

**IMPACT OF COMPETITION ON THE GROWTH OF FIRST
COMMUNITY BANK LIMITED**

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DECLARATION

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

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DEDICATION

I dedicate this project to my parents, Mr. Ibrahim Hajji and Mrs. Rukia Olad for their support and encouragement during the entire period of my study. To my brothers and sisters for their continued prayers towards the successful completion of this course.

ABSTRACT

Stiff competition in the banking industry in Kenya has compelled banks to develop strategies that can help them navigate the turbulent business environment. This research project was a case study on First Community bank Limited. The objective of the study was to determine the impact competition had on the growth of First Community Bank. In order to meet these objectives, primary data was obtained through interviews with the informants responsible at First Community Bank. An interview guide was used as the primary data collection instrument. The researcher also used secondary sources of data to supplement sketchy information given by some interviewees. Data was analyzed qualitatively. The study established that the major competitive factors affecting the bank's operation are: rise of Islamic subsidiaries, government policies, changing customer expectations and needs, changing employee expectations and morale, technological changes, firm's size, change in management and internal structure and the market's potential growth. The study established that First Community Bank has adopted strategies similar to the other Kenyan banks although it has been more aggressive in some aspects. The study revealed that First Community Bank is using various strategies to respond to changes in the Kenyan Banking Industry. The most notable ones include: new products and services, products and services differentiation, market segmentation, automation of business processes, innovation, improved customer service, strategic partnerships, marketing, staff training and development, cost containment, use of mature information technology and entering new markets. The study revealed that although the bank has made heavy investments in business expansion, branding, information technology, customer service and staff development; the study reveals that there are some urgent issues that the bank needs to address in order to sustain its growth momentum. The study concludes that FCB has responded to the competition in the Banking Industry in Kenya through strategic choices which include: new products and services, products and services differentiation, market segmentation, branch network expansion, automation of business processes, innovation, improved customer service, strategic partnerships, marketing, staff training and development, cost containment, use of mature information technology and entering new markets. This has given them the much need edge they required. The study concludes that there are future market potentialities for the Islamic banking products. Many younger generations were seen going for these products and services. For this banking, system to develop and grow the banks should create awareness through seminars, workshops, and advertisement and prayer sermons quoting verses from Quran and sayings of the prophet (hadith) that concern Islamic Banking. The study recommends the Bank needs to deal with the issue of high staff turnover, embrace paperless banking like their competitors have done and finally the bank needs to be active in the social media to come up with a policy governing the use of social media advertising to safeguard its reputation.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the repercussions of the recent year's financial crisis, a question mark regarding trust for the conventional banking system has arisen. During this period several financial markets have experienced a large downturn in customer trust, and this still constitutes a huge threat to the industry. Banking customers worldwide have realized the value that they offer the banks and have therefore begun to demand a more loyal relationship from the companies. Although the customers are still relatively reluctant to switching banks, they are believed to have come to a point where the effort of a change can be worthwhile in the search for a more loyal and safe alternative (Ernst & Young, 2011). In addition, an increasing interest for sustainable and ethical financial products has been noticed recently. In general, it is becoming more important for consumers to find financial products that offer both revenues and the opportunity to make a good deed, and the meaning of the investment is becoming more valuable than the actual profit (Svenska Dagbladet, 2010).

Furthermore, with the ongoing globalization there is an increase in the spread and exchange of information, cultures and values around the globe (Dicken, 2007). This leads to people having a more open-minded attitude towards new business methods and alternative ways of doing business. In this changing environment, companies that provide options that go beyond the traditional easily become rooted on to new markets (Dicken, 2007). All of the above can be seen as some of the reasons to why Islamic banking, an almost unknown financial system 30 years ago, has developed and become a unique and growing segment in the international banking market (Elgar, 2007). Throughout the development of Islamic banking, the system has been

adapted differently between countries. Malaysia, a special case in terms of being a pioneer within Islamic finance, has been able to develop a dual system, whereby Islamic and conventional banking can co-exist. The dual system can be considered to be of great importance when transferring Islamic banking to Western markets since conventional banking is deeply rooted in these societies; thus it might be better for Islamic banks to function alongside conventional banks rather than trying to conquer them out of the Western markets (Warde, 2000).

1.1.1 The Concept of Organizational Growth

Growth is something for which most companies strive, regardless of their size. Small firms want to get big, big firms want to get bigger. With the passage of time, salaries increase and the costs of employment benefits rise as well. Even if no other company expenses rise, these two cost areas almost always increase over time. It is not always possible to pass along these increased costs to customers and clients in the form of higher prices. Consequently, growth must occur if the business wishes to keep up. Organizational growth has the potential to provide small businesses with a myriad of benefits, including things like greater efficiencies from economies of scale, increased power, a greater ability to withstand market fluctuations, an increased survival rate, greater profits, and increased prestige for organizational members. Many small firms desire growth because it is seen generally as a sign of success, progress. Organizational growth is, in fact, used as one indicator of effectiveness for small businesses and is a fundamental concern of many practicing managers. Organizational growth, however, means different things to different organizations. There are many parameters a company may use to measure its growth. Since the ultimate goal of most companies is profitability, most companies will measure their growth in terms of net profit, revenue, and other financial data. Other business owners may use one of the

following criteria for assessing their growth: sales, number of employees, physical expansion, success of a product line, or increased market share. Ultimately, success and growth will be gauged by how well a firm does relative to the goals it has set for itself. In this study, the definition of organizational performance and ultimate growth with respect to a firm differs depending on the firm's overall goals. The chosen definition also impacts how performance is measured. Measuring all of sales growth, market share, profitability overall performance and stakeholder satisfaction will provide a more accurate view of such firms growth.

1.1.2 The Concept of Islamic Banking

Islamic banking refers to a system of banking, which is consistent with Islamic Sharia (Law), and guided by Islamic economics. Islamic law prohibits the payment and collection of *riba* (interest or usury). The main argument against interest is that money is not used as a commodity with which to make a profit but that it should be earned on goods and services only, not on control of money itself (Kahf, 2004). Features of Islamic Banking are based on ethical principles. Islamic Sharia allows all economic activities in the framework of protecting public interest and safeguarding it. Man may make profit from doing business. However, when this runs against Islamic ethics and morality, it is outlawed. In addition, for an investment to be legitimate, one of the most important requirements is that its outcome must fulfill the reality of investment transactions and that it enables the Islamic Financial Institution (IFI) to state what it expects to make in profits. However, this cannot be determined as a certainty or can one commit one's self to it, or bear any loss sustained. Main conditions governing Islamic investment include: Money does not generate or beget money in itself, but it becomes productive if it is involving an activity or work; Investment is subject to the rule of profit and loss sharing; Investment in business activities is lawful, but

prohibitions should be avoided. Contracts must be free of *gharar* (uncertainty, ignorance and the conditions which lead to disputes). Islamic banks are banking institutions that have been set up based on Islamic Sharia law. Since the establishment of the Dubai Islamic Bank in 1975, over 277 Islamic banks have been established in 70 countries the world over. As opposed to conventional banking institutions that operate based on interest income, Islamic banks operate based on profit and loss sharing agreements (PLS). Islamic banking has dominated the entire banking industry in countries such as Iran, Pakistan and Sudan, and some large conventional banks such as HSBC and Citigroup have launched Islamic divisions in order to operate in these markets.

According to Olson and Zoubi (2008), Islamic banks differ from conventional banks in a number of ways: Firstly, Islamic banks are organized under and operate upon principles of Islamic law, which requires risk sharing and prohibits the payment or receipts of interest (*riba*). Secondly, Islamic banks also operate under the principle of risk sharing, and enter into agreements with depositors and lenders. Funds are received from the investing public on the basis of *Mudaraba*, and the bank is allowed to use the funds any how they see fit. They borrow the funds to entrepreneurs on the basis of *Musharaka*, and these entrepreneurs would use the funds to finance their businesses and share the profits with the bank, based on predefined ratios. Third, the bank pools all profits from different investments, and shares these profits with savings depositors, based on predefined ratios. Fourth, Conventional banks use debt and equity financing, while Islamic banks operate mostly on equity financing and customer deposit accounts. Lastly, the cost of capital in conventional banking represents the cost of debt and equity, while that of Islamic banks is replaced by profit and loss sharing by depositors and equity holders in Islamic banks. Return on equity

is more variable than conventional banks, but default risk of not repaying loan is eliminated.

However, Khan and Bhatti (2008) state that Islamic banks have the following problems: To begin with Islamic banks are still very nascent compared to conventional banks. They are about 40% more liquid than conventional banks due to the unavailability of a wide range of Sharia compliant investment products. Secondly, they follow a varied range of accounting standards and practices. Thirdly, they suffer a serious shortage of Sharia experts in the banking industry. Fourth, they face a crucial challenge of improving their risk management strategies and corporate governance as they face a wide sort of interest rate, liquidity and non-payment risks. Lastly, they have an unsatisfactory Research & Development and innovation history, as most of their products and frameworks are still based on conventional banking methods. According to Olson and Zoubi (2008), since Islamic banks operate under similar conditions to conventional banks, then the difference in these banks should be easily distinguishable through their balance sheets, however based on international regulatory requirements and reporting requirements such as the Basel that regulate all banks, then it is possible that they have similar balance sheets.

1.1.3 Competition

In the aftermath of the Second World War, customers started to become more affluent and, as a consequence, more financially sophisticated. In response to these socioeconomic changes, banks, which had traditionally been supply-led, started to emerge as demand-led organizations (Howcroft, 2005). The Kenyan banking industry experienced a similar phenomenon after the political and economic liberalization of the 1990's. The managers today are facing an increasingly complex and dynamic

environment (Chandan, 1997). These dynamics have created hyper-competition in different industries. According to D'Aveni, 1994 hypercompetition is “characterized by intense and rapid competitive moves, in which competitors must move quickly to build new advantages and erode the advantages of their rivals”.

Factors that have led to accelerated hyper-competition include knowledge sharing (franchise and outsourcing), brand convergence quick niche copying (imitation), and high quality resulting from standardization, shrinking markets, and attraction of powerful new entrants to business segments with high returns (Thomas and D'Aveni, 2004). Competition in the Kenyan banking industry has risen, so much that even international banks like Barclays, Standard Chartered and Ecobank have been hawking their services. Banks haven't been competing blindly as profitable growth and efficiency have displaced the traditional emphasis on volumetric targeting and “size for size’s sake” (Howcroft, 2005). Kenyan banks have had to develop strategies to respond to competition, to both safeguard their niches and to enlarge their market share. Porter, 1994 notes that the three generic strategies used to compete at business unit level are cost leadership, differentiation and focus. Cost leadership enables a when a firm delivers the same services as its competitors but at a lower cost e.g. Tuskys Supermarket. Differentiation advantage enables a firm to delivers superior product same price or lower price than its competitors e.g. Toyota's Lexus brand. First Community Bank has tried to brand and differentiate its products like introduction of Visa Debit Card. Under the focus strategy a firm concentrates its marketing effort on a narrow market segment (market niche), aiming at achieving a local rather than industry wide competitive advantage e.g. Porsche has concentrated on luxurious sports cars.

1.1.4 First Community Bank Limited

First Community Bank is the first Bank approved by the Central Bank of Kenya (CBK) under Cap 488 of the Banking Act to operate as a full-fledged Sharia Compliant banking institution. The bank received its formal approval from the Central Bank of Kenya on 29th May 2007 thereby opening the door for Sharia compliant banking not only in Kenya but indeed in the entire East and Central African region. All branches are located strategically in different towns within the country. Currently it has 17 branches which are: Mandera, Wajir, Habaswein, Garissa, Malindi, Masalani, Kisumu, Nakuru, Mombasa (Two Branches) and Nairobi (Seven Branches). Certainly, the benefits to the clients from this aggressive branch expansion program were an overwhelming value in terms of service delivery and overall networking perspectives.

The bank is owned by a diverse base of community businessmen and professionals from Canada, Kenya and Tanzania. The bank commenced official operations on 1st June 2008. As a committed Kenyan bank, FCB's motive is to take its alternative form of banking to as many places as possible within the country. As a pioneer of Sharia Compliant banking institution, with addition to its core banking business, it has a number of other innovative Sharia Compliant products. These include; Islamic Insurance (Takaful), Islamic Bonds (Sukuk) and Sharia Compliant Mutual Funds and Shares trading. All their products and services are offered on fully Sharia Compliant basis as approved by the Sharia Advisory Board which comprises of prominent Islamic scholars both from inside and outside Kenya. The Capital Markets Authority of Kenya (CMA) has also granted approval to FCB Capital Investment Bank as Kenya's first Islamic investment bank. At the same time, the government of Kenya is studying the possibility of issuing the country's debut sovereign Sukuk issuance. FCB

has also launched FCB Capital which plans to issue a series of local currency Sukuk plus other Islamic capital market products for a growing market segment. Takaful Insurance of Africa has been licensed and launched in Nairobi and is backed by the Cooperative Insurance Company of Kenya. The launch of Takaful Insurance of Africa follows from the granting of two Islamic banking licenses to Kenyan authorities in 2007 to Gulf African Bank and First Community Bank. (First Community Bank, 2014)

1.2 Research Problem

If a greater understanding for Islamic banking would be developed, this financial system could provide the individuals engaged in banking activities with a safer and more ethical alternative in comparison to conventional banking. When Islamic banking is misinterpreted or wrongly connected to consumers prejudices of the religion of Islam, it reflects negatively on the companies that provides this type of banking service. Not only does this affect the banks and the financial system as a whole, it also affects the consumers, as they miss out on the positive attributes that the different products of Islamic banking can actually provide. This is a problem that is likely to become even larger as Islamophobia is increasing around the world. According to Ndungu (2010) Kenya was the first country in the East and Central African region to introduce Islamic banking in the year 2007. In this short period, two banks, i.e. First Community Bank and Gulf African Bank were licensed to exclusively offer Shariah-compliant products with many other conventional banks establishing a window specifically for Shariah-compliant products. He noted that the concept of shariah compliant banking has emerged as an alternative vehicle for mobilization and supply of finance. For example, the two banks have already contributed in development agenda of the country by participating in Shariah-compliant (Sukuk) components of infrastructure bonds issued by the Central Bank of Kenya on behalf of

the Government of Kenya and “Structured Sukuk” is expected to cover the bonds and T-Bills market in future.

Islamic banks now control 0.9 per cent of total accounts, indicating increased penetration of financial services to a segment of the population that was hitherto excluded from the system due to its religious beliefs. For years, many Islamic banks have witnessed double-digit growth rates, surpassing their conventional peers. At first glance, all seems well for the Islamic banking industry. A closer look, however, suggests the market dynamics are changing. Two key indicators should be cause for reflection in the Islamic banking industry: growth rate and profitability. The competitive landscape and the basis of competition in Islamic banking are changing. Originally, Islamic banks derived their competitive advantage not only from being sharia compliant but also from being the only pure-play Islamic bank in town. For example, First Community Bank, Gulf African Bank and Dubai Bank. This situation has changed considerably over the past few years. For example, Chase Bank, Kenya Commercial Bank, Standard Chartered, Barclays, National Bank, have now full-fledged Islamic Subsidiaries and many conventional banks with Islamic offerings, known as windows, in addition to Islamic finance companies. Currently, 10 out of the 42 commercial Banks in Kenya have created such segments to cater for what they call the “Muslim niche segment.” There are nearly ten million Muslims in Kenya, which has a population of 36 million.

The increasing number of players in the marketplace is putting pressure on pricing and eroding margins. At the same time, consumers are increasingly demanding a return on their funds either through direct income from deposits in mudharabah-based profit-and-loss-sharing investment accounts or by switching to investment products

such as mutual funds. The effect is to negate the traditional funding advantage of Islamic banks. Additionally, with Islamic banking integrating into the mainstream, and with more and more conventional banks offering Sharia-compliant products, the clear distinction between Islamic and conventional banking is vanishing. As competition intensifies, the providers of Islamic financial services need to develop new sources of differentiation beyond Sharia compliance. It is quite possible that these sources will need to be different for full-fledged Islamic banks and for those banks with Islamic windows.

To address above challenges highlighted the study seeks to establish the impact of competition on the growth of First Community Bank Limited.

1.3 Research Objectives

The objective of the research was to investigate the impact of competition on growth of First Community Bank Limited.

1.4 Value of the Study

The study focuses on how competition from both Commercial Banks and other Islamic Banks has contributed to the development and growth of FCB. Therefore, this study will be of importance to FCB in their endeavor to grow their Islamic banking portfolio hence increasing their profitability. The study is also of importance to customers who are in need of competitive Islamic compliant products. The Government and regulatory institutions such as the Central Bank of Kenya and Kenya Bankers Association (KBA) in understanding the operations of Islamic Banking requirements also the extent to which they can sustain the market segment and contribute to the literature of what is known about Islamic banking in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

According to this well-known saying, we can easily find out that theory is important. It can guide us to work on the correct way. This chapter undertakes a review literature relevant to this research with the aim of getting views and opinions on the impact of competition on the growth of FCB.

2.2 Theoretical Framework

There are various theories to explain determinants of bank performance and its profitability. The two main theories that apply to the research study are discussed as follows:

2.2.1 Market Power Theory

The Market Power (MP) theory states that the performance of the bank is influenced by the market structure. The hypothesis suggests that only firms with large market share and differentiated portfolios can win their competitors and earn monopolistic profits. The market structure matters for the bank's power irrespective of the nature of banks, whether Islamic or conventional, as it can directly affect bank performance. There are two distinct approaches within the MP theory: The traditional structure-conduct performance (SCP) and the relative market power theories. SCP hypothesis developed by (Bain, 1956) states that increased exogenous market forces in bank's conduct influences its profitability. The SCP paradigm assumes that higher level of bank concentration allows a higher degree of cooperation between banks thus result to set of higher prices and consequently gains substantial profits through oligopolistic behavior and collusive argument. The SCP hypothesis states that bank performance

depends on various elements of market concentration, market structure, number and size of banks, and collusion. The more concentrated the market, the less the degree of competition and hence, the higher profitability.

Shepherd (1986) formulated Relative Market Power (RMP) theory, which states that earning supernormal profits are due to firms with well-differentiated products that can increase market share and exercise their market power in pricing products. Consequently, under the RMP hypothesis, individual market shares accurately determine market power and market imperfections. The RMP hypothesis is empirically proved when concentration introduced in the explanatory equations of performance is found non-significant in contrast to market share which should be positively and significantly correlated with price and/or profitability. Therefore, the bank with a strong position in the market may either reinforce its domination over the market or achieves a higher efficiency.

2.2.2 The Efficiency Structure Theory

Demsetz (1973) formulated the Efficiency Structure Theory (ES) which states that a bank which operates more efficiently than its competitors gains higher profits resulting from low operational costs. The same bank holds an important share of the market. Consequently, differences at the level of efficiency create an unequal distribution of positions within the market and an intense concentration. The efficiency theory further suggests that enhanced managerial capability and scale efficiency level leads to higher concentration and higher profitability. Among these capabilities, the bank should be skilled in areas of knowledge sets which includes; the talent to reinforce the training process and the relational network, its ability to master the sense of prediction, selection and rely on human capital and its capability to

minimize cost while seeking adjustment of costs based on quality and products volumes in order to be efficient. The efficiency structure hypothesis is usually divided into the X-efficiency and scale efficiency hypotheses.

2.3 Response to Competition

Islamic banks are now facing ever-increasing competition. An important development in Islamic banking in the last few years has been the entry of some conventional banks in that market. Although it is difficult to know with certainty how many conventional banks around the globe practice Islamic banking techniques, even a randomly selected short list may contain some of the giants of international banking business. This development is a clear recognition of the viability of Islamic banking as an alternative model, but has at the same time increased competition. Does it augur well for the future of Islamic banking? The answer will depend on how Islamic banks such as FCB react to this development. In general, competition is supposed to be good for the growth of any industry. It forces inefficient firms to either shape up or ship out. It reduces costs and improves services to consumers. It promotes innovation and brings improvements in product quality. There is, however, one exception to this rule. This is the well-known infant industry argument which claims that small firms in their infancy may be protected from harsh, ruthless competition until they can stand on their feet and be able to face competition from their bigger counterparts, one such firm is FCB. One can argue that Islamic banks may well deserve this treatment.

The conventional banks and particularly the western banks have a large advantage over Islamic banks in terms of their size, experience, market coverage, and long standing in the industry. This makes FCB vulnerable to unequal competition. While it may be difficult to settle the point on theoretical grounds, the stark reality is that even

if one could invoke infant industry entitlements for Islamic banks, there is in practical terms no institutional arrangement to put those into operation. Governments usually offer infant industries benefits such as tax breaks or subsidies. No such possibility exists at present. Therefore, the survival of Islamic banks essentially depends on their own efficiency and performance. However, the researcher believes the future sources of differentiation for FCB will likely revolve around three areas: Product development and innovation, Distribution and Operational excellence. First, Product development in Islamic finance has made significant advances in recent years. Today, most conventional products whether in banking, asset management, or capital markets can be replicated in a sharia compliant manner. Product innovation has emerged not only in response to the increasingly competitive environment, but also to address emerging customer needs. For example, on the retail side, more and more customers are seeking a return for the funds deposited with their banks. The challenge facing FCB is not only to offer products that cover the same scope as those of conventional banks, but also to ensure that their products are different from those of their Islamic peers. In this regard, having a well-honed product development capability is paramount.

According to Vayanos , Haimari , Golder and Wackerbeck, (2008) The following key requirements need to be in place to establish a differentiated product development capability: a market intelligence process that captures customers' needs, a robust methodology for rapid development and deployment of products, a mechanism to engage the sharia board early on to seek approval for the proposed product or service and finally an automated monitoring and compliance tools that ensure compliance of increasingly complex products with the relevant fatwa or religious ruling, in a cost effective manner. Secondly, Distribution: Islamic banking products are inherently more complex than their conventional counterparts. As well as having to avoid

riba(interest), gharar (speculation), and maysir (gambling), Islamic transactions generally involve two legs, with ownership in contracts transferred twice: from the seller to the bank and from the bank to the ultimate buyer. This places a burden on distribution, which has to explain the intricacies of the products to clients and, in some cases, convince them of the products' sharia compliance, as well as engage asset or commodity providers as part of the transaction. The solutions to these problems are straightforward. Leading FCB to offer their front-line staff extensive training that covers not only the product features but also how the transaction is processed. This in turn allows the front-line staff to satisfy the increasing number of customers who are not satisfied with a simple statement that the product is sharia compliant, but want to understand the underlying features of the product or service. In general, Islamic banking products are more complicated than conventional ones because of the sharia-compliance requirements as defined in the product-specific fatwa. Consequently, the sale of a sharia compliant product requires the special knowledge of a well-trained sales force. Lastly, Operational excellence: The increasing competitive intensity among Islamic banks is putting pressure on prices. At the same time, the historic advantage of Islamic banks the non-interest bearing deposit is coming under threat because of customers' desire to invest in higher-yielding products. Islamic banks have inherently more complex operations than their conventional counterparts. All of the above are placing pressures on margins and driving Islamic banks to seek avenues for improving operational performance.

2.4 Firm's Growth Strategy

Many academic models have been created that depict possible growth stages/directions of a company. Six of the most commonly used methods for creating organizational growth are discussed as follows (Inc). Joint Venture/Alliance; this

strategy is particularly effective for smaller firms with limited resources. Such partnerships can help small business secure the resources they need to grapple with rapid changes in demand, supply, competition, and other factors. Forming joint ventures or alliances gives all companies involved the flexibility to move on to different projects upon completion of the first, or restructure agreements to continue working together. Subcontracting, which allows firms to concentrate on those aspects of their business that they do best, is sometimes defined as a type of alliance arrangement (albeit one in which the parties involved generally wield differing levels of power). Joint ventures and other business alliances can inject partners with new ideas, access to new technologies, new approaches, and new markets, all of which can help the involved businesses to grow. Indeed, establishing joint ventures with overseas firms has been hailed as one of the most potentially rewarding ways for companies to expand their operations. Finally, some firms realize growth by acquiring other companies.

Licensing; a firm may wish to expand and grow by licensing its most advanced technology. This course of action is often recommended to firms with their own proprietary technologies because competitors will likely copy whatever a company develops at some point. Licensing is one method that can be used to maximize the benefit that a firm can gain from its technology. It is also a way to gain the resource to fund future research and development efforts.

Sell Off Old Winners; some organizations engaged in a concerted effort to grow divest themselves of mature "cash cow" operations to focus on new and innovative lines of products or services. This option may sound contradictory, but analysts note that businesses can command top prices for such tried and true assets. An addendum

to this line of thinking is the divestment of older technology or products. Emerging markets in Latin America and Eastern Europe, for instance, have been favorite places for companies to sell products or technology that no longer attract high levels of interest in the United States. These markets may not yet be able to afford large quantities of state-of-the-art goods, but they can still benefit from older models.

New Markets; some businesses are able to secure significant organizational growth by tapping into new markets. Creating additional demand for a firm's product or service, especially in a market where competition has yet to fully develop, can spur phenomenal growth for a small company, although the competitive vacuum will generally close very quickly in these instances. In the last ten years, many small firms have turned to an online marketing presence as a tool for reaching beyond their traditional markets. For those who do not yet market and sell online, this is one area that may be explored.

New Product Development; creation of new products or services is a primary method by which companies grow. Indeed, new product development is the linchpin of most organizations' growth strategies.

Outside Financing; many small companies turn to outside financing sources to fund their expansion. Smaller private firms search for capital from banks, private investors, government agencies, or venture capital firms.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the research methodology which will be used in the study. It discussed the research design and data collection methods as well as data analysis and data presentation methods employed in the study.

3.2 Research Design

A research design is a framework specifying the relationships among the study variables. This study will be conducted using a case study design. A case study is a research design where data is collected from one or a few study units only. The researcher used a case study design which is suitable in situations where questions such as how, why and what are investigated on a certain phenomena to give facts of the situation as it is, without interference by the researcher. The research design was chosen because the objectives of the study require an in depth understanding of the impact of competition on the growth of First Community Bank Ltd. The case study will be carried out in FCB headquarters located at Jamia Plaza, Kigali Road and Prudential Assurance Building, Wabera Street Nairobi. This is where Strategic Plan of the Bank are drafted and piloted before being implemented in FCB's branches.

3.3 Data Collection

Both primary and secondary data sources were used for data collection. The primary data collection method was an Interview Guide which contained open ended questions. The interview guide was divided into three sections; A, B and C. Section A addressed the general information about the interviewees and the company, Section B addressed the main issues in order to seek the competition that exists in the Banking

Industry, while Section C addressed the strategic growth responses. The researcher also relied on the company's website, internet, newspapers and other published material as sources of secondary data. The targeted respondents were Six and included: Departmental Heads of FCB who included; Head of Operations, Head of Consumer Banking, Head of Corporate Banking and Head of Human Resources and Senior Managers of FCB who included: Senior Manager - Distribution & Sales and Senior Manager - Customer Service. The study targeted these top management employees since they are involved in strategy development and execution. The six interviewees were all stationed in FCB headquarters located at Jamia Plaza, Kigali Road and Prudential Assurance Building, Wabera Street, Nairobi. The interview guide was administered by face to face interviews. The researcher visited the interviewees at their work stations.

3.4 Data Analysis

Once the responses were received, the Interview Guide was edited for completeness and consistency before processing. The data collected was qualitative in nature. The gathered data was analyzed using content analysis. Content analysis is a qualitative analysis method for the systematic description of behavior, asking who, what, when, where and how questions within explicitly formulated systematic rules to limit the effects of analyst bias (Strauss, 1990). This technique has been successfully used by other scholars such as Nyamai 2011, Kiptugen 2003, Githii 2007 and Ramona 2008.

Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). This technique helped the researcher to provide knowledge and facts and practical guide with regard to the challenges facing strategy implementation.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the data analysis and the research findings for the study. The data collected was analyzed and interpreted in line with the objective of the study. Content analysis was used in analyzing the in-depth qualitative data that had been collected.

4.2 The Interviewees

The interviewees in this study were Head of Operations, Head of Consumer Banking, Head of Corporate Banking and Head of Human Resources, Senior manager Distribution & Sales and Senior Manager Customer Service at FCB who are involved in respect to the subject of the study. Majority of the interviewees have held senior management positions at FCB for over four years, the rest were new entrants from within the Banking Industry. Thus, their contributions to the impact of competition on the growth of FCB are drawn from a broad reservoir of experience and knowledge gained.

4.3 Banking Industry

This section aimed at identifying the stiff competitive factors that exist in the banking industry that have affected the operations of FCB. The following factors were considered to have greatly impacted the bank's operations.

4.3.1 Threats of new entrants

Threat of new entrants refers to the threat new competitors pose to existing competitors in an industry. A profitable industry will attract more competitors looking to achieve profits. If it is easy for these new entrants to enter the market, if entry

barriers are low this poses a threat to the firms already competing in that market. More competition without concurrent increase in consumer demand means less profit to go around. According to Porter's 5 forces, threat of new entrants is one of the forces that shape the competitive structure of an industry. Since FCB began its operations in 2008 it has witnessed the rise of Islamic subsidiary windows being opened by conventional Banks in Kenya.

The Banks that have opened an Islamic window are Chase Bank, KCB, Standard Chartered, Barclays Bank of Kenya among others. This therefore shows that in Islamic banking there is a high threat of entry meaning new competitors are likely to be attracted to the profits of the industry and can enter the industry with ease. The interviewees all agree the threat is there but argue that it is low and not high. They point out the following to prove the circumstances under which threat of new entry is low: Profitability requires economies of scale, Products are differentiated, Brand names are well-known, Initial capital investment is high, consumer switching costs are high, Accessing distribution channels is difficult, Location is an issue, Proprietary technology is an issue, Proprietary materials is an issue, Government policy is an issue and Expected retaliation of existing firms is an issue. FCB has seen many Banks opening Islamic windows, however its not easy for the other banks to come and take all the customers it will take time and reaffirmed assurance the products are sharia compliant. This is what FCB is known for, trusted sharia compliant products.

4.3.2 Government Policies

The recent government policies that have affected the running of First Community Bank include: Increase of 10% on all Bank Transactions, Endless and unpredictable revising of Central Bank Rate (CBR), Introduction of Cheque Truncation, Licensing

of Agency Banking, Licensing of Islamic/Sharia compliant Banking, Licensing of Bancassurance, Introduction of Credit Reference Bureaus (CRBs) and Enactment of Finance Bill 2008. During the budget 2014-2015 the government had introduced a 10% levy which will be charged on all the Banks in Kenya. This had no big impact on the Bank's operations. Since banks base their lending rates on the Central Bank Rate (CBR), this increase automatically made FCB loans quite expensive. This resulted to a decline in the number of customers seeking loans. This translated to a drop in funded income. To bridge this gap, the bank had to be flexible on loan security requirements among others. It encouraged the general public to open accounts.

Cheque truncation is the process of transmitting cheque images with their code line information to the clearing house electronically instead of the traditional physical cheques. It was operationalized in Kenya in 2011. The main objectives of this initiative were to reduce cheque fraud and improve efficiency in the clearing process. This change greatly affected FCB's operations. The bank upgraded its clearing systems to conform to the new requirements. Cheque Truncation environment also required new standard cheque books to be produced and given to the customers. This increased the cost of stationery and advertising during the transition period.

The licensing of agency banking is expected to increase competition in the banking industry. Already; several banks have already adopted this concept. Equity Bank was the first to adopt this model with its countrywide "Equity Agent" brand name. Other banks to follow suit were KCB with "KCB Mtaani" and Co-operative Bank's "Coop Kwa Jirani" brand names respectively. FCB Launched "FCB Kwa Wote" in late 2013 in order to compete with their counterparts, this has given them the much needed boost. However, with the launch of every product expenses are incurred, but with

FCB dedicating a whole department - Distribution and sales to this initiative its only time before they will start making gains.

Islamic/Sharia compliant banking was introduced in Kenya in 2008 by Gulf African Bank and First Community Bank. These two banks offer fully Sharia compliant products and services to their customers in Kenya and the entire East African region. Other mainstream banks have also developed Sharia compliant products. Leading the pack is KCB bank with its “Amana Account”. FCB is now forced to come up with innovative products to remain competitive in this saturated markets. Bancassurance is the marketing of insurance products by banks. Apart from their regular products of deposits, loans and investments, banks are also engaged in selling insurance products for both life and general insurance. FCB quickly exploited this business opportunity by partnering up with Takaful Insurance dubbed FCBT - FCB Takaful Insurance Brokers Limited. Bancassurance service introduced in 2008 to provide a wide range of exemplary insurance products for the customers as the general insuring public. FCB Takaful Insurance Brokers Limited which is a wholly owned subsidiary of FCB. Takaful Insurance of Africa is registered and licensed by the insurance regulatory authority of Kenya (IRA).

Credit reporting allows banks to better distinguish between good and bad borrowers. Over time, better information on potential borrowers should mean that it will be both cheaper and easier to obtain loans. The bank installed the credit reference bureau software supplied by CRB Africa Ltd and fully trained its staff in keeping with the new CBK requirement. In the long run, it is hoped that sharing of negative credit history will lower lending risks and instill discipline among errant customers. The

bank created lot publicity on this initiative through the media and using customer account statements.

The enactment of Finance Bill of 2008 has raised the requirement for banks' core capital from the current KES 250 Million to KES 1 Billion by December 2012. This is likely to force the low capitalized banks to merge leading to further consolidation in the industry or prevent other companies from joining the industry. However; this requirement will not affect FCB since it has a significant capital base, a very high capital adequacy ratio and an excellent liquidity position. The bank's strong capital base is a prudent measure and ensures that FCB has the necessary resources for future expansion.

4.3.3 Changing customer expectations and needs

FCB's Mission is to operate as a responsible corporate citizen, foster growth for our customers, shareholders and the community through the provision of innovative sharia compliant financial solutions. The Heads and senior managers interviewed recognize that today's customer is becoming increasingly aware of their consumer rights and existence of a wide selection of financial service providers in Kenya, so much so that they have posted some signs in many of their branches the phrase "Customer is King" To address the ever changing customer needs and preferences, the bank has institutionalized a culture of providing superior and quality products and services that meet customer expectations through efficient and timely service delivery, integrity, friendly and personalized approach, flexibility, value pricing; and being the preferred service provider.

4.3.4 Changing employee expectation and morale

By recognizing that employee expectations in the banking industry are ever changing, FCB has taken proactive measures to bridge the gap between employee demands and Human Resource Department's level of satisfying them. One such initiative was the implementation of a Performance Development Plan (PDP) in 2014 to replace the Balanced score card the Bank was using before, the Performance development plan process enables each staff person to understand their true value-added to the organization. They do so when they understand how their job and the requested outcomes from their contribution "fit" inside your department or work unit's overall goals. The Performance Development Planning (PDP) process enables both the staff and supervisor to identify their personal and business goals that are most significant to the organization's success. Performance Development Plan consists of four components: Performance Development Planning, Ongoing Discussions, Performance Development Review and Reward and Recognition. Performance Development Planning is the first component of the cycle.

During the planning stage the supervisor and staff member discuss the elements of a Performance Development Plan. At this discussion the following items are addressed: performance expectations, objectives and indicators and development needs and timeframes. This was executed at FCB at the start of 2014, where all staff planned their respective goals. Secondly, ongoing discussions about performance should be regarded as an integral part of the continuing process of performance development. Frequent discussions will help ensure that staff receives ongoing guidance, support, coaching and encouragement. The following items should be included in Ongoing Discussions: Discussions on progress of the objectives, Provision of support and coaching to staff member where needed, Updating objectives where necessary,

Adjustments of development activities where necessary and Provision of feedback on performance. At FCB this is usually done at Mid-Way (June).

The Performance Development Review is the basis for assessing overall performance of the performance review period. The structured performance development review relies on a formal discussion and performance rating. The discussion should take into account all of the following: the whole range of the performance objectives set for the review period, factors which influenced performance, performance over the whole review period, the relevant position description, revision of the role and/or responsibilities, comments from significant clients or, if the staff member reported to another supervisor during the period under review, comments from the previous supervisor, development activities undertaken, career aspirations and the overall performance rating. The discussion should take into account such issues as achievement of goals, quality of service, resource management and behavioral capabilities. Staff and supervisor should collect evidence to support their discussions. The Performance Development Review at FCB must be completed annually, i.e December. Lastly, Reward & Recognition: Supervisor's rating will determine if eligible staff will be awarded an increment. Any rating of 'Satisfactory' or higher will automatically award increments to eligible staff from the increment date. Eligible staff will be awarded an increment on their increment date, based on the rating awarded for the last performance development cycle. To illustrate, where a staff member's increment date is in June 2015, they will be awarded an increment based on the rating awarded for the 2014 performance cycle, i.e.1st Jan 2014 - 31st Dec 2014. Outstanding performance can be recognized in a variety of ways. FCB awards it staff through promotions, awarding vouchers to best performers, enjoying lunch with the General Manager among others.

4.3.5 Technological Changes

First Community Bank unfortunately has been slow to adapt to technological changes in the banking industry. However, with that said, It was among the first banks to integrate its customer accounts with M-Banking dubbed 'FCB Popote' mobile money transfer service in 2013. The bank is also in advanced piloting stage to adopt online/internet banking platform. The bank has also adopted the optic fiber networking technology and voice over internet (VOIP) through internet protocol telephony (IPT) in order to reduce calling costs. The bank has continued to use technology that is tried and tested in the market for applications and operating systems. For this reason, the bank has also lagged behind in adopting technologies that support concepts like paperless banking and agency banking among others. To support this agile approach to technology, the bank has developed an ICT strategy that ensures it realizes its vision in the most efficient, consistent and cost effective way.

4.3.6 Firm Size

Since the time of Karl Marx, it is common wisdom that the evolution of private capitalism tends to produce larger enterprises, because big firms are better able to survive in economic competition. However, Gone are the days when small businesses couldn't compete with bigger companies. Technological advances have helped to even out the playing field, but there are inherent advantages to being the smaller firm. Size can be used to your advantage; here are four ways that are being used by FCB to compete with bigger Banks. Firstly, being nimble, bigger companies have a larger staff and more resources. But that can also add layers of bureaucracy to their infrastructure. The more vice-presidents and managers you have, the longer it usually takes to create, develop, approve and implement change. As a smaller firm like FCB, they have fewer internal hurdles to clear when implementing changes. They can also

respond to customer queries or complaints faster because there are fewer people in the company, who have to meet, discuss and approve how to reply to such client feedback. Secondly, Being Personal, what sets many FCB apart from large competitors is their ability to build personal relationships with customers. They know many of those players by name and have an ongoing relationship with them to nurture it. Sometimes they can do it in little ways such as asking them to take part in a roundtable on improving customer service and products, acknowledge their personal or corporate milestones (anniversaries, contract wins, awards, etc.) on social media.

There's evidence that when it comes to forging business and sales personal contacts still make a difference, third providing niche market. Large companies typically go after broad markets because that's where economies of scale are most useful. Smaller companies, however, have more freedom to offer customers unusual (and more costly) items. You can't win against the big firms if you don't have big resources to back you up but you can win in a niche to which you'll dedicate all of your attention. Big Banks trying to juggle tons of products and services often tend to give them all "some" attention, but never as much as they probably deserve. FCB tries to win by giving their one niche all the attention the other big banks can't. Once you're the established subject matter expert on that niche, you'll have the audience and credibility to expand on from there into more product or service offerings that let you compete on a higher level. Fourth, excellent customer service. Big Banks typically have a more cut-and-dry approach to customer service. It isn't very personal, and usually only memorable because of how bad it is. FCB has dedicated a department for this called Customer services which has its own senior manager. They ensure customer's needs are taken care off and handled in a professional manner.

4.3.7 Change in management and Organizational Restructure

As from January 2014 FCB had changed its CEO from Mr. Abdulatif Essajee to the incumbent General Manager (G.M) Mr. Omar Sheikh. The former head of Islamic Banking at Barclays a subsidiary of Barclays Bank. He was brought as a result of the intense competition the Bank has faced since the launch of multiple Islamic banking by many commercial banks in Kenya. The interviewees think he is a great mind that will take FCB to new heights. Since his arrival (Omar Sheikh) he brought about many changes, one notable one was the change and reshuffle of the firm's structure. There was a memo circulated by the General Manager regarding changes in the internal structure, which would create clear segmentation and focus. This was among the G.M's first critical actions to take as a result of increased competition from the industry. The Business department which hitherto combined Retail and Corporate has been split into two distinct departments; Corporate and Consumer headed by Michael Wamache and Ibrahim Noor respectively.

The new segmentation has also created Treasury Front office department responsible for Treasury sales. The Regional Business Coordinators have been re-deployed to the positions of Institutional Banking and Customer Service. The researcher found various new departments that have been created and entered under respective departments as follows: Corporate Banking. A new department that will focus on growth of business from corporate entities and institutions. It will also handle the provision of specialized products such as Asset Based Finance, Mortgages, and Trade Finance. The department will have the following units: Corporate units, SME (Small and Medium Enterprises), ABF (Asset Based Financing) & Mortgage Unit, Institutional Banking Unit and Trade Finance Unit. Secondly, Consumer Banking Department. Another new unit that will focus on Retail and Microfinance segments

and will also be responsible for market reach through alternative banking channels. The department will be headed by Head of Consumer Banking. It has the following units: Distribution (Branch network), Direct sales - this will in the interim be handled by senior manager Distribution, Alternative Banking Channels headed by a senior Manager - the unit will handle growth of Agency Banking, Mobile banking, internet banking, M-Pesa and other electronic delivery channels, Microfinance Department headed by a Manager, will handle the growth of Microfinance Business which is a key focus in our strategic plan, Marketing department - the unit will handle brand visibility and corporate communications. It will also support the Corporate Business, and Products development – will handle product development, training on product features and monitoring of product performance. The role holder will also support the Corporate Business. Thirdly, Operations department. The Department has been enhanced to oversee Customer Service and house the new role of Senior Manager Projects, Sourcing & Administration. The department has the following units: Head Office Operations- oversee branch operations, account opening, clearing, and trade finance operations, Customer Service- ensures implementation of customer service charter, monitor service delivery across the Bank and handle customer complaints/feedback. The call centre will report to this unit and Projects, Sourcing and Administration - This unit will oversee implementation of projects including new branches/suites and also handle procurement and sourcing for the bank and its subsidiaries. Fourth, Finance Department. An existing department that has been strengthened with the Planning & Strategy Unit that will oversee the implementation of the strategic plans, provision of monitoring tools (dashboards) to track performance of Staff, both sales and non-sales roles. Lastly, Human Resource. The Human resource department has been revised by removing Administration and Legal, to

facilitate focus on the recruitment and development of a high performing, committed talent pool for the Bank and also to provide critical partnership to all units of the Bank to manage employee relations.

4.3.8 Expanding or shrinking Markets

According to the CBK, The banking sector is expected to maintain its growth momentum supported by the roll out of full file credit information sharing regional integration initiatives and advances in information and communications technology. According to the report, commercial banks' average lending rate declined from 18.13 per cent in January last year to 16.99 per cent in December last year, and the average interest rate paid by banks on deposits increased to 6.65 per cent from 6.51 per cent over the same period. Consequently, the interest rate spread narrowed from 11.62 per cent in January last year to 10.34 per cent in December in the same year, reflecting a larger decline in the lending rate. The banking sector registered higher performance last year, with total net assets recording an increase of 16 per cent from Sh2.33 trillion in December 2012 to Sh2.7 trillion in December 2013. Also the Banking industry is excited about the use of Mobile Banking.

Sixty percent of Kenyans now use their mobile phone for banking transactions and 64 percent of Kenyans send or receive money locally through their mobile phones, according to a study by the Kenya Bankers Association. Forty-eight percent of bank customers are paying their utility bills through their mobile phones, 16 percent are paying for school fees and 13 percent are buying goods for their homes, the study found. Although 58 percent of cash is still withdrawn from the ATM lobby, mobile operators transact about one-fifth of all cash withdrawals in Kenya. Kenyan financial services have been transformed through the interplay between banks, mobile

operators and their registered banking agents. The growing uptake of mobile technology in the banking sector has significantly improved access to financial services in Kenya. While cost-saving is an important benefit of mobile banking, security and time-saving are considered to be more critical considerations for mobile banking uptake, the KBA study found. FCB has rolled out FCB popote and Kwa wote, a mobile banking and agency respectively which are doing well and have the prospects to achieve more. FCB is also in advanced stages of rolling out Internet Banking which will make them more competitive.

4.4 Strategic Growth Responses

Strategic response to competitive environment is the art and science of formulating, implementing and evaluating cross functional decisions that will enable an organization to achieve its objectives amid the competitor's existence. It is the business of specifying the organization's objectives, developing policies and plans to achieving the organization's objectives.

4.4.1 Marketing Strategies

The bank as of 2014 has classified the customers into exclusive and retail banking, they have introduced the following new products in exclusive banking and added new features to the existing product in the last one year: Under exclusive Banking; for salaried individuals - Alpha, Elite and Elegant accounts, for Businesses - Biashara club, Biashara foreign currency and corporate foreign accounts. Under retail Banking, FCB introduced free insurance cover and unsecured facilities up to a certain limit. The main objective for the introduction of new accounts and adding new features to the existing is in line with the bank's strategic plan of venturing into new markets. Bancassurance service introduced in 2008 called FCB Takaful Insurance Brokers

Limited which is a wholly owned subsidiary of FCB. Takaful Insurance of Africa is registered and licensed by the insurance regulatory authority of Kenya (IRA). FCB capital another subsidiary of FCB is a fully fledged Shariah compliant investment fund manager

The bank has upgraded its ATM debit cards connected to the VISA network, Linked customer accounts to M-PESA and Mobile banking and introduced ABF and Mortgage centres dedicated to serving clients who want to build or buy commercial buildings and residential houses and cars. The main objective of introducing the new products was to compete effectively in the market while addressing different customer needs and preferences. The VISA ATM cards were introduced in order to allow FCB customers to withdraw money from anywhere in the world and also use their cards to pay for goods and services at point of sale (POS)/merchants outlets without using cash. The linking of customer accounts to M-PESA and Mobile banking services was meant to bring FCB's services into the customer's reach in the most affordable, secure, faster and convenient way. With the Mobile Banking, FCB customers are now able to transfer money from M-PESA to their bank accounts. They can check their balances, order for a mini-statement, order a cheque book, and buy airtime and much more.

The bank has introduced agency banking and mobile banking as direct banking channels. The Bank has seamlessly integrated M-PESA with its various service delivery channels making it more convenient for their customers to access their funds through ATMs, Agency Banking and Mobile Banking services. The bank has partnered with Kenswitch to give its customers access to over 500 Kenswitch Enabled ATMs countrywide where they can easily and conveniently withdraw cash, pay

bills, and enquire about their bank balance among others. The main objective of introducing the new distribution channels was to deliver the bank's services easily and most conveniently to their customers. The bank has started advertising its products and services on giant billboards placed on strategic locations. Some of these billboards can be seen on Bunyala-Uhuru Highway roundabout in Nairobi, Mombasa road among other strategic areas.

4.4.2 Customer Service

This section aimed at finding out what the bank is doing to address increasing customer expectations and appetite for better service. The bank recognizes that today's customer is becoming increasingly aware of their consumer rights and existence of a wide selection of financial service providers in Kenya. To address the ever changing customer needs and preferences, the bank has institutionalized a culture of providing superior and quality products and services that meet customer expectations through efficient and timely service delivery. The bank has also implemented customer relationship management systems. In each branch, there is customer relationship manager who listens and gives customers personalized service. The bank has also extended its banking hours through the Exclusive Banking from 8am - 6pm on weekdays and on Saturdays from 9am - 5pm. While in Eastleigh Branches they work from 8am - 8pm from Monday to Sunday. The bank has established suggestion boxes placed strategically in most of their branches and more recently launched a customer feedback forms which will be given to branches on a six month interval as part of their customer feedback mechanisms. It has also established a dedicated customer care unit based in South C called Call Center. The Call Center is open from 8.00a.m. to 5p.m. on weekdays and from 8am. to 12pm. on Saturdays. The

bank is also on the process of establishing a page on social media, where it hopes it will get direct feedback from customers.

4.4.3 Information Technology

At FCB, iMAL was brought in to cover customer management, accounts, Islamic investments, trade finance, treasury, profit calculation and administration. The solution is integrated with a number of third party applications such as mobile and internet (advanced stages in development) banking, a local government tax solution and the ATM Switch. Since its inception in mid-2008, FCB has been running Path Solution's iMAL offering, which was chosen ahead of competition from Oracle FSS's Flexcube. According to the Bank's Head of ICT, Mr. Yunis Omar, FCB was looking for a system that was compliant with Islamic banking principles and path 'fully met our criteria'. He says He says: 'At the time, iMAL was the only system that was built from scratch in compliance with Shariah law, as opposed to being conventional and partly Islamic, and Path was then the only Islamic banking software provider that was certified by AAOIFI.' FCB has been running on the same version of the system since its launch, which is the 2.x series suite (which was released in February 2008).

The main cause of concern with this set-up, Omar explains, was that there were 'a number of issues' which prohibited FCB from incorporating the Central Bank of Kenya (CBK) guidelines into the system, such as deal classification. Omar also notes that as regulatory requirements vary from time to time, there is a need for constant improvement of any core banking system. The bank decided to upgrade to the latest version of iMAL, 12.8. FCB wanted its core banking system performance to be improved, customer financing applications to be processed in the system electronically, plus workflow alerts to be automatically dispatched by the system to

the users. FCB also wanted the option to waive profits and late payment fees, and to achieve all of this, the newer version of iMAL was required. To get the ball rolling, FCB created a business requirements document in early 2013, which detailed how the bank wanted the system to work, the behavior of the different general ledgers, and how the system needed to be tweaked so that it met customer requirements and conformed to Islamic banking principles. The main driver behind the entire upgrade process, Omar says, was to make sure the new version of iMAL was able to meet the requirements of both FCB and CBK. Omar notes that the chief stages of the project involved detailed project planning, user acceptance testing (UAT), training of bank staff, and final validation scenarios prior to the launch. An IT team made up of four senior FCB staff worked with around six people from Path Solutions throughout the process. On Sunday 23rd June 2013, FCB went live with iMAL version 12.8.

The bank received its approval from CBK to close on the afternoon of Friday 21st June, so that the upgrade process could be initiated. 'We started the process at 1pm on Friday and the system was up and running by Sunday, with our IT team carrying out the final fine-tuning and testing scenarios to confirm that everything was working as it should be. Omar explains that the bank's main incentive for the upgrade was that it would remain Shariah-compliant. 'We believe Path is still a market leader in offering a fully-fledged Islamic banking system, and this is why we decided to stick with it'. He adds that the issues with the old version of iMAL were ones which could be addressed with a system upgrade. 'The cost issue of completely replacing a core solution and the time it takes is much greater. With the upgrade it took just four months, but on average a replacement takes longer than a year.' The bank is now able to benefit from greater process efficiency and customer centricity as the performance of the system has significantly improved.

4.5 Discussion of findings

The study found that First Community Bank was experiencing growth, as a result of the competition within the banking industry. The study also found that this was born out of deliberate and specific critical changes made within the structures of the Bank. In the Efficiency Structure Theory (ES) which was formulated by Demsetz (1973) argues that a bank which operates more efficiently than its competitors gains higher profits resulting from low operational costs. The same bank holds an important share of the market. Consequently, differences at the level of efficiency create an unequal distribution of positions within the market and an intense concentration. The efficiency theory further suggests that enhanced managerial capability and scale efficiency level leads to higher concentration and higher profitability. Among these capabilities, the bank should be skilled in areas of knowledge sets which includes; the talent to reinforce the training process and the relational network, its ability to master the sense of prediction, selection and rely on human capital and its capability to minimize cost while seeking adjustment of costs based on quality and products volumes in order to be efficient.

The study found that as a result of high competition the Bank was forced to change its management from CEO Abdulatif Essajje to GM Omar Sheikh a banker and an admired leader from Barclays Bank. The Bank further introduced new departments and reshuffled old ones to be leaner and efficient. The GM's main aim was to propel efficiency within the Bank and to save on Costs by reducing the number of workers in each department. This ensured the Bank had skilled senior managers and staff who were well conversed in their areas of expertise. The GM to realize such a goal he made critical changes to the Human resource.

The Market power theory argues that the performance of the Bank is influenced by the market structure. It suggests that firms with large market share and differentiated portfolios can win their competitors and earn monopolistic profits. The Market structure matters for the bank's power irrespective of the nature of banks, whether Islamic or conventional as it can affect the bank performance. From the study the researcher found that the number of firms offering Islamic products is growing significantly. This means that the products if not the same are similar. This is proven by the increased number of Islamic Subsidiary windows from other Commercial Banks in Kenya. The study shows that First Community Bank is fully aware and that is why they have engaged in aggressive marketing and sales campaign to maintain their market share. The newly created Distribution and sales department has been working tirelessly to get numbers. The senior manager of the department has been motivating staff to sale and spearheads frequent market activation programs. The study found that First Community Bank has also been engaged in coming up with new and differentiated products. These products are suited to their customer's needs and preferences, this ensures their customers will remain loyal and attract new ones in the process.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes and discusses the findings in relation to the statement of the problem and the objectives of the study. It also highlights the limitation of the study and suggestions for further research.

5.2 Summary of findings

Due to the stiff competition in the industry, Banks operating in the country have been compelled to develop strategies that can help them navigate the turbulent business environment. The researcher identified the stiff competitive factors that exist in the banking industry that have affected the operations of FCB and they include: threat of new entrants, government policies, changing customer expectations and needs, changing employee expectations and morale, technological changes, firm's size, changes in management and internal structure of the firm, and the market (expanding or shrinking). The objective of this study was to determine the impact competition had on the growth of FCB.

The study reveals that FCB has adopted strategies similar to the other Kenyan banks although it has been more aggressive in some aspects. The study reveals that competition has had an effect on FCB, thus they have resolved to using various strategies to respond to changes in the Kenyan Banking Industry. The most notable ones include new products and services, products and services differentiation, market segmentation, automation of business processes, innovation, improved customer service, strategic partnerships, marketing, staff training and development, cost containment, use of mature information technology and entering new markets.

Although the bank has made heavy investments in business expansion, branding, information technology, customer service and staff development; the study reveals that there are some urgent issues that the bank needs to address in order to sustain its growth momentum. To begin with, the issue of high staff turnover. This is costing the bank a lot of money and precious time; this is because they spend time and money interviewing the staff, training and development. The bank needs to review the effectiveness of its H.R policies. With the implementation of the PDP this year (2014) the management will hope it will make a difference. Secondly, the bank seems to have lagged behind in adopting some cost-effective concepts like internet banking and paperless banking. The bank also risks losing some market share if it does not quickly adapt to those cost-effective concepts.

The study reveals that competition in the Kenyan banking industry has become too stiff that it is now common to see banks pitching tents in bus stages, market centers, sports grounds, outside mall compounds and busy city streets in order to market their products and services to the public. This is a rare phenomenon given that a few years ago; Kenyan banks could only serve their customers from the comfort of their branches. Information revolution in the internet and mobile has become a key driver of competition in the bank industry by eliminating some entry barriers and allowing rapid development of new products. However, the study indicates that there is still the need for more strategic actions that need to be undertaken by FCB in order to enable it fully match the competition in the banking industry. Further, the study has established that FCB is properly positioned to deal with changes in the Banking Industry in Kenya.

5.3 Conclusion

The study concludes that FCB has responded to the competition in the Banking Industry in Kenya through strategic choices which include: new products and services, products and services differentiation, market segmentation, branch network expansion, automation of business processes, innovation, improved customer service, strategic partnerships, marketing, staff training and development, cost containment, use of mature information technology and entering new markets. This has given them the much need edge they required.

The study concludes that there are future market potentialities for the Islamic banking products. Many younger generations were seen going for these products and services. For this banking, system to develop and grow the banks should create awareness through seminars, workshops, and advertisement and prayer sermons quoting verses from Quran and sayings of the prophet (hadith) that concern Islamic Banking.

5.4 Recommendations

The recommendations are based on the findings of how FCB has dealt with challenges emanating from competition in the Banking Industry in Kenya. It mainly touches on the ways FCB can adopt in order to gain a more competitive edge in the market. Although the bank has made heavy investments in business expansion, branding, information technology, customer service and staff development; the study reveals that there are some urgent issues that the bank needs to address in order to sustain its growth momentum. The first item is the issue of high staff turnover and performance appraisals. The bank needs to review the effectiveness of its staff retention policies. This is a huge task for the Human Resource Department, who should embark immediately to review the Bank's HR Policy and annually do the same. This ensures the staff recruited and existing ones are skilled, efficient,

developed, trained and well-motivated. Secondly, the bank seems to have lagged behind in adopting some cost-effective concepts like paperless banking. The newly created department, alternative banking should embark on this job fast to ensure they do not lose their existing and potential customers. Finally, the bank needs to also come up with a policy governing the use of social media advertising to safeguard its reputation. Rapid Technological advancement has necessitated this and it's up to the Marketing team to come up with creative ideas to lure more customers through the social media and jealously protect their brand name.

5.5 Limitations of the Study

The study focused on some few competitive factors that have hindered their operations and some few more strategic growth options for FCB to tackle competition in the industry. However, there could be other latent factors and growth strategic responses adopted by FCB in addressing the competition in the banking industry. The bank's G.M could not get time to be interviewed and instead referred the researcher to the Heads of departments and senior managers. Most interviewees were too reluctant to give detailed information as they feared the information being sought was confidential and could easily leak to their competitors. This made some to withhold vital information which could have been useful to the study. Also important to note is that some of the heads of the departments and senior managers interviewed were new to the Bank at the time this research was being conducted. In addition, the time available for the study was too short. This constrained the scope as well as the depth of the research. Lastly, this was a case study hence the research findings cannot be used to make generalizations on the Banking Industry in Kenya.

5.6 Suggestions for further research

A cross-sectional survey covering the whole banking industry needs to be undertaken to determine the impact of the competition on the growth of other players in the Banking Industry. This would give a broader picture of the competitive factors and the strategic responses adopted by banks in dealing with competition in the Banking Industry in Kenya thereby making generalization possible. Further research needs to be conducted to establish the causes of the current high staff turnover at the bank. More case studies need to be conducted to establish why FCB has lagged behind in adopting some cost-effective concepts like agency and paperless banking. Finally; further research needs to be conducted to determine why FCB has not ventured into advertisement using social media such as facebook and twitter which has seen other Banks using that platform option to lure customers.

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APPENDICES

APPENDIX I: RESEARCH GAP

Few Research on Islamic Banking have been done before but the researcher has a found a gap in relation to the topic of study. Below is a summarization of the research gap that exists:

Researcher's Name	Topic	Conclusion	Research Gap
Halkano, Molu (2012)	Performance of Islamic and conventional banks in Kenya: a comparative case study	The comparison of the performance of the Islamic banks and conventional banks has been based on their performances with regard to profitability, liquidity, operating efficiency and risk and solvency of the banks. Islamic banking in Kenya is still in infancy stage as well as operating in conventional environment which impose limitations. The results of the analysis show conventional banks to be better performing than the Islamic banks.	The author (Halkano) focused on the performance between Islamic and conventional banks and concluded that conventional banks are performing better. However, this research will focus on a specific banks,i.e FCB and see how competition has contributed to its growth
Mugo, Annabelle Wangui (2009)	Competitive strategies adopted by Islamic banks: a Comparative study of Kenya and the united	Since this is a comparative study, the data analysis brings out the key differences and similarities between the UAE and Kenyan Islamic banks. The study also	The research looks at the competition challenges faced by Islamic banks in Kenya and the UAE. The study goes a step further by

	Arab Emirates	looks at the scholarly views on the objectives at hand. The data analysis further suggested that the Kenyan counterparts could borrow a leaf from the UAE and improve on their IT infrastructure, tailor-made products, innovations and empowering of their human resources. The research however, found that the Kenyan banks have been in operation for less than two years compared to the majority of the UAE Islamic banks which have been in operation longer. This may explain the differences and similarities in the study's objective between the two countries	looking at the competitive strategies adopted by these banks to mitigate the mentioned challenges. The authors looks at the impact of competition from other commercial and Islamic banks within Kenya has affected FCB
Bintiomari, N'teuzi Wendo (2010)	Response strategies by Islamic banks to competition in the commercial banking sector in Kenya	The study found out that in order for these banks (First Community bank and Gulf African Bank) to survive and even prosper in such a competitive business environment it was very	The author (Bintiomari) sought to find out the challenges of competition faced by Islamic banks and to identify the response strategies by Islamic

		<p>crucial for these banks to adopt strategies that matched the market dynamics and enable them respond to market needs as and when they arise. It was noted that the two fully fledged Islamic banks do not perceive conventional banks to be a threat to their survival; they are therefore each other's competitor as they both strive to gain a bigger market share of the Muslim community in Kenya. Islamic banking being a new concept in Kenya we would all have expected the Islamic banks to face a considerable number of challenges as a result of competition but on the contrary these banks have had a very positive reception from all the stakeholders. These banks have so far managed to gain large numbers of very loyal customers in the short period they have been in operation.</p>	<p>banks to competition in the Kenyan banking sector. The researcher however will focus on the competition from commercial banks and how it has contributed to the growth of FCB.</p>
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APPENDIX II: INTERVIEW GUIDE

This Interview Guide seeks to identify the various competitive factors that have favorably or unfavorably affected the running of First Community Bank Limited and the kind of strategic growth responses it has adopted in order to survive in the Banking Industry in Kenya.

SECTION A: GENERAL INFORMATION

1. Respondent's Job Title in the Company_____
2. Respondent's Department/Section_____
3. Respondent's duration of service in the Company_____

SECTION B: COMPETITION IN THE BANKING INDUSTRY

Under each of the following competitive factors, please explain in detail how they have affected the operations of First Community Bank Limited.

1. FCB since its inception has seen many other Conventional Bank opening Islamic subsidiaries, how has the threat of new entrants impacted FCB?
2. How has the Government policies affected FCB's competitiveness?
3. How has FCB handled changing customer expectations and needs in this dynamic banking industry?
4. How is FCB coping with the changing employee expectations and morale?
5. Technological changes happen almost every day, What is FCB doing to cope with such rapid changes?
6. Does the Firm's size deter or influence it from competing with other Banks?
7. Is it true that FCB recently experienced changes in management and internal structure of the firm? If so, has it been effective to combat competition?
8. In your opinion do you think that the Banking industry is a shrinking or expanding market especially for FCB due to its competitive nature?

SECTION C: STRATEGIC GROWTH RESPONSES

1. Marketing Strategies

- i. Which new products has First Community Bank Ltd introduced in the last one year?
- ii. What new features to the existing products has First Community Bank Ltd introduced in the last one year?
- iii. What were the objectives of introducing the new products?
- iv. What were the objectives of introducing the new features to the existing products?
- v. Which new distribution channels has First Community Bank Ltd introduced in the last one year?
- vi. What were the objectives of introducing the new distribution channels?
- vii. Which new advertisement channels have First Community Bank Ltd introduced or involved in the last one year?
- viii. What were the objectives of introducing the new advertisement channels?

2. Customer Service

- (i) How has First Community Bank Ltd responded to the increased demand for better customer service?
- (ii) What channels has First Community Bank Ltd established to receive customer feedback?

3. Information Technology

- (i) In the last five years, has First Community Bank Ltd changed its core banking systems?
- (ii) If yes in question (i) above, please describe in detail below the reasons for the change(s)?
- (iii) Describe how First Community Bank Ltd has integrated IT in its operations?
- (iv) What were the objectives of IT integration in operations?