FACTORS AFFECTING THE GROWTH OF ISLAMIC BANKS IN KENYA

BY

CONSOLATA MUTUA

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Global Executive Master of Business Administration (GEMBA)

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

SPRING 2017
DECLARATION

I, the undersigned, declare this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ________________ Date: ____________________

Consolata Mutua (ID 650070)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ________________ Date: ____________________

Dr. P.N. Kiriri

Signed: ________________ Date: ____________________

Dean, Chandaria School of Business
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ABSTRACT

Market demand and response to a worldwide trend are some of the factors perceived to have led to the introduction of Islamic Banking in Kenya. On a global scale, Islamic banking is growing at a faster rate as compare to the conventional banking. Despite the global growth trend, the Islamic banks in Kenya have reported declining profits. This study therefore sought to assess the factors that influence the growth of Islamic banks in Kenya. The study was guided by the following objectives; to assess factors that contributed to the introduction of Islamic Banking in Kenya, to determine the challenges facing Islamic banking growth and to determine the solutions or strategies that can support the growth of Islamic Banking in Kenya.

The study adopted descriptive research design, a population of 40 top and middle level managers from Gulf African Bank and First Community Bank was studied. Since the population of study was small, a census was carried out. Questionnaires were used as the instruments for data collection. The questionnaires comprised of both closed and open ended, a five point likert scale was used for the closed questions. Data collected was analyzed using SPSS to generate descriptive statistics which were presented informs of tables, figures and explanations given in prose form. The study achieved a response rate of 85% which was excellent for analysis.

On the factors that contributed to the introduction of Islamic banking the study established that emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Sharia-compliant products. It was also established that that there was a large unbanked population which could be harnessed by Islamic banking and that the demand for Islamic finance had been increasing due to the growing Muslim population which the Islamic banks could target for growth.

On the challenges that hindered the growth of Islamic banking, the study revealed that Islamic banks and Islamic banking products remain largely unknown and misunderstood in the Kenyan market. There was lack of education on Islamic bank and not all Muslims are convinced that Sharia compliant banks in Kenya are truly fully fledged Islamic banks. The study also found out that there was no Sharia-compliant legal framework needed to make interest-free banking acceptable and that there was the perception that the Islamic Banks did not fully adhere to Sharia guidelines which led to low uptake.
On solutions that can support the growth of Islamic banking, the study revealed that high customer service quality was a solution that could support the growth of Islamic banking in Kenya, innovative product portfolio, strategic marketing and strong perception of Shariah. The respondents agreed on strong corporate governance and corporate social responsibility as solutions to the growth challenge. The study further revealed that offering high financial returns for depositors could be a solution to the growth challenges experienced.

The study recommends that the banks should be keen in providing Sharia compliant solutions that are meant to fill the gap that exists in the convectional banks. Islamic banks should continually innovate to offer new products that meet the customer needs and also to keep up with competition in the market place. Islamic banks should position themselves strategically so as to take advantage of the growing Muslim population to increase their customer base and also their presence in the country. The study recommends that the administration of Islamic banks ought to put in place structures that ensure compliance with the Sharia law. The management of Islamic banks ought to additionally conduct intensive campaign to teach the populace on Sharia compliant banking product which might attract customers that were unaware of such product and also clarify the concept of Islamic banking to the people that might have misconceptions on the Islamic banking system. The study recommends that Islamic banks should focus on service quality by equipping staff with knowledge and right tools to deliver excellent service.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Banking is a financial service that primarily consists of receiving money owned by individuals and entities, and then lending out this money at a price (interest) in order to make profit. Banking services also include cheques, credit and debit cards, ATM services, safe custody of valuables, Trade Finance and Forex services, funds transfer, internet and mobile banking services. The primary role of banks however, is financial intermediation which refers to channelling of funds from depositors to borrowers (Allen & Carletti, 2008). Financial intermediation provides savers with an outlet for their funds whereas at the same time providing funds to borrowers for their expenditure. Banks pay interest to the depositors for savings and term deposits, and charge interest to the borrowers for loans advanced. Interest is the amount charged to a recipient or paid to an investor, and may be a proportion of the principal amount advanced or deposited. The bank is in a position to cover its expenses and earn a profit by charging the recipient of facilities such as loans a higher interest than is paid to the depositor (Nwite, 2005).

Islamic banking is banking per the values and attribute of Islamic law. Sharia is an Arabic word meaning performing as per the Islamic values and law. The Sharia law prohibits Muslims from dealing in riba (interest), which accurately suggests that increase, addition, rise or growth (Khattak and Rehman, 2010). In Islam, money is not considered as an asset. It is viewed strictly as a medium of exchange hence not ethically permissible to earn direct returns from it. According to the Institute of Islamic Banking and Insurance-IIBI (2016), the prohibition on paying or receiving fixed interest is based on the Islamic principle that money is only a means of exchange, a way of defining the value of a thing and has no value in itself, and therefore should not generate interest by being deposited in a banks or lent to someone else as it is the case with conventional banking. Payment and receipt of interest is therefore prohibited in Islam. This restriction led to the development of an alternative financial system that serves the needs of Muslims. Islamic Sharia however, does not prohibit all gains on capital. It prohibits interest but allows trade and Islamic financial services are premised on this (Khan, 2014).
Worldwide, the Islamic banking system has gained momentum with the second half of the twentieth Century witnessing an emergency of a new type of banking and finance: the Islamic banking and finance. Islamic financial institutions have already gained dominance in many Muslim countries and are now becoming main stream in some western nations as well (Safa, 2009). Further Aziz (2009) asserts that the Islamic financial industry has gained great acceptance and appreciation that has led to expansion beyond the traditional borders of the Muslim-based economies into the major industrial economies. Benaissa, Parekh, and Wiegand (2005) observed that Islamic financial institutions are growing faster than conventional banks, at 15 to 20 per cent a year. The global worth of Islamic finance assets being managed by 2010 was $US700 billion which is likely to continue growing (Seidu, 2009). Despite this growth, Islamic banking and finance lacks a global scale compared to the conventional banking system. The total assets accumulated by the top thousand conventional banks amounted to US$90,256 billion which is by far greater than that of Islamic banking. Islamic banking remains a niche but a potential market representing less than one percent of the world total banking assets (Oakley, 2008).

The Islamic financial institutions are increasing at a much faster pace in comparison to the conventional banking system, especially in the Islamic countries in the last 30 years due to the increase in demand for Sharia compliant products. Currently, there are about 200 Islamic banks providing Sharia compliant banking in more than 70 nations. These include not only in Islamic countries but also in western countries (Ramazan, Zahid, Hussain, Islam, Aziz & Ghazenfer, 2012). In Pakistan, Iran and Sudan among other countries the entire banking system is now offering Sharia compliant products and services (Ullah & Chowdhury, 2013). Moreover, the potential growth has attracted many large banking institutions like HSBC and UBS in this segment of the banking market. Additionally, countries like Malaysia and Bahrain are creating Islamic banking hubs for over 1.2 Billion Muslims all over the world (Hassan & Lewis, 2007).

According to Ernst & Young (2015) the total Islamic finance assets of commercial banks rose 17% between 2009 and 2013, hitting $778 billion. Of that, Gulf Cooperation Council (GCC) countries account for around $517 billion, ASEAN countries for $160 billion and South Asia for $23 billion; with the rest of the world (especially Turkey) making up the remaining $78 billion. Ernst and Young further rank Saudi Arabia first, holding 31.7% of the Global Share of Islamic Finance Assets followed by Malaysia and UAE with 16.7% and 14.6% respectively.
Nasser (2005) gives a detailed account of Islamic banks in Africa. One of the early attempts to establish Islamic banks in Africa (with the exception of Sudan) took place in 1982, when the international Islamic finance organization filed an application to the central bank of the Monetary Union of West Africa and this was granted. According to Alhuda Centre for Islamic Banking and Economics (2014), there are 96 Islamic Banks, 31 Islamic Microfinance Institutions, 29 Islamic funds and more than 41 Takaful. However, Islamic finance in Sub Saharan Africa (SSA) remains small, although it has potential given the region’s demographic structure and potential for financial deepening.

Islamic banking emerged in Kenya with Barclays launching Islamic banking products in December 2005. Two years later there was introduction of the First Community Bank in 2007 then the Gulf African Bank (GAB) in 2008. The growth trend continued with other conventional banks such as Kenya Commercial Bank offering Sharia compliant products through special Islamic windows. In 2010, through the Finance Act, the Kenyan authorities amended Section 45 of the Central Bank of Kenya Act to allow the Central Bank as the government’s fiscal agent to recognize the payment of a return rather than interest on government securities, thereby opening up the spectrum of Sharia compliant investments in the country (Ndung’u, 2011). In 2013, Standard Chartered Bank introduced an Islamic banking window in Kenya, adding to an existing window and two full-fledged Islamic banks operating in Kenya. As of end- 2013, Islamic banking accounted for two percent of the total banking business in Kenya (IMF, 2014).These banks target both Muslim and non-Muslim customers. In Kenya, for instance, there are potential lucrative markets for Islamic banking among the business community in Nairobi, Mombasa and other towns with sizeable Muslim communities. (Kenya institute of bankers’ newsletter, June 2009)

The world is now rapidly changing and all organizations are exposed to the external environment which is highly dynamic and continually presents opportunities and challenges. Organizations being environment dependent have to constantly adopt activities and internal configurations to reflect the new external realities and failure to do this may put future success of an organization in jeopardy (Capon, 2008). Today’s customers are becoming more knowledgeable, their tastes, preferences and quality expectations continue to change and this puts pressure on organizations which seek to meet these changing customer’s needs (Muthama, 2015). In a country like Kenya which has limited resources, market share and new competitive challenges, implementation of
strategies in organizations is important. In order for firms to survive the growing competitiveness brought by the environment the strategies they adopt should meet the demands in the market.

For any business and or industry, the quest for growth is necessary to prevent it from disappearing. It is something for which most companies strive, regardless of their size. As observed by Bakshi and Penkar, (2014) small firms want to get big, big firms want to get bigger and that companies grow in order to accommodate the increased expenses that develop over time. Growth therefore must occur if the business wishes to keep up. Dordonne, (2013) in his view, says growth is the purpose of strategy which can be achieved in many ways, not always as self-evident as gaining always more customers. Sometimes it can be about gaining all of a small kind of customers, some other times, about being the most cost efficient. Regardless of the method chosen to achieve growth, they are subsequently numerous ways to implement the chosen strategy.

Strategic Marketing refers to the way a firm effectively differentiates itself from its competitors by capitalizing on its current and potential strengths, to provide better value to customers (Toman, 2011). This refers to allocation of resources by a firm, in order to exploit the competitive advantages that the firm has. There are various factors that have an impact on the success of strategic marketing, among them, a thorough understanding of the target market, having clear and measurable goals and objectives and selecting the right communication tactics.

1.2 Statement of the Problem
Market demand and response to a worldwide trend are some of the factors perceived to have led to the introduction of Islamic Banking in Kenya. At the end of 2015, the 2 Islamic Banks in Kenya, Gulf African Bank and First Community Bank held deposits of Kes.31.374B, representing a 1.09% market share. These numbers are not reflective of the market demand envisaged. The market share growth challenge facing Islamic Banks is demonstrated by looking at customer numbers and asset growth rate. According to the last census, the Muslim population in Kenya is 4.3M while the total population is 38.4Million. 58% of these are adults. (Kenya National Bureau of Statistics, 2009) The Global Findex Database 2014 said 75%, or eight out of every 10 Kenyan adults, is banked through bank and mobile money accounts. Despite the large population of Muslims in the country, the Islamic banks and Islamic windows collectively have about 200,000 customers, and this includes non-Muslim customers who bank with Islamic Banks.
The global asset growth rate of Islamic Banking is placed at 16% per annum since 2006 (Ernst & Young’s 2015). According to the Asian Banker Research Group, the world's 100 largest Islamic banks have set an annual asset growth rate of 26.7%. Despite the global growth trend, the Islamic banks in Kenya have reported declining profits with First Community Bank’s (FCB) net profit plunging by nearly half and Gulf African Bank (GAB) reporting slower growth in earnings in 2013, reversing a trend where they recorded triple digit growth in 2012. FCB saw its full-year after-tax profit dip 45.2 per cent to Sh132.2 million from Sh241.3 million in 2012 (Herbling, 2014). This study therefore seeks to assess the factors that influence the growth of Islamic growth in Kenya.

1.3 General Objective
The general objective of the study was to assess the growth of Islamic Banking in Kenya

1.4 Specific Objectives
The specific objectives of the study were:

1.4.1 To assess factors that contributed to the introduction of Islamic Banking in Kenya
1.4.2 To determine the challenges facing Islamic banking growth
1.4.3 To determine the solutions or strategies that can support the growth of Islamic Banking in Kenya

1.5 Significance of the Study
The research project findings would be necessary and helpful to the stakeholders as listed below:

1.5.1 New Investors
The study would be important to new investors, and banks looking at venturing into Islamic Banking to understand market challenges that they would face, before making an investment decision.

1.5.2 Researchers
The study would be of importance to researchers, as a basis for further research on the market penetration of Islamic Banking in Kenya. Previous research on the subject is dated, 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.

1.5.3 Policy Makers
The study was intended to provide useful information to policy makers in identifying market challenges and proposed solution to the challenges facing the growth of Islamic Banks. The study would be of significance to policy makers including the government of Kenya and the Central Bank of whom develop policies regarding the financial system. In addition, this study would be of importance to other commercial banks engaged in provision of Sharia compliant products, since it provide an insight on solutions to growth challenges facing Islamic banking. This will aid in formulation of policies that will aid in development of products and services that are in line with customer needs.

1.5.4 Islamic Banks
The study would provide insight to the management of Islamic and enable them to formulate appropriate responses. The study would be useful in determining the factors that influenced the introduction of Islamic banks, challenges facing the growth of these banks and 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.

1.5.5 Marketing Personnel
The study would help marketing personnel put into perspective the effects of strategic marketing practices on the market share of Islamic Banks, and this would be of interest to them in coming up with ideal strategic marketing practices to increase their market share.

1.6 Scope of the Study
This study focused on 40 top and middle management of First Community bank and Gulf African Bank. The study relied on insights drawn from the managers on factors that contributed to the introduction of Islamic banking, the challenges facing the banks and available solutions to the growth challenges. The research was be conducted between the months of August- October 2016. The top and middle management of the two banks were chosen because of their strategic
involvement with the bank and hence reliable in providing information that met the objectives of this study.

The respondents were reluctant to give so much information since banking is a sensitive area and fear that information may get to their competitors. The researcher assured all participants that the information provided would only be used for academic purpose and that they were not be required to disclose their identity. Another limitation was on booking appointments because bankers are usually busy people and getting appointments with them was challenging. To overcome this, the researcher distributed questionnaires via emails and made follow-ups through telephones to ensure return of questionnaires

1.7 Definition of Terms

1.7.1 Sharia

Hassan, Kayed and Oseni (2013) define Sharia as the body of Islamic law or the legal framework/religious legal system governing the members of the Islamic faith.

1.7.2 Strategic Marketing:

Strategic Marketing refers to the way a firm effectively differentiates itself from its competitors by capitalizing on its current and potential strengths, to provide better value to customers (Toman, 2011)

1.7.3 Sukuk

Sukuk is the Islamic equivalent of bonds. (IMF, 2015). These are bonds structured in a manner to generate returns compliant with Sharia. Sukuk represents ownership in a tangible asset relating to a project or investment activity.

1.7.4 Takaful

Takaful is an Arabic word which means guaranteeing each other, and refers to Islamic Insurance. In Islamic insurance, members contribute into a pooling system to guarantee each other against loss or damage (Miniaoui, 2014).
1.8 Chapter Summary

This chapter provides background information on banking and specifically Islamic Banking, its history and current status. It summarizes the problem to be addressed by the study, objective of the study, significance of the study, scope of the study and definition of terms used in the study.

Chapter two will cover the literature review in detail and chapter three will discuss the research methodology and data collection instruments to be used in this research. The results from the research conducted will be presented in chapter four, while chapter five will provide conclusions drawn and recommendations made, based on the results presented in chapter four.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews past literature written in the area of Islamic Banking. The review will involve studies previously done on Islamic Banking growth globally, regionally and in Kenya. The review consists of four sections, based on the research questions, which seek to identify the factors that led to the introduction of Islamic Banking in Kenya, the challenges facing the growth of Islamic Banks in Kenya and finally to determine the strategic solutions that can support the growth of Islamic Banks in Kenya.

2.2 Factors that contributed to the introduction of Islamic Banking in Kenya

2.2.1 Market Demand

Demand refers to the quantity of a product that consumers are willing and able to buy at a given price. Market demand is the sum of individual demand for a particular good or service from buyers in the market (Mankiw, 2009). Market demand and response to a worldwide trend are some of the factors perceived to have led to the introduction of Islamic Banking in Kenya. Islamic law prohibits Muslims from dealing in riba (interest), which literally means increase, addition, rise or growth (Khattak and Rehman, 2010). The Qur’an (2:279) characterizes interest as unfair, oppressive and exploitative. Hence the need for an alternative banking system to serve the Muslim population.

According to PWC (2013), the demand for Islamic finance services has been increasing due to growing Muslim populations in countries especially in Asia and Africa, which currently account for over 95% of the world’s Islamic population and which are projected to grow by 35% by 2030. Most countries in Asia and Africa also contain large unbanked populations, which can be harnessed by Islamic banking models. The report further reveals there exists an attractive market around the emerging middle classes for Islamic deposits, lending, protection and payment products. Growth in other areas like retirement market is creating demand for Islamic pension and asset management products.

The Kenya National Bureau of Statistics (2009) puts the Muslim population in Kenya at 4.3M out of a total population of 38.4 Million. 58% of these are adults. The Global Findex Database (2014) said 75%, or eight out of every 10 Kenyan adults, is banked through bank and mobile money.
accounts. According to the Islamic Finance News (2016), Kenya remains a potentially lucrative market for Islamic banking and a vast array of Islamic financial products continue to be offered by fully-fledged Islamic banks and other conventional banks. The government and regulatory bodies have expressed support of Islamic finance. Kenya is positioning itself as a financial and investment hub to tap the growing capital inflows into Africa. However, despite the sustained demand for Islamic banking services, Sharia compliant lenders are yet to make significant inroads into the country’s competitive banking sector.

While Islamic Banks target both Muslim and non-Muslim customers, this population presents a prospective niche or potential market for Islamic Banks and Islamic Financial Services providers in Kenya. Jamaldeen (2012) argues that the potential market for products founded on Islamic principles is composed of people who want to adhere to the principles of their religion and, therefore, abstain from putting money into conventional financial products, which are not Sharia compliant.

The emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Sharia-compliant products. Whereas the mainstream banking sector had options for their Muslim clients, poor micro-entrepreneurs had no option of Islamic Microfinance products. The study reveals that due to lack of options most respondents accessed loans from the available institutions as a coping strategy. The study also assessed the knowledge of the respondents on the existence of a Kenyan MFI that provided Sharia-compliant products. All respondents said they had no knowledge of any Islamic MFI in the country and had never heard of one. Asked whether they would switch over to Islamic MFIs if given the option, all respondents responded in the affirmative. This confirmed the existing market niche.

2.2.2 Diverse Product Range Due to Competition in Other Markets

The Islamic finance industry is a relatively new entrant to the world of finance because its operating principles differ from the conventional finance modes of operation traditionally practiced in the West. It operates in compliance with Islamic Sharia. This raises the need for developing appropriate financial instruments and services for that industry. The major challenge facing the industry is the preservation of its excellence in providing services, expanding the scope of its financial activities, and exploiting in a beneficial way the developments in the financial markets. Islamic financial institutions can attain competitive advantage through a process of
strategic innovation, which amongst other factors, requires the development of at least some new knowledge and capabilities (Katila & Ahuja, 2002), and have high potential for revenue growth (Govindarajan and Trimble, 2005). New ideas must be implemented and delivered to customers to create commercial value (Lyons et al., 2007)

Islamic banks were mostly successful in promoting the importance of applying Sharia principles in the economic and financial spheres. Islamic banks provided fully Islamic financial products which are in full compliance with Sharia principles and guidelines. However, they failed in other products, such as in certain forms of Mosharaka that are based on trust (Amana), because it is difficult to accomplish it in practice. Also, the absence of the method or tool to ascertain its presence, a fact which makes it difficult for Islamic banks to expand in providing it (Al Alaywi, 2006). Several financial instruments have been developed and are considered innovations in Islamic finance. Islamic profit rate swap, a Sharia-compliant version of an interest rate swap, is considered an innovation in Islamic finance. It is not derived from the trading of exchange of interest rates but rather, from the trading of real assets (Euro money, 2006).

The price for deposit and loan services from conventional banks is interest. Due to prohibition of interest in transactions in Islam, Islamic financial institutions have had to develop products and services which are not contradictory with the Islamic law (Aden, 2014). Islamic banking services provide indirect competition to the products and services offered by conventional banks. Many international conventional banks have started to open branches which operate in accordance with Shariah principles. The Islamic banking system is expected to face strong competition not only from other Islamic banks but also from well-established conventional banks that offer Islamic services (Shaik, 2014). In Kenya, the uptake of Islamic Banking products has led several conventional banks such as Barclays Bank of Kenya, Kenya Commercial Bank, Standard Chartered, National Bank and Chase Bank to introduce Sharia compliant products as part of their offering. Kadubo (2010) investigated the factors influencing the development of Islamic banking in Kenya, concluded that Islamic banking was driven by religious compliance and customers need being met. It also revealed that continuous review and improvement of Sharia compliant products together with diversifying market niche would lead to drastic development and marketing of Islamic banking products.
Another development in the area of Islamic financial instruments is a new form of debt; Islamic Sukuk, in their diversity and capability to provide funds. These are Islamic bonds that act like regular bonds but comply with the rules of Sharia. Their risks are similar to those of bonds; they rely on the financial soundness of the issuer. Sukuk are Islamic investment certificates, where each holder owns an undivided beneficial ownership interest in the underlying assets. Consequently, Sukuk holders are entitled to share in the revenues generated by these assets, as well as being entitled to share in the proceeds of their realization. They can be considered a development tool and not a financial instrument (IMF, 2006). Sukuk can be considered an ideal solution to the limited availability of Islamic finance instruments in local markets, where there is a concentration on Ijara, Morabaha, and Wakala investment, in addition to securitization, which is considered controversial by religious figures.

Permitting institutions to issue Sukuk will improve their financial returns, growth prospects, and spread the risks resulting from the institutions borrowing from a larger number of investors: those that issue Sukuk, and not to let it be borne by banks. In other words, it will improve the credit rating of the institutions that issue the Sukuk and the banks that finance it. Islamic banks issue Sukuk as a mechanism to mobilize savings, and their issuance can be diversified and expanded to benefit from the opportunities existing for these financial market instruments. Using Sukuk as a financial instrument of various capabilities is suitable for a wide variety of economic performance aspects on an international scale. Several indices were developed to measure their performance in the financial marketplace. Some of Sukuk’s main advantages are to increase the capital available to develop major economic projects, to control liquidity, to use funds in an optimum manner, and to increase the size of capital markets for investors (Al Musallam, 2006).

2.2.3 Response to a Worldwide Trend

Modern Banks started to offer Sharia compliant products in the mid-1970s. Since then Islamic Finance has grown into a global industry, with total assets of around $2.1 trillion. Most of that (nearly 80%, according to Malaysia’s Central Bank) is entrusted either to Islamic banks or to the Islamic units of conventional banks. The rest takes the form of sukuk, Islam’s answer to bonds (15%); Islamic investment funds (4%) and takaful, the Islamic version of insurance (1%). In 2012 Iran accounted for 43% of the world’s Islamic banking assets, with Saudi Arabia (12%) and Malaysia (10%) ranking second and third. (The Economist, September 2014).
According to Ernst & Young (2015), total Islamic finance assets of commercial banks worldwide rose 17% between 2009 and 2013, hitting $778 billion. Of that, Gulf Cooperation Council (GCC) countries account for around $517 billion, ASEAN countries for $160 billion and South Asia for $23 billion; with the rest of the world (especially Turkey) making up the remaining $78 billion. Ernst and Young further rank Saudi Arabia first, holding 31.7% of the Global Share of Islamic Finance Assets followed by Malaysia and UAE with 16.7% and 14.6% respectively.

Africa is the second-largest continent. Its 1.2 billion people make up 15% of the world’s population. Muslims make up half of the continent’s population. Therefore, the region has promise for the growth of Islamic banking (Nasser, 2005). The AL Huda Centre of Islamic Banking and Economics (2014), estimated that the total volume of Islamic Finance in Africa is USD.78Billion which is less than 5% of the global Islamic Finance Industry. There are 96 Islamic Banks, 29 Islamic Funds, 31 Islamic Microfinance Institutions and more than 41 Takaful companies in Africa.

2.3 Challenges Facing Islamic Banks in Kenya

2.3.1 Lack of Standards and Regulations

Kinyanjui (2013) investigates the challenges facing the development of Islamic Banking in Kenya. His findings consider Legal support the greatest challenge, as Islamic Law offers its own framework for execution of commercial and financial contracts and transactions. He identifies the challenges as lack of standard financial contracts and products, lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection as required by Sharia, shortage of experts in Islamic Banking, absence of accounting and auditing standards pertinent to Islamic Banks, lack of uniform credit analysis standards and potential conflicts for Islamic Banks with Central Banks of non-Muslim countries.

Hemed (2009) points out that different interpretations of the acceptability of various products from a Sharia perspective makes standardization difficult resulting in the same Islamic financial instrument or proposal being rejected by one Sharia board and approved by another, as the rulings of these Sharia boards are based on their understanding of the underlying Sharia principles. Karbhari et al., (2004) found that interpretation of Sharia principles are left to Muslim schools and that different schools of thought have emerged in different cultures and Islamic societies. They
also found that the lack of standardization and clarity makes it difficult for Western regulators to understand the idea of Islamic banking. Every Islamic bank appoints an Islamic Sharia committee to evaluate whether the bank transactions and other activities are in accordance with the Islamic Sharia.

Tahir (2003) insisted standardization is urgently needed in the vocabulary of Islamic financing, financing instruments and their documentation and pricing formulas for Islamic products. For example the majority of Islamic banks use the name “Murabaha” to stand for financing via sale on deferred payment while some call it Al Bai Bithaman Ajil /BBA (Deferred Payment Financing). Aziz, the Governor of Bank Negara Malaysia viewed one of the central issues towards developing a dynamic Islamic financial industry as people’s perspective of Sharia (BIS Review, 2004). She believes that Sharia should be viewed as an enabler to innovation and creativity rather than a constraint. There is also need for collaboration among the Sharia scholars, practitioners, researchers and regulators to undertake in depth studies and research towards the development of Islamic banking in Malaysia (BIS Review, 31 2004). Tahir, (2004) recommended that there is a need to develop Sharia manuals, regular banking manuals and the formulas for pricing various Islamic financial products.

Although the concept of Islamic Finance and Banking has generated a lot of interest and overwhelming support from both Muslim and non-Muslim population in Kenya, as a regulator, CBK has faced by certain challenges which need to be addressed. Wako et al (2014), in their literature review noted CBK cautioning of possibility of Islamic Banks operating within the existing legal and regulatory framework, which posed a great challenge, after all. In part, all banks offering Islamic banking have established their own separate Sharia Board to supervise and offer guidance to their respective banks on Islamic banking system. Islamic banking industry has been trying for the last over two decades to extend its outreach to bring it at least to the level of conventional banking. But the absence of Sharia-compliant legal framework needed to make interest-free banking acceptable (and create sound financial institutions) is the major snag behind its low penetration in the financial market. (Kinyanjui, 2013)

2.3.2 Non Adherence to Sharia Guidelines (Sharia Non-Compliance)

Despite these innovations and developments in financial instruments, and the growth in demand for such instruments, there are still several major problems, different viewpoints, and challenges
facing Islamic financial institutions. The question arises as to the nature of Islamic financial products and the extent to which they are different from products and services provided by conventional banks. A central issue is developing the operations of Islamic banks and financial institutions in compliance with Sharia (Hafeth, 2006). Operating according to Sharia is a promising and lucrative area; however, it is not served adequately. In addition, globalization has a great impact on its spread. However, the challenge is to develop products in compliance with Sharia (Al Aloush, 2005). Sharia supervision played a major role in the development of Islamic banks and institutions. Its role is pivotal in establishing banks and institutions and controlling their operations by applying Islamic Sharia, supporting the transformation of traditional banks to Islamic institutions, and giving trust and credibility in the operation of these institutions with their customers. Providing innovative Islamic solutions for the financial problems has as its basis an Islamic foundation, starting from the financial need and developing an appropriate solution to the funding (Boodai, 2006; George, 2005).

The perception that the Islamic Banks do not fully adhere to Sharia guidelines leads to low uptake of Sharia Compliant Banking products by the Muslim community. According to Walid (2015) Islamic finance products and services are often accused of mimicking those of the conventional financial system, while some criticisms consider the Islamic financial system as window dressing. Kasmani (2013) argues that not all Muslims are convinced that Sharia compliant Banks in Kenya are truly fully fledged Islamic banks with reputable Sharia advisory boards of requisite standards. This represents a considerable barrier to the continued growth of these institutions. He recommended that Islamic financial instruments should be properly and fully developed accommodating all relevant factors, principals of Islamic banks should set economic and Sharia parameters for providing bank financing and that the prospects of Sharia compliance should be enhanced through introduction of Sharia-rating of the banks.

Obeid (2016) argues that Bank managers should opt for informative and persuasive advertisements that highlight the “Islamacity of product”. He recommends that Islamic Banks should inform consumers in their promotional campaigns that Islamic institutions are continuously monitored by “the Sharia committee”, which ensures that all banking transactions and activities are in line with the rules of Sharia. These arguments could attract a segment of
consumers who want to be in harmony with the prescriptions of their religion and hence their trust toward Islamic banks.

2.3.3 Lack of Information

According to Obeid (2016), consumer education and trust will be key factors in the rapid expansion of Islamic banking. Islamic banks should therefore pay attention to their authenticity in terms of Sharia compliance as well as to their communication policy to attract potential consumers. He further pointed out that an understanding of Islamic finance is weak in the Arab-Muslim world and that has been one of the key causes of confusion and misperception about Islamic finance. The implementation of consistent population education programs and awareness campaigns is essential to increase consumer understanding and confidence with respect to Islamic banking. Islamic banks need to intensify their promotional efforts to instill the culture of Islamic banking. They should pay special attention to their communication message, by providing detailed, useful, and clear information about how Islamic banking services function and why they would benefit them and for the country’s economic and social development.

Islamic Banks and Islamic Banking products remain largely unknown and misunderstood in the Kenyan Market. In Daily Nation (2016) the Gulf African Bank Managing Director argues that lack of information is to blame for the thousands of Kenyans who believe that Islamic Banking is a preserve for Muslims. Hemed (2009) conducted a study on factors that affect the adoption of Islamic banking in Kenya and recommended further studies on the features of Islamic banking in Kenya. As she discovered that these features and their advantages were not well understood by the market.

2.3.4 Incomplete Product Mix

Islamic financial institutions do not have complete item alternatives for all kinds of traditional financial solutions. According to the World Islamic Financial Competition Review, there are 38 thousand customers globally with Islamic financial institutions having of an average of 2.1, which is really a lot lower than conventional banking with 4.9. This symbolizes low competition cross-selling potential in Islamic banking with current and increasing client base (Shaik, 2014). While it is indeed significant that not all traditional methods are duplicated as is by Islamic financial institutions, such short of alternatives cannot completely be attributed to this factor alone.
A full product range will enable Islamic banks to better use their growing deposits and increase market share expeditiously. From the commercial point of view, this is an essential requirement for the Islamic banks to improve their advance-to-deposit ratio and reduce spreads. Ahmad and Noor (2011) establish through empirical research of 78 worldwide Islamic banks spread over 25 countries that the more efficient Islamic banks tend to be more profitable. On the other hand, the financing operations that are overly dependent on asset-backed debt-based modes of financing create several issues. First, in times of recession, Islamic banks have limited product range for firms that require finance in already ongoing projects in which lumpy investments had been made, but financing is required to meet rising variable costs of energy and utility. Secondly, in recession, purchasing new assets for expansion is not the first thing most firms would do or can afford to do.

2.4 Solutions that can Support the Growth of Islamic Banks in Kenya

2.4.1 Strategic Marketing

Strategic Marketing refers to the way a firm effectively differentiates itself from its competitors by capitalizing on its current and potential strengths, to provide better value to customers (Toman, 2011). This refers to allocation of resources by a firm, in order to exploit the competitive advantages that the firm has. There are various factors that have an impact on the success of strategic marketing, among them, a thorough understanding of the target market, having clear and measurable goals and objectives and selecting the right communication tactics. It is important to create awareness amongst the target market of the products that are covered under Islamic banking. Various studies have revealed that there is lack of awareness amongst Muslims who are the main targets.

Marketing strategy is commonly defined as a strategy employed by a firm to attain its marketing objectives, which in turn is related to the achievement of the firm’s business objectives. In other words, marketing strategy refers to the marketing goals and action plans that address matters of product/service price, distribution, communication, and the process of new product development. The adaptation of any strategy depends much on factors such as management style and experience of the top management, age of the institution, economic environment, and regulations. Generally, we can safely identify whether a particular bank is a market leader, challenger, follower and nichier by identifying its vision, mission, objectives, and marketing strategies. The market leader
strategy is for those banks that occupy a dominating position in the market and have established their reputation as a leader. By virtue of having a leadership in the market, it is natural that the market share of the concerned bank is the biggest. Banks belonging to the challenger group are those occupying second, third and lower rank and are always formulating and pursuing strategies to expand their market share by targeting the territory of the market leader. Whereas, strategies adopted by the followers would normally be to maintain its current customers base and win a fair share of new customers by bringing distinctive advantageous to their target market. The market nicher is for the smaller banks, which have limited resources and generally focused on selected customers (Nanda & Khanna, 2011).

Dusuki and Abdullah (2007) in their recent study found that the substantial issue requiring attention is the need to intensify public education and awareness of the distinctive characteristics of Islamic banks and how they may engender the interest of customers in their financial dealings. A study by Haidi and Malik (2006) found that exposure and knowledge of Islamic banking is through one’s own effort prior to property purchase, recommendation by friends, through working experience and via promotions and advertisement. They also found that, the first impression of Islamic banking is the fixed rate concept, “halal” loan being an alternative to a conventional loan.

2.4.2 Service Quality

According to Ford, Sturman and Heaton (2012), Service encounters or interactions, and especially certain critical moments within them, are of crucial importance to the customer’s evaluation of service quality; they can make or break the entire customer experience.

Service levels and infrastructure are overwhelmingly the most significant factors for determining which bank a customer uses. When asked to name the top three reasons that customers use their current bank, the most popular responses all related to customer service and ease of use. The most frequently cited reasons were conveniently located ATMs, a good branch network, a good reputation, good internet banking products, and Sharia compliance. However, Islamic banks generally rated lower than conventional banks in terms of service, except around the friendliness of staff and online/mobile banking products. In light of the survey’s findings about the use of online/mobile banking, importance of ATMs, and declining use of branches, Islamic banks may be able to capture a significant part of the market by developing a wider network of smaller branches or banking facilities. These could include a next generation of smarter ATMs that can
handle more of the transactions that people currently use branches for. These could also fit more easily into regional population centers like residential districts and malls, rather than investing in traditional branches. This presents opportunity to achieve more scale at a relatively lower cost (PWC, 2014).

Tsoukatos and Rand (2010) argues that service quality can be described as the result from customer comparisons between their expectations about the service they will use and their perceptions about the service company. That means that if the perceptions would be higher than the expectations the service will be considered excellent, if the expectations equal the perceptions the service is considered good and if the expectations are not met the service will be considered bad. According to Kamdari, Yusoff and Yousop (2012), a bank of any nature relies greatly on deposits from its clients as the major source of its funds. This is irrespective of being conventional or Islamic. They submit that since depositors’ money remains the major target of banks, the knowledge concerning the factors that influence customers’ decision is crucial to the management of the Islamic banks.

Recognizing those factors influencing customers’ adoption of Islamic banks is vital in enhancing the performance of the bank to increase the number of their depositors (Abduh & Omar, 2012). According to CNBC Africa (2014), it was observed that gaining and maximizing customer value emerged as key element to profitability in Nigeria’s commercial banking arena which definitely would require the banks to review their products and services offering and delivery approach. It was further argued that when the important issues such as customer preference and needs were ignored or not being given due consideration, the difficulty for right decision making by the policy makers regarding promotion, products and services is apparent thereby impacting negatively on the bank progress.

In today’s market place, attracting and keeping customer has become a great challenge for many organizations following an upsurge in competition arising from increased globalization and internationalization of firms (Pratminingsih, Lipuringtyas & Rimenta, 2013). As the competitive environment increasingly becomes fierce, the most important issue the sellers face is no longer to provide excellent, good quality products or services, but also to keep loyal customers who will contribute long-term profit to organizations (Omenye, 2013). Differentiation between organizations on the basis of price, product and/or service characteristics and the value of the
delivery system has not been easy especially considering the fact that most of the products offered by companies are similar except few customizations (Akhter, Abbasi, Ali & Afzal, 2011).

2.4.3 Corporate Social Responsibility

Today’s business executives are faced with complex strategic resource allocation decisions which are not only based on their financial outcomes, but also have to measure up to a set of societal and emerging stakeholder expectations. Environmental and social concerns are becoming increasingly important influences on corporate strategy (Ebrahimi, 2011). In today’s world, running a business is no longer just considering how to make profits, but also includes bearing certain responsibilities in the society. Such issues further extend the companies’ view from a business level to a community or society level. This also reflects a fact that consumers’ values are changing in the society, companies have to adapt to the changing value of consumers and seek for long term relationship with consumers so as to survive and grow (Yuen et al., 2007).

Collectively, Kenya's banks contribute more than Kshs 1.2 billion every year through corporate social responsibility (Kenya Bankers Association, 2016). Commercial banks in the country engage in different CSR programs depending on their sizes they are actively engaging themselves in CSR Programs year after year and especially from 2005. The large network banks have spent more in CSR programs as compared to the banks with less than 35 branches. Commercial banks CSR programs include: Environmental activities like tree planting and clean-ups, promoting talents like music and sports, Education support, staff training and development, Gender and equality, attending to the community with special needs like disability and sponsoring the orphans (Muchiri, 2013). A study done by Mwangi (2008) on relationship between CSR and profitability found out that there is a relationship between CSR and profitability. The stability and confidence that is transferred into a sustainable business strategy will almost certainly reduce operation cost like attracting good stuff, training and recruitment cost. Community projects are often the more visible aspect of corporate sustainability programs, which is perhaps reflective of a cynical initial approach that saw more than commitment.

According to Kasmani (2013), Islamic banks should embrace corporate social responsibility by providing social services that are noticeable by the segment of the society from which the bank derives its clientele and staff. The social services provided should be noticeable in order to entrench the name and presence of the bank in the minds of existing and potential customers.
Increasing visibility will have the effect of increasing awareness of the existence of the bank among both Muslim and non-Muslim sections of the Kenyan population. Corporate social responsibility is a useful marketing tool which will help raise awareness on Islamic banking instruments and concepts.

**2.4.5 Strong Corporate Governance**

According to Monks and Minow (2011), corporate governance is most often viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically central to corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community.

In the banking industry, corporate governance involves the way banking institutions' business and affairs are managed by the board of administration and the top management, which affects how the bank works out the bank's objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and interests of recognized stakeholders (shareholders and depositors), companies' commitment to sound and safe professional behaviors and practices which are in conformity with regulations and legislations, (Linyiru, 2006).

Good corporate governance contributes to the sustainable development prospects of countries, increased economic stability of nations, institutional reforms and improved governance in both public and private sector. Alternatively, corporate governance failures undermine development efforts by misallocating the much needed capital and resource. Corporate Governance has gained prominence in Kenya as is the case in other countries (Ekadah and Mboya, 2011). This has been caused partly by corporate failure or poor performance of public and private companies (Barako, Hancock and Izan, 2006).

Strong corporate governance, for Islamic Banks includes the appointment of a credible Sharia Board in order to counter Sharia noncompliance risk. According to Ibrahim (2006), the corporate governance of a Sharia compliant business would first look at the transactional structure to see whether the transaction involves elements that invalidate gains or profits, since Sharia is
concerned not only with the substance but also with the form of the business. In effect, corporate governance for Islamic financial institutions stems from two principle elements: a faith based approach that mandates conduct of the business in harmony with Islamic law; and a profit-motive that recognizes business and investment transactions and maximization of shareholder’s wealth etc. (Akhtar 2006). Hence, a central feature of corporate governance of an Islamic financial institution is ensuring Sharia compliance. Thus, Islamic banks have a complicated system of corporate governance. Indeed, Islamic financial institutions are submitted to two internal structures of corporate governance: the Board of Directors and the Supervisory Sharia Board (Lewis 2008). The first structure protects the shareholder’s interest and focuses exclusively on the maximization of shareholder value. The second structure protects the Islamic community and customer and is concerned with conforming to Sharia and Islamic law (Siagh 2002).

The Prudential Guidelines significantly cover most aspects of governance and internal controls of banks in Kenya. It provides that: The board should possess, both as individual board members and collectively, appropriate experience, competencies and personal qualities, including professionalism and personal integrity. Furthermore, professionals such as lawyers, accountants and valuers involved in the provision of professional services to a licensed institution are not eligible to be appointed as directors, and senior officers and non-executive directors of a government regulatory body are similarly not allowed to be appointed as directors of an institution where there may be a conflict of interest. (Kent, 2013)The Prudential Guidelines further provide that the board must have an appropriate number of directors that is commensurate with an institution’s complexity, size, scope and operations.

2.5 Chapter Summary
This chapter reviewed literature in the Islamic Banking field, focusing on factors that led to the introduction of Islamic Banks in Kenya, the challenges to growth being faced by these Islamic Banks and solutions that can be employed to support the growth of these Islamic Banks in Kenya. From the literature, the main pillar of Islamic Finance is prohibition of interest unlike in conventional banking where interest is a key factor in the banking system. It illustrates the challenges faced by Islamic banks in Kenya and the potential for growth for Islamic Banking in Kenya with focus on potential solutions.
The next chapter discusses the methodology to be applied to carry out the study. This section underlines research design, population and sample design, research procedures, data collection and analysis methods.
CHAPTER THREE
3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the research methodology that was employed in carrying out the study. In this section the research identified the procedures and techniques that was used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design
A research design is a plan, structure and strategy of investigation so as to obtain answers to research questions or problems. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data (Kumar, 2014). The research design adopted for this study was the descriptive research design. According to Kothari (2004) descriptive research studies are those studies which are concerned with describing a particular individual or group. It is a study with clearly stated investigative questions and with a clear cut definition of the population to be studied.

This study aimed at assessing the growth of Islamic banking in Kenya and has clearly stated objectives, intends to describe characteristics of the subject population. According to Orodho and Kombo (2009), a descriptive survey design is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. Orodho and Kombo (2009) notes that it can be used when collecting information about peoples’ attitudes, opinions, habits or any of the variety of education or research social issues. This study sought to collect opinions from the respondents on factors that contributed to the introduction of Islamic banking in Kenya, the challenges that have hindered the growth of the bank and finally, solution that can support the growth of Islamic banks in Kenya.

3.3 Population and Sampling
3.3.1 Population
Population is a relatively large collection of people, groups or categories, items or cases that a researcher studies and about which generalizations are made (Andersen & Taylor, 2012). It is also
defined as totality of any group of subject sharing some characteristics (Boone & Sabo, 2013). This study considered the middle to top management staff in Nairobi, at the two Sharia Compliant Banks in Kenya namely Gulf African Bank (GAB) and First Community Bank (FCB), estimated to number 40. 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 choice of management was deemed to be most appropriate for this study because they are majorly involved in strategic planning and implementation, hence their opinions offer reliable information for this study.

Table 3.1: Population of Study

<table>
<thead>
<tr>
<th>Department</th>
<th>Population</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch managers</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>Relationship managers</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Finance managers</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Legal managers</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Operations managers</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Risk managers</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Human resource managers</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Audit managers</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Marketing managers</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Gulf African Bank and First Community Bank

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Kothari (2004) describes a sampling frame as a list of all the items or names from a population or universe, from which a sample is to be drawn. He emphasizes that such a list should be comprehensive, reliable, appropriate and representative of the sample. The sampling frame was developed from the list of branches for Gulf African Bank and First Community Bank and a list of standard departments in these banks, that is, Finance, Legal, Operations, Risk, Human Resource, Business, Audit and Marketing departments. This list was comprehensive since it
consisted all the departments within the banks hence ensured that data collected was representative.

### 3.3.2.2 Sampling Technique

A sampling method is a way of selecting a portion of population such that the selected portion represents the population adequately (Chandran, 2004). Similarly, “Sampling is the process of selecting a number of individual for a study in such a way that the individuals selected represent the large group from which they were selected” (Mugenda & Mugenda, 2003, p.10). When the population is too large, the researcher needs to select individuals to represent the larger group. The primary purpose of sampling is to obtain information about an entire population by examining only a part of it with the assumption that the sample data convey the population parameters (Kothari, 2004).

There are two sampling techniques that can be used in research; these are probability sampling and non-probability sampling (Chandran, 2004). Probability sampling is also known as random sampling whereby every sample has an equal chance of being selected (Mugenda & Mugenda, 2003). A census is part of non-random sampling that can be applied in research where the realistic population is not too large and is used when obtaining data from one location or area to which data cannot be generalised from other areas or locations (Lodico et al., 2010). The researcher used census method in this study, this technique was appropriate design because the population of top and middle level management at the two banks under study was small and accessible. The census also gave a total representation there by producing highly reliable information.

### 3.3.2.3 Sample Size

According to Mugenda and Mugenda (2003), sample size reflects the representative degree of the entire population from which the research findings are generalized. Sampling is the selection of some parts of an aggregate or totality on the basis of which a judgment or inference about an aggregate or totality is made (Kothari, 2004). It has the advantage of saving on time and money as opposed to using a census. It is useful when there are many members in a population. Saunders, Lewis and Thornhill (2009) argue that sampling only provides a valid alternative to a census when it would be impractical to survey the entire population or there are time and budget constraints. A census of the target population was therefore suitable for this study due to the small
population size, and response was sought from the 40 middle to senior members of staff of GAB and FCB.

3.4 Data Collection Methods

According to Levy and Lemeshow (2001), data are the facts present to the researcher from the study’s environment, they include primary and secondary data. Primary data are the original works of research or raw data without interpretation or pronouncements that represent an official opinion or position (Chandran, 2004). According to Bless et al., (2008), secondary information or data sources are data neither collected by the user nor specifically for the user. Thus involves the collection and analysis of the published materials and information from internal sources. Secondary data may be obtained by collecting information from a diverse source of documentations or electronically stored information. The study collected primary data using questionnaires.

Kothari (2004) describes a questionnaire as a method of data collection in which a questionnaire consisting of a number of questions is mailed or delivered to respondents who are then expected to read, understand and write down the answers on their own. He further describes the merits as being low costs, freedom from bias of the interviewer, adequacy of time to give well thought out answers, approachability and access to large samples. Questionnaires further offer the benefit of the option anonymity to the respondents, enabling them to offer more authentic information.

Primary data was collected using questionnaires as the data collection instruments. Both structured and semi-structured questions were used. The questionnaire consisted of two main sections, the first section addressing general demographic data of the respondent such as age, gender and religious affiliation. The second section addressed the specific research objectives. This section covered the reasons for introduction of Islamic banking into the Kenyan market, the challenges impeding the growth of Islamic banking and finally the proposed solutions. A five point Likert scale was used for closed ended questions.

3.5 Research Procedures
According to Saunders, Lewis and Thornhill (2009), researchers should give careful consideration to the ethics of research practice in gaining access to required data. As such, a letter of introduction was obtained from the university to facilitate the request of necessary permissions from the management of Gulf African Bank and First Community Bank from which the research population is derived.

A pretest of the questionnaires will be conducted to notify the researcher whether the language, images and messages used are clear and easy to understand, culturally acceptable and realistic, sufficient to the target audience, visually appealing, informative and motivates them (Flanagan, 2002). It helps in managing the potential errors during the main study (Sreejesh, Mohapatra & Anusree, 2013). The questionnaire was pilot tested using four questionnaires, in order to obtain feedback and note any weaknesses or errors, before circulating more widely to the larger group of participants. According to Connelly (2008), extant literature suggests that a pilot study sample should be 10% of the sample projected for the larger parent study. A review of the questionnaire was then conducted based on feedback received to ensure there was no misinterpretation of question wording, include new response options or additional questions as necessary.

The reviewed questionnaire was then directly distributed via email to each of the 40 identified participants in the study at the Bank premises. According to Creswell (2003), participants should not be inconvenienced during the process. To ensure a high response rate, the researcher did follow ups on email and also through telephone calls.

3.6 Data Analysis Methods

Before processing the responses, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. Data collected was analyzed using descriptive statistics. The descriptive statistical tools helped in describing the data and determining the respondents’ degree of agreement with the various statements under each objective. Data analysis was done using Statistical Package for Social Sciences (SPSS) to generate quantitative reports which were presented in the form of tabulations, percentages, mean and standard deviation in presenting a clear picture of the factors influencing the growth of Islamic Banks in Kenya.

3.7 Chapter Summary
This chapter has described and explained the research design, population and sampling design of the study. It has further detailed the data collection methods, research procedure and methods to be used in the analysis of data. The next chapter follows collection of data and will present the study results and findings, based on the research questions.
CHAPTER 4

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents research findings in accordance with the research questions and methodology. The purpose of this study was to assess the growth of Islamic Banking in Kenya. The specific objectives that guided the study were; to assess factors that contributed to the introduction of Islamic Banking in Kenya, to determine the challenges facing Islamic banking growth and to determine the solutions or strategies that could support the growth of Islamic Banking in Kenya. The completed questionnaires were edited, coded and then analyzed using SPSS (V 21).

4.2 Response Rate
From the findings, a total of 34 respondents filled and returned their questionnaires. This gave a response rate of 85%. Out of the total 40 respondents, the non-response rate therefore was 15%. This response rate was favorable according to Mugenda and Mugenda (2003) in which they assert that a 50% response rate is adequate, 60% good and above 70% rated very well. The response rate is presented on Figure 4.1.

Figure 4.1: Response Rate
4.3 Demographic Information

This section presents information describing the general characteristic of the respondents

4.3.1 Gender of the Respondents

The study sought to establish the gender distribution of the respondents. From the findings of the study, 53% of the respondents were female while 47% were male. Gender was considered important in the study since it would enable the researcher to get a balanced view from both male and female respondents. Kumar (2004) asserts that women’s participation in decision making remains low despite educational advances. This made it necessary to take recognition of women as well as men who participated in the research.

![Figure 4.2: Gender of the Respondents](image)

4.3.2 Current Department

Findings on the current department that the respondents worked in are presented on Figure 4.3. The results indicate that 53% of the respondents were from the branch, 15% from ICT and operations, 12% from legal/risk and compliance, 9% from finance and audit, and 6% from marketing/business while 6% were from human resource/customer service. This reflected a good representation from the various departments and hence information collected was reliable.
4.3.3 Position Held
The study sought to establish the positions held by the respondents in the various departments. Findings are presented on Figure 4.4. Results on Figure 4.4 indicate that 26% of the respondents were branch managers while 74% were managers in other departments. This was an indication that the respondents held strategic positions in the banks and were in a position to respond to the questions.

Figure 4.3: Current Department
4.3.4 Religion

The study sought to establish the religious affiliations of the respondents. Findings are presented on Figure 4.5. The findings on Figure 4.5 revealed that 68% of the respondents were Muslims while 32% were Christians.

Figure 4.5: Religion

4.4 Factors that Contributed to the Introduction of Islamic Banking

The study sought to establish the factors that contributed to the introduction of Islamic banking in Kenya. Findings are presented on below
4.4.1 Market Demand

The respondents strongly agreed that there was a large unbanked population which can be harnessed by Islamic banking with a mean of 4.6176 and a standard deviation of .55129. They also agreed that the emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Sharia-compliant products with a mean of 4.1176 and a standard deviation of .84440. This findings correspond to a report by PWC (2013) which stated that the demand for Islamic financial services has been increasing due to growing Muslim population especially in Africa and Asia. The finding is also in agreement with Jamaldeen (2012) who states that the potential market for products founded on Islamic principles is composed of people who want to adhere to the principles of their religion and, therefore, abstain from putting money into conventional financial products, which are not Sharia compliant.

Table 4.1: Market Demand

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a large unbanked population which can be harnessed by Islamic</td>
<td>4.6176</td>
<td>.55129</td>
</tr>
<tr>
<td>banking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The emergence of Islamic banks in Kenya had been an outcome of the demand</td>
<td>4.1176</td>
<td>.84440</td>
</tr>
<tr>
<td>by mainstream banking clients for Shariah-compliant products</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4.2 Diverse Product Range Due to Competition in other Market

The study found that Islamic banking was introduced as a result of demand for diverse product range as indicated by a mean of 3.8235 and a standard deviation of .75761 and that there was a high potential for revenue growth with a mean of 3.5000 and a standard deviation of .86164. This finding is in agreement with Kadubo (2010) whose study revealed that continuous review and improvement of Sharia compliant products together with diversifying market niche would lead to drastic development and marketing of Islamic banking products. However the respondents were neutral as to whether interest charged by convectional banks was unfair and exploitative with a mean of 2.9118 and a standard deviation of 1.31120. This could be explained by the fact that the convectional banks are not governed by Sharia compliance and hence the interest charged are
based on the prevailing economic circumstances and hence may not be necessarily viewed as unfair or exploitative.

**Table 4. 2: Diverse Product Range Due to Competition in other Markets**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic banking was introduced as a result of demand for diverse product range</td>
<td>3.8235</td>
<td>0.75761</td>
</tr>
<tr>
<td>The high potential for revenue growth</td>
<td>3.5000</td>
<td>0.86164</td>
</tr>
<tr>
<td>Interest charged by convensional banks is unfair and exploitative</td>
<td>2.9118</td>
<td>1.31120</td>
</tr>
</tbody>
</table>

**4.4.3 Response to Worldwide Trend**

Results on Table 4.3 indicate that the demand for Islamic finance services has been increasing due to growing Muslim populations with a mean of 3.4706 and a standard deviation of 1.02204. This corresponds to PWC (2013) who stated that the demand for Islamic finance services has been increasing due to growing Muslim populations in countries especially in Asia and Africa, which currently account for over 95% of the world’s Islamic population and which are projected to grow 35% by 2030. The respondents were neutral as to whether the introduction of Islamic banking was a result of global trends in banking with a mean of 2.8235 and a standard deviation of 0.83378. According to the AL Huda Centre of Islamic Banking and Economics (2014), Islamic banking in Africa has not picked up very well as compared to other regions in the world. The report gives the total volume of Islamic Finance in Africa as USD.78Billion which is less than 5% of the global Islamic Finance Industry. The respondents however disagreed with the statement that many poor people insist on Islamic banking products with a mean of 2.3824 and a standard deviation of 0.85333, this finding contradicts Oundo (2009) who stated that many mainstream banking clients who demand Shariah-compliant products, are the many poor people who insist on these products. This can be explained by the fact that Islamic banking majorly looks at the compliance to Sharia and may not necessarily be targeting the poor people.
Table 4.3: Response to Worldwide Trend

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The demand for Islamic finance services has been increasing due to growing Muslim populations</td>
<td>3.4706</td>
<td>1.02204</td>
</tr>
<tr>
<td>The introduction of Islamic banking was a result of global trends in banking</td>
<td>2.8235</td>
<td>.83378</td>
</tr>
<tr>
<td>Many poor people insist on Islamic banking products</td>
<td>2.3824</td>
<td>.85333</td>
</tr>
</tbody>
</table>

4.4.4 Correlation Analysis

In order to whether market demand, diverse product range and worldwide trend influence the growth of Islamic banking, a Pearson product moment correlation analysis was used. A correlation is a number between -1 and +1 that measures the degree of association between two variables. The correlation coefficient value (r) ranging from 0.10 to 0.29 is considered to be weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong. A positive value for the correlation implies a positive. A negative value for the correlation implies a negative or inverse association.

According to the correlation matrix, there is a positive and significant relationship between market demand, diverse product range, worldwide trend and the growth of Islamic banking. The correlation between growth and market demand was of magnitude 0.611 with a p-value of 0.001. The positive correlation between growth and diverse product range was of magnitude 0.583 with a p-value of 0.003. The correlation between growth and worldwide was of a magnitude of 0.432 and a p-value of 0.002. The study deduces that market demand has the highest effect on growth, followed by diverse product range while worldwide trend has the lowest effect on growth of Islamic banks. The positive relationship indicates that there is a correlation between the factors and the growth of Islamic banks. The positive p-values indicates that there is a correlation between the factors and growth. This notwithstanding, all the factors were significant (p-value <0.05) at 95% confidence.
Table 4.4: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Growth</th>
<th>Market demand</th>
<th>Diverse product</th>
<th>Worldwide trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market demand</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>.611 1</td>
<td>.001</td>
<td>.004</td>
</tr>
<tr>
<td>Diverse product</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>.583 .604 1</td>
<td>.003 .012</td>
<td>.048 .029 .002</td>
</tr>
<tr>
<td>Worldwide trend</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>.432 .475 .559 1</td>
<td>.002 .029</td>
<td></td>
</tr>
</tbody>
</table>

4.5 Challenges that Hinder the Growth of Islamic Banks

The study also sought to establish the challenges that hindered the growth of Islamic banks in Kenya. The findings are presented below.

4.5.1 Lack of Standards and Regulation

Results on Table 4.4 indicate that there was no Sharia-compliant legal framework needed to make interest-free banking acceptable with a mean of 3.8235 and a standard deviation of 1.08629 and that different interpretations of the acceptability of various products from a Sharia perspective with a mean of 3.7353 and a standard deviation of .56723. This finding is in agreement with Kinyanjui (2013) who found lack of legal support to Islamic banking and lack of standard financial contracts and products as a challenge. His study further revealed that lack of uniform credit analysis standards and potential conflicts for Islamic Banks with Central Banks of non-Muslim countries posed a great challenge to the growth of Islamic banking. The findings also correspond with Hemed (2009) who points out that different interpretations of the acceptability of various products from a Sharia perspective makes standardization difficult resulting in the same Islamic financial instrument or proposal being rejected by one Sharia board and approved by
another, as the rulings of these Sharia boards are based on their understanding of the underlying Sharia principles. However the respondents were neutral as to whether there is lack of Sharia Manual in the banks with a mean of 3.1176 and a standard deviation of 1.20012.

**Table 4.5: Lack of Standards and Regulations**

<table>
<thead>
<tr>
<th>Lack of Standards and Regulations</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is no Sharia-compliant legal framework needed to make interest-free banking acceptable</td>
<td>3.8235</td>
<td>1.08629</td>
</tr>
<tr>
<td>Different interpretations of the acceptability of various products from a Sharia perspective</td>
<td>3.7353</td>
<td>.56723</td>
</tr>
<tr>
<td>There is lack of Sharia manuals in the banks</td>
<td>3.1176</td>
<td>1.20012</td>
</tr>
</tbody>
</table>

**4.5.2 Non Adherence to Sharia Guidelines**

Findings on Table 4.5 indicate that not all Muslims were convinced that Sharia Compliant Banks in Kenya were truly fully fledged Islamic bank with a mean of 4.0882 and a standard deviation of .86577 and that the perception that the Islamic Banks did not fully adhere to Sharia guidelines led to low uptake with a mean of 3.5294 and a standard deviation of 1.02204. This concurs with Walid (2015) who stated that the perception that the Islamic Banks do not fully adhere to Sharia guidelines leads to low uptake of Sharia Compliant Banking products by the Muslim community. He further asserted that Islamic finance products and services are often accused of mimicking those of the conventional financial system. The lack of adherence to Sharia guidelines may be attributed to the lack of standards and regulations that govern Islamic banking in Kenya.

**Table 4.6: Non Adherence to Sharia Guidelines**

<table>
<thead>
<tr>
<th>Non Adherence to Sharia Guidelines</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not all Muslims are convinced that Sharia Compliant Banks in Kenya are truly fully fledged Islamic banks.</td>
<td>4.0882</td>
<td>.86577</td>
</tr>
<tr>
<td>The perception that the Islamic Banks do not fully adhere to Sharia guidelines leads to low uptake</td>
<td>3.5294</td>
<td>1.02204</td>
</tr>
</tbody>
</table>
4.5.3 Lack of Information

Findings on Table 4.6 indicate that Islamic banks and Islamic banking products remain largely unknown and misunderstood in the Kenyan Market with mean of 4.7353 and a standard deviation of .51102. This is in line with comments by the Gulf African bank managing director who argued that lack of information is to blame for the thousands of Kenyans who believe that Islamic Banking is a preserve for Muslims. There was lack of education on Islamic bank products with a mean of 4.5588 and a standard deviation of .56091, this concurs with Obeid (2016) who noted that an understanding of Islamic finance is weak in the Arab-Muslim world and that has been one of the key causes of confusion and misperception about Islamic finance.

However the respondents disagreed with that statement that there was lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection with a mean of 2.1471 and a standard deviation of 2.1471, this contradicts Kinyanjui (2013) who noted that there was lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection as required by Sharia.

Table 4.7: Lack of Information

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banks and Islamic Banking products remain largely unknown and misunderstood in the Kenyan Market</td>
<td>4.7353</td>
<td>.51102</td>
</tr>
<tr>
<td>There is lack of education on Islamic bank products</td>
<td>4.5588</td>
<td>.56091</td>
</tr>
<tr>
<td>There is lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection</td>
<td>2.1471</td>
<td>1.10460</td>
</tr>
</tbody>
</table>

4.5.4 Incomplete Product Mix

Results on Table 4.7 indicate that the respondents were neutral as to whether Islamic financial institutions did not have complete item alternatives for all kinds of traditional financial solutions with a mean of 3.2941 and a standard deviation of 146741. The respondents were also neutral as
to whether Islamic banks had limited product range with a mean of 3.0000 and a standard deviation of 1.23091. They however disagreed with the statement that Islamic banks products were not different from products and services provided by conventional banks with a mean of 2.2647 and a standard deviation of 1.08177. This is an indication that Islamic banks offered a range of product mix that offered complete alternatives for traditional financial solutions.

**Table 4.8: Incomplete Product Mix**

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic financial institutions do not have complete item</td>
<td>3.2941</td>
<td>1.46741</td>
</tr>
<tr>
<td>alternatives for all kinds of traditional financial solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Islamic banks have limited product range</td>
<td>3.0000</td>
<td>1.23091</td>
</tr>
<tr>
<td>Islamic banks products are not different from products and services provided by conventional banks.</td>
<td>2.2647</td>
<td>1.08177</td>
</tr>
</tbody>
</table>

The respondents were asked to indicate the extent to which these challenges had affected the growth of Islamic banks in Kenya. Finding on Figure 4.6 indicate that 82% of the respondents agreed that the challenges had affected the growth of Islamic banks in Kenya to a great extent, 15% indicated to a very great extent while 3% indicated to a moderate extent.

![Figure 4.6: Extent to which the Challenges Had Affected the Growth of Islamic Banks](image)

Figure 4.6: Extent to which the Challenges Had Affected the Growth of Islamic Banks
4.5.5 Correlation Analysis

Pearson’s correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. Table 4. 9 indicates the correlation matrix between the challenges (lack of standards and regulation, non-adherence to Sharia guidelines, lack of information and incomplete product mix) and growth of Islamic banks. From the findings, the study established that there is a negative relationship between growth and lack of standards and regulation, non-adherence to Sharia guidelines, lack of information and incomplete product mix of magnitude -0.629, -0.564, -0.726 and -0.328 respectively. The negative relationship indicates that there is a strong correlation between the challenges and the growth of Islamic banks.

Table 4.9: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Growth of Islamic banking</th>
<th>Lack of standards and regulation</th>
<th>Non adherence to sharia guidelines</th>
<th>Lack of information</th>
<th>Incomplete product mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of Islamic banking</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of standards and regulation</td>
<td>Pearson Correlation</td>
<td>-.629</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non adherence to sharia guidelines</td>
<td>Pearson Correlation</td>
<td>-.564</td>
<td>.494</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.001</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Lack of information</td>
<td>Pearson Correlation</td>
<td>-.726</td>
<td>.676</td>
<td>.769</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.011</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Incomplete product mix</td>
<td>Pearson Correlation</td>
<td>-.328</td>
<td>.217</td>
<td>.380</td>
<td>.424</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.042</td>
<td>.038</td>
<td>.086</td>
<td>.239</td>
</tr>
</tbody>
</table>
4.6 Solutions that Can Support the Growth of Islamic Banking

4.6.1 Strategic Marketing
Findings on Table 4.8 indicate that the respondents strongly agreed that innovative product portfolio and strategic marketing were solutions to challenges facing the growth of Islamic banks in Kenya with a mean of 4.5882, standard deviation of .55692 and a mean of 4.500 and standard deviation of .61546 respectively. Islamic banks need to effectively differentiate themselves from their competitors by capitalizing on its current and potential strengths, to provide better value to customers who are seeking Sharia compliant products by ensuring that they offer innovative products that are Sharia compliant.

Table 4.10: Strategic Marketing

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovative Product Portfolio</td>
<td>4.5882</td>
<td>.55692</td>
</tr>
<tr>
<td>Strategic Marketing</td>
<td>4.5000</td>
<td>.61546</td>
</tr>
</tbody>
</table>

4.6.2 Service Quality
The respondents strongly agreed that high service quality was a solution to the challenges facing the growth of Islamic banks with a mean of 4.6176 and a standard deviation of .69695. This finding is in agreement with Ford et.al (2012) who stated service encounters or interactions, and especially certain critical moments within them, are of crucial importance to the customer’s evaluation of service quality; they can make or break the entire customer experience.

Table 4.11: Service Quality

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Customer Service Quality</td>
<td>4.6176</td>
<td>.69695</td>
</tr>
</tbody>
</table>

4.6.3 Corporate Social Responsibility
Findings on Table 4.12 indicate that high financial returns for depositors had a mean of 3.7353 and a standard deviation of 1.21378 while corporate social responsibility had a mean of 3.6765
and a standard deviation of 1.03633. This concurs with a study done by Mwangi (2008) on relationship between CSR and profitability which found out that there is a relationship between CSR and profitability. He found that, the stability and confidence that is transferred into a sustainable business strategy will almost certainly reduce operation cost like attracting good stuff, training and recruitment cost and hence increase profitability.

**Table 4.12: Corporate Social Responsibility**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Financial Returns for Depositors</td>
<td>3.7353</td>
<td>1.21378</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>3.6765</td>
<td>1.03633</td>
</tr>
</tbody>
</table>

### 4.6.4 Strong Corporate Governance

Findings on Table 4.11 indicate that strong perception of Sharia compliance had a mean of 4.4706 and a standard deviation of .66220 while strong corporate governance had a mean of 3.9118 and a standard deviation of 1.02596. Obeid (2016) argues that bank managers should opt for informative and persuasive advertisements that highlight the “Islamacity of product”. He recommends that Islamic Banks should inform consumers in their promotional campaigns that Islamic institutions are continuously monitored by “the Sharia committee”, which ensures that all banking transactions and activities are in line with the rules of Sharia. This will help in improving customer perception of the products offered by the Islamic banks. In the banking industry, corporate governance involves the way banking institutions' business and affairs are managed by the board of administration and the top management, which affects how the bank works out the bank's objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and interests of recognized stakeholders (shareholders and depositors), companies' commitment to sound and safe professional behaviors and practices which are in conformity with regulations and legislation (Linyiru, 2006).

**Table 4.13: Strong Corporate Governance**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong perception of Sharia Compliance</td>
<td>4.4706</td>
<td>.66220</td>
</tr>
<tr>
<td>Strong Corporate Governance</td>
<td>3.9118</td>
<td>1.02596</td>
</tr>
</tbody>
</table>
4.6.5 Correlation Analysis

Pearson’s correlations analysis was also conducted at 95% confidence interval and 5% confidence level 2-tailed. Table 4.14 indicates the correlation matrix between the solutions (strategic marketing, quality customer service, corporate social responsibility and strong corporate) and growth of Islamic banks. From the findings, the study established that there is a positive relationship between growth and strategic marketing, quality customer service, corporate social responsibility and strong corporate of magnitude 0.615, 0.796, 0.522 and 0.549 respectively. The positive relationship indicates that there is a strong correlation between the solutions and growth of Islamic banking.

Table 4.14: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Growth of Islamic banking</th>
<th>Strategic Marketing</th>
<th>High Customer Service Quality</th>
<th>Corporate Social Responsibility</th>
<th>Strong Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of Islamic banking</td>
<td>Pearson Correlation 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Marketing</td>
<td>Pearson Correlation</td>
<td>.615</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.023</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Customer Service Quality</td>
<td>Pearson Correlation .796</td>
<td>.772</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.042</td>
<td>.007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>Pearson Correlation .522</td>
<td>.501</td>
<td>.667</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td>.012</td>
<td>.092</td>
<td></td>
</tr>
<tr>
<td>Strong Corporate Governance</td>
<td>Pearson Correlation .549</td>
<td>.468</td>
<td>.180</td>
<td>.314</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.036</td>
<td>.044</td>
<td>.079</td>
<td>.122</td>
</tr>
</tbody>
</table>

4.7 Chapter Summary

Chapter four gave a detailed account of the research findings. It showed the response rate, and demographic information of the respondents like their gender, age, current department and
position held. The chapter also highlighted the factors that contributed to the introduction of Islamic banking in Kenya which include market demand, diverse product range due to competition in other markets and response to worldwide trend. It provided detailed information on the challenges that hinder growth of Islamic banking in Kenya which include lack of standards and regulation, non-adherence to Sharia guidelines, lack of information and incomplete product mix. The chapter also sought to provide solutions that can support the growth of Islamic banking which include strategic marketing, service quality, corporate social responsibility and strong corporate governance. The chapter also showed the correlation between the independent and dependent variables.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The chapter discusses the findings, gives conclusions from the study based on the objectives and gives recommendations to be undertaken. The purpose of this study was to assess the growth of Islamic Banking in Kenya. The study was conducted at Gulf African Bank and the First Community Bank.

5.2 Summary
The purpose of this study was to assess the growth of Islamic Banking in Kenya. The specific objectives that guided the study were; to assess factors that contributed to the introduction of Islamic Banking in Kenya, to determine the challenges facing Islamic banking growth and to determine the solutions or strategies that could support the growth of Islamic Banking in Kenya.

The study adopted descriptive survey design. This design is applicable to the research since the researcher seeks to assess the growth of Islamic banking in Kenya. The study relied on insights drawn from top and middle level management of Gulf African Bank and the First Community Bank. The target population was then classified into branch managers, relationship managers, finance managers, legal managers, operations managers, risk managers, human resource managers, audit managers and marketing managers. Due to the relatively small population; the study sampled all the 40 respondents. The study had a response rate of 85% and this was statistically significant to analyze the data. The collected data was analyzed using descriptive statistics including frequency distribution, mean and standard deviation in the statistical package for social analysis (SPSS) version 21. The analyzed data was presented using tables and figures.

On the factors that contributed to the introduction of Islamic banking the respondents very strongly agreed that there was a large unbanked population which could be harnessed by Islamic banking The respondents also agreed that emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Sharia-compliant products, The study
also established that Islamic banking was introduced as a result of demand for diverse product. The respondent also agreed that there was a high potential for revenue growth and that the demand for Islamic finance had been increasing due to the growing Muslim population. However the respondents were neutral as to whether the interest charged by conventional banks was unfair and exploitative and also as to whether introduction of Islamic banking was a result of global trends in banking. The respondents disagreed on whether many poor people insist on Islamic banking products.

On the challenges that hindered the growth of Islamic banking, the study revealed that Islamic banks and Islamic banking products remain largely unknown and misunderstood in the Kenyan market. The study also found out that there was lack of education on Islamic bank and that not all Muslims are convinced that Sharia compliant banks in Kenya are truly fully fledged Islamic banks. The study further found out that there was no Sharia-compliant legal framework needed to make interest-free banking acceptable and that there was the perception that the Islamic Banks did not fully adhere to Sharia guidelines which led to low uptake. However they disagreed on whether, Islamic banks products were not different from products and services provided by conventional bank and that there was lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection.

On solutions that can support the growth of Islamic banking, the study revealed that high customer service quality was a solution that could support the growth of Islamic banking in Kenya, innovative product portfolio, strategic marketing and strong perception of Shariah. The respondents agreed on strong corporate governance and corporate social responsibility as solutions to the growth challenge. The study further revealed that offering high financial returns for depositors was a solution.

5.3 Discussion

5.3.1 Factors that contributed to the introduction of Islamic Banking

The study revealed that that there was a large unbanked population which could be harnessed by Islamic banking. This finding corresponds with PWC (2013) who stated that most countries in Asia and Africa contain large unbanked populations, which can be harnessed by Islamic banking models. According to the Islamic Finance News (2016), Kenya remains a potentially lucrative
market for Islamic banking and a vast array of Islamic financial products continue to be offered by fully-fledged Islamic banks and other conventional banks. The respondents also agreed that emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Sharia-compliant product which concurs with Oundo (2009) who stated that the emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Sharia-compliant products. This means that even though some of the mainstream conventional banks in Kenya offer Islamic banking, there could be challenges in offering pure compliant products and services and hence the need for Islamic banks. Jamaldeen (2012) argues that the potential market for products founded on Islamic principles is composed of people who want to adhere to the principles of their religion and, therefore, abstain from putting money into conventional financial products, which are not Sharia compliant.

The study also established that Islamic banking was introduced as a result of demand for diverse product range. Aden (2014) asserts that Islamic financial institutions have had to develop products and services which are not contradictory with the Islamic law. Islamic banking services provide indirect competition to the products and services offered by conventional banks. According to Euro money (2006), several financial instruments have been developed and are considered innovations in Islamic finance and such instrument as have been used to fill the existing gap for Sharia compliant products such as the profit rat swap, interest rate swap. The respondent also agreed that there was a high potential for revenue growth. The finding concurs with Katila and Ahuja (2002) who assert that Islamic financial institutions can attain competitive advantage through a process of strategic innovation, which amongst other factors, requires the development of at least some new knowledge and capabilities and have high potential for revenue growth.

The study also revealed that the demand for Islamic finance had been increasing due to the growing Muslim population. This finding is in agreement with findings by PWC (2013) who found that the demand for Islamic finance services has been increasing due to growing Muslim populations in countries especially in Asia and Africa, which currently account for over 95% of the world’s Islamic population and which are projected to increase by 35% by 2030. However the respondents were neutral as to whether the interest charged by conventional banks was unfair and exploitative and whether introduction of Islamic banking was a result of global trends. The
respondents disagreed on whether many poor people insist on Islamic banking products which contradicts Oundo (2009) who stated that many mainstream banking clients who demand Sharia-compliant products, are the many poor people who insist on these products.

Other factors highlighted by the respondents include the need for Shariah compliant solutions, partnership and ethical banking. This conforms to Kadubo (2010) who investigated the factors influencing the development of Islamic banking in Kenya and concluded that Islamic banking was driven by religious compliance and customers need being met. It further agrees with the Institute of Islamic Banking and Insurance (2016) who assert that in Islam, money is not considered as an asset, it is viewed strictly as a medium of exchange hence not ethically permissible to earn direct returns from it.

5.3.2 Challenges that Hinder the Growth of Islamic Banking

The study revealed a number of challenges that faced the banks; Islamic banks and Islamic banking products remain largely unknown and misunderstood in the Kenyan market. This finding agrees with sentiments by the Gulf African Bank Managing Director who stated that Islamic Banks and Islamic Banking products remain largely unknown and misunderstood in the Kenyan Market, he further argued that lack of information is to blame for the thousands of Kenyans who believe that Islamic Banking is a preserve for Muslims (Daily Nation, 2016). The study also found out that there was lack of education on Islamic bank products and that not all Muslims are convinced that Sharia compliant banks in Kenya are truly fully fledged Islamic banks. This corresponds to Kasmani (2013) who argues that not all Muslims are convinced that Sharia compliant Banks in Kenya are truly fully fledged Islamic banks with reputable Sharia advisory boards of requisite standards.

The study further found out that there was no Sharia-compliant legal framework needed to make interest-free banking acceptable and that there were different interpretations of the acceptability of various products from a Sharia perspective. Hemed (2009) points out that different interpretations of the acceptability of various products from a Sharia perspective makes standardization difficult resulting in the same Islamic financial instrument or proposal being rejected by one Sharia board and approved by another, as the rulings of these Sharia boards are based on their understanding of the underlying Sharia principles. Kinyanjui (2013) noted that Islamic banks have been established as separate legal entities; therefore, their relationships with central banks and/or other commercial
banks are uncertain. Problems may be further aggravated when an Islamic bank is established in a non-Muslim nation like the case of Kenya, and is subject to that nation's rules and requirements.

The respondents also agreed that there was the perception that the Islamic Banks do not fully adhere to Sharia guidelines which led to low uptake. According to Walid (2015) Islamic finance products and services are often accused of mimicking those of the conventional financial system and hence do not fully adhere to Sharia guidelines. The respondents were neutral as to whether Islamic financial institutions did not have complete item alternatives for all kinds of traditional financial solutions. These findings do not support Shaik (2014) who stated that Islamic financial institutions do not have complete item alternatives for all kinds of traditional financial solutions. The respondents were neutral as to whether there was lack of Sharia manuals in the banks and as to whether Islamic banks had limited product range. This finding contradicts Ahmad and Noor (2011) who stated that Islamic banks have limited product range for firms that require finance in already ongoing projects in which lumpy investments had been made.

However they disagreed on whether, Islamic banks products were not different from products and services provided by conventional bank. This is an indication that the Islamic banks were offering products that were different from convectional banks. There has been different viewpoints in regards to Islamic banking, the question arises as to the nature of Islamic financial products and the extent to which they are different from products and services provided by conventional banks. Critics of the concept of Islamic finance do not see any difference between Islamic and conventional economics, and if any exists, it is artificial in nature and not substantive in any way (Hafeth, 2006). The respondents also disagreed with the statement that there was lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection. This contradicts Kinyanjui (2013) who noted that there was lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection as required by Sharia.

5.3.3 Solutions to Support Growth of Islamic Banks
The study revealed that customer service quality and innovative product portfolio were a solution that could support the growth of Islamic banking in Kenya. This corresponds to CNBC Africa (2014) who observed that gaining and maximizing customer value emerged as key element to profitability in Nigeria’s commercial banking arena which definitely would require the banks to
review their products and services offering and delivery approach. Service levels and infrastructure are overwhelmingly the most significant factors for determining which bank a customer uses. When asked to name the top three reasons that customers use their current bank, the most popular responses all related to customer service. Tsoukatos and Rand (2010) argues that service quality can be described as the result from customer comparisons between their expectations about the service they will use and their perceptions about the service company. That means that if the perceptions would be higher than the expectations the service will be considered excellent, if the expectations equal the perceptions the service is considered good and if the expectations are not met the service will be considered bad. If Islamic banks would offer quality customer service, they would stand a good chance of growth since from literature reviewed and also the views of the respondents in this study indicate that customer service is very key in promoting organizational growth.

Other solutions included strategic marketing which concurs with Dusuki and Abdullah (2007) who found that the substantial issue requiring attention is the need to intensify public education and awareness of the distinctive characteristics of Islamic banks and how they may engender the interest of customers in their financial dealings. Strategic Marketing refers to the way a firm effectively differentiates itself from its competitors by capitalizing on its current and potential strengths, to provide better value to customers (Toman, 2011). This refers to allocation of resources by a firm, in order to exploit the competitive advantages that the firm has. There are various factors that have an impact on the success of strategic marketing, among them, a thorough understanding of the target market, having clear and measurable goals and objectives and selecting the right communication tactics. It is important to create awareness amongst the target market of the products that are covered under Islamic banking.

The respondents agreed on strong corporate governance as a solution to the growth challenge. This conforms to Ekadah and Mboya (2011) who state that good corporate governance contributes to the sustainable development prospects of countries, increased economic stability of nations, institutional reforms and improved governance in both public and private sector. Alternatively, corporate governance failures undermine development efforts by misallocating the much needed capital and resource. In the banking industry, corporate governance involves the way banking institutions' business and affairs are managed by the board of administration and the
top management, which affects how the bank works out the bank's objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and interests of recognized stakeholders (shareholders and depositors), companies' commitment to sound and safe professional behaviors and practices which are in conformity with regulations and legislations, (Linyiru, 2006).

The study further revealed that strong CSR programs who help in solving the growth challenges that Islamic banks have faced. This concurs with a study done by Mwangi (2008) on relationship between CSR and profitability which found out that there is a relationship between CSR and profitability. He found that, the stability and confidence that is transferred into a sustainable business strategy will almost certainly reduce operation cost like attracting good stuff, training and recruitment cost and hence increase profitability. The CSR activities helps the organization in their interaction with communities in which they operate in understanding each other and hence makes it easy for them in designing and marketing their products.

5.4 Conclusions

5.4.1 Factors that contributed to the introduction of Islamic Banking
The study concludes that the introduction of Islamic banking in Kenya was due to the market demand for Sharia complaint products, the Muslim population in the country has grown and hence the need to address their needs. There is a large unbanked population which could be harnessed by Islamic banking. There are customers in the mainstream banking who are in need of Sharia-compliant products and this presents a potential market for the Islamic banks to expand. The study also concludes that Islamic banking is not just for the poor but targets those people that desire a banking system that adheres to Sharia requirements.

5.4.2 Challenges that Hinder the Growth of Islamic Banking
The Islamic banks are faced with a number of challenges that make the growth of these banks an uphill task. One of the great challenges that hindered the growth of Islamic banking is that Islamic banking products remain largely unknown and misunderstood in the Kenyan market which may be attributed to lack of education on Islamic banking. Not all Muslims are convinced that Sharia compliant banks in Kenya are truly fully fledged Islamic banks and therefore there is need for the
Islamic banks to address customer concerns and provide products that are fully compliant. The study further concludes that that there was no Sharia-compliant legal framework needed to make interest-free banking acceptable and that there was the perception that the Islamic Banks did not fully adhere to Sharia guidelines which led to low uptake. Islamic banks products were not different from products and services provided by conventional bank and hence this can explain the concerns that customers have on the banks compliance.

5.4.3 Solutions to Support Growth of Islamic Banks
On solutions that can support the growth of Islamic banking, the study concludes that that high customer service quality is a solution that could support the growth of Islamic banking in Kenya. Good customer service is key in acquiring new customers and also in retaining the existing ones. Other solutions identified were Innovative product portfolio and strategic marketing where the banks create awareness of the products their offering and at the same time offer products that meet the needs of their customers in a more innovative manner. Creating a strong perception of Sharia compliance could also provide give confidence to potential and existing customers. Strong corporate governance and corporate social responsibility were also identified as solutions to the growth challenges.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Factors that contributed to the introduction of Islamic Banking
The study found out that emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Sharia-compliant products and therefore recommends that the banks should be keen in providing Sharia compliant solutions that are meant to fill the gap that exists in the conventional banks. The study also established that Islamic banking was introduced as a result of demand for diverse product and therefore recommends that the Islamic banks should continually innovate to offer new products that meet the customer needs and also to keep up with competition in the market place. The study also found out that there was a high potential for revenue growth and hence recommends that the Islamic banks should come up with strategies of creating a competitive advantage in order to maximize on revenue growth. The study found out that the demand for Islamic finance had been increasing due to the growing Muslim
population and therefore recommends that the Islamic banks should take advantage of the growing population to increase their customer base and also their presence in the country.

5.5.1.2 Challenges that Hinder the Growth of Islamic Banking
The study recommends that the administration of Islamic banks ought to put in place structures that ensure compliance with the Sharia law. The management of Islamic banks ought to additionally conduct intensive campaign to teach the populace on Sharia compliant banking product which might attract customers that were unaware of such product and also clarify the concept of Islamic banking to the people that might have misconceptions on the Islamic banking system. There is need for the government to develop a Sharia-compliant legal framework needed to make interest-free banking acceptable which will help in dealing with the perception that the Islamic Banks did not fully adhere to Sharia guidelines.

5.5.1.3 Solutions to Support Growth of Islamic Banks
The study recommends that Islamic banks should focus on service quality, Service levels is overwhelmingly the most significant factors for determining which bank a customer uses, therefore the banks should invest in resources that are geared towards improving customer service. This can be done through equipping staff with knowledge and right tools to deliver excellent service. The study also recommends that the bank should focus on innovative product portfolios that are based on market research to determine what is suitable and relevant to the customers. The banks should also focus on environmental and social concerns that are becoming increasingly important influences on corporate strategy, the bank should be and remain responsible to the society in which it operates so as to remain attractive and grow its client base.

5.5.2 Recommendations for Further Studies
This study was carried out at the First Community Bank and the Gulf African Bank, the researcher therefore recommends that a similar study be carried out on other banks including conventional banks that are offering Sharia compliant products. The researcher also recommends research on other factors that influence Islamic bank growth like age, gender and education, this would consequently inform the management and investors of the priority areas in trying to market this bank.
REFERENCES


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IMF (2006). *Global stability financial report, the influence of credit-derivative and structured markets on financial stability report*, International Monetary Fund, Washington, DC, April


PWC (2014). *What customers want Customer insights to inform growth strategies of Islamic banks in the Middle East*? Retrieved from www.pwc.com


APPENDICES

APPENDIX I: INTRODUCTION LETTER

Dear Respondent,

I am a post-graduate student studying for a Degree of Global Executive Master of Business Administration (GEMBA) at the United States International University. The PURPOSE OF THE STUDY IS TO ASSESS THE FACTORS INFLUENCING THE GROWTH OF ISLAMIC BANKS IN KENYA.

You have been selected based on your job position with one of the Islamic Banks in Kenya and your input will be highly appreciated. All information obtained is confidential and will be used only for this study and no individual responses will be reported.

Instructions on how to fill the questionnaire are provided.

Should you have any questions or require any further information, kindly contact the researcher through the address provided below.

Thank you.

Consolata Mutua

Email: mutua.consolata@gmail.com / cmutua@usiu.ac.ke
APPENDIX II: QUESTIONNAIRE

SECTION ONE

This section covers general questions on the respondent and the organization.

Please tick the box next to the option that best applies to you.

1. Which is your gender?
   □  Male
   □  Female

2. Which of the following best describes your department/function?
   □  Branch
   □  Legal /Risk & Compliance
   □  ICT/Operations
   □  Marketing / Business
   □  Human Resource/Customer Service
   □  Finance/Audit
   □  Other ________________________________

3. Which best describes your position in the organization
   □  Branch Manager
   □  Manager (other)
   □  Head of Department
   □  Other ________________________________

4. What is your religion?
   □  Muslim
   □  Christian
   □  Other ________________________________
SECTION TWO:

FACTORS THAT CONTRIBUTED TO THE INTRODUCTION OF ISLAMIC BANKING

On a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree. Please rate the following statements in regards to the factors that contributed to the introduction of Islamic banking in Kenya

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<td>5. The demand for Islamic finance services has been increasing due to growing Muslim populations</td>
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<td>6. Interest charged by convectional banks is unfair and exploitative</td>
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<td>7. There is a large unbanked population which can be harnessed by Islamic banking</td>
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<td>9. Islamic banking was introduced as a result of demand for diverse product range</td>
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<td>11. Many poor people insist on Islamic banking products</td>
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<td>12. The high potential for revenue growth</td>
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<td>13. Other Factors:</td>
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### CHALLENGES FACING ISLAMIC BANKING GROWTH

On a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree.

Please rate the following statements in regards to the challenges facing the growth of Islamic banking in Kenya.

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<td>14. Different interpretations of the acceptability of various products</td>
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<td>from a Sharia perspective</td>
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<td>interest-free banking acceptable</td>
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<td>to Islamic Banks,</td>
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<td>the public in order to ensure consumer protection</td>
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<td>19. Islamic banks products are not different from products and services</td>
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<td>provided by conventional banks.</td>
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<td>20. The introduction of Islamic banking was a result of global trends in</td>
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<td>banking</td>
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<td>21. The perception that the Islamic Banks do not fully adhere to Sharia</td>
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<td>guidelines leads to low uptake</td>
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<td>22. Not all Muslims are convinced that Sharia Compliant Banks in Kenya</td>
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<td>are truly fully fledged Islamic banks.</td>
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<td>23. There is lack of education on Islamic bank products</td>
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<td>24. Islamic Banks and Islamic Banking products remain largely unknown</td>
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<td>and misunderstood in the Kenyan Market</td>
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<td>25. Islamic financial institutions do not have complete item</td>
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<td>alternatives for all kinds of traditional financial solutions</td>
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<td>26. Islamic banks have limited product range</td>
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27. Please indicate to what extent these challenges have affected the growth of Islamic banking in Kenya

- Very great extent
- Great extent
- Moderate extent
- To a little extent,
- To no extent,

SOLUTIONS THAT CAN SUPPORT THE GROWTH OF ISLAMIC BANKING

On a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree. Please rate the following statements in regards to solutions that can support the growth of Islamic banking in Kenya.

<table>
<thead>
<tr>
<th>FACTORS</th>
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<td>28. Strategic Marketing</td>
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<td>29. Strong perception of Sharia Compliance</td>
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<td>30. High Customer Service Quality</td>
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<td>31. High Financial Returns for Depositors</td>
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<td>32. Innovative Product Portfolio</td>
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<td>33. Corporate Social Responsibility</td>
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<td>34. Strong Corporate Governance</td>
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<td>35. Other:</td>
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