

**THE ROLE OF SHARIAH SCHOLARS IN THE GROWTH OF ISLAMIC
BANKS IN KENYA: A CASE STUDY OF FIRST COMMUNITY BANK**

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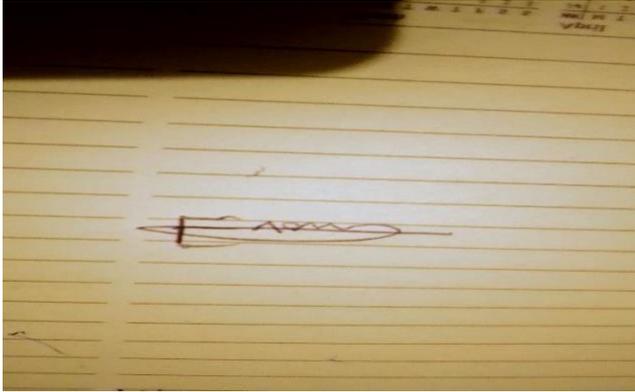
**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS
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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university or college for examination or academic purposes.



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

Signed.......... Date 14th June 2021

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DEDICATION

I dedicate this project to my dear parents for the support they have rendered me especially financially.

I also dedicate this project to my siblings for their love and encouragement.

ACKNOWLEDGEMENT

I would like to express my heart-felt appreciation and gratitude to my supervisor Mr. Tego Wolasa for his guidance, suggestions and constructive comments since the beginning of this research.

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ABSTRACT

This study aims to investigate the roles that are played by shariah scholars that contribute on the growth of Islamic Banks in Kenya. The main objectives were to determine the impact of shariah governance on the growth of Islamic Banks in Kenya, to establish the extent to which Educating the Public's influences the growth of IBS, to determine the Product approval by Shariah scholars influences the growth of Islamic banks in Kenya. The Bureaucracy and Growth theories contributed much in the study as they elaborated well how an organization can be brought up. Shariah governance, Educating the Publics on the benefits of financial products and services offered by Islamic banks and Product approval are the key roles of shariah scholars thus listed as independent variables as they were found to be the influencers of the growth of Islamic banking which is the dependent variable. To achieve this, the research was conducted in the form of a descriptive study method because it identifies patterns and trends of events. The targeted population was the managers of FCB. A simple random sampling technique was used to identify the 10 sample size elements. Questionnaires were used to collect the primary data from 20 managers drawn from the banks because it's cheap, saves time and man power to collect data from the field. Collected data were analyzed using Microsoft Excel and Statistical package for social scientists to compute descriptive statistics i.e. frequencies and ranges. Finally, the presentation of the results was done by use of graphs, charts, tables etc. For clarity and each of understanding of the findings. In conclusion the study found that it was Shariah Governance, Educating the Publics on Islamic financing products and Product approval were the key roles of Shariah Scholars that were 65.90% of factors that contributed to the growth of Islamic Banks in Kenya. The study recommended the IBS should review, emphasis on training, advertising and create awareness of their services and products to a competitive level. About recommendations on Further study, the other studies to assess the factors that influence the growth of Islamic banks using the secondary data as the present study uses the primary data, Further study to be carried out to determine what other factors remaining 34.10% as the present study established 65.90% explained by Shariah governance, educating the Publics and product approval.

DEFINITION OF TERMS

Venture capital:	Form of private equity and a type of financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential. (Brealey, 2001).
Islamic financing:	Banking or financing activity that complies with sharia and its practical application through the development of Islamic economics. Some of the modes of Islamic banking/finance include Mudarabah, Musharakah, and Ijara. (Stokes, 2010).
Mudarabah:	A concept similar to Musharakah, except in the case of Mudarabah, one partner contributes capital and agrees to compensate an entrepreneur or investment manager through profit sharing (Iqbal, 2002).
Murabahah:	A sale in which the seller's cost and profit are disclosed to the buyer (Kenya Bankers Association, 2013).
Ijara:	The Arabic word for a wage or a leasing contract. Under Ijara contracts, the owner of an asset allows the use of sharia-compliant assets by the user for sharia-permissible purposes (Salman, 2010).

LIST OF ACRONYMS

FCB	: First Community Bank
FFIs	: Formal Financial Institutions
MCC	: Muslim Community Co-operative
MFIS	: Micro-finance Institutions
OIC	: Organization of Islamic Countries
SSB	: Shariah Supervisory Board
SPSS	: Statistical Package for Social Scientists

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
DEFINITION OF TERMS	vi
LIST OF ACRONYMS	vii
TABLE OF CONTENTS	viii
LIST OF FIGURES	xi
LIST OF TABLES	xii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the study	1
1.2 Statement of the Problem	2
1.3 Objectives of the study	4
1.3.1 General objective of the study	4
1.3.2 Specific objectives of the study	4
1.4 Research questions	4
1.5 Importance of the study	4
1.6 Scope of the study	5
1.7 Limitation and Delimitation	5
1.8 Chapter summary	6
CHAPTER TWO	6
LITERATURE REVIEW	6
2.1 Introduction	6
2.2 Theoretical Review	7
2.2.1 Bureaucratic theory	7
2.2.2 Growth Theory	8
2.3 Empirical Review	8
2.3.1 Shari'ah Supervisory Board	8
2.3.2 Islamic Banking	11

2.4 Contribution of Sharia'h Scholars on the Bank Growth	13
2.4.1 Independent Shariah Scholars	13
2.4.2 Specialized Shariah Scholars	13
2.5 Conceptual Framework	14
2.6 Chapter Summary	15
CHAPTER THREE	16
RESEARCH METHODOLOGY	16
3.0 Introduction	16
3.1 Research Design	17
3.2 Population and Sampling Design	17
3.2.1 Population	17
3.2.2 Sample Design	18
3.3 Sampling Frame	18
3.4 Sampling Technique	18
3.5 Sample Size	18
3.6 Data Collection Methods	19
3.7 Research Procedures	19
3.8 Data Analysis Methods	19
3.9 Chapter Summary	20
CHAPTER FOUR	20
DATA ANALYSIS, PRESENTATION AND INTERPRETATION	20
4.1 Introduction	20
4.1.1 Pilot Testing	21
4.2 Response Rate	22
4.3 Respondents' Demographics Characteristics	24
4.4 Descriptive Analysis	24
4.4.1 Status of Growth of Islamic Banking in Kenya	25
4.4.2 Shari'ah governance and Growth of Islamic Banking of FCB	26
4.4.3 Educating the Public and Growth of Islamic banking of FCB	27
4.4.4 Product approval and Growth of Islamic Banking of FCB	
4.4.5 Problems faced by shariah Scholars in the growth of Islamic Banks in Kenya	29
4.5 Inferential Analysis	30
4.5.1 Diagnostic Tests on Independent Variables	31
4.5.2 Correlation Analysis	31

4.5.3 Regression Analysis	33
CHAPTER FIVE SUMMARY	36
CONCLUSIONS, AND RECOMMENDATIONS	36
5.1 Introduction	36
5.2 Summary of Findings	36
5.2.1 Findings on Status of Growth of Islamic Banking in Kenya	36
5.2.2 Findings on Shari’ah governance and Growth of FCB	36
5.2.3 Findings on Educating the Publics and Growth of IB	37
5.2.4 Influence of Product Approval on Growth of IB	37
5.2.5 Problems faced by Islamic Scholars in the growth of Islamic Banks in Kenya	37
5.2.6 Findings on Inferential Analysis	38
5.3 Discussions	38
5.3.1 Discussions on Status of Growth of Islamic Banking in Kenya	38
5.3.2 Discussions on Shari’ah governance and Growth of IB	39
5.3.4 Discussions on Influence of Product approval on Growth of Islamic banking	42
5.3.5 Problems faced by Islamic Scholars in the growth of Islamic Banks in Kenya	42
5.4 Conclusions	43
5.5 Recommendations	45
5.5.1 Policy Recommendations on Research Findings	45
5.5.2 Recommendations for Further Study	46
REFERENCES	48
APPENDICES	50
APPENDIX I: QUESTIONNAIRE	50

LIST OF FIGURES

Figure 2.1: Conceptual Framework

Figure 4.1: Analysis by Response Rate

Figure 4.2: Analysis by Period of Operation

Figure 4.3: Challenges faced by FCB in operating accounts

LIST OF TABLES

Table 4.1: Reliability Statistics

Table 4.2: Analysis by Count of Response Rate

Table 4.3: Analysis by Growth of Islamic banks.

Table 4.4: Influence of Shari'ah governance

Table 4.5: Influence of Educating the Public

Table 4.6: Influence of Products Approval

Table 4.7: Multicollinearity Tests on Independent variables

Table 4.8: Correlation Results

Table 4.9: ANOVA for Growth of Islamic Banking in Kenya

Table 4.10: Regression Results of DV against Predictor Variables

Table 4.11: Model Summary for Growth of Islamic Banking in Kenya

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Shariah scholars have played a vital role in the establishment of Islamic financial institutions since their inception in 1970s. Although majority of the Muslim scholars do not involve directly in the industry, their *fatwa* especially related to Islamic banking products were very important to the industry and the public. However, Islamic Financial institutions are still facing a shortage of scholars (Wallin, 2005). It was a general public perception that the conventional banks which operated based on interest systems were prohibited.

Islamic banking is a banking system based on the values and ethics of Islamic sharia. Sharia is an Arabic word which means practicing as per the Islamic values and law. The Islamic law i.e. the Shariah prohibits Muslims from dealing in interest (*riba*), which literally means increase, addition or rise (Khattak & Rehman, 2010). The Islamic Banking (IB) Prohibits; exploitation of *Jahla* (ignorance) and uncertainty or speculation (*gharar*). To fulfil this the bank uses physical tangible Assets as the basis of undertaking a business transaction (Honohan w001). Whereby in this case money is not a factor of production and cannot be used to make money.

Shariah scholars encourage IBs to use Islamic modes such as *Mudarabah*, *Murabahah*, *Salam*, *Istisna'a* and *Ijarah* to provide a link or a bridge between the financial transactions and real economic activities such as trading (Aden, 2014). The Shari'ah scholars and their supervisory boards focus on the Shari'ah compliance of financial structures that includes documentations, contracts, product development and the transactional processes. The existence of the Shari'ah scholars helps to boost the integrity of the Islamic financial institutions by promoting the compliance to Shari'ah principles and standards in the provision of financial services.

In Kenya the Islamic bank financial products which are accepted by the Shariah Scholars complies with the Islamic banking have attracted more clients from both Muslims and Non-Muslims Communities thus growth of Islamic Banks.

First Community Bank was established in 2007 according to Sharia law by private Muslim investors in Kenya. The bank received a Kenyan commercial banking license the same year, and started operations in June 2008.

The FCB is the first Kenya-based bank to operate according to the laws of Sharia. Since the founding of First Community Bank, another Sharia bank, the Gulf African Bank, has also received a commercial license from the Central Bank of Kenya.

1.1.1 The Role of Shariah scholars in Islamic banks .

The Shariah scholars are individuals who have a good grasp of both the Islamic jurisprudence and the dynamics of financial and commercial activities. They play a vital role in Educating the Publics on the significance of banking with Islamic Financial institutions, Financial products and services offered such as Musharakah, Murabahah, Ijarah and Mudarabah. Products approval i.e. they are ones who give last opinions on products to be consumed in the market, halal products and goods that are of benefits and cost effective to the consumers. Provisions of Shariah Governance on the Islamic activities, Training, advising, supervising and directing the Shariah supervisory Board duties on matters relating to the operations of Islamic banks.

1.1.2 Growth of Islamic banks in Kenya.

Islamic banks are the financial institutions that operate by the guidance of Islamic Principle laws (shariah). Since the first establishment of FCB in 2007 as Islamic bank, it opened ways for other financial institutions such as Gulf African Bank, National Bank of Kenya, Cooperative Bank among others to be licensed to offer Islamic banking services which have led to rapid growth not only through opening more branches, Financial positions but also the client attraction across the Country towards the services offered by the Islamic banks. Some of factors that influence these are; presence of Shariah scholars, Educating the Publics, Shariah laws, financial products such as Musharakah, Murabahah etc.

1.1.3 First Community Bank In Kenya.

FCB is a commercial bank in Kenya, it's established in 2007 according to Shariah laws by Private Muslim investors.

It received license in 2008 by the Central Bank of Kenya and started the operations the same year in June. It's Governance is run by; Sheikh Mohamed Mbaye -Chairman and Hussein Hassan -Chief Executive among others.

The bank offers a variety of Products ; Savings, Investments, Financing and Debt cards. Assets, the bank total assets is about KES:18.762 billions, shareholders equity of about KES: 1.46 billions and Customers deposits of about KES: 16.126 billions where it was recorded Number 21 out of 43 registered banks as at December 2019.

The Bank's subsidiary is FCB Takaful Insurance Agency where it maintains 100% of shareholding. The second subsidiary is FCB capital Limited. It has more than 300,000 employees.

1.2 Statement of the Problem

The concept of the growth of Islamic banking in Kenya is relatively new. In addition, the research studies that have been done in this area are few and far between. There was a need to know as to how the Islamic banks are penetrating into the Kenyan market and competing head on with conventional banks for the same customers on advice from Shari'ah scholars. Some raised questions were; Is the success of Islamic banks as a result of the strict Islamic sharia and values that these Islamic banks follow or is it because of the innovative products being offered by these Banks?

The Kenyan banking industry has changed drastically over a relatively short period of time with a very competitive market. As of 2018, there were more than 44 banks licensed by the Central Bank of Kenya, the national banking regulator (Central Bank of Kenya, 2015). The rapid development has followed the deregulation of the financial sector which has brought new players leading to increased competition and important transformation and innovation taking place in the country's banking sector.

Many mainstream Kenyan banks have also adopted and are now offering Islamic banking services. Because they are not fully-fledged Islamic banks, the conventional Islamic banks are based on a different set of objectives, beliefs, and assumptions from conventional institutions.

These assumptions lead to different types of transactions. In many countries including Kenya, there is a lack of knowledge and awareness of the advantageous features of the Islamic form of banking by people and even some governments.

In her study on the factors that affect the growth and adoption of Islamic banking in Kenya, Hemed (2009) recommended further studies be conducted on the role of Shari'ah scholars on the growth of Islamic banking especially on the few Islamic banking windows and the fully-fledged Islamic banks in Kenya.

As she discovered that these features and their advantages were not well understood by people.

The motivation for undertaking this study was to investigate the role of Shari'ah scholars on the growth of Islamic banks sector in Kenya with emphasis placed on the growth of the sector. The study will also investigate the problems that faces by shariah scholars on the growth of Islamic banks specifically FCB and their solutions.

1.2.1 The research study gap

The study was carried out to seek some gaps that remained unanswered since the establishment of Islamic Banks in Kenya, as in the studies that have been done in this area is few and far apart. The research contributed to the existing literature by establishing factors influencing the growth of Islamic banks in Kenya as a result of Educating the Publics, Shariah governance, product approval among others.

1.3 Objectives of the study

1.3.1 General objective of the study

The overall objective of the study was to determine the role of Shariah scholars in the growth of Islamic Banks in Kenya, a case of First Community Bank (FCB) in Kenya.

1.3.2 Specific objectives of the study

The following were the specific objectives of the study;

- i. To determine the extent to which Shariah governance influenced the growth of Islamic Banks in Kenya.
- ii. To establish the extent to which Educating the Publics influences the growth of Islamic banks in Kenya
- iii. To determine the extent to which product approval by Shariah scholars influences the growth of Islamic Banks in Kenya.

1.4 Research questions

The study sought to answer the following questions:

- i. Which impacts did Shariah governance play in the growth of Islamic Banks in Kenya?
- ii. What effects did Educating the Publics had on the growth of Islamic banks in Kenya?
- iii. Which impacts did product approval by Shariah scholars had on the growth of Islamic banks in Kenya?

1.5 Importance of the study

The purpose of the study was to find out the role of Shariah scholars in the growth of Islamic Banks in Kenya.

The findings will not only benefit the researcher to achieve his mission of completion of his course but also would be of value especially to Islamic banks through ensuring growth of their stakeholders as well as shareholders so as to avoid interference of their respective banks too.

It will also help the Islamic Banks in coming up with appropriate innovative strategies that will enhance growth of their banks as well as clients.

The study will be important to those researchers who wish to contribute further to the topic or look at the topic from a different perspective. Pertinent questions not addressed by this study can be explored in future research studies.

The study will also add more resource knowledge to academics as well as future scholars who will use it for further studies on the same related topics as information will be available already.

For economic activities the study will benefit both national and county governments especially in acquiring finances from different banks. As the study has elaborated benefits of Islamic banks that offer interest free loans and shares losses with their clients in case of any loss occurrence.

1.6 Scope of the study

The study on the role of Shariah scholars in the growth of Islamic Banks in Kenya. It targeted a group of 20 Managers of the First Community Bank (FCB) in Kenya.

The structured questionnaires were used to collect primary data from the selected respondents. The research study used a cross sectional approach and data was collected from the respected repliers. Questionnaire process experienced some limitations while conducting the research activities, which were interpretation of data by respondents on their own ways without the direction of the interviewer which seemed to be true based on Ireland & Williams (2012). Which means that the questions may seem to have different meanings for different respondents.

1.7 Limitation and Delimitation

During the research time, the study was faced by a number of challenges which were; Late feedback from the respondents who took a long time to respond to the questionnaires. This forced researchers to make more follow-ups.

Research time was another limitation to the study. As the study took only three months to be complete, it forced the researcher to work overtime as well as to seek assistance from another supporter to avoid being late.

Costly, the expenses involved in the taking process as it required extra costs such as traveling, printing of questionnaires, research fees which was very costly to incur them.

Inadequate respondents were another major problem, as the research took place during the pandemic of the corona period, most people fear to handle hard copy materials as well as being in contact with each other due to its chances of spreading.

1.8 Chapter summary

This chapter provides the background information of the study discussing the back-ground of the Islamic banks and its concepts. The objectives of the study were to state the same with the specific ones, research questions, importance of the study was also highlighted briefly, the scope of the study and limitation and delimitation on challenges that researchers went through and how we dealt with them. The next chapter provides a detailed literature review of previous research work relevant to this study. The third chapter will discuss the research methodology that will be used in conducting the research.

The fourth chapter will present the results from the research conducted while the fifth chapter will provide the discussions, conclusions and recommendations based on the results presented in chapter four.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature reviews relevant to this research with the aim of getting views and opinions on the role of Shariah scholars on the growth of Islamic banks in Kenya, a case study of First Community Bank. It reviews various research books, Journals, Published and unpublished works in order to come up with productive study.

2.2 Theoretical Review

There are various theories that explain the growth of banks as well how an organization such as banks can be brought up. The two main theories that apply to the research study are Bureaucratic theory and Growth theory as discussed as follows:

2.2.1 Bureaucratic theory

The scholar most closely associated with Bureaucratic theory is Max Weber. In *Economy and society*, his seminal book published in 1922, Weber articulates the necessary conditions and descriptive features of bureaucracy. An organization governed under Weber's conception of bureaucracy is characterized by the presence of impersonal positions that are earned and not inherited, rule-governed decision-making, professionalism, chain of command, defined responsibility, and bounded authority.

Weber begins his discussion of bureaucracy by introducing the concept of 'jurisdictional areas': institutions governed by a specific set of rules or laws. In a 'jurisdictional area' regular activities are assigned as official duties, the authority to assign these duties is distributed through a set of rules, and duties are fulfilled continuously by qualified individuals. Likewise, to Islamic Banks their work is based on Shariah laws. These elements make up a bureaucratic agency in the case of the state and a bureaucratic enterprise in the Private Economy.

Weber argued that in bureaucracy, taking on a position or office signifies an assumption of a specific duty necessary for the organization. This conception is distinct from historical working relationships in which a worker served a specific ruler, not an institution.

This can be well elaborated using FCB's goal is Teamwork. Where all employees are committed to supporting each other, taking collective ownership and responsibility for all they do and winning as a team.

According to Weber, if 'tenure for life' is legally guaranteed, an office becomes perceived as less prestigious than a position that can be replaced at any time. If 'tenure for life' or a 'right to the office' develops, there is a decrease in career opportunities for ambitious new hires and overall technical efficiency becomes less guaranteed.

In a bureaucracy, salaries are provided to officials. The amount is determined on the basis of rank and helps to signify the desirability of a position. Bureaucratic positions also exist as part of stable career tracks that reward office-holders for seniority.

Weber argues that the development of a 'money economy' is the "normal precondition for the unchanged survival, if not the establishment, of pure bureaucratic administrations". Since bureaucracy requires sustained revenues from taxation or private profits in order to be maintained, a money economy is the most rational way to ensure its continued existence.

Weber posits that officials in a bureaucracy have a property right to their office and attempts at exploitation by a superior means the abandonment of bureaucratic principles. He articulates that providing a status incentive to inferior officers helps them to maintain self-respect and fully participate in hierarchical frameworks. Michel Crozier re-examined Weber's theory in 1964 and determined that bureaucracy is flawed because hierarchy causes officers to engage in selfish power struggles that damage the efficiency of the organization.

2.2.2 Growth Theory

The Growth Theory, based on the Harrod Domar model of Solow model (Solow, 1956), very helpful in explaining the Role of Shariah scholars over growth of Islamic banks. The Solow Swan class growth theory focuses on capital and labor. 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 to the present study, an increase in capital yields leads to an increase in growth of Islamic Banks Wealth. The growth of Islamic Banks is strongly supported by the 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 Shariah scholars play a key role towards the growth of client II. Such growth ultimately leads 12 to the overall economic growth.

The theory holds that growth does not slow as capital accumulates, but it's 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

2.3.1 Shari'ah Supervisory Board

The purpose of the SSB or Shariah Advisory Board is to ensure that the financial institutions operate in conformity with *Shari'ah* and are usually made up of a number of jurists who provide clarification in regards to any questions that the financial institutions may have (Usmani 1998). These SSBs consist of Shariah advisers who are hired by the financial institutions and act as an internal control body in the organization, therefore, enhancing the credibility of the institutions in the eyes of its customers, and bolstering their Islamic credentials. Although nearly all organizations dealing with Islamic products utilize the services of a religious scholar, the level of involvement of the adviser varies depending on the size of the institution. Thus, large organizations tend to hire a board, whereas smaller organizations dealing with Islamic products would hire the services of just one adviser. A review of four Islamic financial institution's websites was undertaken to determine the structure of the SSBs in different organizations around the world. These institutions were:

☐ Muslim Community Co-Operative Australia (MCCA)-Australia

The role of the SSB is therefore similar to that of the account auditors. Even though the financial institution compensates them, the SSB members are expected to retain their independence. Just like auditors, SSBs certify at the end of the year whether the financial institutions operations were in conformity with *Shari'ah*.

This task includes reviewing products and policies of the financial institution, and deciding on whether a new financial instrument introduced by the organization is religiously acceptable.

Theoretically if the SSB refuses to endorse a product, the financial institution should automatically scrap that product. Also in theory, the SSB would perform a religious audit of all accounts (Warden 2000).

The reality however is more complicated. A survey conducted by Warden (1998) revealed that in many cases the review is treated as a routine matter, with boards approving decisions already made by the bank's management.

The exact roles of SSBs differ between institutions. Although SSBs have similar supervisory procedures; there remain differences in interpretation.

Karim (1990, p.39) points this out by stating that SSBs 'are guided by their moral beliefs and obligations to religious peers and community'.

One of the distinctive features in the provision of Islamic financial services is the existence of a Shari'ah Supervisory Board or Shari'ah Advisory Board that consists of independent religious scholars and other experts in Islamic jurisprudence or Islamic commercial law. The directors or the shareholders of the Islamic financial institutions cannot be members of the Shari'ah supervisory boards as dictated by Shari'ah governance standards. Providers of Islamic banking solutions have been keen to develop an operational infrastructure to meet regulatory procedures set by the Central Bank of Kenya. In October for example, KCB Group picked three Islamic banking experts to run the Bank's Sharia Advisory Committee.

The development of new financial products and other related innovations continues to generate challenges that have no direct references in the primary sources of the Islamic Shari'ah.

For instance, the practice of charging penalties on late payments by the Islamic financial institutions was a ruling arrived at by the scholars for the purpose of instilling discipline in customers who are negligent and fail to honor their financial commitments as expected. However, the penalties cannot be factored into the books of the financial institutions but should be diverted to charitable causes under the guidance of the

Shari'ah Supervisory boards.

There are two broad categories of corporate governance roles that are exclusive to the Islamic financial institutions. Firstly, there is a need to reassure stakeholders that their activities are fully compliant with Shariah standards and principles. Secondly, the stakeholders have a strong need to be assured that the institution maintains and improves sustainable growth.

The Shari'ah Supervisory Board focuses on the Shari'ah compliance of financial structures that includes documentations, contracts, product development and the transactional processes. The board is entrusted with the duty of directing, reviewing, supervising, advising and guiding the activities of the Islamic financial institutions in a manner that enhances the compliance with the Islamic Shari'ah rules and principles.

The existence of the Shari'ah board helps to boost the integrity of the Islamic financial institutions by promoting the compliance to Shari'ah principles and standards in the provision of financial services. No financial institution can introduce a new product without the prior approval of their Shari'ah scholars who can determine the success or failure of the product with its target customers. The board offers satisfaction to the stakeholders by way of monitoring the institution's compliance with the Shari'ah principles.

The financial reports of the financial institutions offering Islamic finance should reflect the Shari'ah supervisory boards' clear statement that confirms that the earnings realized from sources that are non-Shari'ah complaints have been allocated to charitable causes. The report should also capture any violations of the Shari'ah rules and standards as examined by the board.

Owing to the existence of different schools of thoughts in Islam, there are bound to be inconsistencies in the interpretation of Shari'ah by different scholars without conflicting with the board guidelines contained in the Holy Quran and the teachings of Prophet Mohamed.

2.3.2 Islamic Banking

Islamic banks largely rely on Ijarah, Murabahah and diminishing Musharakah modes of financing to meet the personal needs of their customers. They accept deposits under Murabaha and Musharakah principles.

The underlying driver of Islamic banking when it was established was the betterment of the community. The initial concept has since then evolved significantly and is today a globally accepted model and possibly the only viable alternative to the old conventional banking methodology.

Today, the evolved Islamic banking system is able to cater to all forms of customers providing products, services, investments and other finance and banking related offerings whilst still maintaining the fundamental ideology that it is based on fairness, transparency and the economic development of people, corporates as well as communities at large. The main difference that many people may be familiar with is that Islamic banking does not charge interest, which is forbidden. Also, in Islamic banking, risks are shared by both the customer as well as the bank

In the Islamic system, money is used only as a medium of exchange. Real assets such as land are considered as objects of value. Financing in Islamic Banking is asset or purpose based. This means that there has to be an exchange of goods or delivery of services before funds are disbursed.

2.3.3 Product approval.

It's the role of shariah scholars to advise the SSB on the kind of new products to be approved. Any new products before they go for full scale development, which in turn would decrease the risks of shariah compatibility before developing the products. No new products will be introduced to the customers before they are approved by SSB.

If the Islamic Banks fail to ensure compliance with the shariah rules, their position in the market will be negatively affected due to lack of customers confidence, thus leading to risks such as higher costs, financial loses, bank failures and financial instability (Ahmed, 2014), This makes the SSB and in Islamic Scholars very important as they ensure the compliance with the shariah laws in their businesses and operations by advising and supervising the daily operations of the Islamic Banks.

(Al-Nasser Mohammed and Muhammed,2017), this has helped the Islamic banking to be attracted by both Muslims and Non- Muslim communities thus leading to the growth.

2.3.4 Educating the public.

The research study realized that the Shariah Scholars played a big role in providing awareness of the importance of Islamic banking system as compared to Conventional banking. This was mostly done through their fatwa, as most of the clients didn't have adequate knowledge on the Islamic banking system in general and Islamic products such Musharakah, Murabahah, Salam and Mudarabah.

The following were some of the significant factors that were encouraged by the Shariah Scholars which have led to the growth of Islamic banking.

- I) Islamic banking system encourages stability in investment: As the Islamic banking investments are approached with a slower, Insightful decision making process, when compared to Conventional finance, this promotes reduction of risks and creates the spaces for a greater investment stability e.g. Musharakah and Murabaha for instance.
- II) Reducing the impact of harmful products: As the Shariah Scholars forbids any transactions that supports the industries or activities which are forbidden in Islam i.e Gambling, Usury and speculation practices.
- III) This has helped Islamic banking to be seen as the most dependable source of finance by its clients which have made them stick to it thus making the Islamic banking grow faster.

2.3.5 Shariah Governance.

Islamic Financial Service Board (IFSB) defines shariah governance as “ a set of institutional and organizational arrangements through which IBS ensures that there is effective independent oversight of shariah compliance over the issuance of relevant shariah pronouncements, dissemination of information and an internal shariah compliance review” (IFSB,2009 P.2). This encourages independent accountability and transparency in Islamic Banking thus it's growth.

First the accountability of the Islamic Financial institutions. The Board of directors is accountable for all decisions made by the Board and thus the board should ensure that the internal control system is adequate,(Fraud and Pellegrino,2006a). This was achieved through appointment of a shariah board, investment risk reserves and special supervisory attention.(Grams and Pellegrini 2006b).

Lastly was the Disclosure of all relevant information regarding Islamic Finance operations. This is done to address public concerns over financial stability, which helps both stakeholders and investors to strengthen their confidence and it also enhances credibility to the Islamic Banks thus their Growth

2.4 Contribution of Sharia'h Scholars on the Bank Growth

2.4.1 Independent Shariah Scholars

Independent Shariah scholars Ulama are those who do not sit officially in the Islamic financial institutions. These Ulama issue fatwa for any issue and problem faced by Muslims. These scholars either are official Mufti or Shariah scholars.

Some of the prominent scholars also compile their *fatwa* in business transaction such as Yusuf Qardawi,

Wahbah al Zuhaili. Ibn Baz for example together with other Saudi scholars such as Abdi Al Rahman Al

Saidi, Ibn Uthaimin and Ibn Fauzan have a compilation of their fatwa exclusive on the rulings of buyu' (business transaction). The compilation highlights important current problems such as currency trading, trust sale and deposit on riba transactions.

Their *fatwa* are typically quite general in every case without elaborating in depth in technical issues. This is due to the fact that these independent scholars did not receive formal training in banking and finance industry. Their expert is in deducing the rule, tracing its legality from the various textual evidences and the implementation in the classical era. Their *fatwa* can be regarded as an eye opener to the other Muslim scholars in the field.

2.4.2 Specialized Shariah Scholars

As compared to independent Shariah scholars, specialized Shariah scholars involve in Shariah advisory or supervisory boards in Islamic financial institutions whether in Muslim countries and non-Muslim majority countries.

Some studies had been done to define Shariah supervisory from *fiqhi* perspective (Salaheen and Dhalaen, 2013). Shariah supervisory or *riqabah Shariah* originated from the Arabic word *raqaba*. It is defined as waiting, keeping and guarding.

Salaheen and Dhalaeen (2013) argue that Shariah banking supervisory is a mix of various types of control that combines the administrative, accounting, banking and financial facets of control or supervisory. The core task of Shariah supervisory to ensure the activities of the bank is in accordance to Shariah. Muslim scholars who sit in the Shariah Supervisory Board of Islamic financial institutions have more responsibilities as compared to those who are not.

The Shariah board is an independent body that specializes in *fiqh muamalat* who directs the activities of the institutions, controls and supervisor activities of the banks to ensure its compliance to the provisions of Shariah besides its decisions are obligatory to the institutions. (Salaheen and Dhalaeen, 2013). These Shariah boards are regarded as regulators of Islamic finance, with responsibility for rating the banks and then ensuring religious compatibility of the financial instruments they issue and trade.

Apart from issuing fatwa within Shariah supervisory boards and scholars conference, specialized Muslim scholars also produce books, article journal or concept paper in Islamic financial innovations. Monzer Qazf writes *Asasiyat al-Tamwil al-Islami*. His book evaluates the new innovative financial products.

The most challenging part in the invention of Islamic financial instruments, is most of the products applied to hybrid contracts or use more than one simple contract. For instance, the product of *Musharakah*, contracts such as *bay*, *ijarah*, *wakalah* and *Musharakah* are all used together as the products.

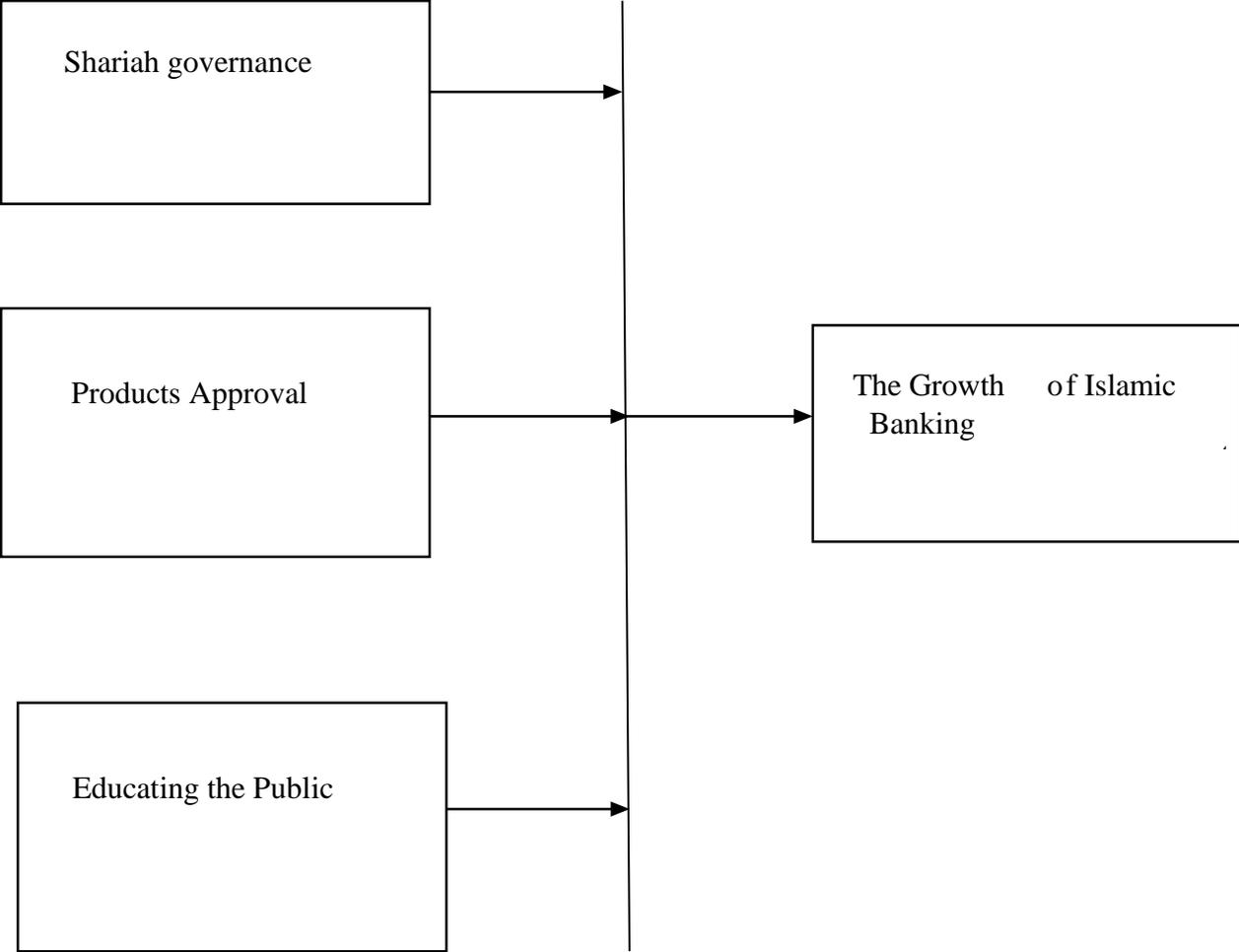
2.5 Conceptual Framework

The study developed a conceptual framework adopted from the Bureaucratic theory and growth which helped propose that growth of Islamic banking is influenced by Shari'ah governance, Products approval and Educating the Public which are the cause of the effects are considered as the independent variables and the Growth of Islamic banking as the dependent variable as captured in figure 2.1 below:

Figure 2.1: Conceptual Framework

Interdependent Variables

Dependent Variable



2.6 Chapter Summary

This chapter has looked at literature in the field of Islamic banking, in terms of the role of scholars in the growth of the institutions. Most of the literature illustrated that Islamic banking, being a niche market has a potential for growth. Islamic banking refers to Sharia-compliant tools and mechanisms to replace interest- based financial intermediation with the risk-sharing and interest-free paradigm. It primarily relies on equity modes to conduct its affairs. This ensures the most efficient, ethical and equitable use of economic resources of the polity.

The following chapter describes the methods and procedures used to carry out the study by paying emphasis to research design, population and sample design, data collection methods, research procedures and data analysis methods.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides the methodology used in the study. It identified, defined and provided justification for the research design used in the study. It also discusses the data collection instrument and population that were identified along with sampling frames, techniques and the size for the study and lastly the data analysis methods that were employed.

3.1 Research Design

The research design used in this study was descriptive. A descriptive study is a study with clearly stated investigative questions. The research objective in a descriptive study is to describe the phenomena or characteristics associated with a subject population i.e. the who, what, when, where and how of a topic, estimates of the proportions of a population that have certain characteristics, discovery of associations among different variables and discovery and measurement of cause and effect relationships among variables (Cooper and Schindler, 2003). A descriptive study was justified as it attempted to describe the characteristics associated with the subject population and based on the findings of the study; discovery of associations among different variables arose thus enabling the researcher to draw conclusions.

This study used cross-sectional research because some types of information once collected cannot be collected a second time from the same person without the risk of biases. While longitudinal research is important and can be used in this study, the constraints of budget and time imposed the need for cross sectional analysis.

The dependent variable for this study was the growth of Islamic banks in Kenya (focusing on First Community Bank) while the independent variables were; the Shariah governance, Products Approval and Educating the Public.

This design was adopted as the suitable research design because it facilitated the collection of original data necessary to realize the research objectives. The design was also appropriate in collecting useful

data that could be quantified and reported as a representation of the real situation or characteristic in a study.

3.2 Population and Sampling Design

3.2.1 Population

The population represents the total number of managers of FCB. According to Tull and Hawkins (2008), a population is the group the researcher wants to generalize or learn about something whereas Cooper and Schindler (2008) define a population as the total of the elements upon which inferences can be made. A population is therefore the total collection of all elements about which one wishes to make some inferences (Cooper and Schindler, 2003). The target population in this study were FCB managers.

3.2.2 Sample Design

The basic idea of sampling is to select some elements of the population that will help the researcher to draw conclusions about the same entire population. Sampling present benefits. It has the advantages of lower research costs, greater accuracy on the obtained results, greater speed of the data collection and the availability of the required population elements (Cooper and Schindler, 2008).

3.3 Sampling Frame

A sample frame is the list of elements from which the sample is actually drawn. Ideally it is a complete and correct list of population members only (Cooper and Schindler, 2003). The sampling frame used in this study was a list of existing FCB managers.

3.4 Sampling Technique

Probability sampling is based on the concept of random selection, a controlled procedure that assures that each population element is given a known chance of selection (Cooper and Schindler, 2003). There are various ways of probability sampling, these include; stratified sampling, systematic sampling, simple random sampling, cluster or multistage sampling and probability proportional to size sampling.

Simple random sampling was used for this research so as to increase the sample's statistical efficiency and to provide adequate data for analyzing the various subpopulations. A sample is a smaller but hopefully representative collection of units from a population used to determine truths about that

population (Field, 2005). Simple random sampling is applicable when the population is homogeneous and readily available.

3.5 Sample Size

While the population is the larger set of observations, the smaller set is referred to as the sample. How large a sample size should be is a function of the variation in the population parameters under study and the estimating precision needed by the researcher (Cooper and Schindler, 2008). A sample size of 10 existing managers was selected out of a population of 20. The sample elements consisted of 20 existing branches.

They were selected at random depending on their willingness to participate in the research study.

3.6 Data Collection Methods

The data was collected using a survey method. A survey is a means of questioning a respondent via a collection of questions and instruments for both the respondent and the interviewer (Cooper and Schindler, 2003). Questionnaires are generally less costly, less time consuming, and considerably less demanding with respect to such matters such as selection, training, and supervision of personnel. Being more uniform and standardized than interviews, questionnaires are also less susceptible to biases due to deviations from instructions and method of administration (Cooper and Schindler, 2005). Finally, confidentiality and anonymity can be more effectively insured through the use of questionnaires.

The questionnaire was thus the main instrument used to collect data for this study. The questionnaire developed contained both structured and unstructured questions. The questionnaire consisted of two sections: section one was focusing on the respondent's demographics; their gender, age, employment status, education level, religion and income levels. Section two of the questionnaire is designed to rate some statements pertaining to the role of Shari'ah scholars in the Islamic banking systems. The section was developed using the key variables identified as factors influencing customers in the selection of Islamic banks. Unlike section one where the questions required direct answers, the questions in section two relied on a Likert scale.

The use of Likert scales presents a simple way of gauging specific opinions and also enables the measurement of broader attitudes and values (Johns, 2010).

3.7 Research Procedures

Pilot test is conducted to detect weakness in design and instrumentation and to provide proxy data or selection of a probability sample (Cooper and Schindler, 2003). A pilot test of the questionnaire was done whereby five existing managers of FCB chosen at random responded to the questionnaire. The researcher handed out the questionnaire to the managers. The reason for doing this was to obtain feedback on any weaknesses and errors on the questionnaires. The questionnaires were then reviewed based on the comments and suggestions of those who responded to the pilot test.

3.8 Data Analysis Methods

An in-depth quantitative analysis of the content of the responses will be carried out. The structured data was analyzed using the Statistical Package for Social Scientists (SPSS) computer software package. Thereafter, the data was cleaned to ensure completeness of the information obtained.

The collected data was statistically analyzed using Microsoft Excel program and the Statistical Program for Social Scientists (SPSS) and presented in tables and figures to give a clear picture of the findings at glance. These aided in making comparisons based on the role Shari'ah scholars contribute to the growth of Islamic Banks in Kenya.

3.9 Chapter Summary

This chapter has detailed the proposed research method, giving a description of the research design, population and sampling design, data collection method, research procedures. The population and sample size were also discussed. Justification was provided for the sample size that was used in the end. This was pertinent as it is imperative that the research reflects the views of the bank's customer base. The chapter also indicated how the data was analyzed using Excel and SPSS and presented in the form of charts and tables. The next chapter presents the study results and findings based on the research questions.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

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 carried out. As the pilot testing was carried, the results obtained were used to edit or review the instrument. The tool was corrected through removal and editing of items so as to obtain consistent, reliable research instruments, acceptable for data collection in the present study.

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 the reliability coefficient (Cronbach Alpha) was .715.

Table 4.1: Reliability Statistics

<u>Item</u>	<u>Cronbach's Alpha if Item Deleted</u>
Period of Operation of the bank.	0.72
Growth of clients has led to increase in bank accounts in our banks	0.65
The 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 (mudarah) 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 (Murabahah)	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 Knowledge and experience of staff on Islamic finance principles help in attracting and retaining clients	0.67
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	0.72
The client base in our bank grow owing to the role of Shariah scholars that gives a good picture to the current and prospective clients	0.66
The high rate of Product of Service innovation help in the growth of clients in our bank Cost and benefit of product offered (products prices and rate of return of the investment)	0.76
pleases clients and accelerates growth of client base	0.70
Service quality of the quality (fast/efficient banking service and friendliness of the bank's staff) enhances growth of client base	0.73
	0.75

The bank offers a range of services (Facilities provided by their banks) which ensure	
growth of client base	0.68
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 <u>attracts new clients.</u>	<u>0.74</u>
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 role of Shariah scholars 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 .055) was found not to significantly improve the already high consistency.

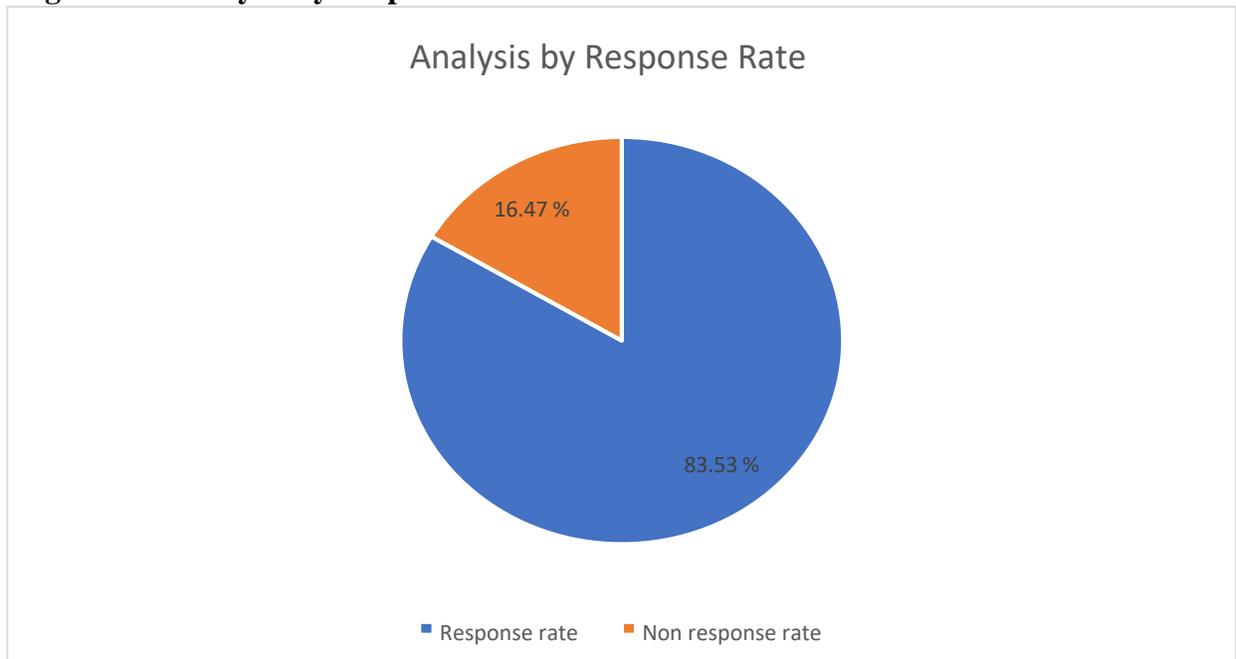
So the study opted to retain all the items as it ignored removing the said item. Since the tool had high consistency, the items were retained and they were used in data collection thereafter.

4.2 Response Rate

The questionnaire was distributed to 20 respondents from the First Community Bank out of whom 17 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 their cooperation.

Figure 4.1: Analysis by Response Rate



The study's total response rate shows 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

Branches	Branch Managers	Response	Response Rate
Kajiado Branch	2	2	50.00
Mombasa Branch	5	4	55.56
Nakuru Branch	2	2	50.00
Kisumu Branch	3	3	33.33

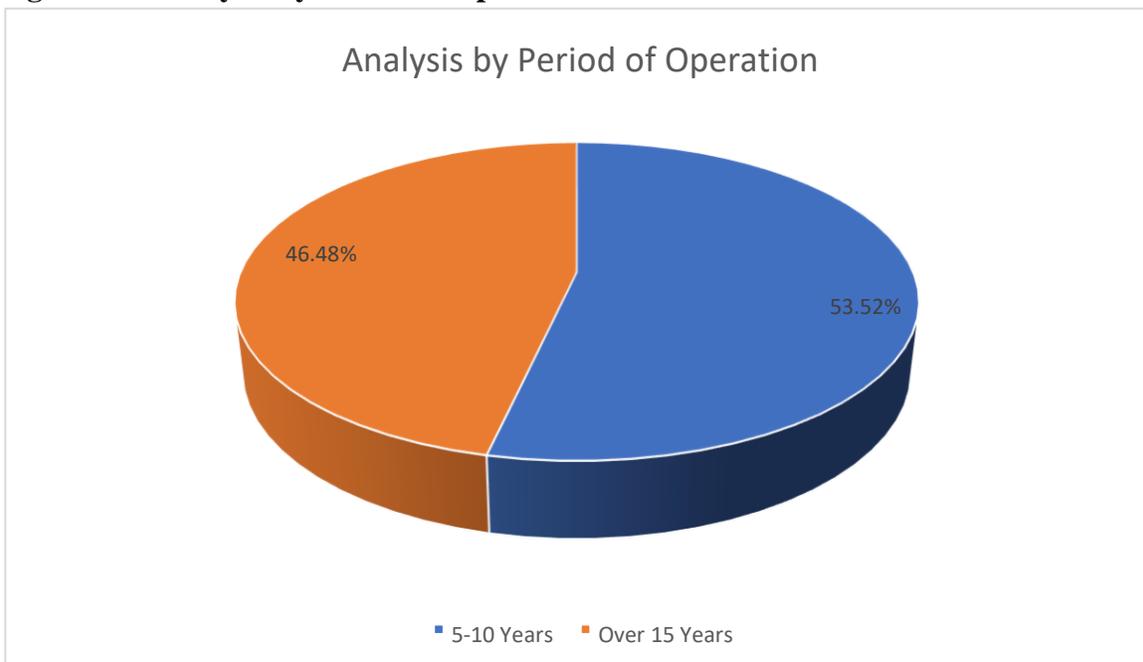
Nairobi-Westland Branch	4	4	92.31
Bungoma Branch	4	2	96.00
Total	20	17	83.53

From the results in Table 4.2, it can be found that the response rate was 17 elements, which according to Kombo and Tromp (2006) a descriptive survey requires a sample size of at least 10 elements. In that the study response was 17, well above the threshold of 20, 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 in 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 the bank has 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 Islamic banking (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 Islamic Banking in Kenya

The study sought to establish the factors that enhanced the role of Shariah Scholars in the growth of Islamic Banks in Kenya. As earlier mentioned, the study obtained the mean for each indicator of growth of banking and an overall mean for the role of Shariah scholars. The results obtained were recorded in Table 4.3.

Table 4.3: Analysis by Growth of Islamic banks.

Growth Indicator	Mean	Std. Dev
There has been increasing number of new customers an indication of Shariah governance	2.84	1.15
Our bank has been experiencing tremendous increase of bank branches due to Shariah governance	1.66	1.12
Growth of clients has led to increase in bank accounts in our banks	2.20	1.05

The growth of client base in our bank has contributed the retention of existing clients in our bank	2.02	1.23
Financial position of the bank has been growing every year due to the shariah Supervisory Board.	1.58	0.84
Growth of bank has been leading to increase in Profit made by the banks	1.38	1.07
Growth of Islamic Banks.	1.94	1.10

The results in table 4.3 showed the respondents indicated that there had been significant (mean = 2.84, Std. Dev. = 1.15) increase in number of new customers in their banks, who were seeking for services. The respondents indicated their banks were not experiencing tremendous increase of bank branches due to Shariah governance (Mean = 1.66, Std Dev. 1.12) and the Growth of clients moderately (mean 2.20, Std. Dev 1.05) which led to increase in bank accounts in their banks. According to the respondents, the growth of the client base in the bank has moderately (mean = 2.02, Std. Dev. 1.23) contributed to the retention of existing clients in our bank. as the respondents showed that the financial position of the bank had not been growing every year due SSB (mean = 1.58, std. dev. = 0.84),

they also showed that growth of clients had not been leading to an increase in profit made by the banks (mean = 1.38, std. dev. = 1.17). The growth of Islamic banking in FCB was shown to moderate (mean = 1.94, Std. Dev. 1.10).

4.4.2 Shari’ah governance and Growth of Islamic Banking of FCB

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

Table 4.4: Influence of Shari’ah governance

Shari’ah governance Indicator	Mean	Std. Dev
Absence of interest on credit attracts new clients to the bank	1.67	1.13
The presence of Shari’ah Supervisory Board to supervise banking operations attract clients to bank with our bank	2.34	1.01
Islamic principles also attracted more customers to the Bank	1.28	1.04

The presence of good Shari’ah compliance promoted on the attraction of clients to the Bank	1.94	1.04
Knowledge and experience of staff on Islamic finance principles help in attracting and retaining clients	2.26	1.16
Shari’ah Governance	1.90	1.08

The results in Table 4.4 show the respondents indicated that absence of interest on credit moderately attracted new clients to the bank (mean = 1.67, Std. Dev. = 1.13). 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 = 2.34, Std. Dev. = 1.01). The respondents also said Islamic principles helped in attracting customers to the Bank (mean = 1.28, Std. Dev. = 1.04) and that the availability of good Shari’ah compliance promoted the attraction of clients to the Bank (mean = 1.94, Std. Dev. = 1.04). From these results it was shown that Knowledge and experience of staff on Islamic finance principles moderately helped in attracting and retaining clients to the Bank mean = 2.26, Std. Dev, = 1.16.

The Shari’ah governance was found to moderately influence the growth of Islamic Banking in Kenya (mean = 1.90 Std.Deviation = 1.08).

4.4.3 Educating the Public and Growth of Islamic banking of FCB

The study assessed the second objective; determine the extent to which Education to the public's influences the growth of Islamic Banking in Kenya, and results obtained captured in Table 4.5.

Table 4.5: Influence of Educating the Public

Education indicator	Mean	Std. Dev
The Profit and Loss Sharing (PLS) principle (mudharabah) creates a clear engagement among the bank and clients Thus growth of Islamic Banking.	1.76	1.21
The clients are attracted to IB because of Islamic partnerships	1.88	1.22
New and existing customers are attracted by joint venture	1.56	1.07
Clients are attracted by leasing contract (Ijarah)	2.05	1.34

The interest free principle, that is lending and availability of credit causes attracts clients to IB leading to growth of IB.	2.55	1.63
Educating the Publics	1.98	1.29

From the results in table 4.5, the respondents indicated that educating the Public on Financial options were as follows; profit and loss sharing (PLS) principle (mudharabah) creates some clear engagement among the bank and clients that moderately lead to growth of Islamic banking (mean = 1.76, Std. Dev. = 1.21). The respondents indicated that the clients were highly attracted to IB because of Islamic partnerships (mean = 1.88 Std. Dev. = 1.22 From these results, the respondents showed that New and existing customers were highly attracted by the joint venture option in the IB (mean = 1.56, Std. Dev. = 1.07) and The interest free principle of lending and availability of credit causes highly attraction of customers to banks thus the growth of Islamic banking (mean = 2.55, Std. Deviation = 1.63) as well.

The respondents indicated that clients were moderately (mean = 2.05, Std. Dev. = 1.34) attracted by a leasing contract (Ijarah) whereby Islamic bank leases an asset for a specific rent and period to the client. Overall, the respondents showed that providing Education to publics moderately influenced the growth of Islamic Banking in Kenya (mean = 1.96, Std. Deviation = 1.29)

4.4.4 Influence of Products Approval on Growth of Islamic Banking.

The products approval influence on Islamic Banking in Kenya was analyzed in an effort to assess the third objective; establish the extent to which products approval influence the growth of Islamic Banking in Kenya and the results were recorded in Table 4.6.

Table 4.6: Influence of Products Approval

Product Approval Indicator	Mean	Std. Dev
The bank offered a range of services which attracts customers thus growth of Islamic banking system	1.74	0.74
Service quality of the products (fast/efficient banking service)		
Promotes growth of the Islamic banking.	2.02	1.15
Costs and benefits of offered products pleases customers which		

Which accelerates growth of Islamic banking.	1.74	0.51
Service Delivery influences the choice of clients and attracts new		
Customers. Leading to growth of Islamic banking.	2.08	1.11
The bank deals with products that are accepted by Islamic Law Only		
(Halal) which highly attracts new clients thus growth of Islamic banking.	1.58	1.01
Product Approval	1.83	0.90

The bank offered a range of services which attracts customers thus growth of Islamic Banking system. That's based on the results of table 4.6.

That cost and benefit of product Approval (products prices and rate of return of the investment) moderately pleased clients and therefore moderately accelerated growth of IB (mean = 1.74, Std. Dev. = 0.51) The respondents indicated that service quality of the products (fast speed, efficient banking service and friendliness of the bank's staff) moderately enhanced growth of IBs (mean = 2.02, Std. Dev. = 1.15).

From these results, the respondents showed that the bank range of services (facilities provided by their banks) never ensured growth of IB (mean = 1.74 Std. Dev. = 0.74) and service delivery influence the choice of clients which moderately attracted growth of IBs (mean = 2.08, Std. Dev. = 1.11). The respondents indicated that the bank deals with products that were accepted by Islamic law only (Halal) which did attract new clients thus growth of IB (mean = 1.58, Std. Dev. = 1.01).

Overall, the respondents showed that product approval moderately influenced the growth of Islamic Banking in Kenya (mean = 1.83, Std. Dev. = 0.90).

4.4.5 Problems faced by shariah Scholars in the growth of Islamic Banks in Kenya

This represented the final question addressing the challenges that are faced by shariah scholars. While addressed to respondents who are managers of the bank, it can also be useful in highlighting the challenges that are faced by the Islamic banks.

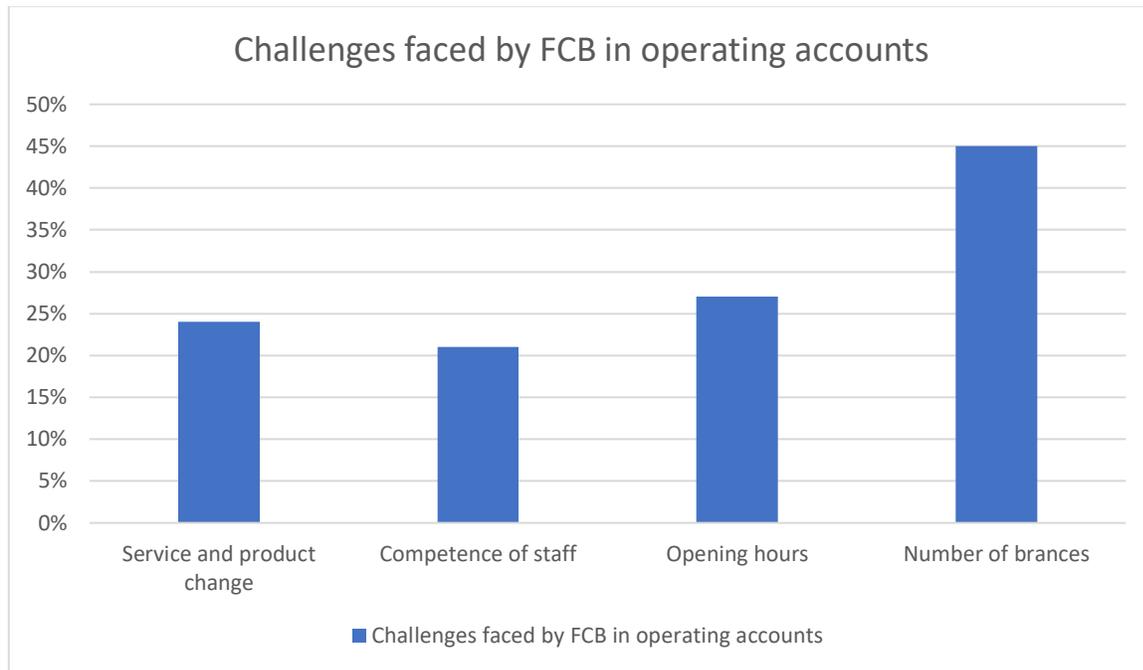
The most common challenge cited by FCB managers was to do with the number of branches that the bank has. Other significant challenges include the service and product range, branch opening hours and the competence of FCB staff.

The results are shown in full in the graph below. The limited number of branches is a significant challenge as customers may feel that for convenience, they may have to open an account at a bank that is viewed by FCB as a competitor. It is therefore up to the bank to open more branches or seek other solutions that will benefit their customers. According to FCB (2012), customers can do their banking through all branches of National Bank and Cooperative Bank countrywide for only cash and cheque deposits.

The responses received in this section investigating the challenges faced by Islamic banking in Kenya focused mostly on the fact that staff are not fully conversant with the concept of Islamic banking and a lack of qualified professionals in the Islamic finance sector.

The respondents also saw the number of branches, opening hours and service and product range as significant challenges. The respondents felt that Islamic banking should be open to people from all religious backgrounds meaning that Islamic banks that want to expand their customer base to include more non-Muslims would not face resistance from its customers.

Figure 4.3: Challenges faced by FCB in operating accounts



4.5 Inferential Analysis

The study sought a study model that would explain the dependent variables in terms of the predictors (independent variables). First the study sought the test for the existence of a 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 indicators 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 the existence of multicollinearity between the independent variables. A correlation test was carried to establish the existence of this relationship. Lastly, multiple regressions were carried out to estimate a model that would explain dependent variables in terms of independent variables.

4.5.1 Diagnostic Tests on Independent Variables

The study first tested for the existence of multicollinearity between the independent variables. This was in order to ensure that no independent variable in the model that was measuring the same relationship 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 4.7.

Table 4.7: Multicollinearity Tests on Independent variables

Collinearity Statistics		
Variable	Tolerance	VIF
Educating the Public	.820	1.375
Shari'ah governance	.850	1.516
Product Approval	.730	1.205
a. Dependent Variable: The Growth of Islamic Banking.		

The study interpreted the Multicollinearity results in table 4.7 using the tolerance. From these results, the tolerance for; Educating the Publics was 0.820; Shari'ah governance was 0.850; and for product approval was 0.730. It can be observed that the tolerance for all predictor variables were greater than 0.1 or 10%. Since multicollinearity occurs when the tolerance is less than 0.1, the study concluded that there was no multicollinearity 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 Pearson's product method at 0.05 level of significance and the results obtained were recorded in Table 4.8.

Table 4.8: Correlation Results .

Correlations	Growth of Islamic Banking in Kenya	Educating The Public	Shari'ah governance	Products Approval
The Growth of Islamic Banking in Kenya	Pearson Correlation 1	.565**	.653**	.568**
	Sig. (2-tailed)	.000	.000	.000
	N 71	71	71	71
Educating the Public	Pearson Correlation .685**	1	.446**	.317**
	Sig. (2-tailed)	.000	.000	.007
	N 71	71	71	71
Shariah governance	Pearson Correlation .763**	.446**	1	.273*
	Sig. (2-tailed)	.000		.021
	N 71	71	71	71
Product Approval	Pearson Correlation .668**	.317**	.273*	1
	Sig. (2-tailed)	.007	.021	

	N	71	71	71	71
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** . 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 4.8 show that under the Pearson correlation at 95% level confidence (0.05 significance level), Educating the Public (r = .695, p-value = .000) had a moderate significant relationship with growth of Islamic banking in Kenya, Shariah governance had a high significant relationship with growth of Islamic banking in Kenya (r = .763 p =.000) and product approval had a moderate significant relationship with growth of Islamic banking in Kenya (r = .668, p-value = .000). The p-values for each relationship was less than .05 (p < .05), which implies that there was a significant difference between each IV and the DV.

The result shows that Shari’ah governance had the highest significant relationship (r = .763), followed by Educating the Public (r = .695) and lastly the product approval (r = .668). So, all the IVs; Shari’ah governance, Educating the Public and product approval were significantly related to Islamic banking in Kenya.

4.5.3 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;

$$Y = a_0 + bX_1 + cX_2 + dX_3 + e \dots\dots\dots (i)$$

Where;

Y = Growth of Islamic banking

X₁ = Shari’ah governance.

X₂ = educating the Public, X₃ = product approval a= Intercept b, c and d = Slopes.

e = error term

The study obtained an Analysis of Variance (ANOVA) estimate of model fitness, and the results were captured in Table 4.9.

Table 4.9: 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 ^b
Residual	7.127	66	.108		
Total	22.759	70			

a. Dependent Variable: Growth of Islamic Banking in Kenya

b. Predictors: (Constant), Product approval, Shari’ah governance, Educating the Publics:

The study generated a hypothesis from table 4.10 to test the model of fitness of fit; $H_0: \beta_1 = \beta_2 = \beta_3 = 0$ (i.e., the coefficient of X_1 , X_2 , and X_3 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 rejected and H_a : is accepted if p-value $\leq .05$ (at 5% level of significance).

Table 4.9 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 governance, Educating the Public and product approval, is useful in predicting Growth of Islamic Banking in Kenya. The model is useful in explaining Growth of IB in Kenya. These findings provided enough evidence for the IVs to be regressed against the DV to estimate the study model. After regression the results obtained were captured in Table 4.10.

Table 4.10: Regression Results of DV against Predictor Variables

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.291	.198		-1.471	.046
Education to public	.233	.076	.248	3.070	.003
Shari’ah governance	.278	.070	.338	3.989	.000
Product approval	.329	.079	.314	4.152	.000

a. Dependent Variable: The Growth of Islamic Banking in Kenya

The results in Table 4.11 show that the p-value for Educating the Publics is .003 that of Shari’ah governance is .000 and product approval is .000. Since the p-value for each predictor variable was less than 0.05, there is a clear indication that there was a significant relationship between each independent variable (Shari’ah governance, educating the Public and product approval) and the dependent variable; the growth of Islamic Banking in Kenya.

This is to say that all the predictor variables; Shari’ah governance, educating the Publics and product approval could estimate the DV, growth of Islamic Banking in Kenya.

The coefficient for internal Shari’ah governance is .278, educating the Publics was .233 and product approval was .329. The estimated model was therefore fitted as;

$$Y = -.291 + .278X_1 + .233X_2 + .329X_3 + \dots \quad (ii)$$

Table 4.10 shows that Shari’ah governance; educating the Publics and product approval 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 governance, educating the Publics, and product approval 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 4.11.

Table 4.11: Model Summary for Growth of Islamic Banking in Kenya

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.753 ^a	.659	.659	.42870

a. Predictors: (Constant), Product Approval, Shari’ah governance, Educating the Publics

The results in table 4.11 shows the coefficient of determination was .659, an indication that 65.90% of changes in growth of Islamic Banking in Kenya for fully pledged IBs is explained by Shari’ah governance, educating the Publics and product approval. Therefore, all the variables; Shari’ah governance, educating the Publics and product approval are strong determinants of the 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; determine the factors that enhanced the role of Shariah scholars in the growth of Islamic Banks in Kenya; establish the extend to which Islamic financing products influences the growth of Islamic banks in Kenya; determine the problems faced by Islamic Scholars in the growth of Islamic Banks in Kenya and their solutions.

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 Islamic Banking in Kenya

The study found that generally, the growth of IB in Kenya fully fledged 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 a tremendous increase of bank branches due to growth of clients and the growth of the bank moderately led to an increase in bank accounts in the bank. This is to say that the expansion of the banking infrastructure was highly influenced by the influence of Shariah governance. The growth of the bank was found to moderately contribute to the retention of existing clients in IBs. Surprisingly, the financial position of these banks 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 of the increased clientele.

5.2.2 Findings on Shari'ah governance and Growth of FCB

The study found Shari'ah governance 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 Educating the Publics and Growth of IB

The study found out that educating the Publics moderately influenced the growth of Islamic Banking in Kenya. Among the factors of education on Financial option; PLS principle (mudharabah) creates some clear engagement among the bank and clients that moderately lead to growth Islamic banking. It was found that the clients were highly attracted to IB because of Islamic partnerships (Murabahah) 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 thus leading growth of Islamic banking in Kenya.

5.2.4 Influence of Product Approval on Growth of IB

It was found that the product approval 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 IB. 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 the bank) never ensured growth of client base. It was further found that the service delivery influenced the choice of clients which moderately attracted new customers. The bank dealt with products and services that

were accepted by Islamic law only (Halal) were found to attract new clients thus growth of Islamic banking system.

5.2.5 Problems faced by Islamic Scholars in the growth of Islamic Banks in Kenya

The challenges that were faced by Islamic banks operating in Kenya is highlighted by the fact that a substantial number of respondents felt that FCB staff were not fully conversant with the concept of Islamic banking making this one of the most significant challenges that the bank faces.

The number of branches and opening hours were also mentioned by the respondents as the main challenges that they face.

The bank seems to be aware of the inconvenience brought about by the low number of branches and has moved to engage larger banks such as the National Bank and the Cooperative bank in partnerships where FCB customers can use these banks' facilities to undertake some transactions. Another arrangement put in place to counter this particular challenge has seen customers able to withdraw money using Pesa Point ATM services.

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 governance, Educating the Publics and product approval are useful in predicting growth of Islamic banking in Kenya. It was found that 65.90% of change in growth of Islamic Banking in Kenya for fully fledged IBs is explained by Shari'ah governance, Educating the Public and product approval. Therefore, all the variable; Shari'ah governance, Educating the Public and product approval 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 Islamic Banking in Kenya

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 deposits 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 the same products as CB, posing a threat to the commercial banks.

The findings were also in support of the study by Bashir (2014) study. It 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 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 communities 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). This 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 marketplace. This was earlier ascertained by GIFR (2010), First Community Bank (2013).

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 Shariah contracts of financing their businesses. These options are based on the Musharakah contracts, Murabahah contracts, and Mudarabah contracts and are mainly intended to meet all the financing needs of their clients without much emphasis on 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 fledged IB

5.3.2 Discussions on Shari'ah governance and Growth of IB

The study found that by Shari'ah governance 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 Shariah compliance 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 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 Islamic banking.

According to Kadubo (2010) IBs have sharia boards and the bank products being offered must be approved by the board as guided by shariah scholars. The Shari'ah governance is influenced by the Shari'ah board that is running the regulatory framework that 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 attractive. 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 willing 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 Sharia Law, which bans interest [riba] (Kammer et al., 2015). Further IB prohibits; exploitation of ignorance (Jahla) 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 Murabahah, 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 Educating the Publics and Growth of Islamic banking.

The provisions of education on 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 Islamic banking after gaining knowledge about them. 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, with some of them being very knowledgeable about them, they immediately made their decisions to become depositors of these banks. So, clients usually consider such 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 Shariah contracts such as; Murabahah, Mudharabah, Musharakah, Ijarah, Qardhul Hasan, Ijarah Thumma Al-Bai' and Istisna'a'. 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 of IB products and are therefore customers to IBs as revealed by Thambiah *et al.* (2010) that IB attracts 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 Educating the Publics, 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 clients may opt to seek services 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 Influence of Product approval on Growth of Islamic banking

The present study found that service delivery moderately influenced the growth of Islamic banking, a confirmation of the findings in the study by Alafi and AL-Fawaeer (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, and relationship quality satisfy clients of banks as it encourages growth of the Islamic Banking.

Basically, product approval 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.

5.3.5 Problems faced by Islamic Scholars in the growth of Islamic Banks in Kenya

Risk management and corporate governance, the lack of human capital, lack of standardizations and government regulation on Islamic banking are some of the challenges faced by the Islamic banking sector.

This is because despite the advantages of Sharia-compliant services, Islamic banks have to fight stiff competition and as such building a competitive edge can only help them, which can be done by effective positioning strategies along with redesigning service (Zineldin, 1996). According to Kahf (2004), some Islamic banks in majority Muslim countries may pay little attention to the quality of services they offer to their clients especially if such banks enjoy a position where they can exercise some monopolistic power in the market. In Kenya, banks like FCB are in a situation where they no longer act alone in the Islamic financial services market.

Many conventional banks in Kenya like Barclays Bank, KCB and Chase Bank, and National Bank of Kenya offer Islamic window services making the market more and more competitive.

The results show that the bank is performing well in terms of the quality of services that it offers its customers. Services are instantly provided and hence every customer feels the result instantly meaning that it is very important that the bank leaves its customers with a good impression (Zeithaml and Bitner, 1996). According to Othman and Owen (2003), the nature of products which are basically intangible in services including a tangible action, so customer satisfaction in services is not only influenced by objective measures of performance but also influenced by intangible aspects during the service performance.

According to Tahir (2003), while the Islamic financial model is feasible, it faces problems of general acceptability, mainly due to unfamiliarity with the various Islamic modes of financing. Civic education can be achieved by raising awareness of consumers about Islamic banking and persuading the consumers with products and communications.

Nzibo (2010) argues for civic education to convince the Muslim community that these are truly fully fledged Islamic banks with reputable Sharia advisory boards of international standards.

Number of branches and opening hours were also mentioned by the respondents as the main challenges that they face. In addition to its headquarters, FCB has other branches and operates ATMs countrywide. This is in addition to being connected to the Ken switch and Pesa point ATM networks throughout the country (FCB, 2012).

The bank's opening hours are generally similar to those of conventional banks also operating in the country. The bank will have to address these challenges faced by their clientele in order to ensure customer satisfaction. Naser et al (1999) state that because Islamic banks face competition from other Islamic banks and non-Islamic banks offering more or less similar products and services, it is the customer satisfaction that can influence the performance of an Islamic bank and determines whether its competitiveness and success are vulnerable.

5.4 Conclusions

The study established that the growth of Islamic banking in Kenyan fully fledged 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 governance 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 educating the Publics on Financial 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 (Murabahah) which has high influence; and joint venture (Musharakah) option that has high influence. The principle of interest free lending and availability of credit causes high influence

and leasing contracts (Ijarah) whereby Islamic banks lease an asset for a specific rent and period to the client which has moderate influence.

The study concludes that product approval moderately influences the growth of Islamic Banking in Kenya. This relies on the cost and benefit of product offered which moderately accelerates growth of Islamic Banking system; service quality that moderately enhances growth of customers to the Bank; 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 governance, educating the Public, and product approval are strong determinants of growth of Islamic Banking in Kenya and that 65.90% of change in growth of Islamic Banking in Kenya for fully pledged IBs is explained by Shari'ah governance, educating the Public and product approval.

However, there are several challenges that must be overcome by FCB and other Islamic banking institutions. Increasing competition and diversity of service development in banking and financial services sector pressures the Islamic banks to become increasingly responsive to market considerations in terms of segmentation, management and market strategies, internal and external infrastructure, their use of information technology and their ability to innovate and differentiate. The emerging popularity of Islamic banks has led mainstream finance institutions in Kenya to begin operating their own Islamic banking windows in response to rising demand from customers.

For fully fledged Islamic banks to thrive, they will need to put in place effective market positioning to identify influential factors affecting customer satisfaction is of paramount importance for Islamic banks.

In addition to the training of personnel qualified in Islamic finance, Sharia compliant banks will need to conduct promotion and marketing activities.

The promotion and marketing goals and plans should address matters such as product and service price, distribution, communication and the development of new products. In the Kenyan market, FCB and other Islamic banks need to develop credibility and spread awareness of products, educate the staff and keep updated with the customers' demands and put in place a strong infrastructure for operating smoothly.

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 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 systems 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 levels 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 schools 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 provisions 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 citizens.

They should as well clearly explain the (mudharabah) principle, the Islamic partnerships (Murabahah), 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 advertising 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 approval should be above board. The IB should design and develop cost effective and beneficial products. The service delivery should be fast speed, efficient and friendly and the entire product should be 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 Islamic banks in Kenya using secondary data.

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

Thirdly, the study established 65.90% of change in growth of Islamic Banking in Kenya is explained by Shari'ah governance, educating the Publics and Product approval.

So, further research be carried out to determine what other factors explain the remaining 34.10% of the growth of Islamic Banking in Kenya.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear Respondent,

Attached is a questionnaire that will be used to collect data on The Role of Shariah Scholars in the Growth of Islamic Banks in Kenya: a Case Study of First Community Bank. You are therefore kindly requested to provide the required information in the questionnaire. The instructions on how to fill the questionnaire are provided below. Any information and opinions obtained in connection to this study are important and will remain confidential to be used only for this research. No individual responses will be reported.

Thank you for your cooperation and time.

Evans Wafula Simiyu BBM/2017/41919

Instructions on how to fill the Questionnaire

This questionnaire contains two parts: Section One and Section Two.

Section One is designed to obtain some general information. Kindly tick the box next to the option that best applies to you.

Section Two is designed to rate some statements pertaining to the growth of FCB. In some cases, you will be required to provide your opinion by filling in the blank spaces.

Section One: Demographics

1. What is your gender? Please tick (✓) in ONE of the check boxes provided below.

Female.

Male

2. What age bracket do you fall under? (Please tick (✓) in ONE of the boxes provided below).

- a). Less than 20 years
- b). Between 20 years and 29 years
- c). Between 30 years and 39 years
- d). Between 40 years and 49 years
- e). 50 years and above

3. Which is the highest academic qualification you have received? (Please tick (✓) in ONE of the boxes provided below).

- a) Less than High School
- b). High School certificate
- c). Diploma or Post-Secondary Certificate
- d). Bachelor's Degree
- e). Masters and above

4. What is your religion? Please tick (✓) in ONE of the check boxes provided below.

Muslim

Non-Muslim

Section Two:

A. Growth of the Islamic banking.

1. 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					

B: Shari’ah governance

1. 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

Shari’ah governance Indicator	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					
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C: Educating the Public

1. 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

Educating the Public Indicator	0	1	2	3	4
The Profit and Loss Sharing (PLS) principle (Mudarabah) creates a clear engagement among the bank and clients leading growth of client base					

The clients are attracted to IB because of Islamic partnerships (Mudarabah)					
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					

D: Product approval

1. 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

Product approval Indicator	0	1	2	3	4
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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