

asset. Islamic financial institutions mostly rely on leasing, known as *Ijarah wa iqtina*, for meeting financing needs in the real estate, retail, industry and manufacturing sectors. Leasing enjoys strong support from Shari'ah scholars and bears a close resemblance to conventional leasing [13].

6.1.4 Bai Salam (advance payment) and bai istisna (procurement engagement)

Bai salam and bai istisna are forward sale contracts in which the seller pays in advance the price of goods that are to be delivered to him at a specified future date. Bai salam was widely practiced in the Arabian agricultural sector long before the dawn of Islam. These instruments are best suited to meet the financing needs of the farming and manufacturing industries in the Islamic economy. Shari'ah stipulates that the terms and conditions of bai salam and bai istisna contracts, such as price, quantity and quality of goods, should be clearly determined without involving any features of interest, *gharar* (speculation) or dubious sale [13].

6.2 Empirical Framework

Islamic banking generally referred to as interest free banking has been gaining popularity in the recent past. The main pillar of Islamic finance is prohibition of interest. Unlike conventional banking where interest is an integral part of the banking system, Islamic banking avoids interest in all bank transactions [24]. Elimination of interest in Islamic Banking does not mean zero-return on capital; rather Islam forbids a fixed predetermined return for a certain factor of production [1]. This study examined previous studies done on sharia compliance, religious perception, customer diversity and bank growth.

6.2.1 Sharia Compliance

While ban or prohibition of Interest (*riba*) seem to be more stressed by most scholars, it is important to note that prohibition of interest is just one of the defining features of Islamic banking. Researchers convene that Islamic banking generally precludes in strict sense recklessness or risks that are unnecessary also referred as *gharar*, exploitation of ignorance known as *jahl* and even gambling referred to as *maysir* [11]. Further its noted that Islamic banks are financial institutions that are there to provide support for economic activities that are ethically, morally and lawfully right [11]. To sum the assertions of these scholars, it is glaring that Islamic banking is one that is based on certain unique principles that vary from those of conventional banking. These unique principles are ones derived from axiom of justice and fairness and ones that are in harmony with the nature and reality of human beings. This unique system of banking is strictly founded and based on principles of sharia law which prohibits absolutely in any form, the receipt and or payment of any predetermined or guaranteed rate of returns, thereby shutting gates for the concept of usury or interest in financial dealings.

It seems at least possible for an Islamic bank to be organized along cooperative and in particular credit union lines and such a structure could be both beneficial and highly consistent with the principles of Islamic finance. Such a

structure would enhance mutuality in business dealing, as emphasized in Islamic jurisprudence, where obligations to various stakeholders have long been recognized [14]. There would be greater equality among the parties and more need to respect diverse interests, while risk sharing and the avoidance of predetermined returns would be at least as comprehensive.

It is true that the status of the shareholders in an Islamic bank is that of working partner, and the account holders' is that of the financier. This is the reason why the share of returns allocated to depositors is less than their share of the financing provided, and why depositors do not have voting power to select or instruct management; the depositors only supply the capital. However, there does not seem to be a reason why depositors have to have this limited role; a sort of equity position for depositors seems *prime facie* to be an acceptable basis for accruing returns to savings in Islamic banking [2]. Indeed, attempts have been made to establish credit unions operating on Islamic principles in Afghanistan.

Scholars have argued that much of what is currently represented as Islamic finance is based on dubious foundations because the purpose is to increase capital through financial intermediation, and for the benefit of a relatively small number of major shareholders [9]. Moreover, only a fully mutualist institution can clear the obstacles to financial intermediation posed by Islamic jurisprudence, such as prohibitions against *riba* and *gharar* (risk of uncertainty). The scholars have recommended that the solution is to make Islamic financial intermediaries truly mutual entities, in which returns are distributed as dividends on shares, and the charity implicit in Islamic lending drives the institution's quest for growth. The authors are not fully convinced by the most rigorous form of this argument, but the argument does point to the possibility of an Islamic bank being controlled by very narrow and possibly short-term interests [9].

6.2.2 Growth of Banks

According to conventional economics, saving is the excess of income over consumption expenditure [18]. Saving is intended to meet future consumption as well as to provide means for investment. As people save and forgo their current consumption, the 'sacrifice' must be rewarded by positive additional amount to their saving. The positive time value of money implies that the desire to get the additional amount, or simply profit seeking motive, is recognized as the main reason for saving in the conventional banking institutions. Consequently, saving is primarily determined by the rate of return on the saving. These institutions are preserved by the practice of rewarding interest on deposits.

Islam is, however, against any practices that provide excess in return of which no reward or equivalent counter-value is paid, better known as *riba*. In the banking context, since the 1960s the prohibition of interest (usury) has been one of the most discussed issues amongst Muslims. This is a consequence of both the perception that bank interest is *riba* and the prevailing nature of interest of the present world of banking system. Initially, contemporary Muslim scholars are different as to whether the prohibition of *riba* applies to modern bank's interest. Nonetheless, today there is a general consensus that interest on bank loans is considered as *riba*

and therefore strictly prohibited in Islam. The strict prohibition of interest in Islam is a result of its deep concern for the moral, social, and economic welfare of mankind. The prohibition of interest is followed by the encouragement of various trading and equity-based investment activities [25].

Any transactions or contracts under Islamic finance are not permissible once they involve ammunition, dealings in pork, gambling, pornography or any other products and services which are non-compliant with the principles and rules underlying the concept. They include avoidance of interest, greed and unfair exploitation, excessive speculation and uncertainty. Given this, financial services, products, contracts or transactions with Islamic banks must be structured to reflect these principles. Since its inception in Egypt in 1963 and sporadic progress in 1970s, Islamic banking has grown remarkably in size and number and since late 1980s and early 1990s, Islamic banking has been enjoying an unmatched support from the World Bank and the IMF which continued to more strategically and competitively position the hitherto infant industry to a serious player in the global financial system, catering not only for specific needs of Muslims but Non-Muslim communities alike who wish to pursue economic ventures that are devoid of interest [8,16].

A recent study noted that many mainstream banking clients who demand Shariah-compliant products, are the many poor people who insist on these products [23]. The emergence of Islamic banks in Kenya had been an outcome of the demand by mainstream banking clients for Shariah-compliant products. Whereas the mainstream banking sector had options for their Muslim clients, poor micro-entrepreneurs had no option of Islamic Microfinance products. The study reveals that due to lack of options most respondents accessed loans from the available institutions as a coping strategy. The study also assessed the knowledge of the respondents on the existence of a Kenyan MFI that provided Shariah-compliant products. All respondents said they had no knowledge of any Islamic MFI in the country and had never heard of one. Asked whether they would switch over to Islamic MFIs if given the option, all respondents responded in the affirmative. This confirmed the existing market niche.

7. Research Methodology

The research methodology provides a detailed discussion of the research design, location of the study, population, and data collection procedure and data analysis. The study employed a descriptive research design. The purpose of research design is to achieve greater control of the study and to improve the validity of the study by examining the research problem [4]. This study sought to obtain descriptive and self-reported information from customers in Islamic banks. This study focused on all customers of Islamic banks in Kenya. The target population of the study included the customers of Islamic banks in Nakuru Town. Nakuru town has two Islamic banks (First community Bank and Dubai Bank) in total having a customer distribution of 6929 in total. The sample for the study was designed to produce a representation of the customers of Islamic banks in Nakuru town. To arrive at a sample size, the study adopted a formula by Cochran formular for estimating a sample size, n_0 , from an infinite population [6]. An infinite sample of 384 customers

was obtained. To obtain a finite sample, correction formula was applied to obtain a sample of 196 respondents. To arrive at the above sample size, the study adopted a simple random sampling procedure of customers in the two banks. In this respect, it is assumed that all the customers of Islamic banks have similar characteristics.

The study used structured questionnaires that were distributed to the customers. The questionnaires contained a five point Likert scale (5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree) to measure strategic factors and Bank growth. Reliability and validity was established for standardization of the structured questionnaires that were used in the study. Piloting of the instruments was done to assist the researcher in testing both the validity and reliability of the instruments. Cronbach's coefficient Alpha was computed for the instrument. A reliability coefficient of not less than 0.80 was established and deemed to reflect the internal reliability of the instruments. This is in line with the assertion that a Cronbach coefficient Alpha of 0.7 and above is appropriate [22]. Content validity of the research instrument was established in order to make sure that it reflects the content of the concepts (Strategic factors and bank growth) in question. First, the researcher went through the instrument and compared it with the set objectives and ensured that they contain all the information that is required to answer the set questions and address the objectives.

The instrument was then taken for piloting where 20 customers from the bank were chosen for the test and were later excluded from the sampled population. The objective of piloting was to eliminate any ambiguous items, establish if there were problems in administering the instrument, test data collection instructions, establish the feasibility of the study, anticipate and amend any logical and procedural difficulties regarding the study, and allow preliminary (dummy) data analysis. The researcher proceeded to collect data from the selected respondents after receiving permission from the relevant authorities. The researcher visited the area of study before actual data collection for familiarisation and acquaintance. During this visit, the researcher informed the administrators about the purpose of the study and book appointments for data collection. After familiarisation, data was collected using the mentioned instrument. The completed instruments were verified and collected on the same day of distribution.

7.1 Data processing and analysis

Data collected was processed and analyzed based on the objectives and research hypotheses using Statistical Package for Social Sciences (SPSS) version 21. This was done using both descriptive and inferential statistics. Descriptive statistics (percentages, frequencies, and means) presented in tables was used to organize and summarize data and to describe the characteristics of the sample while Pearson correlation coefficient was used to test all hypotheses.

7.2 Research Findings

The study population was 196 customers of the Islamic banks in Nakuru town. The researcher administered questionnaires

to the 196 respondents. 158 of them filled and returned the questionnaires. This represented 80.61% response rate.

7.2.1 Sharia Compliance

In respect to how the bank conforms to sharia compliance, the respondents opinions were as demonstrated in the table below.

Table 1: Sharia compliance

	N	Min	Max	Mean	Std. Dev
Bank prohibits payment of interest	158	1	5	4.35	1.028
Bank supports economic activities that are ethically right	156	1	5	4.54	.748
Bank's cooperative lines consistent with Islamic finance	156	1	5	4.44	.925
Bank ensures equality in service	156	1	5	4.51	.749
Bank distributes returns as dividends to stakeholders	156	1	5	4.02	.980
Bank does not exploit	158	1	5	4.48	.843
Motivation of being with the bank is sharia compliance	158	3	5	4.59	.565
Valid N (listwise)	152				

From the table, it was evident that most of the respondents agreed with all the aspects of sharia compliance registering a mean of 4 (Agree). However, greater standard deviation was noted on the prohibition of interest payment by the bank registering a standard deviation of 1.028. This showed low agreement in the responses given as regards this aspect of sharia compliance. Consequently, the respondents portrayed high level of agreement in other aspects each having a standard deviation of less than 1.

7.2.2 Growth of Islamic Banks

The following were the findings as regards to the bank growth.

Table 2: Growth of Islamic Banks

	N	Min	Max	Mean	Std. Dev
The Bank has grown remarkably and have many branches	158	1	5	4.14	1.323
Most of the clients are the poor people	158	1	5	2.73	1.703
There is increased knowledge of Islamic banks existence	158	1	5	3.22	1.733
There is greater demand for Islamic banks services	158	1	5	3.80	1.611
Customers switched from conventional banks to Islamic Banks	158	1	5	3.87	1.363

Islamic banks cater for both Muslim and non Muslim	158	1	5	3.72	1.446
Diverse products facilitates growth	158	1	5	3.83	1.597
Valid N (listwise)	158				

The results in most of the aspects had their mean inclined towards 4 (Agree) showing that the respondents agreed with most of the aspects of growth of Islamic banks. However, respondents were indifferent on whether most of the banks clients are the poor people and whether there is increased knowledge of Islamic banks existence with a mean of 2.73 and 3.22 respectively. The respondents expressed very diverse opinions in most of the aspects having a standard deviation of more than 1.

7.2.3 Sharia compliance and the growth of Islamic banks in Kenya

In respect to this variable, all the responses were on a Likert scale. This implied that the responses could viably be consolidated into a composite score of their means in order to infer to the relationship between sharia compliance and Islamic bank growth. The analysis was carried out by use of Pearson's correlation coefficient. The findings of the analysis are presented in Table 3.

Table 3: Effect of Sharia compliance on Islamic bank Growth

		Sharia compliance	Bank growth
Sharia compliance	Pearson Correlation	1	.355**
	Sig. (2-tailed)		.000
	N	158	158
Bank growth	Pearson Correlation	.355**	1
	Sig. (2-tailed)	.000	
	N	158	158

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

The findings indicated a weakly significant positive relationship between sharia compliance and the growth of Islamic banks ($r=0.355, p<0.01$). This suggests that as sharia compliance is enhanced by the bank the growth of the bank is also enhanced. Consequently, the first hypothesis H_{01} (There is no significant effect of sharia compliance on the growth of Islamic banks in Kenya) was rejected.

8. Summary

Descriptive statistics showed that on average that sharia compliance affects the growth of Islamic banks. This is evidenced by the fact that most of the responses inclined towards a mean of 4 (Agree). However most of the respondents were not in agreement on whether the bank prohibits the payment interest indicating a standard deviation of 1.028. Most of the respondents however agreed that their motivation of being with the bank is sharia compliance. This aspect registered the lowest standard deviation of 0.565 with a mean of 4.59. The results were in tandem with the assertion

that Islamic banks are financial institutions that are there to provide support for economic activities that are ethically, morally and lawfully right [11]. Descriptive statistics showed that respondents agreed with most of the aspects of Islamic bank growth. On the other hand, most of the respondents were indifferent on whether most of the banks clients were the poor people. All the respondents portrayed diverse opinions in all aspects leading to a standard deviation of more than 1.3 in each case.

Inferential statistics indicated a weak positive significant relationship between sharia compliance and the growth of the bank. This indicated that sharia compliance affects the growth of Islamic banks in that enhancement of sharia compliance facilitates the growth of Islamic banks.

9. Conclusions

The researcher concluded that for the Islamic banks to enhance their growth they need to observe sharia compliance in their products. This was driven by the positive significant correlation from the inferential statistics that led to the rejection of the first hypothesis. The researcher also concluded that Islamic banks customers are very keen in sharia compliance hence influencing their choice of this bank.

10. Recommendations

After drawing the aforementioned conclusions the researcher deemed it rational to put across a number of recommendations. The researcher recommends that the Islamic banks administrations should put structures in place to ensure they improve on sharia compliance. This would consequently lead to increased growth of the banks across the country. The administration should also carry out intensive campaign to educate unreached customers on sharia compliant banking product which would attract customers that are unaware of such products. Lastly the bank should in collaboration with the staff increase the knowledge of Islamic finance terms so as to increase on the uptake of their products. The researcher recommends that future researchers should focus their attention on other factors that influence Islamic bank growth like gender, education, and other aspects that to some extent are perceived to have an effect on the bank growth. This would consequently inform the management and investors of the priority areas in trying to market this bank.

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