

**FACTORS INFLUENCING GROWTH OF CLIENT BASE OF FULLY FLEDGED  
ISLAMIC BANKS IN KENYA.**

**BY**

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## **DECLARATION**

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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## *DEDICATION*

This study is dedicated to Abshira Abdullahi my wife, for the love, support and patience during this proposal. To my late grandfather Yarow Gabow who passed in 2014 who encouraged me to do this master's program.

## ABSTRACT

The prospective clients to Islamic Banking banks seriously consider whether the bank complies with Shari'ah principles in all its banking activities. The phenomenal growth of Islamic finance has resulted into customization of products and service by conventional banks. This has necessitated the critical need for the potential customers to have adequate information to make decisions on whether to invest in Islamic Banking. Further, since its inception Kenya in 2008; Islamic Banking has only two banks, which is relatively small terms with Islamic Banking institutions. The disparity between the current state of Islamic Banking in Kenya and its potential raises questions about constraints to the growth of client base in Kenya, putting the growth of clients in the Islamic Banking at stake. However, there exists insufficient literature on growth of the client base as being influenced by; Shari'ah compliance, financing options, customer satisfaction and product quality jointly, which motivated the need to conduct this study to fill this gap. The general objective of the study was to assess the factors influencing growth of client base of Islamic banking in Kenya. A descriptive research design was used and data was collected from the two main Islamic banks in Nairobi, Kenya. The study target population was the 108 staff of the 2 IB banks in Nairobi, Kenya. The data had a sample population of 85 respondents obtained using Krejcie and Morgan (1970) formal and selected using stratified random sampling, the data was analyzed using descriptive statistics with assistance of Statistical Package for Social Scientists (SPSS) ver. 20. The study established that the growth of client base in IB in Kenyan fully pledged Islamic banks is moderate. The study concludes that Shari'ah compliance moderately influences the growth of Islamic Banking in Kenya; financing options moderately influenced the growth of Islamic Banking in Kenya; customer satisfaction moderately influences the growth of Islamic Banking in Kenya; and product quality moderately influences the growth of Islamic Banking in Kenya. The study revealed that a 0.05, level of significance, Shari'ah compliance, financing options, customer satisfaction, and product quality are strong determinants of growth of Islamic Banking in Kenya and that 66.80% of change in growth of Islamic Banking in Kenya for fully fledged IBs is explained by these factors. The study recommends; the Islamic Bank in Kenya should fast track their promotion and build strategic inroads for the Shari'ah compliant product by laying more emphasis on training, advertising and establishing a firm legal framework to support these products. The study further recommends that the Islamic Banking fraternity in Kenya should create public awareness to the general public of the financing options available in their banks; review their services and products to a competitive level as they participate in corporate social responsibility and they design and develop cost effective and beneficial product. The service delivery should be fast speed, efficient and friendliness and the products should according to Islamic law only (Halal).

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## ACRONYMS AND ABBREVIATIONS

<b>BOP</b>	Bottom of pyramid
<b>CB</b>	Conventional banking
<b>CEO</b>	Chief Executive Officers
<b>FCB</b>	First Community Bank
<b>GDP</b>	Gross Domestic Product
<b>GIFR</b>	Global Islamic Finance Report
<b>GNP</b>	Gross National Product
<b>IB</b>	Islamic Banking
<b>KSHS</b>	Kenya Shilling
<b>NPR</b>	Net Profit Ratio
<b>OPR</b>	Operating Profit Ratio
<b>ROA</b>	Return on Asset

## OPERATIONAL TERMS AND DEFINITION

**Economic Development** refers to economic growth as well as quality of production. Economic development is the reduction of the great dispersion in social rates of return on existing and new investments under domestic entrepreneurial control (Sheikh *et al*, 2010).

**Gharar**: uncertainty or speculation (Aden, 2014).

**Ijara**: An Islamic lease agreement. Instead of lending money and earning interest, Ijarah allows the bank to earn profits by charging rentals on the asset leased to the customer. Ijarah wa iqtinah extends the concept of ijarah to a hire and purchase agreement (Aden, 2014).

**Islamic Banking** refers to a system of banking or banking activity that is consistent with the principles of the Shari'ah or Islamic law (Islamic rulings) and its practical application through the development of economies. It is also called Islamic finance or Islamic financial services (Kammer *et al.*, 2015)

**Jahl**: ignorance by the borrower when transacting with the bank (Aden, 2014).

**Mudaraba/Mudarabah**: A Mudarabah is an investment partnership, whereby the investor (the Rab ul Mal) provides capital to another party/entrepreneur (the Mudarib) in order to undertake a business/investment activity. While profits are shared on a pre-agreed ratio, loss of investment is born by the investor only. The mudarib loses its share of the expected income (GIFR, 2010).

**Murabaha**: Purchase and resale. Instead of lending out money, the capital provider purchases the desired commodity (for which the loan would have been taken out) from a third party and resells it at a predetermined higher price to the capital user. By paying this higher price over installments, the capital user has effectively obtained credit without paying interest (Aden, 2014).

**Musharaka**: Profit and loss sharing. It is a partnership where profits are shared as per an agreed ratio whereas the losses are shared in proportion to the capital/investment of each partner. In a Musharakah, all partners to a business undertaking contribute funds and have the right, but not

the obligation, to exercise executive powers in that project, which is similar to a conventional partnership structure and the holding of voting stock in a limited company. This equity financing arrangement is widely regarded as the purest form of Islamic financing (GIFR, 2010).

**Riba:** Interest. The legal notion extends beyond just interest, but in simple terms. Riba covers any return of money on money - whether the interest is fixed or floating, simple or compounded, and at whatever the rate. Riba is strictly prohibited in the Islamic tradition (Kammer *et al.*, 2015).

**Shari'ah compliant:** An act or activity that complies with the requirements of the Shari'ah, or Islamic law. The term is often used in the Islamic banking industry as a synonym for "Islamic" for example, Shari'ah-compliant financing or Shari'ah-compliant investment Oundo (2009).

**Shari'ah:** Islamic law as revealed in the Quran and through the example of Prophet Muhammad (PBUH). A Shari'ah compliant product meets the requirements of Islamic law. A Shari'ah board is the committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Shari'ah compliant products (Kammer *et al.*, 2015).

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The growing demand for the banking industry to provide customer-oriented services and products to its clients (Bashir, 2014) created grounds for the emergence of new innovation in banking principles, which are in contrast to the traditional conventional banking (CB) practices (Aden, 2014). These innovations in the monetary practices were mainly occasioned by client background affiliations and related demographic factors. A common principle, which has hit the banking industry with bang, is the Islamic Banking (IB), originally based on Islamic faith Shari'ah Law (Kammer *et al.*, 2015). In fact IB has grown remarkably in size and number in the financial sector widely (Dogarawa, 2011), attracting clients from both Muslim and Non-Muslim countries (Joseph, 2011).

The global proliferation of IB significantly changed the banking principles and the borrowing terms of the industry. As IB permit trading activates, it prohibits interest (Ahmad, 2008), since it is based on Shari'ah Law, which bans interest [riba] (Kammer *et al.*, 2015). Further IB prohibits; exploitation of ignorance (jahl) and uncertainty or speculation (gharar). To ensure this IB uses physical tangible assets as the basis for undertaking a business transaction (Honohan, 2001; Aden, 2014), in which case money is not a factor of production. This is to say that according to IB money cannot be used to make money. IB uses Islamic modes such as murabaha, salam, istisna'a and ijarah to provide a link between financial transactions and real economic activities, such as trading in tangible assets (Aden, 2014).

Islamic banks are stepping up investments in key markets in Africa countries such as Kenya, which is dominated by Conventional banks (Aden, 2014). In Kenya, the appetite for IB financial products that comply with IB is on the rise, attracting many clients from both muslim and non-muslims sides (First Community Bank, 2013). Kenya authorized two Islamic banks



Such initiative was taken by First Community Bank (FCB), where it made great strides in many aspects of opening more than 18,000 accounts with deposit growing from 1 billion Kshs (Kenyan Shillings) to over Kshs 3 billion in the short span of time of its existence (First Community Bank, 2013). IB has extended its tentacles to also serve all Kenyan clients irrespective of their religious backgrounds, where almost a quarter of its client base comprises of non-Muslim Kenyans. In Kenya, IB has therefore been able to reach a considerable client base offering same products as CB, posing a threat to the commercial banks (Mwangi, 2014).

### **1.1.2 Concept of Islamic Banking**

IB principles do not recognize banking derivatives common in conventional banking such as; currency swaps, short-selling. The only banking derivate applicable in the IB is the Istisna and Salam). According to Honohan (2001), IB is entirely evolving the monetary policies in Islamic and Non-Islamic environments, affecting the conventional banking system globally. To overcome these challenges, most conventional bank and even non-Muslim countries are adopting dual banking policy, which is both IB and conventional banking policy, as other are adopting multiple financial banking systems. CBs implementing duality system therefore avoid charging interest when implementing IB products but instead implement the policy of sharing the profits with their clients making them behave like saving-investment financial institutions rather than following CB standards (Kammer *et al.*, 2015).

IB provides services and products to be consumed by their clients as well as carrying out other banking activities such as borrowing and lending without interest. Based on Islamic sharia law, lending in IB is does not attract any interest (Rammal & Zurbruegg, 2007, Abiah & Wabekwa, 2012). So, the IB banks award interest free loans and from Mudaraba and Wakala principle organize funds on profit and loss basis with the aim of making profit and

risk sharing partnership. The underscore for using IB products or services of Islamic banks is neither earning nor paying interest on loans (Ahmad, 2008).

The IB banks have also made quick move into the financing aspect of its business using the main Shari'ah contracts of Murabaha, Mudaraba and Musharaka. These contracts are used by the bank to meet all the financing needs of its clients including personal finance, business finance, bridge finance for construction projects and trade finance (GIFR, 2010). IB includes all known banking activities even those offered by the CB except borrowing and lending on the basis of interest (Al-Jarhi & Iqbal, 2014). On the assets side, the principles of the Shari'ah plays a critical role, where the funds are advanced as funds on a debt-creating basis. This is where losses are born by both the client and the banks and the profits shared between the two (bank and client) as well (profit-and-loss sharing principle). It plays the role of an investment manager for the owners of time deposits, usually called investment deposits (Jamaldeen, 2015).

## **1.2 Statement of the Problem**

The presence of IB in Kenya during its short span of operation in the country has increased competition for clients in the financial markets and also the opportunity of bringing the unbanked to the banking halls (Bashir, 2014). However, the main consideration of prospective clients to IB banks is the compliance with Shari'ah principles (First Community Bank, 2013), that facilitate Muslims to perform their religious obligations. This compels the IBs to offer highly customized products, hinged on their target clients' faith (Bashir, 2014). In the absence of this, the prospective IB customers opt to seek for products and services from conventional banking. Thus, these clients are motivated towards conventional banks (CB) as opposed to IB where they are driven by; the economic benefits, earning of interest from the

bank deposits, bank financial position, perceived strong global image of CB and their reputable network (Sheikh *et al.*, 2010). According to Kinyanjui (2013), a significant number of customers have been withdrawing their deposits from IB due to the Islamic bank failure to provide clients' expectations. The withdrawing customers are driven by the expected higher interest payments earned from CB as opposed to profit sharing in IB, since the level of confidence drives such clients in the market place (Global Islamic Finance Report [GIFR], (2010; First Community Bank, 2013; Osman & Ismail, 2009).

IB has consistently been using the debt-based instruments like Murabaha (cost-plus sale) and Ijarah (leasing). Most bank customers perceive this approach as being cumbersome and hidden promotion of riba (Kuran, 2004). This creates confusions among the potential IB customers and result into many customers equating the IBs to CBs, since the net result of IB operations end up being the same as that of CB (KBA, 2011). Further, since inception in Kenya in 2008, IB has only two banks, which is relatively a small number compared with mainstream commercial banks. The disparity between the current state of IB in Kenya and its potential raises questions about constraints to the growth of client base in Kenya. So, the growth of clients in the IB is highly unpredictable.

The study by Oundo (2009) suggested that supply of Shari'ah compliant products in Kenya's financial institution is poor. The negligible supply of the demanded Shari'ah compliant financial products has created a lot of discomfort to the Muslim clients, who have a high demand for such. This renders the IB clients to end up with few options (if any) and end up being financially neglected by the financial industry. Rashid, Hassan and Ahmad (2010) study found that clients were highly satisfied with provisions of Shari'ah compliant financial products from IBs. Guyo & Adan (2013) study found that selection of dual banking

environment in Kenya was due to the fact that customers of Islamic banks viewed the industry much more favorably by the social and ethical goals that it serves, rather than the mechanics of its operationalization and functions. Aden (2014) study found that clients just heard of Islamic banking and financial products with some of them being very knowledgeable about them. Religious affiliation was the main reason for choice of IB and financial services for Islamic users.

In their short period of existence, Islamic banking in Kenya has shown very commendable performance commanding combined market share of the banking sector in terms of gross assets of 0.8%. Currently there are two Islamic banks operating in Kenya: Gulf African and First Community bank. Gulf African Bank had total assets of Kes 21,918,943 billion and was ranked number 25 among the 43 banks in terms of assets. These indicators point to the tremendous potential of this market niche, which has been previously untapped, largely comprising Muslims estimated to make up at least 15% of Kenya's population of 36-million (Muriri, 2015).

The studies reviewed, have not comprehensively determined the factors which are influencing the rapid growth of Shari'ah banking. Further, the concept of Islamic banking in Kenya is relatively new and the research studies that have been done in this area are few.

### **1.3 Objectives of the Study**

The general objective of the study was to determine the factors influencing growth of client base of Islamic banking in Kenya.

The following were the specific objectives:

- i) To establish the extent to which Shari'ah compliance influences the growth of Islamic Banking in Kenya
- ii) To determine the extent to which financing options influences the growth of Islamic Banking in Kenya
- iii) To determine the extent to which customer satisfaction influences the growth of Islamic Banking in Kenya
- iv) To establish the extent to which product quality influence the growth of Islamic Banking in Kenya

#### **1.4 Research Questions**

The study answered the following questions:

- i) What is the extent to which Shari'ah compliance motives influences the growth of Islamic Banking in Kenya?
- ii) What is the extent to which of financing options influences the growth of Islamic Banking in Kenya?
- iii) How much influence does customer satisfaction have on the growth of Islamic Banking in Kenya?
- iv) What is influence product quality influences the growth of Islamic Banking in Kenya?

#### **1.5 Significance of the Study**

The purpose of the study was to find the factors that influence growth of client base in Islamic banking institutions in Kenya in an effort to recommending on ways of ensuring sustaining the IB clients and obtaining new clients through addressing these factors. The findings from the study would benefit the banks in ensuring considerable growth of their clients, major concern of banks in Kenya, so that they do not impair their profitability or

threaten their survival. This study would assist the commercial bank in coming up with strategies that will enhance growth of their clients.

The study would also benefit the National and county economy in Kenya. The major significance of this study is aimed at educating the readers on the impact of the growth of clients and its effects on economic development. This would help the economy of the Governments to be stable.

The study provides a good reading material for students of banking and finance and would expose other possible areas of research. This study would also add more knowledge to academicians and scholars, who would benefit from already compiled information concerning the growth of clients in the Islamic banks, particularly those researchers who would be carrying out a study almost similar to this.

Lastly, the study is a window opener to the field the growth of clients in the banks in the banking sectors, making it beneficial to researcher and scientists.

### **1.6 Limitation and Delimitation of the Study**

This study was limited in a number of ways. First, the respondents might have resist hence opt to avoid giving appropriate responses to the questions. The study therefore told the truth about the research to allay any fears that would have resulted in such resistance.

Thirdly, the respondents might take long to give information, which might have delayed the entire study. The study therefore offered assistance to respondents to fill the institutional tools and made frequent follow-ups. The last limitation was the study time, which was too short.

The researcher therefore worked extra time and sought the services of a research assistant where necessary to avoid time limitations.

### **1.7 Scope of the Study**

This study focused on factors influencing the growth on client base in Islamic banking institutions in Kenya. The study targeted the 108 staff of the 2 Islamic banks in Kenya, all located in Nairobi. The study chose Nairobi owing to the diversity of the IBs in the county.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents a review of literature pertinent to the study as presented by various researchers, scholars', analysts and authors. The present study reviewed theories and literature to which were found useful and bringing light to the current study. Further, the chapter provides a review of empirical studies, findings and recommendation from these studies, and the summary and research gap identified. A conceptual framework was developed from the literature thus reviewed.

#### **2.2 Theoretical Review**

The present study reviewed theories and literature to which were found useful and bringing light to the current study. This study found certain theories very useful in explaining growth of client base in Kenya in terms of increase in clients, increase in deposits and increase in profits. The study explicitly reviewed the Assimilation theory and Growth Theory.

##### **2.2.1 Assimilation Theory**

Assimilation theory is based on dissonance theory by Festinger's (1957). The theory by Festinger's (1957) proposes that consumers of products, such as banking products, take time to make valuable comparison about the product offered and the perceived performance of the product. The same position applies to assimilation theory, where the clients seek to avoid dissonance. This is achieved by the customers adjusting their perceptions about the product and bringing this in line with their expectations (Alam, 2000). In most case, the customers end up distorting expectations from the products to coincide with perceived product

performance or by raising the level of satisfaction by minimizing the relative importance of the disconfirmation experienced.

However, the assimilation theory shortcomings are based on approach and assumptions. As regards the approach, the theory assumes that there is a relationship between expectation and satisfaction of clients. On contrary, theory falls short of explaining how disconfirmation of an expectation leads to either satisfaction or dissatisfaction. Secondly, the theory assumes that consumers are motivated enough to adjust either their expectations or their perceptions about the performance of the product. It has been established that controlling the actual product performance can lead to a positive relationship between expectation and satisfaction. Based on these perspectives, it appears that dissatisfaction could never occur unless the process begins with negative consumer expectations (Ayub, 2002).

### **2.2.2 Growth Theory**

This study is regarded the Growth Theory, based on the Harrod Damar model or Solow model (Solow, 1956), very helpful in explaining the growth in client base in IB. The Solow-Swan class growth theory focuses on capital and labour. It describes economic growth as an increase when the available labor again increases. According to Solow-Swan class growth theory, there is capital growth in wealth only when the investment exceeds depreciation. The proposal is that to ensure capital growth the investment should insist on rowing the capital. In reference o the preset study, an increase in capital yields leads to an increase in growth of IB's Wealth.

This growth in client base is strongly supported by Harrod Domar Model of development economics (Domar , 1946; Romer, 1989). This model explains the growth rate in terms of saving and productivity of capital. The present study regards growth in terms of client base, where the IBs play a key role towards the growth of client base. Such growth ultimately leads

to the overall economic growth. The theory holds that growth does not slow as capital accumulates, but its rate depends on the types of capital a country invests in (Helpman, 2004). Growth in client base thus may depend on the characteristics of the products offered by Islamic banks.

### **2.3 Empirical Review**

According to a study by Awan and Bukhari (2011) certain factors were found to establish customer selection criteria of IB, where the main characteristics were; religious attributes, customer satisfaction of IB, and attributes of the product. The study therefore seeks to assess the growth client base of IB in Kenya as it establishes whether the growth in client base is influenced by Shari'ah compliance, financing options, customer satisfaction and product quality therefore explored empirically various studies.

#### **2.3.1 Shari'ah Compliance and Growth of Client Base in Islamic Banks**

Prohibition of riba; the most striking feature of Islamic banking is that, unlike conventional banking, it is totally interest-free (Musa, 2007). Many scholars consider the prohibition of interest as one of the important features of Islamic banking. For instance, the study by Kinyanjui (2013) revealed Islamic banking client base was driven by religious compliance and customers' needs were being met based on the Shari'ah law. The study also revealed that continuous review and improvement of Shari'ah compliant products accompanied by diversifying market niche led to drastic development and marketing of Islamic banking products. The study concludes that the factors that influence development of Islamic banking products in Kenya are purely religious compliance and customers need being met.

Islamic banking is more complex than traditional banking in that products must conform not only to the secular laws of a country but also to interpretations of the holy Qur'an by local Islamic scholars (Guyo & Adan, 2013). According to Guy and Adan (2013), a central tenet of Sharia is *riba*, the prohibition of interest, moreover, Islamic law does not permit use of funds for investments or purchases related to activities it deems impermissible (*haram*), such as alcohol consumption or gambling.

Balancing profitability and religious social responsibility did not strongly influence the customers' choice of their bank (Sheikh *et al.*, 2010). The customers to IB were much influence by the interest-free nature of the products. The finding by Guy and Adan (2013) further indicates that the Islamic banks approach to corporate social responsibility (CSR) exercise, activities which strongly entrenched in the Islam faith did not influence the customers' decisions to choosing the IB. Therefore, from the findings, it can be seen that the customers interested in Islamic banks are not influenced by the religious motives but invested basing their decisions on the Shari'ah compliance (laws) principles.

The global proliferation of IB significantly changed the banking principles and the borrowing terms of the industry. As IB permit trading activates, it prohibits interest (Ahmad, 2008), since it is based on Shari'ah Law, which bans interest [*riba*] (Kammer *et al.*, 2015). Further IB prohibits; exploitation of ignorance (*jahl*) and uncertainty or speculation (*gharar*). To ensure this IB uses physical tangible assets as the basis for undertaking a business transaction (Honohan, 2001; Aden, 2014), in which case money is not a factor of production. This is to say that according to IB money cannot be used to make money. IB uses Islamic modes such as *Murabaha*, *Salam*, *Istisna'a* and *Ijarah* to provide a link between financial transactions and real economic activities, such as trading in tangible assets (Aden, 2014).

Islamic banks have sharia board, therefore the products being offered must be approved by the board (Kadubo, 2010). According to Kadubo (2010) Shari'ah compliance was influenced by both internal and external environments. Internally, strong and effective effort by Shari'ah board that was running the regulatory framework would yield enticing Islamic compliant products. Such products were Shari'ah compliant and since the clients are driven by Shari'ah compliance products, they are highly attracted. Externally, the Muslim religious leaders played a critical role woo and encouraging a great number of faithful followers to be clients for Islamic banks as they confirmed to their followers that IB was Shari'ah compliancy.

Marimuthu et al. (2010) study found that difference between Islamic banking and conventional banking was based on the Shari'ah requirement. The study found that the relationship between customers and the Islamic bank is different from that of the conventional banks. From the study by Marimuthu *et al.* (2010), it was clear that the decision to adopt IBs was purely based on the Shari'ah compliancy of the IB products.

The study by Oundo (2009) noted that many mainstream banking clients who demand Shari'ah-compliant products from IB, were the many BOP (poor people). Such are the clients who insisted on these products owing to the interest free nature of these products. The emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Shari'ah-compliant products. Whereas the mainstream banking sector had options for their Muslim clients, poor micro-entrepreneurs had no option of Islamic Microfinance products. The study reveals that due to lack of options most clients accessed loans from the available institutions as a coping strategy.

### **2.3.2 Financing Options and Growth of Client Base in Islamic Banks**

Profit is the ultimate goal of commercial banks hence all the strategies designed and activities performed thereof are meant to realize this grand objective. According to Guyo and Adan (2013) various studies on banks identified certain financing options such as; availability of credit, competitive interest rates, friendliness of bank staffs, service charges, adequate banking hours, availability of ATM, special services and the quality of services of checking accounts as influencing their decisions to banks with Islamic banks. Aden (2014) study found that when clients just heard of IB products financing options, with some of them being very knowledgeable about them, they immediately made their decisions to become depositors of these banks. Although Religious affiliation might have been the main reason for choice of IB for financial services for Islamic users, the clients considered financing options such as; cheap products offered, convenience of Islamic banks location, high levels of confidentiality, financial advice, and service delivery as their main reason to bank with these banks.

According to Laldin (2011) study, Islamic financial institutions in Malaysia had flexible financing options. The study established that these banks offered more than 40 IB financial products. The products offered by these banks used Shari'ah contracts such as; Murabaha, Mudharabah, Musharakah, Ijarah, Qardhul Hasan, IjarahThumma Al-Bai' and Istisna'. Such contract helped the banks meet and satisfy the needs of a wide range of customers. The study revealed that the clients were driven by the IBs financing options thus the growth client base was pulley influenced by the Islamic banks' financing options

The study by Guyo and Adan (2013) found that the IB financing options is completely different to that of conventional banks. The clients were motivated by among other things the mortgage arrangements provide by the Islamic banks as well as the IBs guarantees and savings with guarantees. The study finding also revealed that other financing options such

agency options and cost-plus financing also influenced the choice of the customers. Such options allowed the Islamic bank authorized to buy goods for a customer and resell them back to the customer at a pre-determined price was a strong determinant of the choice of the customers. The study further established that the leasing arrangements and the benevolent loan facilities also influenced the customers to invest with the Islamic banks in Kenya.

Study by Ariss (2010) showed that IB and CB were in competition in the banking industry. This competition put a lot of pressure on the banking industry to diversify strategies deployed to win the market. The study revealed that CBs were establishing full-fledged IB products and service thus setting up Islamic windows in their service provisions. The idea behind this approach of behaving like Islamic banks and using their strategies was to attract customers or countries which are traditionally non-Muslims. The findings reveal that IB seems to deviate from being Islamic because they attract customers who are non-Muslims as the study by Thambiah et al. (2010) established later. Khan et al. (2010) found that Islamic banks attracted both Muslim and non-Muslim countries and customers. Islamic banks were actively accommodating both client sets to ensure that they obtained competitive advantages because they need to have a pool of customer base.

A study conducted by Sheikh *et al.* (2010) revealed that clients of Islamic and Conventional banks were satisfied with the facilities provided by their banks. Clients of banks were satisfied with the facilities provided by their banks but the customers of conventional banks were more satisfied than the customers of Islamic banks. In their analysis, findings proved that economic benefits, financial position of banks, interest on deposits, strong global image and network reputation were the factors that were motivating customers towards conventional banks.

### **2.3.3 Customer Satisfaction and Growth of Client Base in Business**

Customer satisfaction is the feeling or attitude of a consumer toward a product/service after it has been used. A satisfied consumer will repeat the purchase of the product and convey positive messages about it to others while in contrast a dissatisfied consumer is more likely to switch to an alternative product or service the next time he or she recognises the same need (Dispensa, 2009). Not only this, according to Gulledge (2006), the client's dissatisfaction will be reflected in a negative word of mouth which might have a serious damaging effect on the business. It is therefore crucial that firms ensure customer satisfaction for their products and services leading to the increasing popularity of measuring customer satisfaction in recent years.

Customer satisfaction is often described as the essence of success in today's highly competitive world of business. In the literature related to customer satisfaction, a great deal of attention has been paid to the confirmation paradigm which concerns the comparison of product or service performance expectations and evaluations. The confirmation model treats satisfaction as meeting customer expectations and is generally related to habitual usage of products (Roberts, 2007). However, research on customer satisfaction has moved towards the disconfirmation paradigm which views satisfaction with products and brands as a result of two cognitive variables: repurchase expectations and disconfirmation.

Dutka (2004) states that satisfied customers offer businesses a promise of enhanced revenues and reduced operating costs. He says that "business success in today's competitive market requires that the seller adopts the customer's viewpoint. Sales of a product or service must satisfy the customer's objectives and requirements.

The study by Kadubo (2010) found that customers were motivated by; offering product and services that meet their needs, reduced borrowing cost, minimum requirements to open an

account and service efficiency. The provision of customer oriented products led to customer satisfaction and at the end won a great number of customers. The study also concluded that other factors that influenced the clients to borrow or save money in the banks were; cost/charges of borrowing/saving, repayment period, security/collateral requirement for the loans, risks of borrowing and earning on savings.

The study by Alafi (2010) found that since customers are the most valuable assets, retaining them resulted into increasing profitability. The study revealed that by building strong relationship with customers the IBs would help reduce customer turnover and increase profitability. So, the study showed that customer satisfaction positively influenced growth of client base through customer retention and reduced customer turnover. The results of customer satisfaction would likely result in customer retention, commitment, increased future repeat purchases, customer spending, and creation of a mutually rewarding bond between the user and the service provider that increases customer tolerance for services' and products' failures.

Another study by Hasonah, Alafi and Hindawi (2012) established that IB placed increased emphasis on customer satisfaction, which highly improve loyalty for long-term profitability and success to meet the needs of various segments of customers, IBs offered multiple services and products through different channels of delivery. The study revealed that customer satisfaction led to customers to purchasing more requirements from the IB. as a result, transaction and acquisition costs decline and revenues increase, thus improving the size of net cash flows. The study recommends that a positive word of mouth from satisfied customers affected shareholder value. Positive word of mouth should lead to lower acquisition costs and thus to greater net cash flow. It was also found that greater cross-buying also may result from higher levels of customer satisfaction. The argument by the study was that a satisfaction and

loyalty by the customer provides a ready market for new product or service-line extensions. Thus customer satisfaction leads to faster market penetration and in turn, to accelerated cash flows. Thus greater customer satisfaction may lead to greater growth of client base in IB. The same was repeated by Ahmad et al. (2011).

The study by Ahmad et al. (2011) also found that customer satisfaction led growth of client base in. This was pegged on customer retention, commitment, creation of a mutually rewarding bond between the user and the IBs, increased customer tolerance for services and products failures, positive word-of-mouth advertising about the organization, increased future customer spending, and it might result in more cross-and up-selling, attracting new customers, lowering costs, and greater profitability. Study by Abdullah, Sidek and Adnan (2012) on perception of non-Muslim customers towards Islamic banks revealed that Islamic banking services are making headway among non-Muslims. Guyo & Adan (2013) study concluded that one of the most important reflections of customers' attitude is that social-welfare factors are evidenced as more important objectives than commercial factors in their perceptions towards Islamic banking. Rashid, Hassan and Ahmad (2010) study found that clients were highly satisfied with corporate efficiency and compliance with Islamic rules when choosing to seek products and services from IBs. The interpretation of this was that customer satisfaction highly influences the growth of client base in IBs.

A study conducted by Mahamad and Tahir (2010) examined the perception of users and non-users of Islamic banking from understanding of Islamic banking concept and practices and bank selection criteria. It found low confidence among non-Muslims on the ability of Islamic banks to effectively compete with conventional banks. Non-users indicated a low willingness to deal with Islamic banks. It also found that high return on investment is the most important criteria for banking selection among non-Muslims.

Hassan (2007) study examined the customers' perception towards Islamic by examining; knowledge, socio-religious context, Shari'ah compliances, and willingness to deal with Islamic banks, and quality and attractiveness of offerings. It found that all these dimensions examined highly influenced clients satisfaction towards products and services of Islamic banks as compared to conventional banks.

#### **2.3.4 Product Quality and Growth of Client Base in IB**

Other studies also found that the quality of the product was a major influence towards banking with IBs. A study by Alafi and AL-Fawaeer (2013) focused on some key determinants of customer satisfaction as related to growth of client base. The study revealed that superior service quality greatly attracted customers towards using Islamic banks products. This showed that is by the IB meeting the perceptions of their customers on communicating to the customer regarding performance of service, employees providing prompt services and willingness to help customers greatly impacted on the growth of client base.

Business are strategically offering high quality products/services that are intended to satisfy existing and prospective customers, ensure customer expectation for high quality services and rapidly changes of technology. It is apparent that superior service, prices, relationship quality satisfy clients of banks (Osman, Ali & Ismail, 2009), which encourages growth of the client base. In fact meeting client needs, and providing innovative products are essential to success in the banking industry. Further, creating and maintaining customer relationships is important to clients as it makes them aware of the value of relationships provided (Colgate, Stewart & Kinsella, 1996).

Kadubo (2010) study isolated the product quality and service delivery is important factors to consuming an organization products. Amin et al. (2011) found that creating competitive edge via differentiated products was a prime step towards attracting more clients and retaining

existing ones. These findings are supported in previous studies by Taib, Ramayah, and Razak (2008). Ahmad and Dent (2011) found that drive to customer satisfaction was ultimately brand quality. The first source of competing brand is expected to come from the conventional commercial banks, while the secondary level of competition will be posed by the presence of other Islamic commercial banks. Hence, the branding strategy of the Islamic banks must be concerned with its ability to gaining a competitive advantage and establishing a strong brand image.

According to the study by Sheikh *et al.*, (2010) found that customer opened accounts in IB banks depending on service quality, where the main patronage of clients is selecting between combination of Islamic and financial reputation was service quality. Therefore, IBs were adapting financial products from conventional banks to satisfy Islamic scholars. However, the study by Olson and Zoubi (2008) examined difference between from conventional banks and Islamic banks. The study found that it was not easy to differentiate Islamic banks from conventional banks. The study did not address the problem of whether Islamic banks are really Islamic. It showed that Islamic banking can be introduced as a separate window within a conventional bank.

#### **2.4 Summary and Research Gaps**

This study reviewed the various past studies on client base growth in IB and taking into consideration the various factors influencing it. The studies found Shari'ah compliance influence played a major role in clients in selecting Islamic banks. The studies further found that the decisions to open account with IB was due to customer satisfaction based on financing options and product (Guyo & Aden, 2013). Some studies that were reviewed found that the IBs were just satisfying Islamic scholars. For instance, Olson and Zoubi (2008) study established that it was not easy to differentiate Islamic banks from conventional banks but the

prime issues was to please the suggestions forwarded by Islamic scholars. The study did not exactly show whether Islamic banks are really Islamic but showed that IB can be introduced as a separate window within a conventional bank. These studies lacked enough information to exactly show the client base growth within IB was influenced by Shari'ah compliance, financing options, customer satisfaction and product quality jointly.

Rashid, Hassan and Ahmad (2010) study revealed that corporate efficiency and compliance with IB were the main consideration by customers seeking service form IB as Mahamad and Tahir (2010) study found that there was low confidence among non-Muslims on the ability of IBs to effectively compete with other banking systems. Marimuthu, et al. (2010) study found that Sharia compliance was the main difference between Islamic banking and other banking systems. Study by Abdullah et al. (2012) revealed that Islamic banking services are making headway among non-Muslims (Dusuki & Abdullah, 2007). Guyo & Adan (2013) study concluded that financing options influenced growth of client base. The study by Kinyanjui (2013) Shari'ah compliance and customer's satisfaction was the main divers of growth IB client base of in Kenya as Aden (2014) study found that Shari'ah compliance and product quality were the main reason for choice of IB.

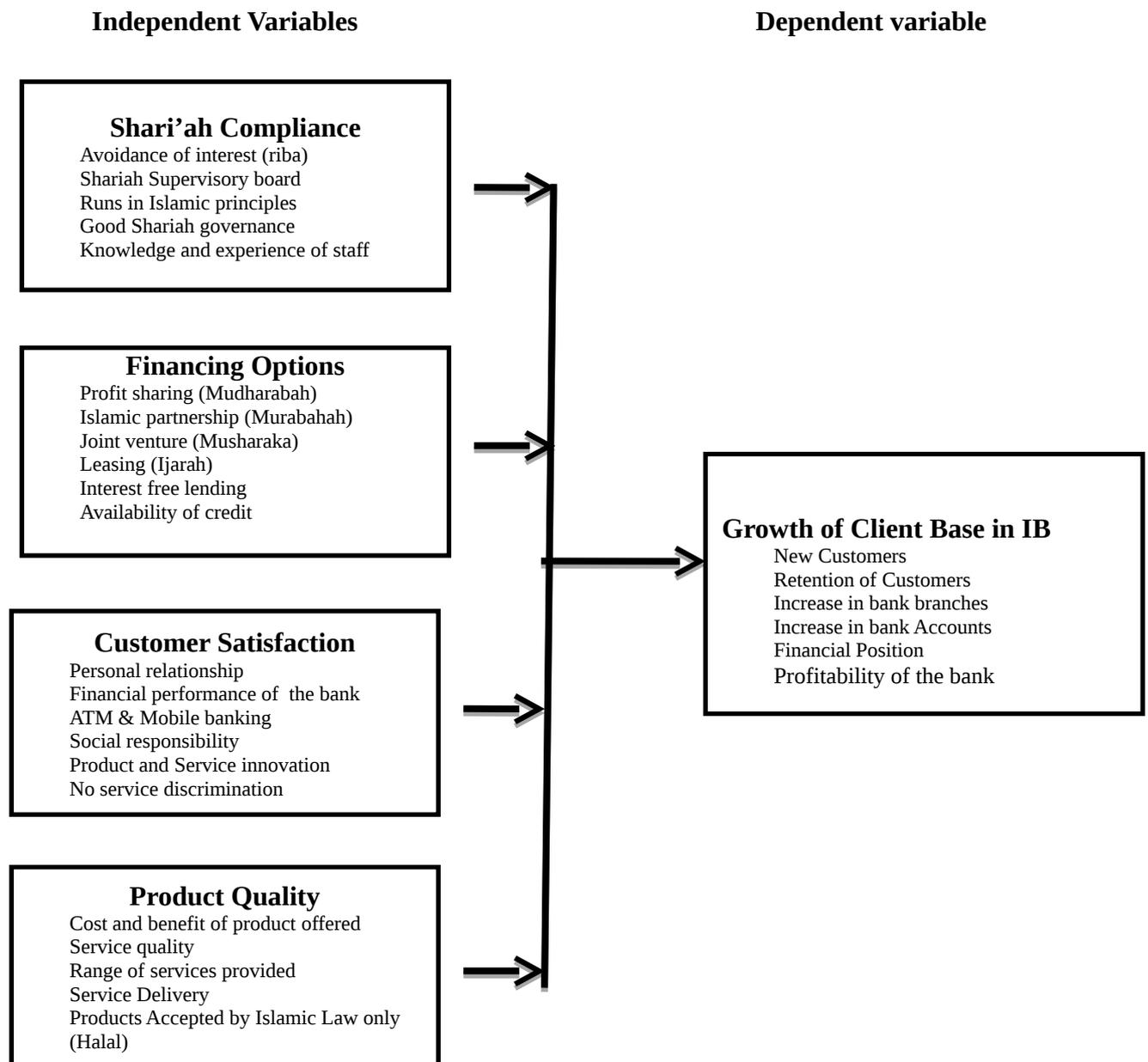
None of these studies established the actual client based growth in IB as being solely due to Shari'ah compliance, financing options, customer satisfaction and product quality jointly. These study reviewed establish that IB was simply an expression of application of Islamic religious conduct. These aspects solely relate to human factors. From these empirical it is clear that there is limited information show the growth of client base in IB in Kenya is jointly dues to Shari'ah compliance, customer satisfaction and product quality. The present study filled the gaps present in these studies. This study contributed to existing literature by establishing factors influencing growth of client base of Islamic banking in Kenya as being

due to Shari'ah compliance, financing options, customer satisfaction and product quality jointly

## **2.5 Conceptual Framework**

The study developed a conceptual framework adopted from the assimilation theory and growth which helped propose that growth of client in Islamic banking is influenced by Shari'ah compliance, financing options, customer satisfaction and product quality jointly. The Shari'ah compliance, financing options, customer satisfaction and product quality are considered as the independent variables and the growth of client in Islamic banking as the dependent variables as captured in figure 1.

**Figure 2.1: Conceptual Framework**



Source: Researcher (2016)

## 2.8 Operationalization of Variables

Figure 2.2: Operational Framework

Orientation	Variable	Objective	Indicators	Data Analysis
Dependent Variable	<b>Growth of Client Bases</b>		New Customers Increase in bank branches Increase in bank Accounts Retention of existing clients Financial position Profitability of the bank	
	<b>Shari'ah compliance</b>	To establish whether Shari'ah compliance has an influence on the growth of Islamic Banking in Kenya		Descriptive Regression
			Avoidance of interest (riba)	
			Shariah Supervisory board	
			Runs in Islamic principles	
			Good Shariah governance	
			Knowledge and experience of staff	
	<b>Financing options</b>	To determine the influence of financing options on the growth of Islamic Banking in Kenya		Descriptive Regression
			Profit sharing (Mudharabah)	
			Islamic partnership (Murabahah)	
			Joint venture (Musharaka)	
			Leasing (Ijarah)	
			Interest free lending	
			Availability of credit	
	<b>Customer satisfaction</b>	To establish whether customer satisfaction has an influence on the growth of Islamic Banking in Kenya		Descriptive Regression
			Personal relationship	
			Financial performance of the bank	
			ATM & Mobile banking	
			Social responsibility	
			Product and Service innovation	
		No service discrimination		
<b>Product quality</b>	To establish the effect of product quality on the growth of Islamic Banking in Kenya		Descriptive Regression	
		Cost and benefit of product offered		
		Service quality		
		Range of services provided		
		Service Delivery		
		To deal with products that is accepted by Islamic Law Only (Halal)		

## **2.9 Hypotheses of the Study**

### **Hypothesis 1**

*H<sub>0</sub>: Shari'ah compliance does not significantly influence the growth of Islamic Banking in Kenya*

### **Hypothesis 2**

*H<sub>0</sub>: Financing options do not significantly influence the growth of Islamic Banking in Kenya*

### **Hypothesis 3**

*H<sub>0</sub>: Customer satisfaction does not significantly influence the growth of Islamic Banking in Kenya*

### **Hypothesis 4**

*H<sub>0</sub>: Product quality does not significantly influence the growth of Islamic Banking in Kenya*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides a description of the research design and the methodology to be applied in carrying out the research study and justification for using a particular research design. It also describes the characteristic of the population which was used in the study, detailed description of sampling methods used and procedures, data collection instruments and the procedure of data collection, pre-testing and finally describes the appropriate data analysis method which generated the results.

#### **3.2 Research Design**

This study used descriptive cross sectional design. The descriptive design was used in describing the characteristics of existing phenomenon. Descriptive design was used since it provided insights into the research problem by describing the variables of interest. It was used for defining, estimating, predicting and examining associative relationships. This helped in providing useful and accurate information to answer the questions based on who, what, when, and how. The method was crucial for this study because the issue at hand requires to be described and the phenomenon analyzed for conclusions.

#### **3.3 Target population**

According to the definitions of target population, the universe is the entire group of persons or elements from which samples are taken (Kombo & Tromp, 2006). The study target population was the 108 staff of the 2 IBs in Nairobi, Kenya as shown in Table 3.1. All the banks are headquarters in Nairobi.

**Table 3.1: Classification of Target Population**

Category	First Community Bank	Gulf African Bank	Total
Branch Manager	3	2	5
Sales Manager	6	5	11
Customer Care Manager	3	2	5
Marketing Manager	3	2	5
Sales and Marketing Staff	30	20	50
Front Office staff	18	14	32
Total	63	45	108

Source: Gulf African Bank (2015) and First Community Bank (2015).

### 3.4 Sample Size and Sampling Procedure

The target population was 108, which exceeded 100 and according to Mugenda and Mugenda (2003) when the population is less than 100 a census is suitable. However, that the population was exceeding 100, the study used a probability based sampling technique. The study used the formula  $s = \chi^2 NP (1 - P) / [d^2 (N - 1) + \chi^2 P (1 - P)]$  by Krejcie and Morgan (1970) to obtain a sample size of 85 respondents from a target population of 108 where:

$s$  = required sample size.

$\chi^2$  = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

$N$  = the population size.

$P$  = the population proportion (assumed to be .50 since this would provide the maximum sample size).

$d$  = the degree of accuracy expressed as a proportion (.05).

The formula generates the table 3.2 below.

**Table 3.2: Table for Determining Sample Size from a given Population**

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size.  
*S* is sample size.

Source: Krejcie and Morgan (1970)

The sample population distribution was as captured in table 3.3.

**Table 3.3: Sample Population**

<b>Category</b>	<b>First Community Bank</b>	<b>Gulf African Bank</b>	<b>Total</b>
Branch Manager	2	2	4
Sales Manager	5	4	9
Customer Care Manager	2	2	4
Marketing Manager	3	3	6
Sales and Marketing Staff	23	16	39
Front Office staff	14	11	25
<b>Total</b>	<b>49</b>	<b>36</b>	<b>85</b>

A stratified proportionate random sampling technique was employed to select a total of 85 respondents. First, the study determined the number of employees in each category and in each bank and sample frame consisting of the employees in that category and that bank was constructed. This was repeated for all other categories and each bank. The study then proportionately obtained the number of respondents needed from each category in each bank (determined as ratio of number of employees in each category in each bank to the total number of number of employees in all the categories in the study area multiplied by the sample size). In this case the sample size from category in each bank was proportionately distributed to entire sample size. Then a sampling interval was designed for each category in each bank (depending on the number of respondents required in that category in the bank) by dividing the total number employees in that category in that bank with the number of respondents required from that category. Thereafter, a random starting point was determined and the respondents as then selected based on the predetermined sampling intervals. This was done until the required sample

size of 85 is reached. Note: The study then rounded up when the value obtained is greater than 0.5.

### **3.5 Data Collection**

Data was collected from primary sources using a structured questionnaire, which had both open and closed ended questions. The structured questions was standardized to allow the respondents to reply to the same questions in a defined manner and give the respondents complete freedom of response and encourage them to offer explanation. Drop and pick approach was used to administer the questionnaire.

The researcher obtained a letter from KCA University introducing him to the respondents. A pilot test was then conducted before the actual data collection on 6 respondents. The respondents who would participate in the pilot survey were excluded from the actual data collection exercise. During data collection, the researcher first sought an appointment with the bank manager who is the branch Chief Executive Officer (CEO), or a senior manager of each establishment and requested them to allow for the administration of the questionnaire. Arrangements were made on when and how to conduct the data collection.

### **3.6 Reliability and Validity**

The study was carried out validity and reliability test before the research tool was administered to the respondents. During the pilot testing, the study tool was edited as appropriate. The reliability tests were conducted after successfully carrying out the validity tests. The research tools were corrected accordingly through removal and editing to arrive at highly reliable and valid instruments which was used in the study data collection. The instruments were therefore

acceptable for data collection in this study. This opened the door for the study to continue with data collection.

The pilot testing aimed at determining the reliability of the research tools including the wording, structure and sequence of the questions. According to Kvale (2007)) the pilot test is conducted to detect flaws and weakness in design and instrumentation and to provide data for selection of a probability sample. The pilot study was conducted on five staff of the IBs in Kenya, who did not participate in the data collection. The research tool was administered to the respondents who were allowed three days to respond.

Validity, which is the degree to which result obtained from analysis of the data actually represents the phenomenon under study, was done to test the tool for accuracy and meaningfulness using content validity test. This measured the degree to which data collected using a particular the tool represented the specific domain of indicators/content of growth of client base in IBs in Kenya. The assessment of content validity was carried by two professional experts; financial expert and supervisor. The supervisor assessed the tools to establish what concept the instrument is trying to measure. The financial expert determined whether the sets of items accurately measured the growth of client base in IBs. The Experts were requested to comment on the representativeness and suitability of questions and gave suggestions on the structure of the tools. This helped improve the content validity of the data that was collected.

Reliability was conducted to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003; Cooper & Schindler, 2008). The data was tested

for reliability to establish issues such as data sources, methods of data collection, time of collection, presence of any biasness and the level of accuracy. The test for reliability established the extent to which results were consistent over time. The researcher improved the instrument by reviewing or deleting inconsistent items from the instrument. To test for reliability, the study used the internal consistency technique based on Cronbach Alpha.

### 3.7 Data Analysis

Descriptive statistics was used to analyze the data to establish patterns, trends and relationships. The various methods for presenting data used included: bar graphs and pie charts, tables, and narrative. Descriptive analysis was performed using SPSS.

The study used regression analysis to estimate a model that explains the dependent variable in terms of the independent. The regression analysis was carried out to determine how the independent variables (predictor) best describe the growth of clients in banks (response) (Ho, 2006). The study established the whether the Independent Variables (IVs) are estimators of Dependent Variable (DV) using multiple regression based on the model;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots\dots\dots(i)$$

Where;

- Y = Growth of client base
- X<sub>1</sub> = Shari'ah compliance
- X<sub>2</sub> = financing options
- X<sub>3</sub>=customer satisfaction
- X<sub>4</sub> = product quality

$\beta_0$  is a constant (which is the value of dependent variable when all the independent variables are 0).

$\beta_{1-4}$  is the regression coefficients or change induced by  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$

$e$ =error term

## CHAPTER FOUR

## RESULTS AND DISCUSSIONS

### 4.1 Introduction

This chapter presents an analysis, presentation and interpretation of the results obtained from the analysis of the study data and discussions on the findings. These results were presented by use of tables, charts and bar graphs for ease of understanding. The presentation of the results was guided by the study objectives and each presentation explained using a narrative. The study analyzed the results based on the objectives of the study. The response rate was first. Secondly, it contains the analysis of the response background. Thirdly, the chapter contains descriptive analysis of quantitative data and inferential analysis was also to establish whether the independent variables actually measured the dependent variables.

#### 4.1.1 Pilot Testing

The study first carried out pilot testing to test for validity and reliability of the research instrument before it was administered. The pilot testing took a period of one week, which gave direction on the actual time it would have taken to collect and analyze data. The validity tests were first carryout. As the pilot testing was carried, the results obtained were used to edited or review the instrument. The tool was corrected through removal and editing of items so as to obtain a consistent, reliable research instruments, acceptable for data collection in the present study.

The validity tests were conducted as a continuous exercise through the development of the study and up to the data collection. It was done using content analysis by the dissertation supervisor, panel and financial experts. They evaluated the tool and made recommendations accordingly. It

was eventually qualified as an acceptable research instruments that would measure the desired objective and could be used in the finance sector by the experts. The toll was reviewed through restructuring and reduction of the questions.

The study was tested for reliability using the Cronbach Alpha method, an internal consistency technique. The study first collected data from 7 respondents (who formed 10% of the sample population), who did not participate in the data collection later. The results obtained, as captured in Table 4.1, show that that the reliability coefficient (Cronbach Alpha) was .715.

**Table 4.1: Reliability Statistics**

Item	Cronbach's Alpha if Item Deleted
Period of Operation	0.72
There has been increasing number of new customers an indication of growth of clients	0.74
Growth of clients has led to increase in bank accounts in our banks	0.65
Our bank has been experiencing tremendous increase of bank branches due to growth of clients	0.71
Financial position of the bank has been growing every year due to growth of client base	0.68
The growth of client base in our bank has contributed the retention of existing clients in our bank	0.76
Growth of clients has been leading to increase in Profit made by the banks	0.71
The Profit and Loss Sharing (PLS) principle (mudharabah) creates a clear engagement among the bank and clients leading growth of client base	0.71
The clients are attracted to IB because of Islamic partnerships (Murabaha)	0.75
New and existing customers are attracted by joint venture (Musharakah)	0.71
Clients are attracted by leasing contract (Ijarah ) whereby Islamic bank leases an asset for a specific rent and period to the client	0.67
The principle of interest free lending and availability of credit causes attracts clients to IB leading to increase in client base	0.68
Lack of interest (Riba) on credit attracts new clients to the bank	0.66
The presence of Shari'ah Supervisory Board to supervise banking operations attract clients to bank with our bank	0.66
Customers are attracted because the bank run on Islamic principles	0.66
The presence of good Shari'ah Governance has an influence on the attraction of clients	0.67
Knowledge and experience of staff on Islamic finance principles help in attracting and retaining clients	0.72
Clients value personal relationship and service without discrimination towards clients attracts clients growth of client base in our bank	0.72
Reliability of banking service such as ATM, internet banking and Mobile banking greatly contribute to growth client base in our bank	0.66
The client base in our bank grow owing to the Social responsibility of the bank that gives a good picture to the current and prospective clients	0.76
The high ate of Product of Service innovation help in the growth of clients in our bank	0.70
Cost and benefit of product offered (products prices and rate of return of the investment) pleases clients and accelerates growth of client base	0.73
Service quality of the quality (fast/efficient banking service and friendliness of the bank's staff) enhances growth of client base	0.75
The bank offers a range of services (Facilities provided by their banks) which ensure growth of client base	0.74
Service Delivery influences the choice of clients and attracts new customers	0.69
The bank deals with products that are accepted by Islamic Law Only (Halal) which highly attracts new clients.	0.68
Cronbach's Alpha = .715 N of Items = 26	

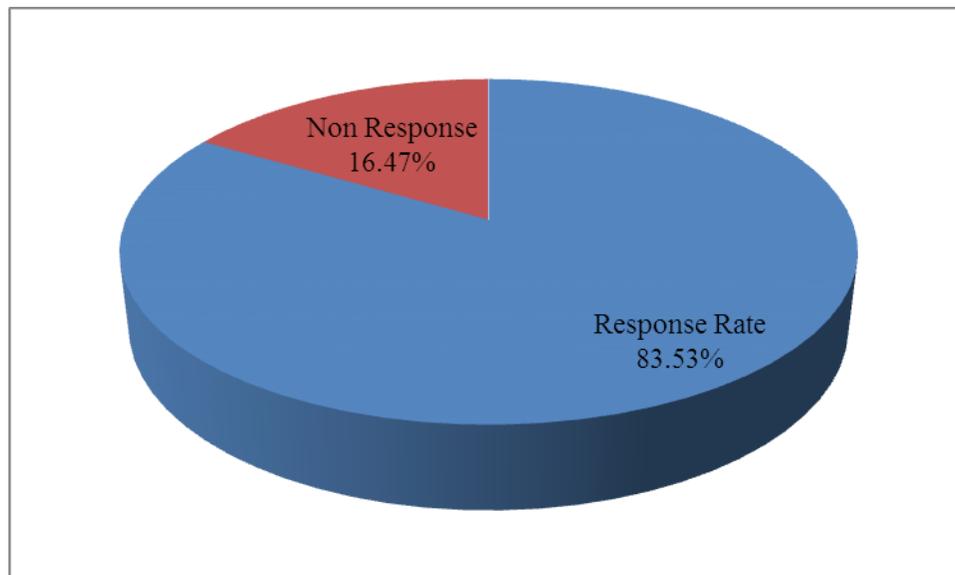
The Cronbach Alpha coefficient of .715 was well above the threshold of 0.7, as recommended by Nunnaly (1978). This was an indication that the items in the tool had high consistency between the items of the tool. It should be noted that removal of the item “The client base in our bank grow owing to the Social responsibility of the bank that gives a good picture to the current and

prospective clients” would have increased the consistency to .76. However, the difference between .715 and .76 (of .035) was found not to significantly improve the already high consistency. So the study opted to retain all the items as it ignored removed the said item. Since the tool had high consistency, the items were retained and they were used in data collection thereafter.

#### 4.2 Response Rate

The questionnaire was distributed to 85 respondents from the two fully pledged IB banks out of whom 71 responded to the study data collection. The response rate was therefore 83.53% and non-response of 16.47% as shown in figure 4.1. All those who responded answered all the questions according to their best knowledge and the researcher appreciated of their cooperation.

**Figure 4.1: Analysis by Response Rate**



The study total response rate shows was 83.53% of the sample population, which according to Mugenda and Mugenda (2003), very good since it was above 69%. Mugenda and Mugenda (2003) point out that a response rate of above 70% as a very high response leads to yielding

favorable results from the data analysis. Based on this argument, the present study argues out that it would be good, favorable and accurate results.

The actual responses per category are shown in table 4.2.

**Table 4.2: Analysis by Count of Response Rate**

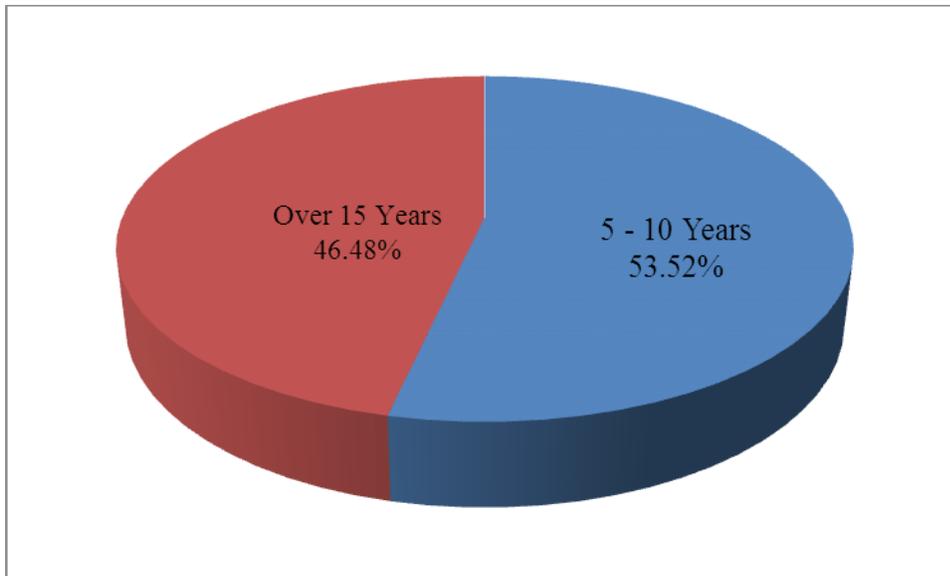
<b>Category</b>	<b>First Community Bank</b>	<b>Gulf African Bank</b>	<b>Sample Population</b>	<b>Response</b>	<b>Response Rate</b>
Branch Manager	2	2	4	2	50.00
Sales Manager	5	4	9	5	55.56
Customer Care Manager	2	2	4	2	50.00
Marketing Manager	3	3	6	2	33.33
Sales and Marketing Staff	23	16	39	36	92.31
Front Office staff	14	11	25	24	96.00
<b>Total</b>	<b>49</b>	<b>36</b>	<b>85</b>	<b>71</b>	<b>83.53</b>

From the results in Table 4.2, it can be found that the response rate was 71 elements, which exceeded 30 subjects and according to Kombo and Tromp (2006) a descriptive survey requires a sample size should of at least 30 elements. In that the study response was 71, well above the threshold of 30, then study would yield viable results.

### **4.3 Respondents' Demographics Characteristics**

The study requested the respondents to indicate the period the bank had been operational Kenya as the results captured in Figure 4.2. The period of time (in years) was classified into the periods; 1 to 5 years, 6 to 10 years, 11 to 15 years, and over 16.

**Figure 4.2: Analysis by Period of Operation**



From figure 4.2, a majority of 53.52% showed that their banks had been in operation for over 15 years. The rest (46.48%) showed that their banks had been in operation for between 5 and 10 years.

#### 4.4 Descriptive Analysis

The study analyzed the results from the questionnaire based on the status of the growth of client base (dependent variable) and the study objectives (representing the effect of independent variables on dependent variable). The questionnaire questions were measured using the 5 point liker scale (0 – 4). The scale was; strongly Disagree = 0: Disagree= 1: Neutral = 2: Agree =3: Strongly Agree = 4 for measuring both Dependent Variable (DV) and the independent variables (IVs). The study further obtained a mean for each indicator for each variable (both DV and IVs) and another mean the respective variable.

The study obtained the mean and standard deviation (Std. Dev.) for each indicator of a study variable as well as overall mean of the variables representing each variable. For ease of interpretation, the study moderated the mean using the statistics; 0 – 0.8 for Strongly Disagree;

above 0.8 – 1.6 for Disagree; above 1.6 – 2.4 for Neutral; above 2.4 – 3.2 for Agree; and above 3.2 – 4.0 for Strongly Agree. During interpretation, Strongly Disagree was translated to mean Not at all; Disagree indicated low; Neutral showed Moderate; Agree indicated high; and Strongly Agree was understood as Very High.

#### 4.4.1 Status of Growth of Client Base of IB

The study sought to establish the growth of client base of Kenya IB of the two fully fledged Islamic Banks in Nairobi. As earlier mentioned, the study obtained the mean for each indicators of growth of client base and an overall mean for growth of client base. The results obtained were recorded in Table 4.3.

Table 4.3: Analysis by Growth of Client Base

<b>Growth of Client Base Indicator</b>	<b>Mean</b>	<b>Std. Dev</b>
There has been increasing number of new customers an indication of growth of clients	2.76	1.10
Our bank has been experiencing tremendous increase of bank branches due to growth of clients	1.56	1.04
Growth of clients has led to increase in bank accounts in our banks	2.30	1.07
The growth of client base in our bank has contributed the retention of existing clients in our bank	2.12	1.13
Financial position of the bank has been growing every year due to growth of client base	1.48	0.98
Growth of clients has been leading to increase in Profit made by the banks	1.28	1.07
<b>Growth of Client Base</b>	<b>1.92</b>	<b>1.07</b>

The results in table 4.3 showed the respondents indicated they there had been significant (mean = 2.75, Std. Dev. 1.10) increase in number of new customers in their banks, who were seeking for IB. The respondents indicated their bank were not experiencing tremendous increase of bank branches due to growth of clients (Mean = 1.56, Std Dev. 1.04) and the Growth of clients moderately (mean 2.30, Std. Dev 1.07) led to increase in bank accounts in their banks. According

to the respondents, the growth of client base in our bank has moderately (mean = 2.12, Std. Dev. 1.13) contributed the retention of existing clients in our bank. as the respondents showed that financial position of the bank had not been growing every year due to growth of client base (mean = 1.48, std. dev. = 0.98)., they also showed that growth of clients had not been leading to increase in profit made by the banks (mean = 1.28, std. dev. = 1.07). The growth of client base in IB was shown to moderate (mean = 1.92, Std. Dev. 1.07).

#### 4.4.3 Shari’ah Compliance and Growth of Client Base of IB

The study first objective; to establish the extent to which Shari’ah compliance influences the growth of Islamic Banking in Kenya, and results obtained were recorded in Table 4.4.

**Table 4.4: Influence of Shari’ah Compliance**

<b>Shari’ah Compliance Indicator</b>	<b>Mean</b>	<b>Std. Dev</b>
Lack of interest (Riba) on credit attracts new clients to the bank	1.75	1.04
The presence of Shari’ah Supervisory Board to supervise banking operations attract clients to bank with our bank	2.14	1.11
Customers are attracted because the bank run on Islamic principles	1.48	1.00
The presence of good Shari’ah Governance has an influence on the attraction of clients	2.04	1.15
Knowledge and experience of staff on Islamic finance principles help in attracting and retaining clients	2.15	1.19
<b>Shari’ah Compliance</b>	<b>1.91</b>	<b>1.10</b>

The results in Table 4.4 show the respondents indicated that Lack of interest (Riba) on credit moderately attracted new clients to the bank (mean = 1.75, Std. Dev. = 1.04). It was also shown that the respondents indicated that the supervision of banking operations by the Shari’ah Supervisory Board moderately attracted the clients to Islamic banks (mean = 2.14, Std. Dev. = 1.11). In the same results, the respondents showed that customers were not attracted to fully fledged IB because the bank ran on Islamic principles (mean = 1.48, Std. Dev. = 1.00) and that

the availability of good Shari’ah Governance had a moderate influence on the attraction of clients (mean = 2.04, Std. Dev. = 1.15). From these results it was shown that Knowledge and experience of staff on Islamic finance principles moderately helped in attracting and retaining clients mean = 2.15, Std. Dev, = 1.19). The Shari’ah compliance was found to moderately influence the growth of Islamic Banking in Kenya (mean = 1.91, Std. Deviation = 1.10).

#### 4.4.3 Financing Options and Growth of Client Base of IB

The study assed the second objective; determine the extent to which financing options influences the growth of client Islamic Banking in Kenya, and results obtained captured in Table 4.5.

**Table 4.5: Influence of Financing Options**

<b>Financing Options Indicator</b>	<b>Mean</b>	<b>Std. Dev</b>
The Profit and Loss Sharing (PLS) principle (mudharabah) creates a clear engagement among the bank and clients leading growth of client base	1.87	1.01
The clients are attracted to IB because of Islamic partnerships (Murabaha)	2.44	1.08
New and existing customers are attracted by joint venture (Musharakah)	2.48	1.11
Clients are attracted by leasing contract (Ijarah ) whereby Islamic bank leases an asset for a specific rent and period to the client	2.15	1.22
The principle of interest free lending and availability of credit causes attracts clients to IB leading to increase in client base	2.44	0.93
<b>Financing Options</b>	<b>2.28</b>	<b>1.07</b>

From the results in table 4.5, the respondents indicated that the profit and loss sharing (PLS) principle (mudharabah) creates some clear engagement among the bank and clients that moderately lead to growth of client base (mean = 1.87, Std. Dev. = 1.01). The respondents indicated that the clients were highly attracted to IB because of Islamic partnerships (Murabaha) (mean = 2.44, Std. Dev. = 1.08). From these results, the respondents showed that New and

existing customers were highly attracted by joint venture (Musharakah) option in the IB (mean = 2.48, Std. Dev. = 1.11) and The principle of interest free lending and availability of credit causes highly attracted clients to IB leading to increase in client base (mean = 2.44, Std. Deviation = 0.93) as well. The respondents indicated that clients were moderately (mean = 2.15, Std. Dev. = 1.22) attracted by leasing contract (Ijarah) whereby Islamic bank leases an asset for a specific rent and period to the client. On overall, the respondents showed that financing options moderately influenced the growth of Islamic Banking in Kenya (mean = 2.28, Std. Deviation = 1.07).

#### 4.4.4 Customer Satisfaction and Growth of Client Base of IB

The study analyzed the results on influence of customer satisfaction on growth of Islamic Banking in Kenya in its effort to assess the third objective; to determine the extent to which customer satisfaction influences the growth of Islamic Banking in Kenya. The results were captured in Table 4.6.

**Table 4.6: Influence of Customer Satisfaction**

<b>Customer Satisfaction Indicator</b>	<b>Mean</b>	<b>Std. Dev</b>
Clients value personal relationship and service without discrimination towards clients attracts clients growth of client base in our bank	2.10	1.12
Reliability of banking service such as ATM, internet banking and Mobile banking greatly contribute to growth client base in our bank	2.65	0.86
The client base in our bank grow owing to the Social corporate responsibility form the bank that gives a good picture to the current and prospective clients	2.01	1.04

The high rate of product of service innovation help in the growth of clients in our bank	1.48	0.98
<b>Customer Satisfaction</b>	<b>2.06</b>	<b>1.00</b>

The results in table 4.6 show the respondents indicating that clients valued personal relationship and service without discrimination moderately attracted clients meaning that they moderately led to growth of client base in IB of Kenya (mean = 2.10, Std. Dev. = 1.12). the respondents indicated that reliability of banking service such as ATM, internet banking and mobile banking greatly contributed to growth client base in our bank (mean = 2.65, Std. Dev. = 0.86). These results obtained showed the respondents indicated that the client base in IB grew moderately owing to the social corporate responsibility form the bank that gave a good picture to the current and prospective clients (mean = 2.01, std. dev. = 1.04) and there was no high rate of product of service innovation hindered the growth of clients in our bank (mean = 1.48, std. dev. = 0.98). It was show that customer satisfaction moderately influenced the growth of Islamic Banking in Kenya (mean = 2.06, Std. Deviation = 1.00).

#### **4.4.5 Influence of Product Quality on Growth of Client Base of IB**

The product quality influence on Islamic Banking in Kenya was analyzed in an effort to assess the third objective; establish the extent to which product quality influence the growth of Islamic Banking in Kenya and the results were recorded in Table 4.7.

**Table 4.7: Influence of Product Quality**

<b>Product Quality Indicator</b>	<b>Mean</b>	<b>Std. Dev</b>
Cost and benefit of product offered (products prices and rate of return of the investment) pleases clients and accelerates growth of client base	2.37	1.13
Service quality of the quality (fast/efficient banking service and friendliness of the bank's staff) enhances growth of client base	2.12	1.13
The bank offers a range of services (Facilities provided by their banks) which ensure growth of client base	1.49	0.89
Service Delivery influences the choice of clients and attracts new customers	2.06	1.10
The bank deals with products that are accepted by Islamic Law Only (Halal) which highly attracts new clients.	1.58	1.01
<b>Product Quality</b>	<b>1.92</b>	<b>1.05</b>

The results in table 4.7 show the respondents indicated that cost and benefit of product offered (products prices and rate of return of the investment) moderately pleased clients and therefore moderately accelerated growth of client base (mean = 2.37, Std. Dev. = 1.13). The respondents indicated that service quality of the quality (fast speed, efficient banking service and friendliness of the bank's staff) moderately enhanced growth of client base (mean = 2.12, Std. Dev. = 1.13). From these results, the respondents showed that the bank range of services (facilities provided by their banks) never ensured growth of client base (mean = 1.49, Std. Dev. = 0.89) and service delivery influence the choice of clients which moderately attracted new customers (mean = 2.06, Std. Dev. = 1.10). The respondents indicated that the bank deals with products that were accepted by Islamic law only (Halal) which did attract new clients (mean = 1.58, Std. Dev. = 1.01). On overall, the respondents showed that product quality moderately influenced the growth of Islamic Banking in Kenya (mean = 1.92, Std. Dev. = 1.05).

## 4.5 Inferential Analysis

The study sought to a study model that would explain the dependent variables in terms of the predictors (independent variables). First the study sough the tested for existence of significant relationship between the Independent Variables (IV) and the Dependent Variable (DV) at 0,05 level of significance. A mean of means was obtained from all the indicator of each variable to get the index for that variable in an effort to obtain all the independent variables and the dependent variable. To achieve this, the study used the mean of mean to obtain indices for all the variables. Then the study for existence of multi-collinearity between the independent variables. A correlation tests was carried to establish existence of this relationship. Lastly, multiple regressions were carried out to estimate a model that would explain dependent variable in terms of independent variables.

### 4.5.1 Diagnostic Tests on Independent Variables

The study first tested for existence of multi-collinearity between the independent variables. This was in order to ensure that no independent variable in the model that was measuring the same relationship as was measured by another variable or group of variables in that model. Multi-collinearity exists when Variance Inflation Factor (VIF) is greater than 10 and Tolerance is less than 0.1. The results obtained were captured in Table 4.8.

**Table 4.8: Multi-Collinearity Tests on Independent variables**

Collinearity Statistics		
Variable	Tolerance	VIF

Financing Options	.727	1.375
Shari'ah Compliance	.660	1.516
Customer Satisfaction	.635	1.576
Product Quality	.830	1.205

---

a. Dependent Variable: Growth of Islamic Banking in Kenya

The study interpreted the Multi-collinearity results in table 4.8 using the tolerance. From these results, the tolerance for; financing options was 0.727; Shari'ah compliance was 0.660; customer satisfaction was 0.635; and for product quality was 0.830. It can be observed that the tolerance for all predictor variables were greater than 0.1 or 10%. Since multi-collinearity occurs when the tolerance is less than 0.1, the study concluded that there was no multi-collinearity among the independent variables. This means that predictors were reliable to estimate the study model.

#### 4.5.2 Correlation Analysis

A correlation analysis was therefore carried out to establish whether there was any relationship that existed between the DV and the IVs. If a significant relationship exists between the DV and the IVs, then it is viable to estimate the study model. The correlational analysis was performed using the Pearson's product method at 0.05 level of significance and the results obtained were recorded in Table 4.9.

**Table 4.9: Correlation Results**

---

#### Correlations

		Growth of Islamic Banking in Kenya	Financing Options	Shari'ah Compliance	Customer Satisfaction	Product Quality
Growth of Islamic Banking in Kenya	Pearson Correlation	1	.595**	.653**	.627**	.568**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	71	71	71	71	71
Financing Options	Pearson Correlation	.595**	1	.446**	.432**	.317**
	Sig. (2-tailed)	.000		.000	.000	.007
	N	71	71	71	71	71
Shariah Compliance	Pearson Correlation	.653**	.446**	1	.530**	.273*
	Sig. (2-tailed)	.000	.000		.000	.021
	N	71	71	71	71	71
Customer Satisfaction	Pearson Correlation	.627**	.432**	.530**	1	.372**
	Sig. (2-tailed)	.000	.000	.000		.001
	N	71	71	71	71	71
Product Quality	Pearson Correlation	.568**	.317**	.273*	.372**	1
	Sig. (2-tailed)	.000	.007	.021	.001	
	N	71	71	71	71	71

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

The correlation analysis results in table 4.9 show that under the Pearson correlation at 95% level confidence (0.05 significance level), financing options ( $r = .595$ ,  $p\text{-value} = .000$ ) had a moderate significant relationship with growth of Islamic banking in Kenya, shariah compliance had a high significant relationship with growth of Islamic banking in Kenya ( $r = .653$   $p = .000$ ), customer satisfaction had a high significant relationship with growth of Islamic banking in Kenya ( $r = .$

627, p-value = .000), and product quality had a moderate significant relationship with growth of Islamic banking in Kenya (r = .568, p-value = .000). The p-values for each relationship was less than .05 (p < .05), which implies that there was a significant between each IV and the DV.

The result show that Shari’ah compliance had the highest significant relationship (r = .653), followed by customer satisfaction (r = .627), then financing options (r = .595) and lastly the product quality (r = .568). So, all the IVs; Shari’ah compliance, customer satisfaction, financing options and product quality were significantly related to Islamic banking in Kenya.

#### 4.5.2 Regression Analysis

The study carried out a multiple regression analysis to establish the nature of the relationship. In determining the establishing the model for predicting DV in terms of IVs, the study used linear regression analysis based on the model;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots\dots\dots (ii)$$

Where;

Y = Growth of client base

X<sub>1</sub> = Shari’ah compliance

X<sub>2</sub> = financing options

X<sub>3</sub> = customer satisfaction

X<sub>4</sub> = product quality

β<sub>0</sub> is a constant (which is the value of dependent variable when all the independent variables are 0).

β<sub>1-4</sub> is the regression coefficients or change induced by X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>

e = error term

The study obtained an Analysis of Variance (ANOVA) estimate the model fitness, and the results were captured in Table 4.10.

**Table 4.10: ANOVA for Growth of Islamic Banking in Kenya**

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.632	4	3.908	36.187	.000 <sup>b</sup>
Residual	7.127	66	.108		
Total	22.759	70			

a. Dependent Variable: Growth of Islamic Banking in Kenya

b. Predictors: (Constant), Product Quality, Shari’ah Compliance, Financing Options, Customer Satisfaction Source:

The study generated a hypothesis from table 4.10 to test the model of fitness of fit;

$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$  (i.e., the coefficient of  $X_1, X_2, X_3,$  and  $X_4$  are all zero)

$H_a$ : At least one  $\beta_i \neq 0$

$H_0$  is accepted if p-value  $>.05$  (at 5% level of significance)

$H_0$  is reject and  $H_a$ : is accepted if p-value  $\leq .05$  (at 5% level of significance).

Table 14 shows that p-value was .000. Since p-value  $<.000 < .05$  ( $F=36.187, P\text{-value}=.000$ ), then the null hypothesis is rejected and the alternative hypothesis accepted. So, at the 5% significance level (i.e.  $\alpha=0.05$ , level of significance), there exists enough evidence to conclude that at least one of the predictors; ; Shari’ah compliance , customer satisfaction, financing options and product quality, is useful in predicting Growth of client base in Kenyan IB. Therefore the model is useful in explaining Growth of client base in Kenyan IB in Kenya. These findings provided

enough evidence for the IVs to be regressed against the DV to estimate the study model. After regressing the result obtained were capture in Table 4.11.

Table 4.11: Regression Results of DV against Predictor Variables

	<b>Coefficients</b>				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.291	.198		-1.471	.046
Financing Options	.233	.076	.248	3.070	.003
Shari’ah Compliance	.278	.070	.338	3.989	.000
Customer Satisfaction	.249	.096	.223	2.585	.012
Product Quality	.329	.079	.314	4.152	.000

a. Dependent Variable: Growth of Islamic Banking in Kenya

The results in Table 4.11 show that the p-value for financing options is .003 that of Shari’ah compliance is .000, for customer satisfaction is .012 and product quality is .000. since the p-value for each predictor variable was less than 0.05, there is an clear indication that there was a significant relationship between each independent variable (Shari’ah compliance, financing options, customer satisfaction, and product quality) and the dependent variable; growth of Islamic Banking in Kenya. This is to say that all the predictor variable; Shari’ah compliance, customer satisfaction, financing options and product quality could estimate the DV, growth of Islamic Banking in Kenya.

The coefficient for internal Shari’ah compliance is .278, financing options was .233, customer satisfaction was .249, and product quality was .329. The estimated model was therefore fitted as;

$$Y = -.291 + .278X_1 + .233X_2 + .249X_3 + .329X_4 + \varepsilon \dots\dots\dots(iii)$$

Table 4.11 shows that Shari’ah compliance; financing options, customer satisfaction, and product quality have positive coefficients. This implies that the IVs are directly proportional to the growth of Islamic Banking in Kenya. So, an increase in any of these variables; Shari’ah compliance, financing options, customer satisfaction, and product quality leads to an increase in growth of Islamic Banking in Kenya and vice versa.

The study then produced a model summary which was captured in table 4.12.

Table 4. 12: Model Summary for Growth of Islamic Banking in Kenya

<b>Model Summary</b>			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.829 <sup>a</sup>	.687	.668	.32862

a. Predictors: (Constant), Product Quality, Shari’ah Compliance, Financing Options, Customer Satisfaction

The results in table 4.12 shows the coefficient of determination was .668, an indication that 66.80% of changes in growth of Islamic Banking in Kenya for fully pledged IBs is explained by Shari’ah compliance, financing options, customer satisfaction, and product quality. Therefore, all the variable; Shari’ah compliance, financing options, customer satisfaction, and product quality are strong determinants of growth of Islamic Banking in Kenya.

In conclusion, the inferential statistics showed that the dependent variable, growth of Islamic Banking in Kenya was explained by Shari’ah compliance, financing options, customer satisfaction, and product quality. Therefore internal Shari’ah compliance, financing options, customer satisfaction, and product quality are predictors of growth of Islamic Banking in Kenya.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides the summary of findings, conclusions from the study findings as well as the recommendations from the findings and based on the study objectives, to; establish the extent

to which Shari'ah compliance influences the growth of Islamic Banking in Kenya; determine the extent to which financing options influences the growth of Islamic Banking in Kenya; determine the extent to which customer satisfaction influences the growth of Islamic Banking in Kenya; and establish the extent to which product quality influence the growth of Islamic Banking in Kenya

## **5.2 Summary of Findings**

This section is simply a summary of findings from the results obtained and interpreted for the results and discussions.

### **5.2.1 Findings on Status of Growth of Client Base of IB in Kenya**

The study found the generally, the growth of client base in IB in Kenyan fully pledged Islamic banks is moderate. However, the number of new customers seeking for IB in their banks increased significantly. It was found that there was not experiencing tremendous increase of bank branches due to growth of clients and the Growth of clients moderately led to increase in bank accounts in their banks. This is to say that the expansion of the banking infrastructure was highly influenced by the growing clientele. The growth of client base was found to moderately contribute to the retention of existing clients in IBs. Surprisingly, the financial position of these bank was found not to be growing due to growth of client base as it was also found that growth of clients did not substantially lead to increase in profit made by the banks. So the IB did not experience financial gain out the increase clientele.

### **5.2.2 Findings on Shari'ah Compliance and Growth of Client Base of IB**

The study found Shari'ah compliance moderately influenced the growth of Islamic Banking in Kenya. As observed from the study findings, zero application interest (Riba) on credit moderately attracted new clients to the bank. It found that the supervision of banking operations by the Shari'ah Supervisory Board moderately attracted the clients to Islamic banks and availability of good Shari'ah Governance had a moderate influence on the attraction of clients as well. However, it was found that the presence of Islamic principles did not influence the attraction of clients. Knowledge and experience of staff on Islamic finance principles was found to moderately help in attracting and retaining clients.

### **5.2.3 Findings on Financing Options and Growth of Client Base of IB**

The study found out that financing options moderately influenced the growth of Islamic Banking in Kenya. Among the factors of financing options, PLS principle (mudharabah) creates some clear engagement among the bank and clients that moderately lead to growth of client base. It was found that the clients were highly attracted to IB because of Islamic partnerships (Murabaha) and the new as well as existing customers were highly attracted by joint venture (Musharakah) option. The study also found that the principle of interest free lending and availability of credit causes highly attracted clients to IB leading to increase in client base and clients were moderately attracted by leasing contract (Ijarah) whereby Islamic bank leases an asset for a specific rent and period to the client.

### **5.2.4 Customer Satisfaction and Growth of Client Base of IB**

The study found that customer satisfaction moderately influenced the growth of Islamic Banking in Kenya. It was found that clients valued personal relationship and service without discrimination and this moderately attracted clients meaning that they moderately led to growth

of client base in IB of Kenya. The reliability of banking service such as ATM, internet banking and mobile banking was found to greatly contribute to growth client base in fully pledged Islamic bank in Kenya. These study findings show that the client base in IB grew moderately owing to the social corporate responsibility form the bank that gave a good picture to the current and prospective clients. However, there was no high rate of product of service innovation hindered the growth of clients in our bank.

### **5.2.5 Influence of Product Quality on Growth of Client Base of IB**

It was found that the product quality moderately influenced the growth of Islamic Banking in Kenya, where cost and benefit of product offered (products prices and rate of return of the investment) pleased clients and therefore moderately accelerated growth of client base. The study found that service quality of the products (fast speed, efficient banking service and friendliness of the bank's staff) moderately enhanced growth of client base as the bank range of services (facilities provided by their banks) never ensured growth of client base. It was further found that the service delivery influence the choice of clients which moderately attracted new customers. The bank dealt with products and were accepted by Islamic law only (Halal) were found to attract new clients.

### **5.2.6 Findings on Inferential Analysis**

The study found that at 0.05, level of significance, there exists enough evidence to conclude that; Shari'ah compliance, customer satisfaction, financing options and product quality are useful in predicting Growth of client base in Kenyan IB. It was found that 66.80% of change in growth of Islamic Banking in Kenya for fully pledged IBs is explained by Shari'ah compliance, financing options, customer satisfaction, and product quality. Therefore, all the variable; Shari'ah

compliance, financing options, customer satisfaction, and product quality are strong determinants of growth of Islamic Banking in Kenya.

### **5.3 Discussions**

This section is a discussion from the results obtained in the study.

#### **5.3.1 Discussions on Status of Growth of Client Base of IB**

The study established that the respondents indicated that the IB experienced huge numbers registering as new customers as suggested by FCB (2013) and Mwangi (2014) and indicated. According to FCB (2013), the First Community Bank had made great strides of opening more than many accounts with deposit growing exorbitantly in the short span of time of its existence. They had indicated that IB has extended its tentacles to also serve all Kenyan clients irrespective of their religious backgrounds, where almost a quarter of its client base comprises of non-Muslim Kenyans. Mwangi (2014) indicated that in Kenya, IB had been able to reach a considerable client base offering same products as CB, posing a threat to the commercial banks. So it not clear how far this outreach extends.

The findings were also in support of the study by Bashir (2014) study. The study by Bashir (2014) concludes that the presence of IB in Kenya during its short span of operation in the country has increased competition for clients in the financial markets and also the opportunity of bringing the unbanked to the banking halls.

However, the study established that that there was no substantial increase in branches and banks. The cause of this may be attributed to the religious affiliation of these banks as Aden (2014)

noted. Aden (2014) study concludes that clients just heard of Islamic banking and financial products with some of them being very knowledgeable about them and the religious affiliation was the main reason for choice of IB and financial services for Islamic users. The perception here is that the banks were concentrated in some area, the area considered to be having large Muslim communities residing or operating from. With such a consideration, the banks would largely serve such religious community because of their Islamic faith and IB serves based on the Islamic principles.

The study found out that there was moderate retention of the existing customers, which concurs to the findings in the study by Kinyanjui (2013). These study by Kinyanjui (2013) concludes that a significant number of customers have been withdrawing from IB due to the Islamic bank failure to provide clients' expectations. The withdrawing customers are driven by the expected higher interest payments earned from CB as opposed to profit sharing in IB, since the level of confidence drives such clients in the market place. This was earlier ascertained by GIFR (2010), First Community Bank (2013). This also explains as the cause of the growth of client base in fully pledged IB as being moderate (Osman & Ismail, 2009).

The financial position and profit generation were found to be low or insignificant. This status of affairs may be attributable to the nature of operations and the investment strategy used by IB. According to GIFR (2010), the IB is implementing the main Shari'ah contracts of financing their businesses. These options are based the Musharaka contracts, Murabaha contracts, and Mudaraba contracts and are mainly intended to meet all the financing needs of their clients without much emphasis on the profitability. Accordingly most CBs are also providing IB lending instruments as

Guyo & Adan (2013) established. The study by Guyo & Adan (2013) found that dual banking environment in Kenya CB was due to the fact that customers of Islamic banks viewed the industry much more favorably by the social and ethical goals that it serves, rather than the mechanics of its operationalization and functions. This takes away most of the businesses of the fully pledged IB

### **5.3.2 Discussions on Shari'ah Compliance and Growth of Client base of IB**

The current study found that by Shari'ah compliance moderately influenced the growth of Islamic Banking in Kenya, which could be understood from the findings in the study by Marimuthu *et al.* (2010). Marimuthu *et al.* (2010) study found it was clear that the decision to adopt IBs was purely based on the Shari'ah compliancy of the IB products. Locally, the study by Oundo (2009) further explains this status of affairs. Oundo (2009) study revealed that many mainstream banking clients who demand Shari'ah-compliant products from IB were the many poor people and the poor micro-entrepreneurs had no option of Islamic Microfinance products. So the due to lack of options, most clients accessed loans from the available institutions as a coping strategy.

The presence of the Shari'ah board and good Shari'ah Governance each moderately influenced growth of client base in Islamic bank. According to Kadubo (2010) IBs have sharia board and the bank products being offered must be approved by the board. The Shari'ah compliance is influenced by Shari'ah board that is running the regulatory framework would yield enticing Islamic compliant products. When the products are not conductively Shari'ah compliant then clients are not driven by Shari'ah compliance of such products, making such products not highly attracted. Further Kadubo (2010) explains that the Muslim religious leaders play a critical role in

wooing and encouraging a great number of faithful followers to be clients for Islamic banks as they confirmed to their followers that IB was Shari'ah compliancy. This means that a lapse in the participation of the leaders towards promoting the IB, then the consumption of IB products would low. So, the situation in Kenyan IB may be due to the low participation by the Muslim leaders to encouraging their congregants to associating themselves with fully pledged IBs.

The Knowledge and experience of staff on Islamic finance principles moderately helped in attracting and retaining clients. The cause of failing to reach high client attraction and retention may be attributed to fewer staff with an understanding go IB. according to Guyo and Aden (2013), Islamic banking is complex, even more than traditional banking, in that products must conform not only to the secular laws of a country but also to interpretations of the holy Qur'an by local Islamic scholars. Guyo and Adan (2013) explain a central tenet of Sharia is riba, the prohibition of interest, moreover, Islamic law does not permit use of funds for investments or purchases related to activities it deems impermissible (haram), such as alcohol consumption or gambling. It may be realized that only a few people may be will to concentrate on acquiring this massive knowledge and experience to be able to serve effectively in IB

Customers were not attracted to IB because the bank ran on Islamic principles. This may be due to the fact that only Muslims account for less than 18% of the Kenyan population and the Islamic banking principles required more knowledge than available in CB. Ahmad (2008) notes that the global proliferation of IB has significantly changed the banking principles and the borrowing terms of the banking industry. As IB permit trading activates, it prohibits interest, since it is based on Shari'ah Law, which bans interest [riba] (Kammer et al., 2015). Further IB prohibits; exploitation of ignorance (jahl) and uncertainty or speculation (gharar). To ensure this IB uses

physical tangible assets as the basis for undertaking a business transaction (Aden, 2014), in which case money is not a factor of production. This is to say that according to IB money cannot be used to make money. IB uses Islamic modes such as Murabaha, Salam, Istisna'a and Ijarah to provide a link between financial transactions and real economic activities, such as trading in tangible assets (Aden, 2014). The ignorance in Islamic banking principles might be hindrance into appreciating and consuming the IB products.

### **5.3.3 Discussions on Financing Options and Growth of Client Base of IB**

The profit and loss sharing (PLS) principle (mudharabah), joint venture principle and interest free lending and availability of credit were found to be one of the main principles that highly attracted clients and play a major role in growth of client base. Profit is the ultimate goal of commercial banks hence all the strategies designed and activities performed thereof are meant to realize this grand objective. According to Guyo and Adan (2013) certain financing options such as; availability of credit, competitive interest rates, friendliness of bank staffs, service charges, adequate banking hours, availability of ATM, special services and the quality of services of checking accounts as influencing their decisions to banks with Islamic banks. This was later acknowledged by Aden (2014) study, which found that when clients just heard of IB products financing options, with some of them being very knowledgeable about them, they immediately made their decisions to become depositors of these banks. So, clients usually consider financing options such as; cheap products offered, convenience of Islamic banks location, high levels of confidentiality, financial advice, and service delivery as their main reason to bank with IBs.

This is also emphasized by Laldin (2011) study, which concludes that flexible financing options in IB are key players in attracting clients. The study established that products offered by these banks used Shari'ah contracts such as; Murabaha, Mudharabah, Musharakah, Ijarah, Qardhul

Hasan, IjarahThumma Al-Bai' and Istisna'. These contracts meet and satisfy the needs of a wide range of customers and that is why clients are driven by the IBs financing options leading to the growth client base. The findings in the present suggest that even non-Muslims are partakers on IB products and are therefore customers to IBs as revealed by Thambiah *et al.* (2010) that IB attract customers who are non-Muslims. Khan *et al.* (2010) also found that IBs attracted both Muslim and non-Muslim customers, actively accommodating both clients set to ensure that they obtained competitive advantages because they need to have a pool of customer base.

However, the financing options, in general, moderately influenced the growth of Islamic Banking in Kenya, which confirms the findings in the study by Sheikh *et al.* (2010), which revealed that clients of banks were satisfied with the facilities provided by their banks. This may be the reason that most client may opt to seek serviced from CB rather than IBs. The findings in the study proved that economic benefits, financial position of banks, interest on deposits, strong global image and network reputation were the factors that were motivating customers towards CBs as opposed to IBs.

#### **5.3.4 Discussions on Customer Satisfaction and Growth of Client Base of IB**

The present study found that reliability of banking service highly attracted the, since it provided them with satisfaction as established by Solomon *et al.* (2004) that the feeling or attitude of a consumer toward a product/service after it has been used determines satisfaction and a consumer will repeat the purchase of the product and convey positive messages about it to others while in contrast, a dissatisfied consumer is more likely to switch to an alternative product or service the next time he or she recognises the same need (Dispensa, 2009). According to Janmohmed *et al.*

(2011), the client's dissatisfaction will be reflected in a negative word of mouth which might have a serious damaging effect on the business. It is therefore crucial that IBs to ensure customer satisfaction for their products and services leading to the increasing popularity of measuring customer satisfaction in recent years. The results in the present study are a confirmation of satisfaction with IB products as meeting customer expectations and is generally related to habitual usage of products

The findings in the present study also confirm the study by Kadubo (2010) which found that customers were motivated by; offering product and services that meet their needs, reduced borrowing cost, minimum requirements to open an account and service efficiency. The provision of customer oriented products led to customer satisfaction and at the end won a great number of customers. The study by Alafi (2010) revealed that by building strong relationship with customers the IBs would help reduce customer turnover and increase profitability, where customer satisfaction positively influenced growth of client base through customer retention and reduced customer turnover. The study by Hasonah *et al.* (2012) also established that IB increased emphasis on customer satisfaction highly improve loyalty and hence client base growth. Thus, according to Abdlbest *et al* (2011), greater customer satisfaction leads to increased growth of client base in IB (Guyo & Adan, 2013; Ahmad, 2010).

The customer satisfaction was found to moderately attract growth of client base. Hassan (2007) study found the customers' perception towards Islamic by examining; knowledge, socio-religious context, Shari'ah compliances, and willingness to deal with Islamic banks, and quality and attractiveness of offerings highly influenced clients satisfaction towards products and services of Islamic banks. The Kenyan case may be attributed to the fact that people with clear appreciation

of Islamic religious related matters are very few. So, a few people may be willing to deal with IBs and therefore most prospective customer opts to turn to CB.

### **5.3.5 Discussions on Influence of Product Quality on Growth of Client Base of IB**

The present study found that service delivery moderately influenced the growth of client base, a confirmation of the findings in the study by Alafi and AL-Fawaer (2013), which revealed that superior service quality greatly attracted customers towards using Islamic banks products. This is an indication that the IBs in Kenya were moderately meeting the perceptions of their customers and they were communicating to the customer the performance of service. Offering high quality products/services is intended to satisfy existing and prospective customers. Osman and Ismail (2009) conclude that superior service, prices, relationship quality satisfy clients of banks as it encourages growth of the client base.

Basically, product quality was found to moderately influence the growth of Islamic Banking in Kenya as argued out by Kadubo (2010) study that the product quality and service delivery are the most important factors to attracting clients. Amin *et al.* (2011) also found that differentiated products are a prime step towards attracting more clients and retaining existing ones and supported in study by Taib *et al.* (2008). Ahmad and Dent (2011) found that drive to customer satisfaction was ultimately brand quality. Sheikh *et al.*, (2010) also established that client base growth in IB banks was influenced by service quality.

## **5.4 Conclusions**

The study established that the growth of client base in IB in Kenyan fully pledged Islamic banks is moderate as was this was characterized by significant increase in number of new customers,

moderate increase of bank branches, increase in bank accounts in their banks, retention of existing clients in IBs, financial position and profitability.

The study concludes that Shari'ah compliance moderately influences the growth of Islamic Banking in Kenya. The factor of Shari'ah compliance influencing growth of Islamic Banking in Kenya include; no application interest (Riba) on credit that moderate influence, supervision of banking operations by the Shari'ah Supervisory Board with moderate influence, good Shari'ah Governance that has moderate influence and Knowledge and experience of staff on Islamic finance principles which also has moderate influence on the growth of Islamic Banking in Kenya.

The study concludes that financing options moderately influenced the growth of Islamic Banking in Kenya. The indicators of financing options are, PLS principle (mudharabah) creates some clear engagement among the bank and clients that had moderate influence; Islamic partnerships (Murabaha) which has high influence; and joint venture (Musharakah) option that has high influence. The principle of interest free lending and availability of credit causes that has high influence and leasing contract (Ijarah) whereby Islamic bank leases an asset for a specific rent and period to the client which has moderate influence.

The study concludes that customer satisfaction moderately influences the growth of Islamic Banking in Kenya. This enhanced by clients valuing personal relationship and obtaining service without discrimination, which moderately attracts clients. The reliability of banking service such as ATM, internet banking and mobile banking greatly contributes to growth client base in fully pledged Islamic bank in Kenya. The social corporate responsibility gives a good picture to the

current and prospective clients and high rate of product of service innovation clears the way for the growth of clients in our bank.

The study concludes that product quality moderately influences the growth of Islamic Banking in Kenya. This relies on the cost and benefit of product offered which moderately accelerates growth of client base; service quality that moderately enhances growth of client base; range of services; service delivery which influences the clients moderately and products that are accepted by Islamic law only (Halal).

The study concludes that at 0.05, level of significance, Shari'ah compliance, financing options, customer satisfaction, and product quality are strong determinants of growth of Islamic Banking in Kenya and that 66.80% of change in growth of Islamic Banking in Kenya for fully pledged IBs is explained by Shari'ah compliance, financing options, customer satisfaction, and product quality.

## **5.5 Recommendations**

The study suggested policy recommendation and recommendation for further study.

### **5.5.1 Policy Recommendations on Research Findings**

The study recommends that first; the Islamic Bank in Kenya should fast track their promotion and build strategic in roads for the Shari'ah compliant product by laying more emphasis on training, advertising and establishing a firm legal framework to support these products. They should encourage their religious leaders to preach about the availability of banking system conforming to their faith. These religious leaders should be incorporated as key stakeholders in these banking institutions to provide information and even gain insights about IB. These

religious leaders should even undertake training in financial education as they prosper in IB. this would provide an opportunity for them to participate in the supervision of banking operations as well as being co-opted as Shari'ah Supervisory Board members. As far as achievable, these religious leaders should gain higher education level to compete with other key participants in the banking industry. The IBs should also provide adequate knowledge on Islamic finance principles to their staff as they also encourage training on the same in public colleges, universities and school offering business education. Where possible, they should seek to be allowed to train their fellow Muslim brethren on Islamic finance principles to enlarge the Islamic banking staff selection pool. The Islamic banking fraternity should push the legislative arm and the central bank of Kenya to enact statues for the operationalization of Islamic banking under the supervisions of the Shari'ah Supervisory Board. The IB should not be placed under the central bank statutory provision as it is as of today.

Secondly, the study recommends that the Islamic Banking fraternity in Kenya should create awareness to the general public of the financing options available in their banks. They should dispel fears that the banks are intended for a particular religious faith and instill confidence that the IBs are for all Kenyan citizen. They should as well clearly explain the (mudharabah) principle, the Islamic partnerships (Murabaha), the joint venture (Musharakah) option, principle of interest free lending and leasing contract (Ijarah). In the event of creating awareness, they should explain the benefits of these principles and contract from a common citizens perspective but not religiously.

Thirdly the study recommends that these IBs should review their services and products to a competitive level. They should be at par with the CBs and even be in the front. Their marketing and advertisement should not only be limited to the religious circles. Innovations should be on

their cover page of their strategic objective. The IBs should be in the forefront of corporate social responsibility. They should show the public that they care and are willing to give back to the society.

Lastly, the study recommends that the product quality should be above board. The IB should design and develop cost effective and beneficial product. The service delivery should be fast speed, efficient and friendliness and the entire product should according to Islamic law only (Halal).

### **5.5.2 Recommendations for Further Study**

First, since the present study relied on primary data, which entirely captured the respondents' opinions, the study proposes that other studies should be conducted to assess the factors influencing growth of client base in Kenya using secondary data.

Secondly, the study on relied on information from fully pledged Islamic banks in Kenya and even those situated in |Nairobi. Since other conventional banks are offering Shari'ah compliant products, the present suggests that further studies should be conducted to test establish the uptake of the Shari'ah compliant products in Kenyan banking sector.

Thirdly, the study established 66.80% of change in growth of Islamic Banking in Kenya is explained by Shari'ah compliance, financing options, customer satisfaction, and product quality.

So, further research be carried out to determine what other factors explain the remaining 33.20% of the growth of Islamic Banking in Kenya.

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## APPENDIX

### Appendix I: Letter to Respondents

**Ibrahim Abdikadir Adan**

**Adm: 14/01226**

KCA University

Main Campus,

**NAIROBI.**

Dear Respondent,

**RE: ACCEPTANCE LETTER**

I am a student at KCA University undertaking a Masters Degree in Finance. I have chosen your Organization to participate in this research to compare the difference or similarities in growth of client base of Islamic banking and conventional banking institutions in Kenya. Your responses will be used for the research purpose only and your identity treated with a lot of confidentiality.

Kindly respond sincerely to the issues in the questionnaire. Please read and answer the questions by ticking the correct answer (choice) to the questions given.

Thanking you in advance of your response.

Yours truly,

**Ibrahim Abdikadir Adan**

**Adm No.14/01226**

## Appendix II: Questionnaire

### FACTORS INFLUENCING GROWTH OF CLIENT BASE OF ISLAMIC BANKING IN KENYA

#### Instructions

Please answer the following questions as accurately as possible.

Tick the correct answer in the boxes provided against the questions where necessary.

Write brief answers where explanation is required.

You need not write your name on the questionnaire.

**Information will be treated with confidentiality.**

#### SECTION A: DEMOGRAPHIC CHARACTERISTICS

1. For how long has the bank been operational?

1 - 5 Years	
6 -10 Years	
11 - 15 Years	
Over 16 Years	

**SECTION B: GROWTH OF ISLAMIC BANKING IN KENYA**

2. Please indicate your level of agreement with the following statements. Tick  the correct answer in the space corresponding to the answer.

Scale: Strongly Disagree =0; Disagree = 1; Neither =2; Agree = 3; Strongly Agree = 4

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
(a)	There has been increasing number of new customers an indication of growth of clients					
(b)	Our bank has been experiencing tremendous increase of bank branches due to growth of clients					
(c)	Growth of clients has led to increase in bank accounts in our banks					
(d)	The growth of client base in our bank has contributed the retention of existing clients in our bank					
(e)	Financial position of the bank has been growing every year due to growth of client base					
(f)	Growth of clients has been leading to increase in Profit made by the banks					

**SECTION D: SHARIAH COMPLIANCE**

3. Please indicate your level of agreement with the following statements. Tick  the correct answer in the space corresponding to the answer.

Scale: Strongly Disagree =0; Disagree = 1; Neither =2; Agree = 3; Strongly Agree = 4

<b>Shari’ah Compliance Indicator</b>	0	1	2	3	4
Lack of interest (Riba) on credit attracts new clients to the bank					
The presence of Shari’ah Supervisory Board to supervise banking operations attract clients to bank with our bank					
Customers are attracted because the bank run on Islamic principles					
The presence of good Shari’ah Governance has an influence on the attraction of clients					
Knowledge and experience of staff on Islamic finance principles help in attracting and retaining clients					

## SECTION C: FINANCING OPTIONS

4. Please indicate your level of agreement with the following statements. Tick  the correct answer in the space corresponding to the answer.

Scale: Strongly Disagree =0; Disagree = 1; Neither =2; Agree = 3; Strongly Agree = 4

<b>Financing Options Indicator</b>	0	1	2	3	4
The Profit and Loss Sharing (PLS) principle (mudharabah) creates a clear engagement among the bank and clients leading growth of client base					
The clients are attracted to IB because of Islamic partnerships (Murabaha)					
New and existing customers are attracted by joint venture (Musharakah)					
Clients are attracted by leasing contract (Ijarah ) whereby Islamic bank leases an asset for a specific rent and period to the client					
The principle of interest free lending and availability of credit causes attracts clients to IB leading to increase in client base					

**SECTION E: CUSTOMER SATISFACTION**

5. Please indicate your level of agreement with the following statements. Tick  the correct answer in the space corresponding to the answer.

**Scale:** Strongly Disagree =0; Disagree = 1; Neither =2; Agree = 3; Strongly Agree = 4

<b>Customer Satisfaction Indicator</b>	0	1	2	3	4
Clients value personal relationship and service without discrimination towards clients attracts clients growth of client base in our bank					
Reliability of banking service such as ATM, internet banking and Mobile banking greatly contribute to growth client base in our bank					
The client base in our bank grow owing to the Social corporate responsibility form the bank that gives a good picture to the current and prospective clients					
The high rate of product of service innovation help in the growth of clients in our bank					

**SECTION F: PRODUCT QUALITY**

6. Please indicate your level of agreement with the following statements. Tick  the correct answer in the space corresponding to the answer.

**Scale:** Strongly Disagree =0; Disagree = 1; Neither =2; Agree = 3; Strongly Agree = 4

<b>Product Quality Indicator</b>	0	1	2	3	4
Cost and benefit of product offered (products prices and rate of return of the investment) pleases clients and accelerates growth of client base					
Service quality of the quality (fast/efficient banking service and friendliness of the bank’s staff) enhances growth of client base					
The bank offers a range of services (Facilities provided by their banks) which ensure growth of client base					
Service Delivery influences the choice of clients and attracts new customers					
The bank deals with products that are accepted by Islamic Law Only (Halal) which highly attracts new clients.					

*Thank you for your cooperation*



