

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Factors Affecting Strategic Performance of Islamic Banks in Kenya: A Case Study of First Community Bank

Nahya Shariff Abdalla

Operations-Head Teller, First Community Bank, Kenya

Abstract:

In Kenya there are only two (fully) Shariah compliant banks First Community Bank being one of them, hence still a new phenomenon. There is therefore a large untapped market for Islamic banking leading to even conventional banks in Kenya to embrace Islamic banking for instance: Kenya Commercial Bank, Barclays Bank, Equity and Chase Bank all have shariah compliant products. Banking industry in Kenya is very competitive with FCB facing major challenges which affect its strategic performance. The overall objective of this study was therefore identifying the factors affecting the strategic performance of FCB that was guided by the following objectives: Determining how competitive strategies affect strategic performance, determining how strategic leadership affects strategic performance and determining how strategic Innovativeness affects strategic performance. The study employed descriptive research design because the research objective was to provide systematic description that is as factual and as accurate as possible. The target population was 150 respondents composed of employees in various management levels. A Sample size of 45 respondents was selected using 30% of the population as recommended by Mugenda and Mugenda (2003). A representative sample size was selected using simple stratified random sampling and Data was collected using Questionnaires which were administered to the respondent's and analyzed using Multiple regression model so as to determine whether the sets of independent variables together predict the dependent variable. The refined quantitative data was analyzed using statistical package for social sciences version 17.0 and data was presented using percentages and frequency tables. The study found out that Strategic Leadership had highest influence on Strategic Performance of FCB followed by Competitive Strategies this was largely attributed to possibility that product differentiation is becoming a key competitive edge across the banking sector. Strategic Innovativeness was third, this could be attributed to possibility that innovation is a new concept among many in FCB but which is proving to be a critical factor in the sector. The study recommends FCB should equip itself with knowledge on strategic innovativeness to shield itself from growing competition by developing a different way of using its resources. The study further recommends that FCB should have a reference bureau where they can share information internally with its staff and clients to foster competitive strategies.

1. Introduction

1.1. Background of the Study

Islamic banking is a form of financial intermediation based on profit and loss sharing (PLS) and the avoidance of interest rate-based commitments and contracts that entail excessive risks and finance activities prohibited under Islamic principles (e.g. gambling and alcoholic beverages). Consequently, shariah compliant investments follow the structure of an exchange of ownership in tangible assets or services where money's role is to facilitate the payment mechanism to implement the transfer. Moreover, risks are supposed to be shared among all parties: investors and entrepreneurs bear the business risk for a share in the profits. This contrasts with conventional banking where transactions involving interest payments are common (Chong & Liu, 2009). The origin of Islamic finance in Africa can be traced back to the 1960s with Egypt being the first African country offering Islamic banking under a low profile for political reasons (Aburime & Alo, 2009). Several African countries followed suit which helped give rise to an African market for Islamic finance estimated at USD 37.5 billion as of 2008 (The City UK, 2011). While this figure looks high at first sight, it remains negligible compared to the potential for Islamic finance in Africa estimated at USD 235 billion (The City UK, 2011). What's more, the market for Islamic finance in Africa is not only small in absolute terms but also in relative terms with African Islamic financial institutions holding less than 3% of global Islamic financial assets. The disparity between the current state of Islamic finance in Africa and its potential raises questions about constraints to the development of this type of finance. Lack of detailed information about Islamic finance providers in Africa and on the performance of African Islamic financial institutions further prevents a good understanding of this market. Indeed, research about the state and structure of the Islamic finance market in Africa is rather scant.

The market for Islamic financial assets has grown at an annual average rate of about 16 percent since 2006. Starting with a handful of institutions and negligible amounts in the late 1970's, Islamic finance grew to about 350 institutions and total assets of about US\$1.7 trillion in 2013 concentrated in Malaysia and Gulf Cooperation Council. The industry has set up international regulatory institutions to guide operations around the world, although it has been difficult to ensure standardization of Islamic products across different

countries. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), based in Bahrain, issues international standards on accounting, auditing, and corporate governance, while the Islamic Financial Services Board (IFSB), based in Malaysia, is in charge of standards for supervision and regulation. Some factors appear to be correlated with the diffusion of Islamic banking, namely the principles of risk-sharing that underlie financing, the growth of oil-rich economies, the presence of Muslims in the population, an enabling legal framework, and economic integration with Middle Eastern countries or proximity to Islamic financial centers (Aburime & Alo, 2009). A key driver behind interest in Islamic finance today is the possibility of tapping the international sukuk market, which does not require a domestic Islamic financial system (e.g., Japan has issued sukuk, as well as many other countries). At the same time, the development of Islamic banking in some countries might facilitate risk sharing and improve financial inclusion. Islamic finance mitigates the risks posed by unsecured lending and contributes toward a more stable economic system. In developing Islamic finance further, a key factor would be the alignment of existing regulations to conform to Shariah structures. Locally, efforts have been made in amending legislation to provide leniency to institutions offering interest-free financing. Human capital investment is also crucial in establishing visionary policies and initiatives. Product innovation and diversification would provide solutions to satisfy existing and emerging needs. This has gone beyond tweaking existing contracts and rather focused on newer and more imaginative ways of delivering in line with market demand. The growth of Islamic finance into new territories and jurisdictions has necessitated harmonization of shariah and regulatory rules. This has ensured that the industry remains efficient and competitive, and has required extensive collaboration and cooperation.

Prospects for Islamic finance remain positive as interest in the field continues to grow. Islamic finance is steadily merging into the mainstream conventional finance and is here to stay. This creates extensive opportunity for advisory organizations to provide guidance to institutions willing to tap into this field. Most Islamic Finance Institutions in Africa provides a support structure for clients and has played a key role in developing Islamic finance on the continent. Africa received at least USD 14 billion in Islamic project finance and USD 1.6 billion from *Sukuk* issuances on international markets over the period 2005–2012. While these amounts may look impressive at first sight, they remain negligible compared to the continent's needs. For instance, the annual funding gap for infrastructure alone is estimated at USD 93 billion. International Islamic funding is not only limited but is also concentrated on few countries. Project finance remains concentrated in North Africa which captured 82% of resources provided while *Sukuk* issuances remains limited to 3 African countries.

Islamic banks in Africa are more stable as they report lower insolvency risk and higher returns on average assets. They also have lower non-performing loan (NPL) ratios but higher loan loss provisions. This result likely reflects the fact that Islamic banking transactions are backed by real assets giving very small room for speculation database published by the Islamic Finance Information Service (IFIS) to track African projects that benefited from Islamic funding. Our research unveils 104 projects in 21 African countries that were implemented over the period 2005–2012. These projects received USD 14 billion in Shariah compliant financing, most of which comes from Islamic banks and Islamic Development Financial Institutions (IsDFI) (including the Islamic Development Bank, the International Islamic Trade Finance Corporation and the Arab Fund for Economic and Social Development). The regional distribution of these projects' number is as follow: North Africa 37%, West Africa 33%, East Africa 23% and Central Africa 7%, (Ashraf, 2002). The regional distribution of projects' value shows a stronger dominance of North Africa which captures alone 82% of funding provided. Egypt is the largest beneficiary of foreign Islamic financing with 17 projects that received USD 3.53 billion. The remaining USD 2.8 billion that benefited sub-Saharan Africa were shared as follows: East Africa (USD 1.5 billion, 11%), West Africa (USD 755.9 million, 5%) and Central Africa (USD 339.7 million, 2%). The predominance of North Africa mainly reflects the conducive investment climate offered by the region. It could also be a reflection of similarities in culture, language and religion between North African countries and gulf countries from which most of the Islamic funding originates. In terms of sector distribution, about a third (29%) of total resources provided (corresponding to about USD 4 billion) benefited 10 projects in the financial sector. These projects were located in North, East, West and Central Africa. Surprisingly, there were no investments in the financial sector in Southern Africa despite the fact some countries in the region such as South Africa and Mauritius offer developed financial sectors. This suggests that best investment opportunities for Islamic finance providers were not necessarily in more developed financial systems. Infrastructure (e.g. trans-ports, power, construction, utilities and health facilities) is the second largest sector benefiting from Islamic project finance targeting Africa with about 17% of total resources. Investments in the manufacturing sector rank third with a much lower share (3%) while agriculture, oil and mineral extraction, real estate and education are less served with less than 3% each, (Aburime&Alo, 2009).

Thirty years ago, Shariah compliance banking in Kenya was unheard of; it was considered as wishful thinking, (Munawar& Philip, 2005). The first private interest-free bank, the Dubai Islamic Bank, was set up in 1975 by a group of Muslim businessmen from several countries. Two more private banks were founded in 1977 under the name Faisal Islamic Bank in Egypt and Sudan. In the same year the Kuwait government set up the Kuwait Finance House, (Al Hayat, 2005). The establishment of Bank Islam Malaysia Berhad in July 1983 marks a milestone for the development of Islamic financial system in Malaysia. The bank carries similar business similar to other commercial banks but along the principals of shariah. The bank has grown tremendously since its incorporation. It was listed on the main Board of the Kuala Lumpur stock Exchange on 17th January 1992, (Aburime&Alo, 2009). Islamic Banking has gained momentum and has been growing very fast at a double digit annual rate. Today Islamic banking is not a negligible phenomenon, but it is to stay and has continued to grow and expand. (Ariff, 1998) At the moment it is one of the fastest growing industries. The world has been witnessing a wide spread of Islamic banks all over the continents. Today there are 280 Islamic banks in 48 countries in addition to 300 conventional banks which have opened branches, windows or provided Islamic financial products, (Al Hayat, 2005).

1.1.1. Background/ Company Profile of FCB

First Community Bank (FCB) was the first bank to be approved by the Central Bank of Kenya to operate as a full-fledged shariah compliant institution in Kenya, (Cap 488 of CBK banking acts). First Community Bank is regarded as an industry leader in Islamic Banking in Kenya, hence their value proposition and brand positioning remains to be the preferred shariah compliant financial service partner to deliver creative Islamic products and solutions to their valued and esteemed customers (Kimari, 2009). First Community Bank is an Islamic Bank that is consistent with Islamic law (Shariah Compliance). Islamic law prohibits usury, collection and payment of interest commonly known as Riba, (Saeed, 1996). The payment of fees for the renting of money for specific terms, as well as investing in businesses that provide goods and services considered contrary to its principles, (Sait, 2006). Kimari, (2009) reveals that FCB received its formal approval from the Central Bank of Kenya (CBK) on 29th May 2007 thereby opening the door for Sharia Compliant banking not only in Kenya but indeed in the entire East and Central African region. Kimari, (2009) discloses that FCB is owned by a diverse base of community businessmen and professionals from Kenya and Tanzania. It commenced official operations on 1st June 2008; (Certificate of operation, 2008). The bank has a dedicated team of employees who are well trained to deliver the highest levels of service to its clientele. As a committed Kenyan Bank, FCB's motive is to take its alternative form of Banking to as many places as possible within the country. Regionally, the bank has put into place mid-term plans to establish operations in other East African financial centers where it believes there is sufficient demand for Sharia Compliant financial services.

1.2. Statement of Problem

Among the most important teachings of Islam for establishing justice and eliminating exploitation in business transactions is the prohibition of all sources of unjustified enrichment. The Qur'an emphatically instructs Muslims not to acquire each other's property wrongfully by clear text of the Qur'an, ("And for their taking interest even though it was forbidden for them, and their wrongful appropriation of other peoples' property. We have prepared for those among them who reject faith a grievous punishment," 4:161). Hardship begets facility; hence the establishment of Shariah compliant bank (FCB) which is a fully-fledged Islamic bank, (Kimari, 2009). To skirt the ban on interest, First Community Bank has been established with a profit and loss sharing system to replace interest on borrowed or lent money i.e. when FCB lends money to a business, rather than taking interest on the loan, it takes a share in the profits derived from the investment depending on the ratio of contribution. Likewise, the deposits in savings account are treated as an equity investment in whatever activity the bank uses the capital for. Hence the depositor receives a share in the profit from the bank's investment opposed to interest payments, (Usmani, 2002). However, notwithstanding the aforesaid Shariah Compliance Banking there is a main challenge of disenfranchising a large portion of the populace through not incorporating them in a banking methodology that adheres to their ways of life, there are also opportunities resulting into implementing the Shariah Compliance banking systems. The study will seek to identify the challenges and suggest way forward in these situations particularly First Community Bank. No doubt, bank management is aware of the challenge of competition from Islamic Shariah and as well as conventional banks, (Elsevier, 2000). First Community Bank has to move forward quickly and effectively so that its existence is duly justified.

The competitive strategies affecting strategic performance of FCB were the advancement of information technology, credit risk taking in developing regions, under extent to which strategic leadership factors affect strategic performance of FCB were risk asset management, weak corporate Governance and managers attempt to increase their revenues and under strategic innovativeness were revenue increment, lack of motivational approaches and lack of effectiveness measurement. Azizul, (1999) note that there are certain factors that required First Community Bank be treated on a different footing. Some of these factors were the following; A lack of understanding of the correct nature of Shariah financing techniques may also be partially responsible for the rather inappropriate policies of central banks toward First Community Bank, FCB like all other commercial banks is required to keep some of its deposits with central banks. Central banks usually pay interest on those deposits which Islamic banks cannot accept, Central banks function as lenders of last resort to commercial banks providing loans at times of liquidity crunch. Although FCB function under the supervision of a central bank, it could not benefit from such a facility because funds are usually provided on the basis of interest. The study has therefore determined the factors affecting the performance of First community Bank on a strategic perspective,

1.3. Research Objective

This study was guided by the following objectives.

1.3.1. General Objective

The purpose of this study was to determine the factors affecting Strategic performance of First Community Bank.

1.3.2. Specific Objectives

The study was guided by the following specific objectives;

1. To determine the competitive strategies factors affecting strategic performance of First Community Bank.
2. To determine how strategic leadership factors, affect strategic performance of First Community Bank.
3. To determine how strategic innovativeness affects strategic performance of First Community Bank.

1.4. Research Questions

1. What are the competitive strategies factors affecting strategic performance of First Community Bank?
2. How does strategic leadership affect the strategic performance of First Community Bank?
3. How does strategic innovativeness affect strategic performance of First Community Bank?

1.5. Significance of the Study

Most studies seemed to concentrate on the growth of shareholders' revenues rather than the business of the bank. Those studies that focused on business of the bank mostly failed to stress on the impact and the factors that influenced or affected the strategic performance of FCB. This study is significant in three ways, first it will enable the management to use this case study as a guide to educate them on how to deal and solve the identified factors rendering strategic performance of FCB, secondly, the consumers will have a heightened awareness in regards to the factors they should consider when choosing a bank, thirdly, as a student of MBA Strategic management, this research is a requirement to successfully complete course of study. The future researchers who will be carrying similar or related research will be able to use this research as a source of material and reference.

1.6. Scope of Study

The study focused on factors affecting strategic performance of Islamic Banks in Kenya laying a special emphasis on First Community Bank. It took five months to finish. The research was limited to investigating the Competitive Strategies, Strategic Leadership and Strategic Innovativeness that affected strategic performance of FCB.

1.7. Limitations of the Study

Time constriction faced the researcher because she was a full time worker who attended normal duties at work and at the same time did the research, the top management of the organization was also restrict to some information to be disclosed for fear of losing confidential information to competitors and lastly inadequate data was found since the concept of Shariah compliance banking in the country was new and only two banks were fully- fledged Islamic banks, hence it was challenging to get sufficient data for the study.

2. Literature Review

2.1. Introduction

This chapter contains the introductions, theoretical review, conceptual frame work which has outlined dependent and independent variables that has been studied and critical reviewed which has been presented under various headings in line with the research objectives.

2.2. Theoretical Review

Mark (2006) defines a theory as an integrated set of concepts, formed into propositions that explain particular conditions or events in the world around us. Theories of Operations generally assume that higher performance requires greater effort or that it is in some other way associated with disutility on the part of workers, Political, Economic, Social, Technological, Legal/ governmental and Environmental factors.

2.2.1. The Agency Theory

Agency Theory explains how to best organize relationships in which one party determines the work while another party does the work. In this relationship, the principal hires an agent to do the work, or to perform a task the principal is unable or unwilling to do. For example in a bank the principals are the shareholders delegating to the agent who are the management of the bank, to perform tasks on their behalf. This theory assumes that both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet, agents are supposed to act in the sole interest of their principals. Agency costs represent the costs of all activities and operating systems designed to align the interests and/or actions of managers with the interests of owners/shareholders, (Rojas, 2014). Agency costs mainly arise due to contracting costs and the divergence of control, separation of ownership and control and the different objectives (rather than shareholder maximization) the managers. There are various actors in the field and various objectives that can incur costly correctional behavior. To determine when an agent does (and does not) act in their principal's interest, the standard of "Agency loss" has become commonly used. Agency loss is the difference between the best possible outcome for the principal and consequences of the acts of the agent. For instance, when an agent acts consistently with the principal's interests, agency loss is zero. The more an agent's acts deviate from the principal's interest the more the agency loss increases. When an agent acts entirely in her own self-interest, against the interest of the principal, then agency loss becomes high. Agency theory relies on assumption of self-interested agents who seek to maximize personal economic wealth, (Bruce et al., 2005). The challenge is to get agents to either set aside their self-interest, or work in a way in which they may maximize their personal wealth while still maximizing the wealth of the principal. Thus standard of agency duty and action is necessary, not because agents are universally selfish, but because the potential for differences exists.

2.2.2. Provisional Theory of Consistency

Many highly ideas can be found (e.g., Hofer and Schendel, 1978; Miles and Snow, 1978; Porter, 2011). Conceptual arguments concerning consistency and its effect on performance throughout a business firm have not been adequately linked to data and method. Therefore, provisional theory of consistency across these three levels is developed by considering a small set of activities and their functional level aggregates. Specifically, it is focused on two types of activities within business and use theory developed in marketing and industrial economics to derive hypotheses relating consistency constructs to strategic performance.

The types of activities that are examined concern the marketing function and the achievement of quality outcomes in the business. To the extent that the types of marketing expenditure – sales force, advertising, and promotion - are correlated, the business is defined as having achieved functional consistency in this function. However, since quality is an outcome, and not strictly a function, investments in quality encompass investments made in activities across the value chain Porter (2011) including service. Thus, to the extent that the measures of quality across the value chain are correlated, functional consistency is defined as having been achieved for these outcome-related activities. The inter-relationship between marketing and quality has been hypothesized to lead to higher business unit performance for three reasons. First, Nelson (1996) proposed that marketing expenditures serve as signals of quality and thereby alert consumers to the valuable characteristics of the products. Second, in a similar vein, Porter (2011) makes the distinction between signaling and uses criteria as components of purchasing decisions from suppliers following a generic business strategy of product differentiation. This model involves subsets of the two criteria that he mentions: marketing operations involve signaling; quality is related to use. Both are necessary, but neither alone is sufficient to achieve high performance (Porter, 2011). Last, Klein & Leffler (1981) have argued that the effect of marketing expenditures is not due to signaling, but to the demonstration of supplier commitment to the level of quality in the product; buyers should be more willing to purchase a product when they know that the supplier has sunk high irretrievable costs into selling it and thereby, implicitly ensures that ethic level of quality will be maintained in the long run.

2.2.3. Ishikawa's Theory

Dr. Kaoru Ishikawa developed a theory of how organizations should handle their quality improvement projects by viewing at quality from a human standpoint. He points out that there are seven basic tools for quality strategic performance improvement which include (Conti, 2010). Ishikawa strongly believed that all workers must be involved in quality strategic performance of an organization and that teams should provide Great Avenue to participation. People's ability to offer suggestions to improve strategic performance on services and products offered to clients should be maximized by providing trainings. This theory also involved participation of all workers from the top management to bottom management of the organization and from the start to the end of the product life cycle (Conti, 2010). Lau and Hurley (1997) examined the relationship between strategic performance and profitability margin and they found that Chrysler's profit margin is four times as high as that of GM due to effective strategic performance. Frayer, Scannell, and Thomas (2000) suggest that companies are increasingly viewing strategic performance factors as a means of reducing costs, increasing quality, and enhancing a firm's overall competitive position.

Employee productivity is an intermediate output measure. Productivity per employee is an important performance criterion in a service organization like a bank (FCB) (Mehra, 1996). Return on equity, the ultimate measure of the performance of a financial institution (FCB) (Earle & Mendelson, 1991) is referred as a measure of a bank's strategic performance (Bird, 1991; Hopkins & Hopkins, 1997).

2.3. Conceptual Framework

The vital goal of this study is to identify the factors affecting strategic performance of First Community Bank. The conceptual framework is shown below.

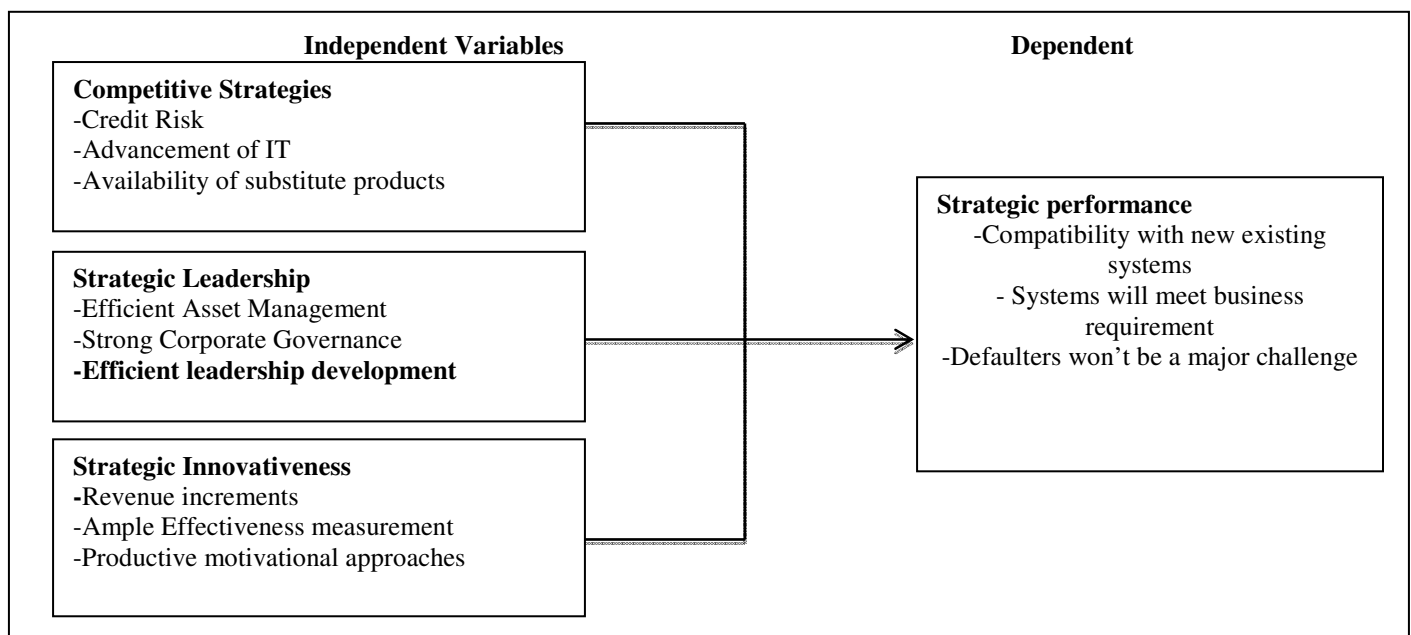


Figure 1: Conceptual Framework

2.4. Review of Variables

2.4.1. Competitive Strategies

The study has indicated how First Community Bank was faced with the difficulties of legal and institutional framework when they served in non-Muslim regions. Taqi (2010) who investigated how banks credit risk taking and default practices were affected by the regulatory and institutional environment in developing regions and Implies that the competition itself can cause excess risk. Advancement in information technology elaborated how it affected the operations and strategic performance of First Community bank. Temple (2012) who noted that programming errors, IT crash caused by new applications, incompatibility with the existing systems, failures of system to meet the business requirements hence affected strategic performance of First Community bank. The global economy influences the strategic performance of First Community Bank. Rosly, (2009) who concluded that the recent global crisis had impacted UAE bank's profitability, leverage and liquidity ratios. Revaluation of a currency due to global economic changes affected revaluation of fixed assets value in a bank hence its strategic performance. Relations between revaluations and future performance and prices were weaker for higher debt-to equity ratio firms, which indicated motivation affected how revaluations reflect asset value changes, (David, Mary & Ron, 2009).

2.4.2. Strategic Leadership

The strategic leadership in Islamic Banking was represented by prudent risk asset management and efficient corporate governance. Faizul (2000) noted that Murabaha deals created debt obligations against buyer firms. Now while it is permissible to charge a higher price in credit sales as compared to cash sales the wherewithal of murabaha mode of financing this created a fixed liability once the deal has been entered. If the buyer then defaults on his payment, Banks cannot charge anything extra because that would mean taking riba. There is thus a built in incentive for immoral buyers. Presence of effective strategic leadership remains a major challenge to FCB hence affecting its strategic performance. Abdikarim, Mohd and Adziz (2007) noted that risk management is one of the most important activities of any bank. Central bank, therefore, takes measures to ensure that the bank's risk does not go beyond a certain level. He believes that not only First Community Bank is affected by risks such as investment risk, currency risk, and so on but also all other banks are subject to similar risks. Weak corporate Governance also affected the strategic performance of First Community Bank. Godlewski (2006) who investigated how the bank's credit risk taking and default practices were affected by the regulatory and institutional environment in developing regions and the absence of adequate investment opportunities banks, poor Corporate governance created an incentive for managers to attempt to increase their revenues by providing loans to excessively risky borrowers hence leading to bad loans thus indicating poor strategic leadership affecting the strategic performance of FCB.

2.4.3. Strategic Innovativeness

This was represented by effective innovativeness strategies such as innovative leadership development, innovative Effective Measurement, innovative motivational approaches and innovative recruiting skilled employees. Innovative leadership development is among one of the biggest indicators of FCB becoming an innovative organization, leadership development needs to be a critical strategic initiative. Professionals lack to provide the essential structures, processes, tools, and points of view to make the best selection and develop innovators of FCB hence affected the overall strategic performance of FCB (Jeremy, 2015). Lack of motivational approaches which motivated the employees to offer best quality services resulted employee's individual needs not being satisfied (or met) hence not motivated to complete the banks tasks effectively and innovatively. Hence the overall strategic performance of the bank was affected due to lack of innovative motivational tools to encourage the employees put in the required energy. Poor recruiting skills also affected the strategic performance of FCB this was by recruiting nonprofessionals and non-skilled employees who did not qualify for the posts (Jeremy, 2015). Innovative techniques like effectiveness measurement affected strategic performance of FCB. For any improvement to happen in FCB, the right tools to measure innovative effectiveness should be available. Lack of the right tools to measure innovative effectiveness affected the performance of FCB. For any improvement to happen, the right tools should be used to measure innovative effectiveness, (Jeremy, 2015).

2.5. Empirical Review

In his paper Srairi (2009), examines the impact of bank characteristic, macroeconomic, and financial structure on the profitability of conventional and Islamic banks operating in GCC countries for the period 1999-2006, using regression model. The selected sample includes 18 Islamic and 48 conventional banks. Empirical results show that the profitability of both Islamic and conventional was mainly affected by capital adequacy, credit risk and operational efficiency while liquidity and financial risk had positive impact on Islamic banks only. The study also found that GDP, money supply (M2) and stock market development positively influence profitability. However, there was insignificant relationship between banking sector development and inflation to profitability. Jaffar and Manarvi (2011) directed a study on performance of Islamic and conventional banks in Pakistan. The study included a sample of 5 banks from each group for a period 2005-2009. The study reveals that Islamic banks performed well in terms of capital adequacy and liquidity compared to conventional banks which also performed better in earnings and management quality. However, the study observed that asset quality has no impacts in both banks. In his research Al-Tamimi (2010) investigated some significant factors influencing the performance of UAE Islamic and conventional banks during the year 1996 to 2008, using regression analysis, specifically ROA and ROE as dependent variables. The researcher observed that liquidity and concentration were the most significant factors for conventional national banks whereas number of branches and costs were reported as the most significant factors for Islamic banks performance. As for the most recent literature, Zeitun (2012) conducted a study to assess the factors that affect Islamic and

conventional banks performance in GCC for the period 2002– 2009. The study had a sample of 13 Islamic and 38 conventional banks. The factors studied were foreign ownership, bank specific variable and macroeconomic variables. The study concluded that bank's equity was important factor in maximizing the profitability for conventional banks but negatively affected Islamic banks. As for cost to income ratio reflected a negative and significant impact on performance of both banks. The size of the banks supported the economies of scale utilizing the ROE for Islamic banks. However, foreign ownership has no impacts on both banks, while GDP was positively correlated; Inflation was found to be negatively related to the banks performance.

A study by Ongore and Kusa (2012), investigated the determinants of financial performance of commercial banks in Kenya, during the period 2001-2010, using multiple regression and t-statistical analysis. The study had a sample of 37 banks fully operational during the entire study period. The findings showed that bank specific factors affected performance of commercial banks except for liquidity variable, while the GDP (positively related) and inflation variables coupled with moderated ownership identity showed an insignificant result at 5% significance level. Accordingly a research conducted by Musundi (2008), on the relationship between size and profitability of Kenyan commercial banks between the year 1998 and 2007. The findings revealed that some variables like the number of ATM, number of employees, net liquid assets, shareholders' funds, customer deposits and bank loans had positive effect on profitability; whereas the number of branches, total assets and number of customers had a negative effect on profitability of banks. Ibrahim (2009) compared performance of Kenyan conventional and Islamic banks during 2008-2009, using financial performance ratios with a sample of two banks from each group. The t-test and f-test were employed to analyze the data. The study revealed that conventional banks were more profitable and efficient but more risky and less solvent than Islamic banks. Additionally, another more recent comparative study done by Halkano (2012), on performance of Islamic and conventional banks in Kenya, for the period 2008-2011, from a selected sample of 2 Islamic and 5 conventional banks using financial ratios. The study captured four broad measures of financial performances ratios such as profitability, liquidity, efficiency and risk and solvency of banks. In comparison to Islamic banks, the conventional banks performed better in all areas save for liquidity where the Islamic banks performed better.

2.6. Critique of Existing Literature

In the process of scrutinizing Agency on the factors affecting Strategic performance of the bank (FCB), Strategic Innovativeness stands out as the most intense challenge. This was a challenge which determined how the bank (FCB) should operate. For instance Poor recruiting skills were affecting the operations of the bank hence its strategic performance was affected, failure of systems to meet business requirement hence affected strategic performance of FCB. Poor motivational strategies and tools also influenced strategic performance it had an impact on the bank's profit (income), service of the bank and reputation (Sait, 2006). The general limitation of the Agency technique was that it consider each project as an individual undertaking as opposed to considering the projects as part of the organizational structure, it failed to consider the relationship between ownership, control and different objectives rather than shareholder maximization, it assumed that strategic performance needed to achieve just one objective i.e. to maximize shareholder's share prices and they ignored the interests of other stakeholders.

2.7. Research Gaps

First Community Bank is one of the best Islamic Shariah Bank in Kenya and had been awarded by Deloitte an Award as the Second best employer to work for in the banking industry and an award as the Best Foreign Exchange provider Islamic Institution in Kenya (Ofek, 2003). Among the most important teachings of Islam for establishing justice and eliminating exploitation in business transactions is the prohibition of all sources of unjustified enrichment. Hardship begets facility led to establishment of Shariah compliant bank (FCB) which is a fully-fledged Islamic bank (Kimari, 2009). To skirt the ban on interest, First Community Bank has been established with a profit and loss sharing system to replace interest on borrowed or lent money i.e. when FCB lends money to a business, rather than taking interest on the loan, it takes a share in the profits derived from the investment depending on the ratio of contribution. Ethical issues that arose involved disclosure of information that management considers sensitive to be released and a possible leak of the information to the competitor. A lot of literatures exist on Strategic performance mostly majoring on risk of business, factors to consider for a business to perform etc. but little had been done on Strategic performance in the Banking Sector especially Islamic Sharia Banks. There exists a gap therefore in literature on factors affecting Strategic performance of Islamic Sharia Banks, this said area should thus be reviewed and researched further.

2.8. Summary

This chapter looked at the theoretical review and the conceptual framework. In theoretical review, the researcher looked at the theories which act as the foundation of the study. The study paid emphasis on Agency theory, Provisional Theory of Consistency and Ishikawa's theory. The major contribution from the theories was that it determined the relationship between competitive strategies, strategic leadership and strategic innovativeness that affected the total strategic performance of the bank. In the conceptual framework, the researcher identified both the dependent and independent variables in the study. The dependent variable was the strategic performance of First community Bank which depended and was affected by the independent variables which in this case were the competitive strategies, strategic leadership and strategic innovativeness factors.

3. Research Methodology

3.1. Introduction

Methodology of this study was bound to describe how the study was conducted. This Chapter discusses the overall methodology that was used in the study; that was the research design, population, sampling techniques, sample size, data collection instruments, data analysis and presentation.

3.2. Research Design

The study was conducted through descriptive research design and it involved gathering of facts opinions and views of staffs on the challenges that affected the strategic performance of First Community Bank. Khan, (1993) recommended descriptive research design for its ability to produce statistical information. A case study is a study where data was collected from members of a sample for the purpose of estimating one or more population parameters, (Jaeger, 1998). Descriptive research designs was used in preliminary and exploratory studies to allow the researchers gather information, summarize, present and interpret data for the purpose of clarification (Orodho, 2003).

3.3. Study Population

A population is a group of institution, people or objective that has at least one characteristic in common, (Kasomo. D, 2006). Cooper and shindeler (2002) defined a population as the total collection of elements about which we wish to make some inference. The target population for the study included 150 staffs in the coast region. Coast region was being selected as the study site due to juxtaposition to the researcher, time available for research and financial constraints.

	Population Table	
Category	Population size	Percentage %
Top management	30	20
Functional management	45	30
Junior staff	75	50
TOTAL	150	100

Table 1: Target Population

3.4. Sampling Size and Sampling Technique

The sampling frame for this study was First community bank staff in Coast region. This study adopted stratified random sampling method. Stratified was used because the sampling frame was made up of sub-sets of know size. The sub- sets made up different proportions of the total hence sampling was stratified to ensure the results were proportional and representative of the whole. Stratified Random sampling gives a researcher a fair or representative view of the entire population. This was justified in the case of staff in Coast region, because the population was known and the sample was drawn from a homogeneous stratum. A confidence level of 95% was employed which according to Saunders et al (2005) was the level of certainty of the characteristics collected represented the characteristics of the total population. Stratified random sampling was adopted for the study by use of random numbers generated by a Computer program. The researcher targeted 30% of the population to determine the sample size. This resulted to a sample size of 45 which was therefore a representative of the general population.

Category	Population Size	Sample Size	Percentage %
Top management	30	15	33%
Functional management	45	14	31%
Junior staff	75	16	36%
TOTAL	150	45	100%

Table 2: Sample Size

3.5. Data Collection Instrument

A questionnaire consists of a set of well formulated questions to probe and obtain responses from the respondents. (Panner, 2006). Data was collected using Questionnaires which was directed to the target population and included closed ended questions. There was multiple choices for respondents to choose one specific answer ranking from 1 (Strongly disagree) to 5 (Strongly agree) was used for all the constructs with 5 being the strongest/highest. The specific sections of the question were; Section A dealt with the Competitive strategies affecting the strategic performance of the bank, Section B dealt with the strategic leadership factors and Section C dealt with strategic innovative factors affecting the strategic performance of FCB. Descriptive statistics was used to analyze data by way of percentages, weighted mean and standard deviation. Data was represented in forms of tables and charts. The Instrument was used because it covered a large number of respondents at relatively shorter period of time, less costly, time consuming. In addition it gave respondent a privacy to give free and independent opinions because of absence of the researcher.

3.6. Data Collection Procedure

The study collected both primary and secondary data. Primary data was collected from respondents using questionnaires that were distributed to respondents in their offices while secondary data was collected from sources such as the internet, journals, newspapers and other publications.

3.7. Pilot Test

After developing the questionnaires, the researcher conducted a pilot test to test the reliability and the validity of the instrument. A pilot test is a stage where research instruments (tests, questionnaires, observation schedules, etc.) are administered to a number of individuals in the target population who are not included in the sample size so as to test the reliability and validity of the instruments. To establish the validity of the research instrument the researcher seeks the opinions of experts in the field of study especially the supervisor. This helped to improve the validity of the data collected. The researcher selected a pilot group of 5 staff from the Customs Service Department to participate in the pilot test. The reliability of the questionnaires was measured statistically using Cronbach's alpha. Internal consistency techniques were applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Mugenda and Mugenda, 2003).

3.8. Data Analysis and Presentation

The process of data analysis involved data clean up and explanation, after that the data was then coded and checked for any errors and omissions (Kothari, 2004). Qualitative data which was collected using questionnaires was analyzed using the Statistical Package for Social Scientists (SPSS), which offered extensive data handling capability and numerous statistical analysis routines that analyzed small to very large data statistics and generated descriptive statistics (Mujis, 2004). The qualitative data was organized accordingly and systematically to the questions in the questionnaire. Data was then presented using both statistical and techniques (frequency tabulations) and graphical representations (bar charts and graphs, histograms and pie charts) for interpretation. A multiple regression model was conducted to test the relationship between factors affecting strategies and the strategic performance of FCB. The dependent variable was the bank strategic performance while the independent variables were competitive strategies, strategic leadership and strategic innovativeness.

The model specifications were as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y=Bank strategic performance.

X_1 =the competitive strategies

X_2 =Strategic leadership

X_3 =Strategic innovativeness.

B_0 =Y intercept.

B_1, β_2, β_3 =coefficient of determination.

ε - Is the error component

4. Research Findings and Discussions

4.1. Introduction

This chapter presents the results and findings of the study based on the research objectives. The data was collected and analyzed using Statistical Package for Social Science (SPSS) model. Section 4.2 deals with general information.

4.2. General Information

Age	Frequency	Percent
20 - 30 yrs.	6	13.3
31-40 yrs.	5	11.1
41-50 yrs.	23	51.1
51-60 yrs.	11	24.4
Total	45	100.0

Table 3: Age in Years

There were different categories of ages that participated as respondents in the questionnaire. The number of respondents with the age of between 41-50 years was the most prevalent in the study. Here, there were 23 respondents while the lowest age category was between 31-40 years which only had 5 respondents. The percentage of the highest frequency here was 51.1% while the lowest percentage was 11.1%

Gender	Frequency	Percent
Male	26	57.78
Female	19	42.22
Total	45	100.0

Table 4: Gender

The respondents in the gender section i.e. between male and female were 26 males to 19 females. Their percentages are 57.8% for the males and 42.2% for the females. These meant males were majority as represented by the sample. This was in line with what Aburime (2009) findings in his study on Islamic banking were the result finding showed that 60% of the sample size was men and 40% were women.

Level of Education	Frequency	Percent
Secondary	5	11%
College	9	20%
University	23	51%
Others	8	18%
Total	45	100%

Table 5: Level of Education

The respondents to the questionnaire represented educational levels of Secondary, College, university and others. i.e. 5 respondents were from secondary, 9 from college, 23 from university level 8 from others. Their percentage representation was 11.1%, 20%, 51.1% and 17.8 % respectively. The result finding shows that the Bank has invested more on undergraduates and College graduates to implement policies being formulated by the management. The Bank also has employed form four leavers in various capacities that don't need technical skills.

Years in Employment	Frequency	Percent
1-3 yrs.	6	13.3
4-6 yrs.	7	15.6
7-9 yrs.	23	51.1
Over 10 yrs.	9	20
Total	45	100

Table 6: Years of Employment

There were different categories in terms of years of employment. The category that had the most respondents was the one with employees who had worked for between 7-9 years and the one with the least respondents was between 1-3 years. Their percentage representation was 51.1% and 13.3% respectively. The result finding shows that majority of the interviewee has been in the Bank for more than four years which meant the data was collected on knowledgeable people with huge banking experience thus reliable.

Respondent Category	Frequency	Percent
Top managers	36	80
Functional managers	7	15.6
Junior staff	2	4.4
Total	45	100

Table 7: Respondent Category

There was the category of Top managers, Functional managers and junior staff whereby 36 top managers, 7 functional managers and 2 junior staff responded to the questionnaire. Their percentage representation was 80% for the top managers 15.6% for functional managers and 4.4% for the junior managers. The target on more of top managers was to collect data from sources that highly understand the Bank thus able to collect accurate and relevant data.

4.3. Analysis of Variables

4.3.1. Whether Competitive Strategies Affect Strategic Performance of FCB

Competitive Strategies	Frequency	Percent
Yes	40	89%
No	5	11%
Total	45	100%

Table 8: Do Competitive Strategies Affect Strategic Performance of FCB?

From the table above, there is agreement that Competitive strategies do affect Strategic performance of FCB. Out of 45 respondents, 40 agreed with the statement while 5 did not agree with the statement. The percentage representation for Yes was 88.9% and for No was 11.1%

Competitive Strategies	Mean	Std. Deviation
Whether advancement in IT reduces cost significantly	4	0.929
Whether Credit risk coupled with competition can cause excess risk	4.36	0.645
Whether substitute products from other Banks affects strategic performance	4.24	0.773
Whether effective asset management provides competitive advantage	4.09	0.9

Table 9: Mean and Standard Deviation of Competitive Strategies

From the above table, respondents were required to respond to accuracy related question items. On whether First Community Bank is facing the difficulties with the advancement in information technology which has affected the strategic performance of First Community Bank, Respondents were in agreement as indicated by a mean of 4.00. In relation to whether FCB credit risk taking and default practices are influenced by the regulatory and institutional environment in developing regions and Implies that the competition itself can cause excess risk, respondents were in agreement as indicated by a mean of 4.36. In relation to whether availability of substitute products by other competitive banks has affected the strategic performance of FCB; respondents were in agreement as indicated by a mean of 4.24. In relation to whether effective and prudent asset management in Islamic banking gives FCB a comparative advantage; respondents were in agreement as indicated by a mean of 4.10. The standard deviation of accuracy related items was the same indicating equal dispersion of opinions.

Level of Competitive strategy	Frequency	Percent
High	36	80%
Moderate	5	11%
Low	4	9%
Total	45	100%

Table 10: Level at which Competitive strategy affects strategic performance

From the table above, there is a general agreement that competitive strategy affects strategic performance in FCB. Out of 45 respondents, 36 agreed it highly affects, 5 moderately agreed and 4 had low perception.

4.3.2. Whether Strategic Leadership Factors Affect Strategic Performance of First Community Bank

Strategic Leadership	Frequency	Percent
Yes	42	93%
No	3	7%
Total	45	100%

Table 11: Whether Strategic Leadership Affect Strategic Performance of FCB.

From the table above, there is agreement that strategic leadership do affect Strategic performance of FCB. Out of 45 respondents, 42 agreed with the statement while 3 did not agree with the statement. The percentage representation for Yes was 93.3% and for No was 6.7%

Strategic Leadership	Mean	Std. Deviation
Whether Weak risk asset management affects the strategic performance of FCB	3.98	1.011
Whether Weak Corporate Governance affects the performance of FCB	4.11	0.859
Whether bad and ineffective leadership affects the performance of FCB	4	0.953
Whether successful strategic leadership reduces wastage of financial resources	3.91	1.104

Table 12: Mean and Standard Deviation of Strategic Leadership

From the table above, respondents were in agreement with the statements; Weak risk asset management affects the performance of FCB, Weak Corporate Governance affects the performance of FCB, Bad and ineffective strategic leadership involves Managers attempt to increase their revenues by providing loans to excessively risky borrowers hence leading to bad loans and defaulters affecting the strategic performance of FCB, Successful undertaking of strategic leadership in Islamic banking reduces wastage of financial resources. This is supported by their respective means of 3.98, 4.11, 4.00 and 3.91. The statements in the table also exhibit a high dispersion of 1.011, 0.859, 0.953 and 1.104.

Influence of Strategic Leadership	Frequency	Percent
High	32	71.1
Moderate	8	17.8
Low	5	11.1
Total	45	100

Table 13: Level of Influence of Strategic Leadership

From the table above, there is a general agreement that strategic leadership has influence on the performance of FCB. Out of 45 respondents, 32 of them thought that strategic leadership strategies highly influences the performance of FCB while 8 saw it as having moderate influence with 5 perceiving it as having low influence. The percentage representation for high, moderate and low was 71.1%, 17.8% and 11.1% respectively.

4.3.3. Whether Strategic Innovativeness Affects Strategic Performance of First Community Bank

Presence of Islamic Banking	Frequency	Percent
Yes	38	84%
No	7	16%
Total	45	100%

Table 14: Whether Presence of Islamic banking experts to successfully implement strategic innovativeness is a reality.

From the table above, there is agreement that presence of Islamic experts do affect Strategic Innovativeness of FCB. Out of 45 respondents, 38 agreed with the statement while 7 did not agree with the statement. The percentage representation for Yes was 84.4% and for No was 15.6%

Strategic Innovativeness	Mean	Std. Deviation
Whether Presence of Islamic banking experts to successfully implement strategic innovativeness is a reality.	3.98	1.076
Whether Strategic innovativeness in Islamic banking guarantees FCB the best choice in terms of investments	4.04	0.952
Whether Strategic innovativeness in Islamic banking is an eventual finance saving technique.	3.96	1.043
Whether Strategic innovativeness in Islamic banking can be used as an indicator of the date of FCB acquiring it's returns on investments.	4.16	0.952

Table 15: Mean and Standard Deviation of Strategic Innovativeness

From the table above, respondents were in agreement with the statements; Presence of Islamic banking experts to successfully implement strategic innovativeness is a reality, Strategic innovativeness in Islamic banking guarantees the FCB the best choice in terms of investments, Strategic innovativeness in Islamic banking can be used as an indicator of the date of FCB acquiring it's returns on investments. This is supported by their respective means of 3.98, 4.04, 3.96 and 4.16. Standard deviation was highly dispersed as indicated by of 1.076, 0.952, 1.043 and 0.952. The varying dispersion show dispersion of opinion.

Strategic Innovativeness	Frequency	Percent
High	31	68.9
Moderate	10	22.2
Low	4	8.9
Total	45	100

Table 16: Level at which strategic Innovativeness affects strategic Performance

From the table above, there is a general agreement that strategic innovativeness has an influence on the performance of FCB. Out of 45 respondents, 31 thought that innovativeness has a high influence on performance of FCB, 10 thought it has moderate effect while 4 of the respondents saw the influence as being low. The percentage representation for was 68.9%, 22.2% and 8.9%, this shown that the perceived influence of strategic innovativeness to strategic performance was viewed by majority as having high influence with few viewing it as having low effects on strategic outsourcing..

4.3.4. Strategic Performance

Strategic Performance	Mean	Std. Deviation
Whether Effective Strategic performance is an indicator of growth for FCB	3.96	1.043
Whether Increased geographical reach is a strategic performance technique is an indicator for growth for FCB	3.93	0.986
Whether growth of FCB is highly dependent on effective execution of strategic performance techniques	4.09	0.973
Whether Islamic banking growth is an indicator of an efficient strategic performance of FCB	3.98	0.988

Table 17: Strategic Performance

From the table above, respondents were in agreement with the statements; Effective Strategic performance is an indicator of growth for FCB, Increased geographical reach is a strategic performance technique is an indicator for growth for FCB, Growth of FCB is highly dependent on effective execution of strategic performance techniques Islamic banking growth is an indicator of an efficient

strategic performance of FCB. This is supported by their respective means of 3.96, 3.393, 4.09, 4.03 and 3.98. Statements in the table also exhibit a high dispersion of 1.043, 0.986, 0.791, 0.973 and 0.988. This showed the opinion on the questionnaire among the respondents was varying significantly among the respondents thus affecting the result uniformity.

4.4. Regression Analysis

4.4.1. Regression Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.934 ^a	.872	.863	1.500	.872	93.361	3	41	.000	1.169
a. Predictors: (Constant), Strategic Innovation, Strategic leadership, Competitive strategies										
b. Dependent Variable: Strategic Performance										

Table 18: Model Summary

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable that is explained by all the three independent variables. The three independent variables that were studied, explain only 87.2% of factors affecting strategic performance of Islamic banks in Kenya as represented by the R². This therefore means that other factors not studied in this research contribute 12.8% of the factors affecting strategic performance of Islamic banks in Kenya. Therefore, further research should be conducted to investigate the other factors 12.8% that affect strategic performance of Islamic banks in Kenya.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	630.504	3	210.168	93.361	.000 ^b
	Residual	92.296	41	2.251		
	Total	722.800	44			
a. Dependent Variable: Strategic Performance						
b. Predictors: (Constant), Strategic Innovation, Strategic leadership, Competitive strategies						

Table 19: ANOVA^a

The test of ANOVA was also carried out (Table 18) to test whether influences performance of First community bank. When the test was run at 0.05 significance level the p value was 0.000. If p value (0.000) is less than α (0.05) then the result is significant.

Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
	Std. Error	Beta			VIF
(Constant)	4.763	2.738		1.74	
Competitive strategy_ Strategic Performance	0.679	0.097	0.403	6.98	0.936
Strategic Leadership_ Strategic performance	1.125	0.098	0.645	11.476	0.986
Strategic Innovation_ Strategic Performance	0.92	0.095	0.558	9.641	0.929

Table 20: Coefficients^a

Multi collinearity test-The purpose of this test was to know whether any correlation among independent variables was found or not. A good regression model should be free from correlation between variables (If those variables are not orthogonal; Orthogonal variable is independent variable which has zero correlation with other independent variables). Multicollinearity could be seen from correlation matrix among independent variables on the value of variance inflation factor (VIF) or zero order. If VIF value is below 10 and Tolerance value is above 0.1, it means there is no multicollinearity among independent variables. From the above table, it can be observed that all the variance influence factors of the Independent variables are below 10 and all the tolerance values of the independent variables are above 0.1. There is thus no multicollinearity meaning that it is a satisfactory regression analysis

Correlation Variables		Strategic Performance	Competitive strategies	Strategic Innovativeness	Strategic Leadership
Pearson Correlation	Strategic Performance				
	Competitive Strategies	0.525			
	Strategic Innovativeness	0.432	0.003		
	Strategic Leadership	0.785	0.507	0.048	

Table 21: Correlation

There is a weak positive coefficient of correlation of 0.432 between strategic performance (dependent variable) and strategic innovativeness (independent variable) indicating that strategic innovativeness has a minimal effect on the performance of FCB. There is a strong positive correlation of 0.785 between strategic performance (dependent variable) and strategic leadership (independent variable) indicating that strategic leadership has a strong influence on the performance of FCB, this confirms Ashraf (2002) who found strong correlation of 0.73. There is a strong positive correlation of 0.525 between strategic performance (dependent variable) and competitive strategies (independent variable) indicating that competitive strategies have strong influence on the performance of FCB, the correlation was slightly higher to the correlation of 0.48 as depicted in Al-Tamimi, (2010). This meant strategic leadership had more influence on strategic performance of FCB thus the top management should employ leadership skills as a tool to for enhancing FCB performance. The leadership should devise competitive strategies also to gear the Bank into better performance as competitive strategies from the result had huge influence on Banks performance.

5. Summary, Conclusions and Recommendations

5.1. Introduction

This chapter presents the conclusions and recommendations of the study. It provides the summary of the study from the objectives, research methodology and results of the study. The conclusions are derived from the research findings. It also highlights the limitations of the study and recommendations.

5.2. Summary

This section summarizes the findings of the study and it has been grouped into sections.

5.2.1. The Relationship between Competitive Strategies and Strategic Performance of Islamic Banks (FCB)

The study showed that there is a clear relationship between competitive strategies and performance of Fcb, the level of agreement was at 88.9% depicting how important the competitive strategies are in the Banking sector. The results shows that IT has reduced cost significant in FCB thus the Bank is banking on it to further reduce cost. This is in agreement with Temple (2012) who emphasized on use of relevant technology in the Banking sector to reduce cost and significant bring down the wastage of resources. The study further shows that the Bank competition coupled with credit risk if not properly managed can lead to excess risk thus putting the management in a collision course with shareholders and government regulatory authorities, this will bring about corporate issues as depicted by Bruce et al (2005). Substitute products play important role in developing a competitive strategy as showed by huge degree of agreement from the study results, cheap substitutes will always have an eye for the customers thus product differentiation becomes a key element in sailing through such a market. The study further supported the theory that proper Asset management provides a competitive edge, this is because efficiency brings cost down and promotes competitiveness the input-output ration becomes very competitive compared to competitors who will require huge input to produce some output the company produces using low input. The findings also showed that there were some positive correlations between some of the variables.

5.2.2. The Relationship between Strategic Leadership and Strategic Performance of Islamic Banks (FCB)

The study results clearly showed a strong agreement among the respondents that strategic leadership affects strategic performance at 93.3%. The results indicated that weak Asset management through weak policies affects the strategic performance of Bank, this is because the bank's assets are evaluated through Assets returns thus poor management of Assets will definitely bring down the performance of the Bank. The results confirm Abdikarim and Adziz (2007) assertion that Asset management is one of the most important activities of any bank. Corporate governance was also found to significant affect the strategic performance of the bank. The Bank management should make decision in the interest of shareholders but in many cases they are known to make decision in their interest thus subordinating the interest of the employer, this is depicted in Faizul (2000) finding that management has committed the companies to debt obligations without knowledge of shareholders thus running the companies in difficulties of legal and institutional framework. The study further found that successful strategic leadership reduces wastage of financial resources through proper and timely allocation of the resources by establishment of proper channels and controls on access and use of a given resource.

5.2.3. Strategic Innovativeness in FCB or Islamic Banks in Enhancing their Strategic Performance

From the study results, there is a general agreement that strategic innovation affects strategic performance of FCB; the degree of agreement of was 84.4% of the total respondents. The study showed that the presence of Islamic banking experts has positively affected the strategic performance of the Bank; this is associated with the knowledge in Islamic banking and religion that helps the bank develop strategies that fit well within the religion. According to Jeremy (2015) some Professionals lack to provide the essential structures, processes, tools, and points of view to make the best selection and develop innovators of FCB hence affecting the overall strategic performance of FCB, however this can be overturned by having idea oriented professional with full knowledge of the core business of the company to assist in developing the company strategy. Strategic innovativeness was viewed by majority of the respondents as a guarantee to FCB in making best Investment choices. The strategic innovation was also viewed by majority as finance saving techniques though there was a higher dispersion of opinion from the respondents. The results of the study shows that strategic managers acknowledge the usage of innovative strategies so as to make informed, accurate and precise evaluation of strategic controls in the organization and eventually. The findings also showed that there were some positive correlations between some of the variables.

5.3. Conclusions

The essentiality of the usage of strategic factors like competitive strategies, strategic leadership and strategic innovativeness so as to ensure that efficient strategic performance is achieved by the bank (FCB) is a critical factor. This is because the lack of engaging these techniques may eventually work to the detriment of the Bank. If the bank is strategically impeded, there would be a “trickle down” effect whereby the services rendered would be severely negatively hampered and totally dilapidated. From the study we can thus conclude that these strategic factors do help the Kenyan Islamic Banking sector or FCB in a multi-faceted way i.e. through ensuring that there are no financial resources wasted, through ensuring that there is organizational efficiency through practices like competitive strategies, ensuring strategic innovativeness and also ensuring strategic leadership. Knowledge sharing in the banking sub-sector is also an essentiality for FCB to effectively and eventually thrive.

5.3.1. The Relationship between Competitive Strategies and Strategic Performance of Islamic Banks (FCB)

Management should also ensure the leadership style is democratic so as to enable free flow of ideas from the subordinates. The management should develop competitive strategy geared at differentiating the Banks products and services from its competitors so as to further improve its performance. With similar products being offered by all Banks, competitive edge will play an important role through product/service differentiation

5.3.2. The Relationship between Strategic Leadership and Strategic Performance of Islamic Banks (FCB)

With a correlation of 0.79, strategic leadership plays important role in performance of the Bank. The management should therefore develop a management style that motivates employees by making them feel part of the Bank through consultation on areas of their work before any decision is made affecting them.

5.3.3. Strategic Innovativeness in FCB or Islamic Banks in enhancing their Strategic Performance.

From the result finding, strategic innovation can be further implored to fully tap its untapped potential in unlocking the Banks performance. Strategic innovation should involve brainstorming of new ideas or modification of existing ideas and process aimed at delivering superior product/service in better way than the competitor does.

5.4. Recommendations

Strategic managers in the FCB must be well versed and acquainted with the mentioned strategic factors so as to shield the organization from financial turbulence occasioned by loss of revenue due to slump in customer traffic resulting from organizational inefficiency. FCB should strive to ensure that its employees are properly trained on emergent managerial and policy trends like thus inhibiting rigidity in terms of managerial tendencies of the organization. This would make the FCB thrive thus positively influence the local economy (both the informal sector and formal). Some simple strategic factors like competitive strategies, strategic innovativeness and strategic leadership should be taught at even technical colleges. This would help give rise to a highly enlightened citizenry. This would even promote prudence in their financial endeavored. Eventually, it will have “trickledown” effect to how even informal market players in the sector can make gains. FCB and other market stake holders should ensure that they have a platform through which they could share information regarding the latest occurrence in the sector. This would help the bank to operate in a more tranquil environment and thus help each other to mitigate against future losses.

5.4.1. The Relationship between Competitive Strategies and Strategic Performance of Islamic Banks (FCB)

First Community Bank faced a lot of difficulties in legal and institutional framework when they serve in non-Muslim regions, the study recommends that the Bank should develop competitive strategies aimed at minimizing legal obstacles and bringing about clear understanding of sharia banking for both Muslim and non-Muslim. The global economy influences the strategic performance of First Community Bank thus the Bank should take into consideration global crisis facing many countries especially in UAE were banks were adversely affected thus the bank’s profitability, leverage and liquidity ratios should continuously be evaluated.

5.4.2. The relationship between Strategic Leadership and Strategic Performance of Islamic Banks (FCB)

The strategic leadership in Islamic Banking should be guided by prudent risk asset management and efficient corporate governance. It is permissible to charge a higher price in credit sales as compared to cash sales but that should be done in a manner that reduces liability to the Bank once such a deal has been entered. Presence of effective strategic leadership remains a major challenge to FCB hence affecting its strategic performance. risk management practice will be a very important element for the Bank in the process of reducing different risk facing the Bank therefore the Bank should take measures to ensure that the bank’s risk does not go beyond a certain level. Weak corporate Governance also affects strategic performance of First Community Bank thus corporate governance should be encouraged at all times and its effectiveness frequently evaluated to find out if the Bank is on track.

5.4.3. Strategic Innovativeness in FCB or Islamic Banks in enhancing their Strategic Performance

Innovativeness will entail innovative leadership development, innovative Effective Measurement, innovative motivational approaches and innovative recruiting skilled employees thus the Bank should view innovation from a wide perspective. The Bank should major more on Innovative leadership since it’s among one of the biggest indicators of FCB becoming an innovative organization. The Bank professionals fail to provide the essential structures, processes, tools, and points of view to make the best selection and develop

innovators of FCB hence affecting the overall strategic performance of FCB. The Bank should develop motivational approaches that motivate employees to offer best quality services to customers thus enabling customer Bank bond establishment and maintenance.

5.5. Suggestion for Further Research

Future research could build on the results of this study to enrich the existing knowledge of determinants of Islamic Banking growth. Further research could be done to develop demand functions for Islamic Banking sector market players which can be used to forecast international Islamic Banking trends in the region. The study used a dynamic regression model but other studies involving co integration models can be done. A study focusing on the impact of the banking sector reforms on Islamic Banking can also be carried out.

6. Acknowledgement

Special thanks go to my supervisor, Dr.Fridah, for her support and guidance which enabled me write this Research Project, May God Bless you abundantly. I wish to give a vote of thanks to all my workmates for their ideas and encouragement throughout the course. I cannot forget to convey my sincerely and heartfelt gratitude to my classmates for the time we've shared during our academic pursuits. Above all, I return my thanks to The Almighty for bestowing upon me strength, ability and patience to overcome all challenges in the Research Project.

7. Definition of Terms

7.1. Financial Intermediation

The savings/investment process in capitalist economies is organized around financial intermediation, making them a central institution of economic growth. Financial intermediaries are firms that borrow from consumer/savers and lend to companies that need resources for investment. In contrast, capital market investors' contract directly with firms, creating marketable securities (Gorton, 2010).

7.2. Mudaraba

The term refers to a form of business contract in which one party brings capital and the other personal effort. The proportionate share in profit is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labor (Ashraf, 2002).

7.3. Murabaha

Sale on profit, technically a contract of sale in which the seller declares his cost and profit. This has been adopted as a mode of financing by a number of Islamic banks. As a financing technique, it involves a request by the client to the bank to purchase a certain item for him (Ashraf, 2002).

7.4. Musharakah

The term refers to a financing technique adopted by Islamic banks. It is an agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in the management but not necessarily required to do so (Ashraf, 2002).

7.5. Riba

This is a concept in Islamic banking that refers to charged interest. It is forbidden under Sharia, Islamic religious law, because it is thought to be exploitive. Depending on the interpretation, riba may only refer to excessive interest; however to others, the whole concept of interest is riba, and thus is unlawful (www.investopedia.com/terms/r/riba.asp)

8. List of Abbreviation

→ CBK	: Central Bank of Kenya
→ FCB	: First Community Bank
→ GM	: General Manager
→ IT	: Information Technology
→ JD	: Job Description
→ JKUAT	: Jomo Kenyatta University of Agriculture
→ MBA	: Masters of Business Administration
→ UAE	: United Arab Emirates
→ TV	: Television
→ SPSS	: Statistical Package for Social Scientists

6. References

- i. Abdikarim M., MohdH., & Adziz A, (2007). Monetary Policy and Sectoral Lending in Bank. New York: John Willey and Sons.

- ii. Aburime, U., & Alo, F., (2009). Islamic banking: theories, practices and insights for Nigeria. *Review of Business Research Papers* 5 (1), 321-339
- iii. Al- Hayat, A. (2005). The Total Deposit of Two Hundred and Eighty Islamic Banks in Forty Eight Countries Reach Four Hundred Billion Dollars. " 25/9/2005, Issue No.3567. (In Arabic).
- iv. Al-Tamimi, H.(2010). Factors influencing performance of the UAE Islamic and conventional national banks. *Global Journal of Business Research*, 4, 1-9.
- v. Ariff, M .(1998). Islamic Banking. *Asian- pacific Economic Literature*, 2(2)(Sept 98) Pp.46-62
- vi. Ashraf Usmani (2002). A guide to Islamic banking. Karachi-pakistan
- vii. Azizul I (1999). The Dynamics of Asian Economic Crisis and Selected Policy Implications, in Barry Herman (ed.), *Global Financial Turmoil and Reform: A United Nations Perspective*. Tokyo: United Nations University Press, pp. 49-74
- viii. Bird A. 1991. A 1990s twist on strategic planning. *Bankers magazine*, 174(2): 66-69
- ix. Bruce Et Al. (2005), An Explanation- Seven Pillars Institute.
- x. Central Bank of Kenya (2009). "Central Bank of Kenya Perspective": Islamic Bank Kenya Conference Paper.
- xi. Central Bank of Malaysia (1993-2003), " The Central Bank of Malaysia, Annual Reports." Kuala Lumpur, Malaysia.
- xii. Chrisman, J. J., J. H. Chua & R. A. Litz (2004), Comparing the Agency Costs of Financial and Non-Financial Firms: Conceptual Issues and Exploratory Evidence. *Entrepreneurship Theory and Practice* 28 (4): 335-354.
- xiii. Chong., B., S, & Ming-H., L, (2009). "Islamic Banking: Interest-free or Interest based?" *Pacific-Basin Finance Journal*, 17: 125-144.
- xiv. Conti (2010). Productivity and business R & D: A study of mapping two faces of R & D.
- xv. Cooper. D and shindler.P (2000). *Business research methods*. New York.
- xvi. David A., Mary E. and Ron K. (1999): "Revaluation of fixed assets and future firm performance". *Journal of Accounting & Economics* 26 (1999) 149-178.
- xvii. Earle D. M., Mendlson M. (1991), the critical mesh in strategic planning. *Bankers' magazine*, 174(3): 48-53.
- xviii. Elsevier (2000). The role of individual performance evaluation, pp 21-33 *Academy of management journal*
- xix. Faizul MI (2000). The Asian Five: from Financial Crisis to Economic Recovery, in J. Jay Choi (ed.), *Asian Financial Crisis: Financial, Structural and International Dimensions*. New York: Elsevier Publishing Inc., pp. 123-46.
- xx. First Community Bank (2008). "Certificate of Operation: Fcb Oasis" Nairobi, Kenya
- xxi. Frayer, Scannell, & Thomas (2000). *American journal of Business*. Fall 2003: vol. 18
- xxii. Godlewski (2006). Development of the commercial Banking system in Afghanistan. University library of Munich, Germany.
- xxiii. Gorton, G, (2010), "Liquidity Provision, Bank Capital, and the Macroeconomy." Working paper, University of Minnesota.
- xxiv. Halkano, M. (2012). Performance of Islamic and conventional banks in Kenya: A comparative analysis. Unpublished MBA Project, University of Nairobi.
- xxv. Hofer, C. W., and D. E. Schendel (1978), *Strategy formulation: Analytical concepts*, St. Paul.
- xxvi. MN.: West Publishing
- xxvii. Hopkins W. E., Hopkins S. A. 1997. Strategic planning- financial strategic performance in banks: A casual examination. *Strategic management journal*, 18: 635- 652.
- xxviii. Ibrahim, O.H. (2009). A comparative study on the financial performance of Islamic banks and conventional banks in Kenya. Unpublished MBA Project, University of Nairobi.
- xxix. Jaeger, (1998) The National Bureau of economic research. NBER working paper no. 6650, Cambridge, MA 02138. July 1998.
- xxx. Jaffar, M., & Manarvi, I.(2011). Performance comparison of Islamic and conventional banks in Pakistan. *Global Journal of Management and Business Research*, 11(1), 60-66
- xxxi. Jeremy, B .(2015). "Human Resource Management Challenges", Demand Media.
- xxxii. University Alliance Kaoru Ishikawa's theory: [http:// www.cwiep.org.uk/trim/files/ishikawa- theory. pdf](http://www.cwiep.org.uk/trim/files/ishikawa-theory.pdf)
- xxxiii. Kasomo Daniel. (2006): *Research methods in Humanities and Education*, Eldorate; Zapf Chancery. Egerton University press. Kenya.
- xxxiv. Khan B. (1993). A guide to writing research Projects and reports. Kisumu: Option press *IJSSE-International journal of social sciences and Entrepreneurship*, vol. 1.
- xxxv. Kimari Nyokabi (2009). *The Oasis. First Community journal (The Third Edition)*.
- xxxvi. Klein, B., and Leffler, K.B. (1981). The role of market forces in assuring contractual performance/ of Political Economy, 89, 615-641.
- xxxvii. Kothari, (2004). *Research methodology methods and techniques*. New age international (P) limited, publishers. New Delhi.
- xxxviii. Lau and Hurley (1997). *China in the Global economy- The Chinese University of Hong Kong*.
- xxxix. Mark. A. Schneider (2006). *The theory primer*. New York: Routledge, 2006. Sociological guide.
- xl. Meenai AA (1998). where are we going wrong?, *New Horizon*, February, no. 72, pp. 3-5.
- xli. Mehra A. 1996. Resource and market based determinants of performance in the US banking industry. *Strategic management journal*, 17:307-322
- xlii. Miles, R. E., and Snow, C. C. (1978) *Organizational strategy, structure, and process* New York, NY: McGraw-Hill.
- xliii. Mujis, D. (2004) *Doing Quantitative Research in Education with SPSS*. Sage Publications.

- xliv. MunawarIqbal& Philip Molyneux (2005). *Thirty years of Islamic Banking: History, Performance and Prospects*. Palgrave Macmillan, London, UK.
- xlvi. Musundi, A.A. (2008). *The relationship between size and profitability of Kenyan banks. A case of commercial banks in Kenya*. Unpublished MBA Project, University of Nairobi.
- xlvi. Nelson, P. (1996) *Advertising as information*. *Journal of Political Economy*, 82, 729-754.
- xlvi. Ongore, V.O, &Kusa, G.B. (2012). *Determinants of financial performance of commercial banks in Kenya*. *International Journal of Economics and Financial issues*, 3(1), 237-252.
- xlvi. Orodho, (2003) *Essentials of Educational and social science research method*. Masole publishers
- xlix. Panner Selvam R. (2006) *Research methodology*. Prentice Hall- India Private ltd. New Delhi, India
- l. Piranie A (2006). *Ethical Socially Responsible Investments*. New Horizon, London July– August.
- li. Porter, M. E. (2011) *Competitive strategy*. New York: The Free Press.
- lii. Porter, M. E. (2011) *Competitive advantage*. New York: Free Press. Qadeeruddin, A. (2005). *What is Riba? J. Islamic banking. Fin. January–March*. Qur'an Chapter 1, 3.
- liii. Rammal HG, Zurbruegg R (2007). *Awareness of Islamic Banking Products among Muslims: The Case of Australia*. *J. Finan. Serv. Mart.*, 12(1): 65–74.
- liv. Rojas, C., R. (2014). *“An indeterminate Theory of Canadian Corporat Law”*. *University of British Columbia Law Review* 47 (1): 59-128
- lvi. Rosly SA (1999). *Al-Bay' BithamanAjil Financing: Impacts on Islamic banking Performance*. Thunderbird International Business Review.
- lvii. Saeed A (1996). *Islamic Banking and Interest: A Study of the Prohibition of Riba and its Contemporary Interpretation*. Leiden, Netherlands: E.J.Brill.
- lviii. Sait, Siraj; Lim, Hilary (2006). *Land, law and Islam.*, Zed Books. London
- lix. Saunders et al (2005). *Normalized hurricane damage in the US: 1900-2005*. American society of Civil Engineers CODEN: NHREFO.
- lx. Srairi, S.A. (2009). *Factors influencing the profitability of conventional banks and Islamic banks in GCC countries*. *Review of Islamic Economics*, 13(1), 5-30.
- lxi. Syed Imad-Ud-Din Asad (2009) *“Islamic Finance”* Daily Dawn.
- lxii. Taqi UM (2000). *Introduction to Islamic Finance*. Idaratul Ma,,arif, Karachi, May.
- lxiii. Temple P (1992). *Principles as well as roots*. Accountancy, Res. J. Fin. Account. The City UK, 2011. *Islamic Finance. Financial Markets Series*.
- lxiv. Zeitun, R. (2012). *Determinant of Islamic and conventional banks performance in GCC countries*. *Global Economy and Finance Journal* 5 (1), 53-72

**APPENDIX ONE
LETTER OF INTRODUCTION**

Dear Respondent,

RE: REQUEST FOR YOUR PARTICIPATION IN RESEARCH

My name is NahyaShariff. I am a student at Jomo Kenyatta University of Agriculture and Technology (JKUAT), pursuing a Master Degree in Business Administration (MBA); Strategic option. In partial fulfillment of my course, I will be carrying out a research project on factors affecting strategic performance of Islamic banks in Kenya.

I humbly request you to fill the questionnaire which will assist me achieve my objective. All information from the questionnaire will be treated as confidential and will be used for academic purposes. Your participation will be highly appreciated.

Thank you.

Student's Signature
NahyaShariff

**APPENDIX TWO
PERSONAL QUESTIONS**

1. Occupation.....

Area of work.....

(Please tick where applicable)

2. Indicate your Gender?

Male Female

3. What is your age?

Between 20-30 Between 31-40

Between 41-50 Between 51-60

4. What is your highest level of education?

Secondary College University

Others specify.....

5. How long have you worked in the FCB Firm?

1-3 Years 4- 6Years 7-9 Years 10 and above

6. Respondent category

Top managers Functional managers Junior staff

• **Part 1-Competitive Strategies**

1.1 Do Competitive Strategies affect strategic performance of FCB?

Yes No

1.2 Please tick the numeric value corresponding to your personal opinion for each statement

	Strongly agree	Agree	Neutral	Disagreed	Strongly disagree
First Community Bank is facing the difficulties with the advancement in information technology which has affected the strategic performance of First Community Bank	⑤	④	③	②	①
FCB credit risk taking and default practices are influenced by the regulatory and institutional environment in developing regions and Implies that the competition itself can cause excess risk.	⑤	④	③	②	①
Availability of substitute products by other competitive banks has affected the strategic performance of FCB.	⑤	④	③	②	①
Effective and prudent asset management in Islamic banking gives FCB a comparative advantage.	⑤	④	③	②	①

1.3 To what level do competitive strategies affect strategic performance of FCB?

High [] Moderate [] Low []

• **Part 2- Strategic Leadership**

2.1 Does Strategic Leadership affect strategic performance of FCB?

Yes [] No []

2.2 Please tick the numeric value corresponding to your personal opinion for each statement

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Weak risk asset management affects the strategic performance of FCB.	⑤	④	③	②	①
Weak Corporate Governance affects the performance of FCB.	⑤	④	③	②	①
Bad and ineffective strategic leadership involves Managers attempt to increase their revenues by providing loans to excessively risky borrowers hence leading to bad loans and defaulters affecting the strategic performance of FCB.	⑤	④	③	②	①
Successful undertaking of strategic leadership in Islamic banking reduces wastage of financial resources.	⑤	④	③	②	①

2.3 To what level does strategic leadership affect the strategic performance of FCB?

High [] Moderate [] Low []

• **Part 3- Strategic Innovativeness**

3.1 Strategic innovativeness affects strategic performance of FCB?

Yes [] No []

3.2 Please tick the numeric value corresponding to your personal opinion for each statement

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Presence of Islamic banking experts to successfully implement strategic innovativeness is a reality.	⑤	④	③	②	①
Strategic innovativeness in Islamic banking guarantees FCB the best choice in terms of investments.	⑤	④	③	②	①
Strategic innovativeness in Islamic banking is an eventual finance saving technique.	⑤	④	③	②	①
Strategic innovativeness in Islamic banking can be used as an indicator of the date of FCB acquiring it's returns on investments.	⑤	④	③	②	①

3.3 In your assessment to what level does strategic innovativeness affect strategic performance of FCB?

High [] Moderate [] Low []

• **Part 4-Strategic Performance**

4.2 Please tick the numeric value corresponding to your personal opinion for each statement

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Effective Strategic performance is an indicator of growth for FCB.	⑤	④	③	②	①
Increased geographical reach as a strategic performance technique is an indicator for growth for FCB.	⑤	④	③	②	①
The growth of FCB is highly dependent on effective execution of strategic performance techniques.	⑤	④	③	②	①
Islamic banking growth is an indicator of an efficient strategic performance of FCB.	⑤	④	③	②	①