks sample. Islamic banks should change their sales strategies according to the changing business environment. Marketing strategies should help banks in understanding the types of expectations so as to appreciate benefits customers expect to receive. They should also constantly evaluate their marketing strategies. Further, Islamic banks should strive for quality customer service as a way of increasing the number of customers.

5.6 Suggestion for further Studies

A future research activity in the area of Islamic banking could have as its focus the quality of services that are available to customers in this newly thriving sector of the banking industry. This could encompass both fully fledged Islamic banks as well as banks that offer Islamic banking windows enabling a subsequent comparison and discussion of their relative merits.

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APPENDICES

Appendix I: Interview Guide

Section A: General Information

1. What is your position at your bank?

2. How long have you been working at your bank?

SECTION B: STRATEGIES ADOPTED BY BANKS

1. What strategies has been adopted by your bank to increase its profits?
………
2. Why has the bank adapted these strategies?
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3. Who is charged with the implementation of these strategies?
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4. How has the bank segmented its market?
………
5. Why does the bank segment its market?

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6. How does the bank go about setting the costs for its services?

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7. Who participates in the setting of cots for its services? How are they involved?

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8. Why are these participants involved?

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9. Has the bank entered into any form of partnership? If yes, please explain.
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10. If yes, why has the bank entered into partnerships?
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11. How does the company differentiate its services from other providers in the industry?

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12. Why does the Company differentiate its services?

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13. How does innovation strategies(ICT) enable Islamic banking institutions?
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14. How does innovation strategies(ICT) lower the cost of doing businesses?
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15. How can Islamic banking institutions improve in usage of innovations in technology in their strategy?
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16. What procedures to be embraced by Islamic banks to increase their trade volume?
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What informs the Islamic banking marketing strategies

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17. How does marketing strategies help to position Islamic banks in the industry?

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18. What guides Islamic banks marketing strategies?

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19. How can Islamic banks effectively use customer service strategy?

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20. List the challenges encountered by Islamic banking institutions. Please rank each of the challenges listed as per the scale provided. Key: 1- Not at all 2- To a less extent 3- To a moderate extent 4- To a large extent 5- To a very large extent

S/No.	**Statement**	**[1]**	**[2]**	**[3]**	**[4]**	**[5]**
1.	Financing					
2.	Competition					
3.	Long term projects, low yield projects					
4.	Small businesses					
5.	Non participating loans to running businesses					
6.	Government borrowing					
7.	Legislation					
8.	R e - training of staff					
9.	Developing money markets					
10.	Tax regulations					
11.	Excess liquidity					
12.	Regulating and supervising Islamic finance					
13,	Data collection					

21. Please expound on the challenges you have ranked above

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22. Please suggest possible solutions to minimise the above challenges

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Thank You For Your Participation

Appendix II: List of Banks with Sharia Compliant

1. Gulf African Bank (GAB)
2. First Community Bank (FCB)

UNIVERSITY OF NAOROBI

SCHOOL OF BUSINESS

PROPOSAL CORRECTION FORM

Student Name HARRIET KIYALU Registration Number D61/82570/2015________

Department MBA_____________ Specialization STRATEGIC MANAGEMENT_____________

Title of Project Proposal

STRATEGIES ADOPTED BY ISLAMIC BANKS TO INCREASE THEIR PROFITS IN KENYA

The student has done all the corrections as suggested during the Proposal Presentation and can now proceed to collect data.

Name of Supervisor: Prof. Martin Ogutu Signature_____________________Date 5th April 2022

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS MASTERS PROGRAMME

MBA PROPOSAL/PROJECT SUPERVISION ALLOCATION FORM

SECTION A: (To be completed by the student)

Name of student: HARRIET KIVALU Reg. No: D61/82570/2015

Department: Business Administration

Specialization (Tick as appropriate)

i) Marketing [ ]
ii) Human Resource Management [ ]
iii) Strategic Management [✓]
iv) International Business [ ]
v) Insurance/Risk Management [ ]
vi) Entrepreneurship [ ]
vii) Finance [ ]
viii) Accounting [ ]
ix) Operations Management [ ]
x) Management Information Systems [ ]

xi) Procurement & Supply Chain Management [ ]

Mobile phone: 0718258733

Email: hkivalu@gmail.com

Proposed Title of Study: Strategies adopted by Islamic banks in Kenya to increase revenue

Name of Preferred Supervisor(s): (i) Prof. Ogutu (ii) Prof. Aosa (iii) Dr Kitombuki

Signature of student: [signature]

Date: 16/9/2021

SECTION B: (For Official Use only. To be completed by the Department)

i) **Name of Supervisor Allocated:**

Supervisor: Prof. M. Ogutu Mobile No.: ....

Co Supervisor (If any): .... Mobile No.: ....

Moderator: Prof. E. Aosa Mobile No.: ....

Proposal Presentation/Submission Dates:

Proposal Presentation: .... Oral Defence: .... Project Report Submission Date: ....

ii) **Approved by Thematic Coordinator:**

Name.......... Signature: ....

Date: ....

Approved by Chairman of Department:

Name: Dr F. Mwangi Signature: [signature]

Date: 15/11/2021