EFFECTIVENESS OF COMPETITIVE STRATEGIES ADOPTED BY ISLAMIC COMMERCIAL BANKS IN KENYA

BY:

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DECLARATION

The research report is my original work and has not been presented for examination in any other university.

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The research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

I dedicate the research project to my family who have encouraged and supported me during this period of project writing. I dedicate to my entire friends who encouraged me and provided moral support throughout this period.

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ABSTRACT

Competitive advantage exists when the firm is able to deliver the exact benefits as the competitors but at lower cost. The study area will add to a pool of knowledge the area under research on competitive strategies adopted by Islamic commercial banks in Kenya. The review literature provided an explanation on theoretical rationale of research problem under the area of study and the previous studies and how findings relate to the current study. The research methodology shows data collection, analysis and presentation of findings. Descriptive case study research design was adopted by the study where top management, middle management and support staff of first community bank were targeted. The researcher used qualitative data analysis techniques so as to bring out the relationship between variables. The research findings of study show Islamic banks lacks effective competitive strategies in place. Majority of the respondents had the opinion that, the number of Islamic banks offering Islamic products in Kenya is growing. Respondents indicated lack of proper ICT strategies among Islamic banks. Respondents were of the opinion that by engaging in risk management, Islamic banks can increase the value of the banks by reducing the chance of occurrence of costly lower tail-end in earnings and cash flows. Respondents indicated that Islamic banks lacks proper guidelines on their marketing strategies. The study concluded that competitive strategies enables strengthen the linkage of finance and economic activities that are real, when making contribution on inclusive and the balanced growth. Effective information communication strategies can enable Islamic banks maximize value for information technology investment through aligning information technology with the requirements of the business, business agility increment, business risk management and optimum use of information technology infrastructure. The strategies on used by Islamic banks helps in identifying if a certain bank leads the market, the challenger, the follower and the nicher through identifying the mission, vision, the objectives, and their strategies on marketing . There is need for proper guidelines on marketing strategies employed by Islamic banks so as to change with business environment banks. Limitations of the studies were that there are some respondents who did not cooperate to provide full information on effectiveness of competitive strategies adopted by Islamic Kenyan Banks. The researcher assured the respondents that the information provided was of strict confidence and was used for the purpose that it was indicated. The researcher encountered lack of adequate information to the fact that most people may not cooperate due to fear of victimization, this is likely to contribute to low response rate the researcher explained to the respondents that the study was of academic purposes and their views was kept highly confidential. The study recommended that Islamic banks should analyze the market before coming up with competitive strategies. Islamic banks should adopt effective competitive strategies to align with the changing business environment. Islamic banks should invest on ICT infrastructure which should help the bank grow towards achieving goal. Islamic banks should adopt sales strategies that works for them. Islamic banks should align sales strategies with organization goals. Islamic banks should develop clear guidelines on their market strategies. Further study is necessary on effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya to cover other commercial banks offering Islamic products.

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LIST OF ABBREVIATIONS

CBK - Central Bank of Kenya

ICT - Information Communication Technology

R&D - Research and Development

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Increased competition in banking industry has continued to threaten the attractiveness of the industry and has led to reduced profitability among the players in the sector. It has led to increased pressure among the banks can go ahead; formulate effective strategies which facilitates proactive responses on to actual changes in the competitive environment (Khattak & Ur-Rehman, 2010). The banks therefore focuses on go ahead of competition by responding according to the market tends. Islamic banks need to identify their areas of specialization to enable them concentrate on competitive areas (Pearce &Robinson, 2005). According to Ludwig & Pemberton (2011), the core competences can be robust, difficult to imitate as they are related to management of linkages within the organizations, value chain to the linkages to supply and distribution chains.

According to Porter (1985), competitive edge may exist when the organization is able to deliver the benefits that are similar to the competitors at a cost that is much lower (cost advantage), or the or4ganization is able to deliver benefits which exceeds the products that are competing. Competitive advantage enables an organization create more superior value for its customers which translates to higher profits. Cost advantages and Differentiation can be positional advantages that describe firm's position in a market as the leader in cost or in differentiation (Obasi et al., 2006). Organizations responds in a different way to the changes in the environment. Strategy may concern with what the firm does so as to have a sustainable competitive edge

(Porter, 1980). The concern of the firm strategy can be to identify areas of business that the organization need to participate so as to increase profits in the long run.

Competition influences how the business operates. Any organization that strive to operate in the way that makes it different from competitors and can define itself to the customers. Globalization, advancement in technology and information technology growth among other factors have made modern day customers become very discerning. The organization therefore need to innovate so as to keep up with the changing customer tastes and preferences through product growth of information technology growth of information technology, service delivery, differentiation, advancement in technology or operation efficiency (Nupur, 2010).

Porter (1998) argued that it is prudent for the organization to have knowledge the exact sources of the competitive pressure in sector of its operation in order so as to come up with effective strategies. Dusuki & Abdullah, (2007) define strategy as the framework that guides the choices which determine the direction and nature of the organization. Ultimately, this narrows down to selecting the products to offer and markets which they are offered. Ludwig &Pemberton (2011) view strategy as the search for the plan of action that can develop a competitive edge for any business. For the firm, search is an iterative process which starts with the recognition of the company position now and what it owns. Differences between a competitor and a firm are the basis of its advantage. Islamic banking relies more on the assumption that all its operations that takes place are in accordance with Sharia and every client is complying with this rule. Impact of Islamic banking can slowly be felt in country's financial system.

1.1.1 Concept of Effectiveness Competitive Strategy Adopted by Islamic Commercial Banks in Kenya

Nupur (2010) defined strategies as the set of actions and decisions that results in implementation and formalization which are designed so as to achieve the organization objectives. Therefore, what happens in organization economic environment. According to Porter, the operational responses can be part of the planning process that coordinates operational goals of the organization at large. The operational issues are more concerned with the policies which utilizes resources of the organization which supports strategies on competition that are long term.

Porter (2004) was of the view that strategies on competition have supply side strategic scope and demand side with strategic strength. Porter simplified schemes which are 'differentiation' 'overall cost leadership', and 'focus' generic strategies. Osman, Ali, Zainuddin, Wan Rashid & Jusoff (2009, perceived strategies on competition from the perspective of the business and believed in the achievement of competitive edge of the business unit in a certain particular market. Hybrid strategy has been advocated an element of facing the market which is provided in Porter's model in the form of price as the new dimension which combines with differentiation strategy.

1.1.2 Competitive Advantage

It is critical for nay organization to gain competitive advantage. Khattak & Ur-Rehman, (2010) sees competitive edge as a product or the service that organization's customer's values than similar offerings from competitors. Competitive advantages can be temporary as competitors can seek ways of duplicating the competitive advantage (Thompson and Strickland, 2007). So as to stay competitive, the firms should continue to develop new competitive advantages.

According to Nupur (2010), competitive advantage may exist when the organization delivers the benefits that are similar as compared to competitors but with cost that is lower, deliver benefits that exceeds the products that are competing. Thus, competitive advantage can enable an organization have superior value for its customers and high s profits for the firm. The Differentiation and cost advantages can be referred to as the positional advantages since they describes the organization position in the market as the leader in differentiation and cost(Obasi et al., 2006). The competitive advantage of the firm may involve gaining the advantage over its competitors with regard to the delivery and design of services and products. Bay gaining competitive advantage the firm sets specialized skills, capabilities for the organization and assets (Porter, 1980). This is an effective tool in gaining a sustainable competitive advantage. In addition, a firm has optimally utilizes its capabilities and internal resources to exploit external opportunities so as to gain a sustainable competitive advantage.

Ludwig &Pemberton (2011) argued that strategies on competition are more skill-based and mostly involves strategic thinking, execution, the innovation, the positioning, thinking critically and warfare of art. Nupur (2010) argued that management is key to continuing development of any firm and its staff. There is need and demands of environments to constantly evolve and management need to adjust the organization according environmental needs and demands. Competition influences a business.

1.1.3 Islamic Banking

Islamic banking is a banking system that is consistent with the Shari'ah (Law) of Islam, which is guided by economics on Islamic. Law on Islamic prohibit collections and payments and collections of riba (interest or usury).The arguments against the interest because money cannot be used as a commodity in making profit but can only be earned on goods and services, but not not control of money itself. The ffeatures of the Islamic Banks can be based on theethical principles. Shari'ah on Islam allow activities which are economic in a framework that protects and safeguards public interest (Nupur, 2010).

Human beings make profit through business activities. However, when this comes against ethics in Islam morality, it goes against the law. For the investment to be legitimate, the most requirements, the outcome need to fulfill reality of the investment transactions and enable the financial institutions related to Islam state what makes profit. However, this is not certainly determined. The major governing conditions of Islamic banks include investment: Investments are subject to rules of loss sharing and profits (Osman et al., 2009).

1.1.4 Banking Sector in Kenya

Under the Companies Act, the Banking Act and the Central Bank of Kenya (CBK) Act are the main regulators and governors of banking Industry in Kenya**.** These Acts are used together with the prudential guidelines which Central bank of Kenya issues from time to time. In 1995 the exchange controls were lifted after the liberalization of the banking in Kenya. Central Bank of Kenya (CBK) is tasked with formulating and implementation of monetary and fiscal policies. Central bank is the lender of last resort in Kenya and is the banker to all other banks. The CBK ensures the proper functioning of the Kenyan financial system, the liquidy in the county and the solvency of the Kenya shilling. The Ministry of finance is where CBK falls (Chege, 2008).

So as to address issues that affect the Banking sector in Kenya, banks comes together and forms a forum under the Kenya Bankers Association. Kenyan Banks realized tremendous growth in the past five years and they have expanded across the east African region. The banking sector in

Kenya has involved in automation, moving from the traditional banking to better meet the globalization challenges and growing complex needs of their customer. There has been an increase in competition from the local banks as well as multinational banks, have just entered the market which has served the Kenyan economy well since the customers and the shareholder have benefited the most (Kibe, 2008).

1.1.5 Islamic Commercial Banks in Kenya

Islamic banks in Kenya constitutes of 1% of gross assets of the banking sector. The Gulf First Community Bank and A the African Bank are the main Islamic banks that currently operates in the Kenyan industry. The two banks have a combined loan portfolio that totals to Ksh4.9 billion, the customer deposits of Ksh7.5 billion and 27,270 deposit accounts. Introduction of the fully fledged Islamic Banking in the country has been anticipated by Muslim communities. In two years, there have been several launches on Islamic banks. Barclays Bank Limited and KCB Limited have Islamic windows that have former branding its services, "LARIBA Banking. Entry into the market of First Community Bank and Gulf African Bank will usher the hundred percent Shari'ah complaints in the financial institutions with various products for customers. Currently, there is high expectations among Kenyans for this was of banking which brings news partnership and the interest free banking. Kenyan ppublic have been suffering due to high interest rates and regular fluctuations on interest rates among conventional banks (Dusuki & Abdullah, 2007).

A large number of Muslim communities have continued to lad being in the banking industry due to unavailability of riba-free banking or lack of income. There is potential in the lucrative market for growth of Islamic banks in major towns across Kenya (Nupur, 2010). The major challenge has been convincing Muslim communities there exists fully fledged Islamic banking which have reputable Shari'ah advisory boards that have international standards. Kenyans of all religions have continued to look forward on banking that has interest free service that is more efficient, modern, solid, transparent and customer friendly. Islamic banks need to invest more in news technologies so as to remain competitive (Khattak & Ur-Rehman, 2010).

Kenyan central bank and the government face a challenge of opening up the market and change banking acts and guidelines to be more reflective of the realities as it has been done in the leading countries in Europe, America and in Africa. Regional market has potential for the customers of all who have embraced Islamic banking (Kuisma et al., 2007). According to Azam & Siddiqoui, (2012), Islamic commercial banks continue to learn, adopt and reorient themselves to the change in environment. Most importantly, as the discontinuity that begins to affect the organization in an environment that has turbulence, where various pressures of the new challengers as a result of globalization liberalization of trade impact remains to be hidden in the fluctuations on banks performance. Islamic commercial banks continue to engage in strategies that have enabled them to respond to challenges in the environmental in order to have a competitive edge over the competitors (Dusuki & Abdullah, 2007).

1.2 Research Problem

Islamic commercial banks have over the years operated in an environment that is stable for over 10 years. Currently the industry continues to face aggressive competition in the deregulated environment (Ludwig & Pemberton, 2011). The business environment in Kenya continues to change which has resulted in some banks opening various branches across the country and which increases the competition in the sector globally. The environment that gives banks their means of survival. However, it is also a source of threats. The environment which companies operates are continually changing, sometimes vary rapidly and the business leaders have to respond quickly to the change in environment.

Kenya Islamic banks continue to realize that stiff competition in the industry continues to necessitate the design of the competitive strategies which guarantees the performance. Successful strategies can lead to sustainable competitive advantage and superior performance (Porter, 2004). The banks ability to lead the competitive advantage may depend on competitive edge sustainability commanded by the bank. Islamic banks have the ability to command competitive edge may be dependent on sustainability of its competitive advantages that they command (Porter, 2004).

Dusuki & Abdullah, (2007) studied the effect of competition on Italian Islamic banks in. The sample was 15 Islamic banks in Rome. Competition was found to lead to a greater credit among new banks and increased growth. However, the study found out that continued competition unfavored the effects which includes little on new firm creation, employment, expansion, less economic growth and slower firms exit. Dusuki & Abdullah, (2007) studied the strategies on competition employed by banks in China from 1978 to1998. Dusuki & Abdullah, (2007) in their study found that the witnessed key players' coming and going out, as various legal regulations need to be fulfilled, the intensity and structure of the competition continued being different, differentiation were an important part of competition during that period.

Kuisma et al., (2007) study stated that Islamic banks need to consider the market entry, protect and build its competitive edge. Guided by these facts, it was critical formulating a study on banking industry in Kenya, specifically in understanding the effects of the combined strategies on Islamic banks in Kenya. The past have emphasized on competitive strategies implementation adopted by various banks including Chege (2008) who studied strategies on competition that are adopted by Islamic banks in East African countries. Nupur (2010) studied strategies on competition employed by Islamic banks in many countries. Nyakang'o (2007) studied on the competitive strategies that are adopted by various auditing companies among firms in county of Nairobi.

Osman et al., (2009) conducted a survey on strategy implementation among Islamic banks in Kenya. Gitonga (2008) carried out a study on strategies employed by Dubai Bank to the competition in banking sector in Kenyan. Khattak & Ur-Rehman, (2010) carried out a study on the implementation of strategy at First community bank. However, none of the studies has concentrated on assessment of the effectiveness of competitive strategies adopted by Islamic Banks and therefore the need to fill the gap. What is the effectiveness of competitive strategies adopted by Islamic commercial banks in Kenya?

1.3 Research Objectives

The study aimed at determining the effectiveness of competitive strategies adopted by Islamic commercial banks in Kenya.

1.4 Value of the Study

The study findings are important to various Islamic banks in Kenya at they will benefit from the research as it will give insight of what other researchers have found on the competitive strategies employed by Kenyan Islamic banks . Study findings of the study are of value to the government since it brings to an understanding how Islamic commercial banks can use competitive strategies to gain competitive edge as a result of competition and globalization. The

Kenyan government will be in a position to come up with various policies which can increase the productivity.

The study findings are of importance to development partners who may be interested in helping the financial institutions to prosper as they will have a better understanding of wide variety of factors that hinder the financial institutions hence sustainability. Scholars and researchers who may have interest in the area of competitive strategies on Islamic Banks. The study will be forming a basis upon which further research on the same will be based.

This findings will contribute to a pool of knowledge on the area under of this study on effectiveness of competitive strategies adopted by Islamic commercial banks in Kenya. The area for further researcher enables the researcher to have a reference point through which the gathered information will contribute to understand better on the effectiveness of competitive strategies adopted by Islamic commercial banks in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review enables the reader with the explanation on the theoretical rationale on the existing problem under the study as already done research and the relationship between the findings the existing problem. The purpose of reviewing the literature is avoiding unnecessary or un intentional duplication of the materials that are already covered.

2.2 Theoretical foundation

This area provides the framework which is theoretical which helps understand the effectiveness of competitive strategies adopted by Islamic commercial banks. Study has come up with theories that guide Islamic banks when implementing competitive strategies. The theories are; game theory and Porter's Theory of Competitive Advantage.

2.2.1 Game Theory

The theory enable the study do analysis on various dynamics and decisions that are sequential at the tactical level. The major value of the theory strategic in emphasizing the reason for thinking in front, thinking alternatives and anticipate reactions of different players ofthe "game." The important concepts are to the strategy is the extensive forms the games, payoff matrix, licensing versus production, and core of games (Pretorius, 2008). Areas of application to this strategy includes: R&D, new product introduction, pricing, regulation and advertising. Successful strategy does not entirely depend on position of one firm's in the industry, activities and capabilities. This depends on how others may react to moves, and how people think. Game theory is a branch of economics that is burgeoning branch. Its a complex subject that spans games of a static and dynamics nature under information that is imperfect or perfect information

(Worthington & Gait, 2007). The references below can be helpful for the ones who wish to explore the theory and the more detail modeling of game theory. It is often a big step in recognizing different situations of the games, and think how the player sets out on the changing the game (Ghayad, 2008).

2.2.2 Porter's Theory of Competitive Advantage

The theory of Michael Porter's competitive edge of nations can provide a sophisticated tool so as to analyze implications of competitiveness (Vayanos, Wackerbeck, Golder, & Haimari, 2008). Porter has contributed to understanding of competitive edge of countries in production and international trade. The core, focus is individual industry, or clusters of the industry, which the competitive advantage principles can be applied. The theory starts from respective industries which build up the entire economy.

Organizations, not countries, there is competition the international markets, knowing how organizations can create a sustainable competitive edge enables explaining of the parts organization plays to the whole process. Therefore, essence of the argument is that "the nations at home influence how firms succeed in particular industry". Interdependence may be viewed as to draw conclusion on the competitiveness of industries individually. Considerations of facets in different competitive diamonds of the whole nation is important. Competitiveness of any nation is considered by Michael Porter country as a result of four main factors: demand conditions; structure, related conditions; firm strategy, supporting industries; and rivalry (Russell-Bennett, McColl-Kennedy & Coote, 2007).

2.3 Competitive Strategies

This section discusses the competitive strategies which are employed by the banks. The competitive advantage is acquired through various strategies employed by the firm, that is, Information Technology Strategy, Sales Strategy, Marketing Strategies and Customer Service Strategy which have been discussed below;

2.3.1 Information Technology Strategy

The strategy on (ICT), encompasses the organization framework for technology developments, services, technical direction, and managing risk. Strategy on information communication embodies the priorities and principles which are set in the strategic plan of the organization and any various subsidiary strategies (Osman, Ali, Zainuddin, Wan Rashid & Jusoff, 2009). The organizations around the world may adopt and integrate ICT in a system so as to gain a competitive edge in the market. Information Communication ICT has led to efficiency and effectiveness of the system through an innovative products and services (Rashid &Hassan, 2009).

Technology is important in enabling objectives that are strategic be achieved including product development, capabilities and services which gives the firm a competitive edge over various forces of competition which face the market environment. It may be used as a competitive weapon once a strategic business opportunity is identified. The two models of the firm and its immediate environment are used in identifying the areas where Information and Communication Technology ICT can provide competitive advantage. These models are Porter's Competitive forces and value chain (Vayanos, Wackerbeck, Golder &Haimari, 2008). Competitive edge can be attained through ensuring the organization ability to deal with substitute products, customers and suppliers. Power of bargaining of customers and suppliers, traditional positioning. Investments in complex Information and Communication Technology (ICT) increases firm's efficiency and creates barrier to entry in the market. Information and Communication Technology ICT is used in cost reduction by reducing cost of the business processes and reducing the costs to suppliers and customers. It contributes a bigger role differentiation through creation of new features which improve the organization products that are existing and their services which results to unique features of the products (Nyangosi, 2008).

2.3.2 Sales Strategy

Strategy on sales encompasses plans that position the organization brand and their products gain competitive edge. Strategies which succeeds helps sales force to focus on the market which is targeted and communicate with customers in meaningful and more relevant ways (Khattak &Rehman, 2010). Representative of sales representatives can understand services and products solve problems to the customers. Successful strategy on sales conveyed in a manners that sales force spends time to target correct customers at the right time (Cruz, Neto, Gallego & Tommi, 2010).

Direct selling may involve the sales of the consumer products or services through salespersons on person-to-person basis away from the fixed retail location ((Iqbal, Zamir & Abbas, 2007). However,Iqbal, Zamir & Abbas (2007) argues that the direct sales strategy, which is a direct assault on competitors' position, is a hard way to sell, unless the firm has clear superior advantage over the competitors. Khattak &Rehman (2010) describes direct sales strategy as the form of personal selling where a salesperson presents the goods and services before the potential buyer and persuades them make a purchase.

2.3.3 Marketing Strategies

Firms have continued to invest huge amounts of funds on marketing activities each year, in the financial sector. Ludwig & Pemberton, (2011) argues that the organizations base their marketing on strategies of Seven Principles (7Ps) of marketing: price, promotion, product, physical evidence, place, people, and processes. Applications of these strategies may be guided by prevailing operating environment and firm's objectives and capabilities. Strategies helps position the firm well in the sector as well as increasing awareness on its existence, services and products offered. Kibe (2008) also asserts that marketing quality of the service offered by the firm key c to its acceptability, growth and success and adds that the firm needs to understand segment its market appropriately, the customer expectations, position the service well in the sector and carry out an effective customer relationship management so as to ensure customer retention.

Kuisma, Laukkanen & Hiltunen (2007) argued that a marketing strategy, the firm needs to gather the segments information that are served by competitors, growth rates, customer loyalty, customer base, the market share they command and promotional mix used. The importance is the advertising agencies use a distribution channels, pricing formulas, discounts as well as their sales.

2.3.4 Customer Service Strategy

The growth of the industry slows, competition, retail banks that are modern are under pressure to growing organically. The formidable competition from emerging Internet banks, mortar operations, traditional brick and increasing number of banks struggle to meet the performance expectations because they can't be able to reach customers, differentiate business, they are more likely to respond to opportunities in sales (Mosoti & Masheka, 2010). Banks which define and implement solutions to the challenges are able to successfully compete and to thrive into future (Misati, Lucas, Anne, & Shem, 2010).

Strategies on service delivery are important which are used in communicating with the customers, handling other aspects of customer relationship which necessary in delivering high quality service and managing problem resolutions processes (Spulber, 2009). Setting customer expectations and proactively communicating with the customers are important aspects of managing these relationships. By knowing the needs of the customers is the key to providing high quality customer service. Accessibility, listening to concerns and resolving problems are key to building customer loyalty (Osman, Ali, Zainuddin, Wan Rashid & Jusoff, 2009).

2.4 Empirical Review

Ovidiu et al (2009) studied the Porter's Generic Competitive Strategies in the banking sector in Romania and found a strong relationship between the three generic strategies and a firm's competitive advantage. Ovidiu et al (2009) further found out that, the three set of generic strategies, differentiation strategies had the highest contribution to customer satisfaction. Ovidiu et al (2009) findings further indicated that delivering superior service to the bank customers was not sufficient, in effect; the bank managers need to deliver services which exceed customer's expectations so as to enhance customer satisfaction and maintaining a positive image.

Spulber (2009) carried a model-based study on the effectiveness of the low cost model on the profitability of banks. Spulber (2009) found that banks with the lowest costs will earn the highest profits in the event when of competing products which are essentially undifferentiated, and selling at the standard market price. The companies which follow this strategy places more emphasis on the cost reduction in every activity on the value chain. Spulber (2009) however found that company's focuses on the reducing costs at the expense of other vital factors, this may become dominant if the company loses vision on why it embarked on such strategy in the first place.

Dusuki & Abdullah (2007) researched into competition and lending trend among the Italian banks. The indicator of the competition was applied on the banking firms of the eight major countries during the 1994-2004 periods. Dusuki & Abdullah (2007) concluded that a fairly stable level of competition, slightly increases over time, even when concentration increases. Hemed (2009) also analyzed a longer time span by focusing on Italian banking sector during the years 1987 to 1997.

Mosoti & Masheka (2010) found out that most of the banks in Kenya may find it difficult responding strategically due to the unpredictable environmental changes and resources which are inadequate to make strategic responses a reality. Nupur (2010) study indicated that commercial Banks in Kenya face challenges in adopting new technologies as a strategic response to customer service delivery in the changing business environment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Chapter three highlights methodology that was used to collect data, analyze and present. It further depicts also research design, population, sampling, collecting of data and techniques used in data analysis.

3.2 Research Design

According to Mugenda & Mugenda (1999), study design is the entire plan on how to conduct the study so as to provide answer to interviews for research thus achieving the objective of the current study. The design for the current study is descriptive case study design since it provides data on the population to the universe to be studied. The researcher will have no control on research variables. According to Kothari (2003); the best methods for collecting information in research are descriptive which describe and demonstrate the relationships as they exist.

3.3 Population of the Study

According to Mugenda & Mugenda (1999) target population is complete set of objects or individual cases with characteristics that are common on which the researcher may generalize results of the study. The target population was first community bank branches in Nairobi County. The study targeted 16 top management, 30 middle management and 54 support staff of first community bank. To select respondents, stratified random sampling technique was employed selecting respondents from the Islamic banks. Mugenda & Mugenda, (2003) argues that at least 30% - 50% of entire population inadequate for descriptive studies. This enables sampling the rare extremes of the population by the researcher. Since the entire population is not big, 50% will be used by the researcher which wi8ll lead to a sample of 50 employees.

3.4 Data Collection

The researcher used primary data. Primary data was collected from the use of interviews. Interviews were used for primary data from the respondents. Researcher interviewed the questions. Interviews were useful in gathering information from the employees regarding competitive strategies employed by Islamic banks. The managers of Islamic banks were interviewed. Interviews were conducted in a span of seven consecutive days.

3.5 Data Analysis

Data processing and analysis encompasses categorizing, manipulation, summary of data thus obtaining answers to questions under research as per respondent's response (Kothari 2003). Data mining is a technique in data analysis which focuses on the knowledge and modeling discovery for the predictive as opposed to purely to the descriptive purposes. The intelligence of the business entails data analysis which depends heavily on aggregation and focus on information of the business. Collected data was first edited to ensure correctness and completeness which reduces bias, increases consistency and precision. Analysis was displayed visually by use of graphs, a charts and frequency tables. The research was a descriptive survey since analysis was statistic descriptive like frequencies and linear regression. Analytical data technique was qualitative which was used in analyzing data in order to bring out relationship between variables. Qualitative research encompasses inquiry used in various academic circles, which includes the natural sciences, social sciences, but also in areas which are not academic which includes business, market research and service demonstrations by lack of profits. The statistical conventional point of view, produces information that is qualitative only for certain cases studiedies and any other conclusion which is regarded as propositions.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Chapter four explains data analysis, results and discussion. The chapter starts with explaining how response rate was analyzed, the types of quantitative techniques that are used in analyzing and presenting the findings of the study.

4.2. Presentation of Findings

4.2.1 Analysis of the Response Rate

Table 4.1: Analysis of the Response Rate

Category	Response	Percentage
Response	40	80
Non-response	10	20
Total	**50**	**100**

Fig 4.1: Response Rate

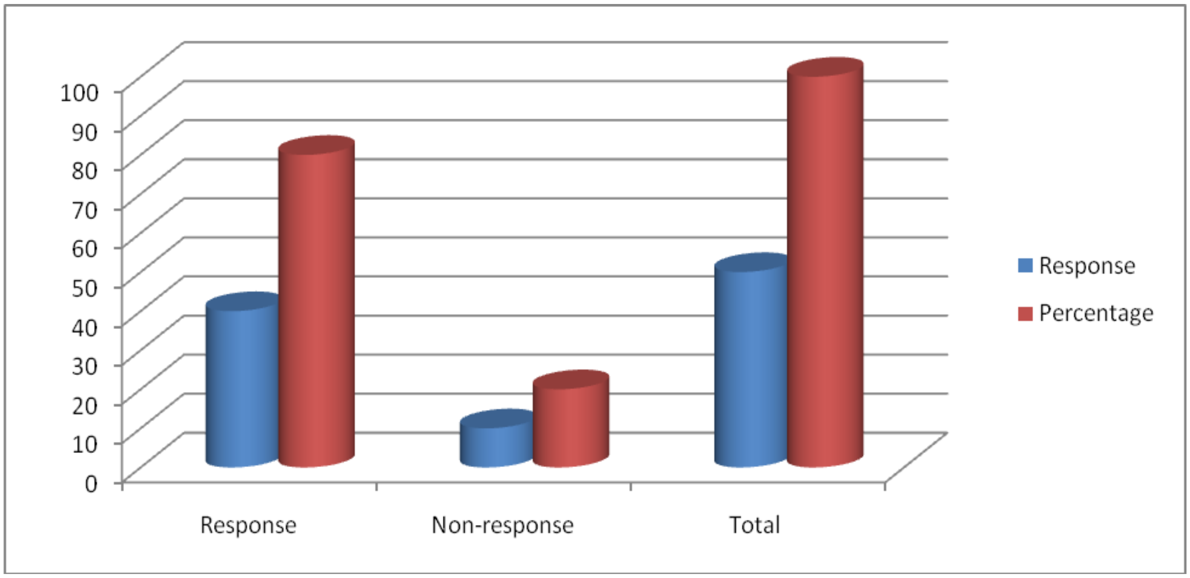

Table 4.1 and Figure 4.1 shows the number of respondents who were issued with questionnaire and those who responded. The sample size was 50. The table and figure thus shows that response rate percentage was; 80% responded and 20% did not respond.

4.2.1 What gender do you belong to?

This question aimed to find out the number of male and female who answered the questionnaires. Majority of respondents who were 27 (68%) were male as compared to 13(32%) who were female, this shows that Islamic banks had more male than female who provided information on effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya.

4.2.2 What is your Age Bracket?

This question aimed at finding out what age bracket the respondents belonged to. Majority of respondents who were 15 (38%) in the age bracket of 30-40 years, 10 (25%)20-30 years, 9 (23%)40-50 years and 6 (15%) above 51 years which shows that majority of respondents in the

Islamic banks were middle aged people who provide the required information on the effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya.

4.2.3 What is your highest education level?

This question aimed at finding out what was the level of education attained by the respondents who participated in this study. The question was important so as to enable the respondents understand the area of the study. Majority of respondents who were 16 (40%) of the total responses were university graduates, 14 (35%) college level and 10 (25%) secondary level. This indicates that most respondents were knowledgeable and provided reliable information on effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya.

4.2.4 What is your working experience?

This question aimed at finding out how many years the respondents have worked in the banking sector., this question was important to the study since it will enable the respondents understand how Islamic banks operate. Majority of respondents who were 14 (35%) had working experience of 6-10 years, 12 (30%) 1-5 years, 10 (25%) 11-20 years, 2 (5%) 21 years and above and 2 (5%) below 1 year and above which shows that most respondents had worked in the organization for a long time and provided the required information for the study on the effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya.

4.2.5 How do you stay ahead of the competition?

The question sought opinions from respondents on how Islamic banks can stay ahead of competition. Islamic banks lacks effective competitive strategies in place. Respondents who were many were of the opinion that, number of Islamic banks offering Islamic products in Kenya is growing. The Islamic banks need to grow above the intermediation of credit towards intermediation of investments by innovating risk sharing contracts. Respondents further argued that platform for multi-bank need to be adopted so as to enable mobilization that is more efficient of private sector finances, from the corporations and individuals, to the targeted finance firms and funding of ventures.

Respondents explained that institutions in Islamic banking need to have more strength on linkage of real economic activities and finance and should contribute towards balanced and inclusive growth. Respondents further argued that framework for risk assessment adopted by Islamic banks has been very weak taking into account the prevailing demand in the market demands. A number of Islamic banks are at fore front to expand the kind of financing. Stringent methodologies that evaluates risks limits incentive that expands overseas operations in new markets where there is potential for long growth.

4.2.6 Which competitive strategies exist among Islamic banks?

The question sought to know the competitive strategies employed by Islamic banks. Respondents indicated that the existing competitive strategies are not very effective. Respondents indicated that Islamic banks continues producing a multitude of new products. This is a continuing process where parties experiments and differentiates goods, services, respond to gradual and sudden economic changes.

Respondents indicated that Islamic banks have not been proactive in financial innovation; lack of differentiation strategy which has led to Islamic banks continuing with the same products in the market. Cost leadership strategies have not been properly utilized among Islamic banks since the cost of their products continues to remain high and less competitive. Respondents further indicated that financial innovations such as ATM machines, mobile banking, and CRBs aims to address transaction costs and information search costs. This innovation by Islamic banks have enabled them pool small deposits and package them into sizable cost effective investment vehicles.

4.2.7 What does gaining competitive advantage entail?

The question sought to find out what entailed by gaining competitive advantage. Majority of respondents indicated that competitive edge distinguishes Islamic banks from competition as customers think. Respondents indicated that Islamic banks need to create strategies, goals that are clear, and operations which sustain competitive edge over time. There is need for Islamic bank to adopt focus strategy as a competitive strategy so as to understand and attend the market targeted better than competitors. Respondents indicated that Islamic banks need to have a brand that is strong which clearly communicates how benefits are delivered more effective than the competitors.

4.2.8 How do competitive strategies enable the Islamic banks to create superior value for its customers?

The question sought to find out the competitive strategies adopted by Islamic banks to create superior value for its customers. Most respondents were of the opinion that Islamic banks need to adopt growth strategies like development of markets, products, penetrate markets and diversifying markets. Banks need to develop new products that attract customers to the organization. Most respondents were of the opinion that Islamic banks need to adopt valuable and unique positions involving different set of activities which are different from rivals.

4.2.9 How do ICT strategies help Islamic banks?

The question sought to find out how ICT strategies help Islamic banks. Respondents indicated lack of proper ICT strategies among Islamic banks. Respondents gave their opinion on Islamic banks need at ensuring that their information technology can is able to support the current and requirements of the planned business. This result to more value from technology investments, focus resources more on initiatives that are strategic rather as opposed to maintenance.

Respondents further argued that the solutions can go a long way in helping better to manage the risks so as customers can benefit from information technology services that are reliable . Islamic banks can maximize investment value of technology through IT alignment with requirement of business, manage risks, increasing business agility through optimizing information technology infrastructure.

4.2.10 How does use of ICT strategy lower cost of business processes?

The question sought to find out how Islamic can use ICT to lower cost of business processes. Majority of respondents were of the opinion of the need for Islamic banks to align ICT with the business strategy. Respondents further argued that Information and Communications Technology (ICT) is a factor for Islamic banks realizing the objectives. Information and Communications Technology (ICT) has a critical role in mobilization of the organization strategy.

Respondents were of the opinion that Islamic banks need to engage in developing ICT strategies for decision makers at senior position by ensuring that the needs to facilitate a positive change, problem solving through the ICT use. Effective and mature deployment of Information and

Communications Technology across the Islamic banks and for the top management to increase the benefits on investment in the efficient, costs and the data quality and available services.

4.2.11 How can Islamic banks improve use of information technology in their strategy?

The question sought to find out how can Islamic banks improve use of information technology in their strategy. Respondents were of the opinion such that information communication technology strategy to be implemented, effective leadership needed. Respondents argued that the development of the information communication technology strategy, which is held in the organization strategy or separately documented, can help and reinforce realization of organization plans.

Respondents further argued that there are many issues which lead to the organization information communication technology strategy in the develop and implement which Islamic banks top management team can influence within their chosen approach to information communication technology (ICT). Respondents argued that Islamic banks requires understanding and identifying the perception of information communication technology and what is needed from information communication technology strategy.

4.2.12 How do sales strategies help Islamic banks?

This question sought to find out how do sales strategies help Islamic banks. Respondents argued that the adaptation of any strategy in the Islamic banks may depend more to factors like management style, age in the institution, economic environment, experience of the top management and regulations. Respondents indicated that the strategies put in place can help in identifying if a certain bank is a market challenger, market leader, market follower and market nicher through identifying its mission, vision, objectives, and the market strategies. Many respondents opinioned that by having a leader in the market, market share of the banks can be the biggest. If the banks which belongs to the group of challenger group, may occupy second and third while lower rank can always be to formulate and pursue strategies through the expansion of market share by targeting territory of leaders in the market.

4.2.13 How can Islamic banks improve on their sales strategy?

The question aims at finding out how can Islamic banks improve on sales strategy. Respondents indicated lack of proper strategies to improve sales. Respondents were of the opinion that by engaging in risk management, Islamic banks increases the banks value by minimizing chance of occurring of lower-tail end in earnings and the flow of cash. Respondents were the opinion that Islamic banks need to improve operational efficiency through implementing a special collections and recovery software.

4.2.14 What guides Islamic banks marketing strategies?

The question sought to find out what guides Islamic banks marketing strategies. Respondents indicated that Islamic banks lacks proper guidelines on their marketing strategies. Respondents argued that banks need to operate according to Islamic Sharia'h have risen in the past twenty years. Respondents further argued that the main difference between various banks lies due to the fact that the former operate on the participation equity system that the rate of return is predetermined cannot be a guarantee, while operation can be based on debt and equity systems that can be driven due to interest.

Respondents further argued that this important difference that is a result of implementing Sharia'h law will enable incentives that Islamic bankers look for various services/ products. Respondents argued that Islamic banks is face competition from the banks in local market and global markets disposed in modifying activities according to Sharia'h law confronted with forces that are progressive towards change. Respondents were of the opinion that through effective marketing strategy Islamic banks will attain change through an effective strategy in marketing. Assessing effectiveness of the marketing plans by putting in place characteristics that are quantitative derived from the sample of the banks.

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

This question sought to find out how does marketing strategies help to position Islamic banks in the industry. Respondents indicated that Islamic banks have faced challenges in adopting effective marketing strategies. Respondents argued that a sound marketing strategy becomes imperative as Islamic banks not only operate in an environment where service quality and financial returns are perceived as the essential criteria from customers' viewpoint, but they must also compete with conventional banks which are known to have better experience and expertise in the banking business.

4.2.16 What guides Islamic banks marketing strategies?

The question sought to find out what guides Islamic banks marketing strategies, majority of respondents argued that Islamic banks lacks proper guides to marketing strategies. Respondents argued that Islamic banks needs to find out opportunities in the new markets which enabled by new technologies. It is important for marketers to observe trends in IT to enable competition. Islamic banks that may not expect competition and stay up to date with advancement in change in technology may be in a position where their services will be outdated.

Islamic banks need to track the technological trends so as to determine whether their products are fulfilling demand for customers. The main technological environment factors are automation, activities in R&D, the rate at which technology is changing, technology incentives, emerging in technological impact, reduction in communication costs and impact of internet. Marketers in the Islamic banks can understand modern technology and their role in customer service.

4.2.17 How can Islamic banks improve on their marketing strategy?

The question aim at finding out how Islamic banks improve on marketing strategy. Respondents argued that Islamic banks have not been evaluating their marketing strategies. Respondents were of the opinion that Islamic banks encounter problems to increase the customer's requirements complications due to openness of finances and alternative choices available in investment and finance.

Respondents argued that (HR) should be emphasized as the corner stone of delivering banking service to the Islamic banks. This element may be significance for Islamic banks when facing challenges in future due to globalization in financial sector, implementing and adopting various plans, this depends entirely on HR. Islamic banks need to adapt a defensive informative strategy so as to explain it's the nature and their economic role. Respondents argued that these efforts can be due to Islamic banks efforts.

4.2.18 How does Islamic banks use customer service strategy?

This question sought to know how does Islamic banks use customer service strategy. Respondents argued that Islamic banks have not laid much emphasis on the area of customer service. There is need for Islamic banks to maintaining the sustainability competitive advantage in the industry is service quality. Respondents argued that in environment that is competitive, by ensuring there I service quality can be an important strategy to succeed and survive of the Islamic banks. Respondents argued that the profitability and growth of Islamic banks may depend whether the bank is able to have their customers who are loyal sustained. Respondents further argued customers royalty greatly affect retail profitability. Most respondents were of the opinion that service quality is the main factor which has influenced people to patronize Islamic bank.

4.2.19 How can Islamic banks effectively use customer service strategy?

The question sought to find out how can Islamic banks effectively use customer service strategy. Respondents indicated lack of effective customer service strategies by Islamic banks. Respondents indicated that automation of Islamic banks affect how customers were satisfied which influences the customer's behavior to switch and loyalty of the customers. Respondents further argued that there was low perception among customers on purchased goods as the usage and quality may not satisfy the customers. Brand equity influences the level of customer satisfaction.

4.3 Discussion

On how Islamic banks can stay ahead of competition, the Islamic banks need to grow above the intermediation of credit towards intermediation of investments by innovating risk sharing contracts, the study findings disagrees with Osman, Ali, Zainuddin, Wan Rashid & Jusoff (2009) who advocated for hybrid strategy as an element of facing the market which is provided in Porter's model in the form of price as the new dimension which combines with differentiation strategy.

Majority of respondents indicated that competitive edge distinguishes Islamic banks from competition as customers think, the study finding agrees with Nupur (2010), who argued that competitive advantage may exist when the organization delivers the benefits that are similar as compared to competitors but with cost that is lower, deliver benefits that exceeds the products that are competing.

Majority of respondents were of the opinion of the need for Islamic banks to align ICT with the business strategy, the study findings agrees with Vayanos, Wackerbeck, Golder &Haimari, (2008) who argued that technology is important in enabling objectives that are strategic be achieved including product development, capabilities and services which gives the firm a competitive edge over various forces of competition which face the market environment

On how Islamic banks can improve sales strategies, respondents were of the opinion that by engaging in risk management, Islamic banks increases the banks value by minimizing chance of occurring of lower-tail end in earnings and the flow of cash. The study findings disagrees with Cruz, Neto, Gallego & Tommi (2010) who argued that successful strategy on sales conveyed in a manners that sales force spends time to target correct customers at the right time.

On what marketing strategies that can be employed by Islamic banks, respondents indicated that Islamic banks need to adapt a defensive informative strategy so as to explain it's the nature and their economic role, the study findings disagrees with Ludwig & Pemberton, (2011) who argued that the organizations base their marketing on strategies of Seven Principles (7Ps) of marketing: price, promotion, product, physical evidence, place, people, and processes. Strategies helps position the firm well in the sector as well as increasing awareness on its existence, services and products offered.

On how Islamic banks can use customer service strategy, majority of respondents indicated that automation of Islamic banks affect how customers were satisfied which influences the customer's behavior to switch and loyalty of the customers. The study findings disagrees with Osman, Ali, Zainuddin, Wan Rashid & Jusoff (2009) who argued that by knowing the needs of the customers is the key to providing high quality customer service. Accessibility, listening to concerns and resolving problems are key to building customer loyalty.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the key findings of the study as well as the conclusions, limitations of the study, and recommendations for further research

5.2 Summary

Respondents further argued that framework for risk assessment adopted by Islamic banks has been very weak taking into account the prevailing demand in the market demands. Respondents indicated that Islamic banks have not been proactive in financial innovation; lack of differentiation strategy which has led to Islamic banks continuing with the same products in the market. Respondents indicated that Islamic banks need to create strategies, goals that are clear, and operations which sustain competitive edge over time. Most respondents were of the opinion that Islamic banks need to adopt growth strategies like development of markets, products, penetrate markets and diversifying markets.

Respondents gave their opinion on Islamic banks need at ensuring that their information technology can is able to support the current and requirements of the planned business. Respondents further argued that Information and Communications Technology (ICT) is a factor for Islamic banks realizing the objectives. Respondents were of the opinion such that information communication technology strategy to be implemented, effective leadership needed. Respondents further argued that there are many issues which lead to the organization information communication technology strategy in the develop and implement which Islamic banks top management team can influence within their chosen approach to information communication technology (ICT).

Respondents indicated that the strategies put in place can help in identifying if a certain bank is a market challenger, market leader, market follower and market nicher through identifying its mission, vision, objectives, and the market strategies. Respondents were of the opinion that by engaging in risk management, Islamic banks increases the banks value by minimizing chance of occurring of lower-tail end in earnings and the flow of cash.

Respondents indicated that Islamic banks lacks proper guidelines on their marketing strategies. Respondents argued that a sound marketing strategy becomes imperative as Islamic banks not only operate in an environment where service quality and financial returns are perceived as the essential criteria from customers' viewpoint, but they must also compete with conventional banks which are known to have better experience and expertise in the banking business. Respondents argued that Islamic banks needs to find out opportunities in the new markets which enabled by new technologies.

Respondents argued that Islamic banks have not laid much emphasis on the area of customer service. There is need for Islamic banks to maintaining the sustainability competitive advantage in the industry is service quality. Respondents indicated lack of effective customer service strategies by Islamic banks. Respondents indicated that automation of Islamic banks affect how customers were satisfied which influences the customer's behavior to switch and loyalty of the customers. Respondents further argued that there was low perception among customers on purchased goods as the usage and quality may not satisfy the customers.

5.3 Conclusion

The study concluded that a number of Islamic banks are at fore front to expand the kind of financing. Stringent methodologies that evaluates risks limits incentive that expands overseas operations in new markets where there is potential for long growth. Financial innovations such as ATM machines, mobile banking, and CRBs aims to address transaction costs and information search costs. Islamic banks need to have a brand that is strong which clearly communicates how benefits are delivered more effective than the competitors. Banks need to develop new products that attract customers to the organization.

Islamic banks can maximize investment value of technology through IT alignment with requirement of business, manage risks, increasing business agility through optimizing information technology infrastructure. Effective and mature deployment of Information and Communications Technology across the Islamic banks and for the top management to increase the benefits on investment in the efficient, costs and the data quality and available services. Islamic banks requires understanding and identifying the perception of information communication technology and what is needed from information communication technology strategy.

If the banks which belongs to the group of challenger group, may occupy second and third while lower rank can always be to formulate and pursue strategies through the expansion of market share by targeting territory of leaders in the market. Islamic banks need to improve operational efficiency through implementing a special collections and recovery software. Through effective marketing strategy Islamic banks will attain change through an effective strategy in marketing. Assessing effectiveness of the marketing plans by putting in place characteristics that are quantitative derived from the sample of the banks.

Customers royalty greatly affect retail profitability. Service quality is the main factor which has influenced people to patronize Islamic bank. Brand equity influences the level of customer satisfaction. Quality of the service may be whether its include affordable, competent, and efficient staff leads to customer satisfaction. Various aspects of managing quality methods results to increase in quality of service and improved satisfaction among customers.

5.4 Recommendations

Islamic banks should analyze the market before coming up with competitive strategies. Islamic banks should adopt effective competitive strategies to align with the changing business environment. Islamic banks should adopt focus strategies to counter competition. Islamic bank products should be unique from their competitors. Islamic banks should be pro-active in adopting competitive strategies.

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

Islamic banks should adopt sales strategies that works for them. Islamic banks should align sales strategies with organization goals. Islamic banks should asses the marketing strategies effectiveness by coming up with quantitative characteristics which can be obtained from a Islamic banks sample. Islamic banks should change their sales strategies according to the changing business environment.

Islamic banks should develop clear guidelines on their market strategies. Marketing strategies should help banks in understanding the types of expectations so as to appreciate benefits customers expect to receive. Islamic banks should constantly evaluate their marketing strategies. Islamic banks should strive for quality customer service as a way of increasing the number of customers.

5.5 Study Limitations

There are some respondents who did not cooperate to provide full information on effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya. The researcher assured the respondents that the information provided was of strict confidence and was used for the purpose that it was indicated. Inadequate information was encountered by the researcher since most people were not willing to cooperate due to fear of victimization, this contributed to low response among respondents, to overcome this, the researcher explained to the respondents that the study was of academic purposes and their views was kept highly confidential.

5.6 Suggestion for further Study

The objective of the study was to identify the effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya. The study findings narrowed to 3 major Islamic Banks in Kenya, Further study is necessary on effectiveness of competitive strategies adopted by Islamic

Commercial Banks in Kenya to cover other commercial banks offering Islamic products. Suggestion for further studies is advisable to contribute towards identification of more on effectiveness of competitive strategies adopted by Islamic Commercial Banks in Kenya.

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APPENDIX I: INTERVIEW SCHEDULE

1. What Gender do you belong to?
2. What age bracket do you belong to?
3. What education level do you belong to?
4. What is your working experience?
5. How do you stay ahead of the competition?
6. Which competitive strategies exist among Islamic banks?
7. What does gaining competitive advantage entail?
8. How do competitive strategies enable the Islamic banks to create superior value for its customers?
9. How do ICT strategies help Islamic banks?
10. How does use of ICT strategy lower cost of business processes?
11. How can Islamic banks improve use of information technology in their strategy?
12. How do sales strategies help Islamic banks?
13. How can Islamic banks improve on their sales strategy?
14. What guides Islamic banks marketing strategies?
15. How does marketing strategies help to position Islamic banks in the industry?
16. What guides Islamic banks marketing strategies?
17. How can Islamic banks improve on their marketing strategy?
18. How does Islamic banks use customer service strategy?
19. How can Islamic banks effectively use customer service strategy?

APPEDIX II: LIST OF ISLAMIC COMMERCIAL BANKS IN KENYA

1. First Community Bank Limited
2. Gulf African Bank
3. Sharjah Islamic Bank