Strategic Management Factors Affecting Sector-Based Banks in Enhancing Growth in Secondary Markets - A Case Study of Islamic Banks in Kenya

Mwinyi Zeinab Hussein¹ & Dr. Peter Situma Sasaka²
¹Student - Jomo Kenyatta University of Agriculture and Technology
²Lecturer - Jomo Kenyatta University of Agriculture and Technology

Abstract: Commercial banks in Kenya are facing stiff competition necessitating the design of competitive strategies to guarantee their performance. These commercial banks have to consider how to enter a market and then build and protect its competitive position. Islamic Banks begin to realize that no bank can offer all products and be the best or leading bank for all customers. Islamic Banks should therefore not only come up with strategies to counter the competition but also measure the effects of the combined strategies that they employ. The purpose of this study was to assess the effect of competitive strategies that should be adopted by Islamic Banks in response to demand for banking services in Kenya. The specific objectives were to investigate the effect of cost leadership strategy, determine the effect of innovativeness, to examine the effect of differentiation strategy and to investigate the effect of market growth strategy on performance of Islamic banks in Mombasa County. The target population was 3 fully fledged Islamic banks and other 2 banks that have included Islamic Window banks. The respondents were the heads of various departments and branch managers of the selected Islamic banks in Mombasa County. A census technique was used to select a sample of 17 managers. Further, simple random sampling was used to select a sample of 79 heads of departments across all the branches. Therefore, a sample size of 96 respondents was used for the study. The study used questionnaires, containing both open ended and closed ended questions to obtain primary data. The instrument was self-administered. The instrument was pretested with a sample of 9 respondents. The reliability of the instrument was estimated using Cronbach’s Alpha coefficient. Pilot test was done by administering the instrument to ensure congruence between field objections and the phenomena being researched. Descriptive and inferential statistics were used to analyze the data in the form of percentages and frequencies and presented in tables, charts and graphs. The study found and concluded that all the four factors that were studied, that is Cost leadership strategy, differentiation strategy, Innovation strategy, Market growth strategy strongly affects the Performance of Islamic Banks in Mombasa County. The ANOVA statistics tested the fitness of the regression model and obtained the significance F-value of 46.000 (p = 0.000). This implied that the regression model obtained was fit and statistically significant therefore can be deemed fit for prediction purposes. It is also recommended that these Islamic Banks adopt competitive strategies that suit them.

INTRODUCTION

1.1 Background of the study

Banks make money based on the total deposits maintained and loans issued. Consumers have many banks and credit unions to choose from, all competing for their checking, savings and lending needs. In highly competitive markets, banks must utilize strategies for acquiring and retaining assets from new and existing customers. Retail banks, like other financial institutions, have had to rethink their strategies for revenue growth following the economic crisis in the first decade of the 21st century, according to consultants Deloitte. Powers and Hahn (2004) looked into whether or not there are any links between competitive methods, generic strategies and firm’s performance. Their article showed that in financial businesses, a cost leadership strategy did perform better than differentiation and focus. However, those, which have chosen differentiation and focus, performed better than the company that was stuck-in-the middle. Choosing a strategy based on the positional advantage in the market will make a firm successful, because it is dependent upon which resources are available to them.

In the banking industry, increased competition threatens the attractiveness of the industry and reduces the profitability of the players in the sector. It exerts pressure on banks to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual
changes in the competitive environment (Johnson & Scholes, 2002). Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, banks are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Pearce & Robinson, 2005). According to Johnson and Scholes (2008), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

1.1.1 Global perspective

As globalization leads to more intense competition among manufacturing organizations, with increase in customer demands, these organizations tend to seek competitive advantage by producing products with more valued features, such as product quality, product flexibility or reliable delivery (Baines & Langfield-Smith, 2003).

In today’s rapidly changing economic and business environments, organizations compete for customers, revenue, market share with products and services that meet customer’s needs. Global competition has brought about technological changes whereby customers are demanding for superior quality products/services with lower prices. More so, this increased rate of global competition has brought about reduction in product life cycle. This has led to much emphasis being placed on organizational competencies and creation of competitive advantage which is believed would give them an edge over other competitors (Raduan, Jegak, Haslinda & Alimin, 2009).

More recently however, the process of globalization has been boosted by the economic activities of multinational corporations (MNCs) such as Toyota, Sony, Coca-Cola, etc. These MNCs for long period of time have achieved and sustained their competitive advantage via various strategic management practices and approaches (Raduan et al., 2009). Due to the global outreach and impact of these MNCs, it is vital that they understand the degree of relationship between their organizational resources, their competitive advantage and the level of their performance. This is because as far as the strategic management of organizations is concerned, the knowledge of the significant attributes of organizational resources and how to generate competitive advantage and performance alone are not sufficient (Raduan et al., 2009).

1.1.2 Regional perspective

Many of the studies on the relationship between strategic planning and firm performance were done between 1970s and early 1990s, in the developed economies. These studies focused on the direct relationship between strategic planning and firm performance. Although the studies within the African context by Hill, Jones and Schilling (2014) noted that firms that practiced strategic planning recorded better performance compared to non-planners, their focus, however, was on the formality of planning rather than the link between planning and firm performance.

International businesses and multinational corporations (MNCs) such as Sony, Toyota and Intel have achieved and sustained their longstanding competitive advantage through various strategic management practices. In the present era of globalization, industries and enterprises compete and confront each other on the global scale. As such, Malaysian business enterprises, particularly manufacturers, have much to learn from the strategic management practices of the so-called inter- and multinational corporate "giants" regarding sustaining a competitive advantage.

1.1.3 Kenyan perspective

The concept of Islamic banking in Kenya is not new. Islamic banks are penetrating into the Kenyan market and competing head on with conventional banks for the same customers. Islamic Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, Islamic banks are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Pearce & Robinson, 2005). According to Johnson and Scholes (2008), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains. Porter (2004) viewed competitive strategies as a two dimensional phenomenon with a supply side – strategic scope; and a demand side – strategic strength. He later simplified the scheme into three generic strategies, namely ‘overall cost leadership’, ‘differentiation’ and ‘focus’. Johnson, Scholes and Wittington (2008) on the other hand, perceive competitive strategies from a business level perspective and believe that it is the achievement of competitive advantage by a business unit in its particular market. They advocate for a hybrid strategy which provides a market-facing element to Porter’s model in the form of price as a new dimension and its
combination with differentiation. Sidlorwicz (2007) on the other hand sees competitive strategies as more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare.

Drucker (2008) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the organization are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. One of the environmental influences to a business normally arises from competition (Pearce & Robinson, 2005). Combined strategy of an organization involves matching its corporate objectives and its available resources. In this development of strategy, managers are concerned with reconciling the business the organization is in with the allocation of resources (Porter, 2004). This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a ‘strategy’ designed to keep the organization in business (Hannagan & Bennett, 2008).

1.2 Statement of the Problem

Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. The essence of formulating competitive strategy according to Porter (2008) is relating a company to its environment. Johnson and Scholes (2008) argue that environment is what that gives organization their means of survival and it is also the source of the most immediate layer surrounding the organization. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. The two most prominent sources of competitive can be found in the business’s cost structure and its ability to differentiate the business from competitors.

Islamic Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is facing dramatically aggressive competition in a new deregulated environment (Reynolds, 2005). Despite the increased interest, Islamic banking penetration in non-Muslim countries has been slow as Islamic banks find it difficult to expand into different jurisdictions and face regulatory and Shari’a complications in terms of approvals. Islamic banks are also finding it challenging to cope with the evolving global banking environment and making appropriate rules and regulations to cope with these changes while still remaining competitive with their conventional counterparts. Additionally, the industry lacks consistency in product structures and investment practices that adversely affects its credibility, reputation, perception, regulation capabilities and its ability to accommodate the demands of non-Muslim clients from other banking institutions. This problem has narrowed their clientele base. This has led to the collapse of certain Islamic banks in the recent past (Business Daily, 2016).

Commercial banks in Kenya are realizing that stiff competition within the banking industry necessitates the design of competitive strategies to guarantee their performance. Successful strategies lead to superior performance and sustainable competitive advantage (Porter, 2004). The ability of a firm to command a competitive advantage depends on the sustainability of the competitive advantages that they command. The business environment in the country has drastically changed resulting in some commercial banks opening a number of branches across borders and thus increasing competition in the industry globally. Dulo (2006), states that every bank has to consider how to enter a market and then build and protect its competitive position. Guided by these facts, there is a need, to formulate a study on Islamic banking sector in Mombasa County, specifically to understand the effects of competitive strategies in Islamic banks in Mombasa County.

A number of studies have been done on competitive strategies in banking industries in Kenya; Onyoro (2011) discussed the competitive strategies and performance of multinationals banks in Kenya, Wanyonyi (2011) looked at the competitive strategies adopted by Kenya commercial bank to attract and retain corporate customers, Kimtai (2010) studied at the responses by commercial banks in Kenya to increased competition and Wanjiru (2009) the Competitive strategies adopted by the Kenya Commercial Bank in responses to challenges in the external environment. The findings of these studies indicate that indeed the firms employed a mix of strategies to ensure survival of the firm. Chege (2008) discussed competitive strategies adopted by Equity Bank Ltd; Mwangi (2010) looked at the competitive strategies adopted by the Kenya Commercial bank in response to challenges in the external environment. The result of the study indicated that investing in the latest cutting technology and innovative products were the most appropriate. Awour (2011) also examined the competitive strategies employed by
Studies with regard to the competitive strategies but in different industry include Hussein (2011) which analyzed on competitive strategies employed by Mumias sugar company to develop competitive advantage, also Kiptoo (2011) examined challenges of competition on Kenya Airways and Competitive Strategies adopted by the Airline. Mohamed also (2012) did study on competitive strategy of Malaysian small and medium enterprises to cope with global competition, Sultan (2007) did a study on competitive advantage adopted by small and medium sized enterprises, Emilia and Zuzana (2006) did a study on competitive strategy and competitive advantages of small and mid-sized manufacturing enterprises in Slovakia while Ciochin and Decusear (2008) did a study on the competitive advantages of small and medium enterprises. Ciochin and Decusear argued that superior performance can be achieved through pursuit of competitive strategies. This has made identification and pursuit of the right competitive strategy as a source of superior performance to become a predominant priority in all organizations banks included. Thus, the purpose of this study is to establish the effect of Competitive Strategies on Performance of Islamic Banks in Mombasa County.

None of the studies has concentrated on effects of competitive strategies on performance of Islamic banks in Mombasa County. The researcher intends to bridge this gap by carrying out a survey that was assess the effects of competitive strategies adopted by Islamic Banks in response to demand for banking services in Mombasa County.

1.3 Research Objectives
1.3.1 General Objective
The main objective of the study was to assess the effect of Competitive Strategies on Performance of Islamic Banks in Mombasa County.

1.3.2 Specific Objectives
The study was guided by the following specific objectives:

i. To investigate the effect of cost leadership strategy on Performance of Islamic banks in Mombasa County.

ii. To determine the effect of innovativeness on Performance of Islamic banks in Mombasa County.

iii. To examine the effect of differentiation strategy on Performance of Islamic banks in Mombasa County.

iv. To investigate the effect of market growth strategy on Performance of Islamic banks in Mombasa County.

1.4 Research Questions
The study was guided by the following research questions.

i. What is the effect of cost leadership strategy on Performance of Islamic banks in Mombasa County?

ii. What is the effect of innovativeness on Performance of Islamic banks in Mombasa County?

iii. What is the effect of differentiation strategy on Performance of Islamic banks in Mombasa County?

iv. What is the effect of market growth strategy on Performance of Islamic banks in Mombasa County?

1.5 Research Hypotheses
H01: There is no relationship between cost leadership and performance of Islamic banks in Mombasa County.

H02: There is no relationship between innovativeness and performance of Islamic banks in Mombasa County.

H03: There is no relationship between differentiation strategy and performance of Islamic banks in Mombasa County.

H04: There is no relationship between market growth strategy and performance of Islamic banks in Mombasa County.

1.6 Significance of the Study
The results and findings from this study formed a basis for policy formulations on ways of controlling the competitive strategies on performance of Islamic banks in Mombasa County in order for the Islamic Banks to gain competitive advantages over other commercial Banks. These study findings would be useful for the private sector as well as the government intending to invest in the Islamic banking.

The study would help Islamic banks managers to comprehend how generic strategies can provide a competitive advantage over competitors. Islamic banks would also get more insights on how to define and measure performance. Likewise, the uncovering and matching of key strategic practices that define each generic strategy better would assist managers in choosing the most appropriate strategy to implement. Further, results of the study would management work towards establishing ways in which they can effectively implement and develop strategies that are geared towards provision of efficient services so as to meet the current demand and plan for future growth.

This study would make a significant contribution to the growing body of research on project
implementations. The findings may be used as a source of reference for other scholars and as such form a basis of good background for further researches. It will enrich literature on firm performance by providing a more insights on strategy-firm performance link.

1.7 Scope of the Study
The study focused on the assessment of the effectiveness of competitive strategies which can be adopted by Islamic Banks in Mombasa County. The study was conducted on a number of registered Islamic Banks and Banks that have included Islamic Windows in their businesses in Mombasa County. They include; First Community Bank (FCB), Gulf African Bank (GAB), DIB Bank Kenya Limited, Chase Iman and National Amanah. The respondents were the top management employees (Bank managers) and heads of different departments of these banks. The study variables were cost leadership, innovation strategy, differentiation strategy and market focus strategy.

1.8 Limitation of the study
The study depended heavily on questionnaires as the only method of data collection which may not make the result findings very conclusive. Further, a number of respondents in the Islamic Banks could not be found at the time of the study. This was addressed by making an arrangement for convenient time for those workers who were not available at the time of the study. Further, some of the managers were busy at the time of study. This was addressed by allocating them ample time to respond to questionnaires and filling the questionnaires at their own convenient time.

LITERATURE REVIEW

2.1 Introduction
The chapter presents the theoretical framework, conceptual framework, empirical review and critique. The theoretical framework captures the various theories that inform the study. The chapter also presents the empirical literature review. In the empirical literature review, the findings are critiqued to establish the knowledge gaps.

2.2 Theoretical Framework
2.2.1 The Porters’s Theory of Competitive Advantage
The theory of the competitive advantage starts from the principle that the only important concept at the national level is the national productivity (Fota, 2004). In the elaboration of his theory, Porter starts from the following premises (Porter, 2008): - the nature of the competition and the sources of competitive advantage are very different among industries and even among the segments of the same industry, and a certain country can influence the obtaining of the competitive advantage within a certain sector of industry; - the globalisation of the competition and the appearance of the trans-national companies do not eliminate the influence of a certain country for getting the competitive advantage; a country can offer different competitive advantages for a company, depending if it is an origin country or a host country; - the competitiveness has a dynamic character (Schumpeter); the innovations have a role of leading force in this permanent change and determine the companies to invest on order not to be eliminated from the market (Grundy, 2006). Starting from these premises, Porter identifies a system of determinants which is the basis for getting competitive advantages by the nations.

Porter’s theory is relevant to the study especially when identifying strategic positions for the firm in order to compete favourably. A firm can concentrate on particular strategies that will differentiate them from other competitors. This way, a firm is able to introduce certain practices that allow them to outperform their rivals in the market. For this case, the bank will be able to meet customers’ needs by offering goods and services that satisfies them. The Islamic banks can therefore adopt this theory.

2.2.2 Market growth theory
Market growth theory was advanced by Ansoff. A product-market strategy, accordingly, is a joint statement of a product line and the corresponding set of missions which the products are designed to fulfil. Ansoff created Product-Market Growth Matrix as a marketing tool to allow for marketers to consider ways to grow the business via existing and/or new products and also in existing and/or new markets. There are four possible product/market combinations. This matrix helps companies decide what course of action should be taken given current performance (Pearce and Robinson, 2010).

The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy (Oyango, 2011) Market penetration is an effort to increase company sales without departing from an original product-market strategy. The company seeks to improve business performance either by increasing the volume of sales to its present customers or by finding new customers for present products. The company first considers whether it could gain more market share with its current products in their current markets (Kotler, 2001). Market penetration occurs when a company penetrates a market with
current products. The best way to achieve this is by gaining competitors’ customers other ways include attracting non-users of your product or convincing current clients to use more of your product/service, with advertising or other promotions. Market penetration is the least risky way for a company to grow. The Ansoff matrix illustrates in particular, that the element of risk increases the further the strategy moves away from known quantities that is the existing product and the existing market. Thus, product development and market extension typically involve a greater risk than penetration. And diversification generally carries the greatest risk of all.

Market growth theories applies to the study by enabling firms identify areas identify their areas of strengths. This way, they are able to develop certain products that can suit particular customers in the market. The feedbacks received by offering certain goods or services can be used to improve market penetration by diversifying it further. Islamic banks can therefore adopt this theory by strategically positioning themselves in the market. This way, they will be able to outperform other banks offering the same services in the banking industry. Strategic market plans allows a firm to have superior competitive strategies in terms of product development over its close rivals.

2.2.3 Resource Based Theory

The Resource Based view is a management tool used to assess the available amount of business strategic assets. It is based on the idea that the effective and efficient application of all useful resources that the company can master determine its competitive advantage (Powell, 2001). The Resource Based theory views the firm as a bundle of resources which can be utilized to achieve a position of advantage over other competing firms in the industry. It is these resources and the way that they are combined, which make firms different from one another. A firm’s resources include all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by the firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness. It is important for a firm to know the relevant resources that improve its efficiency and effectiveness (Powell, 2001). Barney (2001) noted that the resource based view of the firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier. A firm’s sustainable competitive advantage can therefore be reached by virtue of unique resources use. The resource-based view stipulates that in strategic management, the fundamental sources and drivers to firms’ competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly to copy.

This theory can apply to this study by ensuring sufficient use of resources. When resources are used well, affirm is able to compete their rivals by offering quality products and services. The firm is able to attract qualified manpower and purchase necessary equipment that can boost their competition in the market.

2.2.4 Mathematical Theory of Games

The mathematical theory of games was invented by (Deschamps& Nayak2008). Game theory is the study of the ways in which strategic interactions among rational players produce outcomes with respect to the preferences (or utilities) of those players, none of which might have been intended by any of them. Game theorists, like economists and philosophers studying rational decision-making, describe these by means of an abstract concept called utility. This refers to the amount of ‘welfare’ an agent derives from an object or an event. Welfare refers to some normative index of relative well-being, justified by reference to some background framework.

Brands, as a result of innovations and differentiation, can be considered as a method of signaling quality and other product characteristics to consumers. The “hidden” value that may be uncovered by applying game theory is the deterrence value of investments in intellectual capital. As is well known, patents and copyrights add value by deterring competitors from making use of the same work and allow the patent or copyright holder to enjoy exclusive use of the intellectual work for a limited time. However, game theory shows that such a deterrence effect can also occur in the absence of patents and copyrights.

This theory can help banks make critical decision regarding their position in the industry. For this case, Islamic banks are able to understand how key players in the market operate. They can then position themselves to have better competitive strategies over their rival banks.

2.3 Conceptual framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Figure 2.1 is a figurative representation of the variables that were explored by the study.
2.3.1 Cost leadership

Cost leadership involves becoming the low-cost firm in an activity and can operationalized as low input costs, economies of scale, experience, products/process design and low pricing (Johnson et al., 2011). Low input costs involve locating operations close to materials and cheap labour; economies of scale require large scale operations and experience is where more experience leads to efficiency. Products/process design influence efficiency by making products from cheap standard materials while low pricing is made possible by having products that are close to competitors in terms of features. The firm can then make small price cuts to compensate the slightly lower quality (Johnson et al., 2011).

The companies that attempt to become the lowest-cost producers in an industry can be referred to as those following a cost leadership strategy. The company with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. It is important to note that a company might be a cost leader but that does not necessarily imply that the company's products would have a low price. In certain instances, the company can for instance charge an average price while following the low-cost leadership strategy and reinvest the extra profits into the business (Lynch, 2003). The risk of following the cost leadership strategy is that the company's focus on reducing costs, even sometimes at the expense of other vital factors, may become so dominant that the company loses vision of why it embarked on one such strategy in the first place.

One of Porter’s generic strategies is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Davidson, 2001). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost

---

**Figure 2.1: Conceptual Framework**

<table>
<thead>
<tr>
<th>INDEPENDENT VARIABLES</th>
<th>DEPENDENT VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost leadership strategy</strong></td>
<td><strong>Performance</strong></td>
</tr>
<tr>
<td>• Efficiency and cost control</td>
<td>• Profitability</td>
</tr>
<tr>
<td>• Capacity utilization of resources</td>
<td>• Market share</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Innovativeness</strong></td>
<td></td>
</tr>
<tr>
<td>• Unique products</td>
<td></td>
</tr>
<tr>
<td>• Unique services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Differentiation strategy</strong></td>
<td></td>
</tr>
<tr>
<td>• Product/service</td>
<td></td>
</tr>
<tr>
<td>• Prices</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Market growth strategy</strong></td>
<td></td>
</tr>
<tr>
<td>• Social class</td>
<td></td>
</tr>
<tr>
<td>• Income level</td>
<td></td>
</tr>
</tbody>
</table>
produces, and sells a comparable service and innovative ways of cutting costs. Successful low control and continuously seek creative and to: be better than rivals on efficiency and cost than competitors. This requires the Islamic Banks for competitive advantage is lower overall costs for scale of operation. When Islamic Banks designs, cheaply than competitors by stressing efficient activity cost chain. A cost leadership strategy is exhaustively pursuing cost savings throughout the competitors and gaining a larger market share. Islamic Banks that achieve low cost advantage over competitors the theme of their business strategy. Cost leadership is based on lower overall costs than competitors. Islamic Banks that achieve low cost leadership generally make low cost relative to competitors the theme of their business strategy. The Islamic Banks opens up a sustainable cost advantage over competitors and uses that lower cost as a basis for either under-pricing the competitors and gaining a larger market share at their expense or earning a higher profit margin by selling at the going price. A low-cost leader’s basis for competitive advantage is lower overall costs than competitors. This requires the Islamic Banks to: be better than rivals on efficiency and cost control and continuously seek creative and innovative ways of cutting costs. Successful low cost producers achieve cost advantages by exhaustively pursuing cost savings throughout the activity cost chain. A cost leadership strategy is designed to produce goods or services more cheaply than competitors by stressing efficient scale of operation. When Islamic Banks designs, produces, and sells a comparable service and product more efficiently than its competitors as well as its market scope Islamic banks often drive their cost lower through investments in efficient-scale facilities, tight cost and overhead control, and cost minimizations in such areas as service, selling and advertising (Porter, 2008). They often sell no-frills, standardized services and products to the most typical customers in the industry.

2.3.2 Innovation strategy
Innovation is considered to be a critical requirement for the growth and profitability of organizations. For private sector organizations operating in increasingly competitive market, innovation is often a condition for simple survival. The capability to innovate is ever more viewed as the single most vital factor in developing and supporting competitive advantage (Tidd, 2001). According to Davila, Epstein and Shelton (2009) innovation is a necessary ingredient for sustained success and is an integral part of the business. In today's knowledge economy, investments in intellectual assets are considered more and more to be key strategic elements to maintain a business' growth, profitability and competitiveness (Berry, 2000). For banking organizations operating in increasingly competitive market, innovation is often a condition for simple survival. The capability to innovate is ever more viewed as the single most vital factor in developing and supporting competitive advantage. Innovation in the banking sector aims at developing a change adept organization that anticipates, creates and responds effectively to change in the external and internal environments to increase profit potential. Some of the forces of change that have greatly influenced the banking industry in Kenya include intense competition, regulation and technological advancement.

2.3.3 Differentiation Strategy
This strategy involves uniqueness in doing something that is sufficiently valued by customers to allow a price premium (Johnson et al., 2011). The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to an industry. The uniqueness should also translate to profit margin that is higher than the industries average (Porter, 2008). Barney and Hesterly (2008), defined product differentiation as a business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their products or services relative to the perceived value of other firms’ products or services. A firm differentiates itself from its competitors if it can be unique at something that is valuable to buyers. To be
successful with a differentiation strategy, a company has to study buyers’ needs and behavior carefully to learn what they consider important, what they think has value and what they are willing to pay for (Thompson et al., 2007). Differentiation must add value for the customer and thus the strategy should be designed from the customer’s perspective rather than the firm’s perspective. The added value must be communicated to the customers and they should effectively perceive it; done by creating brand value (Porter, 2008).

Differentiation strategies are an attractive competitive approach when buyer preferences are too diverse to be fully satisfied by a standardized product or when buyer requirements are too diverse to be fully satisfied by sellers with identical capabilities. The essence of a differentiation strategy is to be unique in ways that are valuable to customers and that can be sustained (Thompson & Strickland, 2001). Differentiation strategy is implemented over the product, services, personnel and image.

Differentiation strategy is a marketing technique used by commercial banks to establish strong identity in a specific market. Using this strategy public commercial banks will introduce different varieties of the same basic service and product under the same name into a particular services and products category and thus cover the range of services and products available in that category. Differentiation strategy can also be defined as positioning a brand in such a way as to differentiate it from the competition and establish an image that is unique (Davison, 2011).

Commercial Banks can develop and market unique services and products for different customer segments. Usually employed where a commercial Bank has clear competitive advantages, and can sustain an expensive advertising campaign. It is one of three generic marketing strategies that can be adopted by any public university. To maintain this strategy Islamic Banks should have: strong research and development skills, strong services and products engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, and incentives based largely on subjective measures, be able to communicate the importance of the differentiating services and products characteristics, stress continuous improvement and innovation and attract highly skilled, creative personnel (Bashir, 2003). Research within service sector (Prescott, 2008), concludes that services and product differentiation is a common way of differentiating the Islamic Bank offerings from those of its competitors.

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the services and products of the competition. The value added by the uniqueness of the services and products may allow the Islamic Banks to charge a premium price for it. Islamic Banks that succeed in a differentiation strategy often have access to leading scientific research, highly skilled and creative services and products development team, strong sales team with the ability to successfully communicate the perceived strengths of the services and products and corporate reputation for quality and innovation (Davison, 2011). Successful differentiation is based on a study of buyers from different places needs and behaviour in order to learn what they consider important and valuable. The desired features are then incorporated into the services and products to encourage buyer preference for the services and products. Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command, or by offsetting the lower profit margins through more sales volumes (Grant, 2002).

Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a public university. Hyatt (2011) insists that anything that Islamic Banks can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its services and products at an acceptable cost. These attributes may raise the services and products’ performance or make it more economical to use. Differentiation possibilities can grow out of possibilities performed anywhere in the activity cost chain.

2.3.4 Market growth strategy

The Ansoff Product/Market Growth Matrix is a marketing tool created by Igor Ansoff. The matrix allows marketers to consider ways to grow the business via existing and/or new products, in existing and/or new markets. There are four possible product/market combinations and this matrix helps companies decide what course of action should be taken given the current performance.

The focuser’s basis for competitive advantage is either lower costs than competitors serving that market segment or an ability to offer niche members something different from competitors.
Focusing is based on selecting a market niche where buyers have distinctive preferences. The niche is defined by geographical uniqueness, specialized requirements in using the services based on certain physiological aspects or by special attributes that appeal to members of a certain social class (Stone, 2008).

A focus strategy based on low cost depends on there being a buyer segment whose needs are less costly to satisfy than the rest of the market based on their income levels. On the other hand, a focus strategy based on differentiation depends on there being a buyer segment that demands unique services and products attributes. In the focus strategy, a public university targets a specific segment of the market (Porter, 2008). Focus also is based on adopting a narrow competitive scope within an industry.

Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and services and products specifications or requirements. A successful focus strategy (Porter, 2008) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy.

2.3.5 Measurement of Performance

Performance measurement is critical for effective management of any firm (Demirbag, Tatoglu, Tekinus and Zaim, 2006). The process improvement is not possible without measuring the outcomes. Hence, organizational performance improvement requires measurements to identify the level to which the use of organizational resources impact business performance (Gadenne & Sharma, 2002). The firm’s success is basically explained by its performance over a certain period of time. Researchers have extended efforts to determine measures for the concept of performance as a crucial notion. Finding a measurement for the performance of the firm enables the comparison of performances over different time periods.

2.4 Empirical Review

Alamdari and Fagan (2005) carried a model-based study, by discussing the effectiveness of the low cost model and the effect on the profitability of banks. They found that the bank with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. They however found that the company’s focus on reducing costs, even sometimes at the expense of other vital factors, may become so dominant that the company loses vision of why it embarked on one such strategy in the first place.

Auka (2014) conducted a study on to determine the effect of Porter’s Generic Competitive Strategies on Customer Satisfaction within commercial banks in Nakuru Municipality. The results revealed that most bank customers agreed that banks adopted the three Porter’s generic strategies (Differentiation, Cost Leadership and Focus strategy) and they also agreed that the aspects of customer satisfaction are experienced by majority of the customers. Results also revealed that differentiation, cost leadership and focus strategy were significantly positively related to customer satisfaction.

Bisungo, Chege and Musiega (2014) conducted a study to examine competitive strategies that the farmers’ cooperatives adopt to achieve competitive advantage in Butere sub-county, Kenya. The study concluded that cost leadership, customer focus, and quality management competitive strategies affect business performance. Birjandi, Jahromi, Darabi and Birjandi (2014) conducted a study to investigate the effect of Cost Leadership Strategy on ROA and future performance. The results indicated that in the firms with cost leadership strategy, there were positive relationships between...
the ratio of sale to capital expenditure with percent of growth in sales.

Nyaunjo and Nyanweya (2015) conducted a study to assess the effect of Cost Leadership Strategy on the performance of Liquefied Petroleum Gas Companies in Eldoret town, UasinGishu County, Kenya. The study concluded that, cost leadership influences the performance of LPGC’s performance enabling the company to reduce price leading to high volume of sales visa a-visa profit margin, increase in service delivery, less return inwards, reduced operational costs and reduced wastages.

Afannde (2013) conducted a study on the effects of strategic management practices on performance of financial institutions in Kenya: A case of Kenya Post Office Savings Bank. The findings show that the strategies adopted by Postbank so as to cope with the competitive environment include vigorous pursuit of cost reductions, providing outstanding customer service, improving operational efficiency, controlling quality of products/services, intense supervision of frontline personnel, developing brand or company name identification, targeting a specific market niche or segment, and providing specialty products/services. The findings also show a significant relationship between the strategies adopted by Postbank in Kenya and their respective performances.

Kinyuira (2014) conducted a study on the effects of Porter’s generic competitive strategies adopted by Saccos in Murang’a County on their performance. The study found significant positive effects of cost leadership, differentiation and focus strategies on performance of Saccos and concluded that Saccos that pursue generic strategies can achieve superior performance compared to those that do not.

Kimotho (2012) did a study on the impact of competitive strategies on the financial performance of CFC Stanbic Bank Limited. The link between these competitive strategies and the financial performance of commercial banks form the framework of the study. The results indicate that those companies that are effective at rapidly bringing innovative new products and services to the market have gained a huge competitive edge in today’s business world. The results therefore attributed the improvement in financial performance on the competitive strategies that the bank has been undertaking in the past years of its existence.

Karlsson and Tavassoli (2015) conducted a study on the effect of various innovation strategies of firms on their future performance, captured by labour productivity. The main findings indicate that those firms that choose and afford to have a complex innovation strategy are better off in terms of their future productivity in compare with both those firms that choose not to innovative (base group) and those firms that choose simple innovation strategies.

A study carried out by Bagsh-Sen in 2001 in a survey of 54 SMEs in the Niagara region of Canada showed that firms that used innovation as a competitive strategy gained competitive advantage in sales and exports than their rivals (Bagsh-Sen, 2001).

Kungu, Desta and Ngui (2014) did an Assessment of the Effectiveness of Competitive Strategies by Commercial Banks: A Case of Equity Bank. The study found that there was a positive correlation between competitive strategy effectiveness; and innovation, customer focus, benchmarking and differentiation which were found to be statistically significant.

Ngugi and Karina (2013) conducted on the Effect of Innovation Strategy on performance of Commercial Banks in Kenya. The study found that the banks employed environmental analysis and response to change, the banks employed aggressive anti-competitors marketing campaigns. It was clear that product innovations affected performance of Commercial banks. The study found that process innovation strategies such as reduction of costs and conformance to regulations contributed to the bank’s profitability. The study revealed that technological innovations affected performance of commercial banks.

Abou-Moghli, Al Abdallah and Al Muala (2012) conducted a study to investigate the impact of innovation on realizing the competitive advantage in the banking sector in Jordan. The results illustrated that innovation has a direct positive impact on competitive advantage through its dimensions (time, quality, cost, and flexibility) and that banks should support innovation in all aspects of business and operations.

Rosli and sidek (2014) conducted a study on the Impact of Innovation on the Performance of Small and Medium Manufacturing Enterprises: Evidence from Malaysia. The findings confirmed the hypotheses that product innovation and process innovation influenced firm performance significantly, where the impact of the former was stronger than the latter.

Gunday, Ulusoy, Kilic and Alpakan (2015) conducted a study on the effects of innovation types on firm performance. The results reveal the positive effects of innovations on firm performance in manufacturing industries.
Kedera, Magret and Sakataka (2015) conducted a study on the effects of Product Differentiation Strategies on Firm Product Performance: A Case of Kenya Seed Company (KSC), Kitale. The customer base of KSC showed a steady rise from 10-15 years ago and it was due to product differentiation strategies categorically product quality. ASK shows provide the most important marketing strategy for KSC.

Bretherton and Chaston (2005) conducted a study on how small and medium sized firms such as wineries use their resources and how they access resources by using strategic alliances. In a survey conducted on 1500 small companies across Europe by the 3i European Enterprise Centre in 1994, it was found out that the companies which achieved growth in sales and profits over competitors were implementing the differentiation strategy.

Kungu, Desta and Ngui (2014) did an Assessment of the Effectiveness of Competitive Strategies by Commercial Banks: A Case of Equity Bank. The study found that equity bank uses different competitive strategies among them the combination strategy, cost leadership strategy, differentiation strategy, and focus strategy. The study found that there was a positive correlation between competitive strategy effectiveness; and innovation, customer focus, benchmarking and differentiation which were found to be statistically significant.

Arasa and Gathinji (2014) conducted a study to examine the relationship between competitive strategies and organizational performance among firms in the mobile telecommunications industry in Kenya. The study revealed that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies. Other strategies include strategic alliance strategies and specific market focus strategies. The study concludes that the strategies adopted improve the overall firm performance. The key performance indicators influenced by these strategies include sales and market share, customer retention, profitability and product innovation.

Chan and Jamison (2001) carried out an investigative study on the competitive strategies applied by banks in China from 1978 to 1998. The author states that the sector witnessed important players’ going in and out, different legal regulations were fulfilled, the structure and intensity of the competition became different, and trade making/differentiation became the most important element of the competition in that period.

Achoki (2013) conducted a study to determine the competitive strategies adopted by Bank of India, Kenya. The study showed that the bank used and emphasized on the application of focus/ market niche strategy to a large extend. It also uses to some extend differentiation, cost leadership and market penetration strategies to compliment the focus strategy.

Wachira (2010) conducted a study to assess the relationship between performance of financial sector firms listed in the Nairobi Securities Exchange and competitive strategies they have adopted in the last 3 years. The study found that the firms have achieved improvement along the terms of organisation performance which is measured along various indicators. The study recommends that in order for firms to maintain their competitiveness in the industry they should be cost focused as well as expanding their market coverage with different products.

Atikiya (2015) conducted a study determine effect of competitive strategies on the performance of manufacturing firms in Kenya. The findings of the study revealed that cost leadership, differentiation and focus strategies have positive significant relationship with manufacturing firm performance in Kenya.

2.5 Critique of Existing Literature

One of the main points of consideration was generic strategies that were elaborated in the previous part, and comments on which will be point of attention in the proceeding part As first point of concern one can think of is parameters of choice when it comes to the generic strategies, where according to Porter’s presentation it may look like companies have option to choose any of the three (Porter, 2008). However, choice of strategy is much bounded by size of the firm, access to the resources as well as industry and competitive analysis. In his book Porter is arguing that in order to be successful a business should compete on the basis of one strategy; cost leadership, differentiation or focus. However this statement does not have to be accurate according to some scholars. What Wright argues is that small firms have a choice of successfully competing only through focus strategy whereas bigger firm choice of either cost leadership or differentiation will not suffice and be attractive enough. Secondly Dawes and Sharp argues that Porter’s generic strategy schema does not fit the empirical reality, and there is no support that these generic strategies are route to superior profit. Furthermore critiques have been imposed on Porter’s cost leadership theory in terms of heavy reliance on modern equipment in order to achieve it.

Even though Porter’s competitive advantage was welcomed by management scholars and it is still thought in business schools there are also those who imposed certain critiques on his work. In his
article Barney states that cost and differentiation cannot be taken as leaders towards competitiveness for granted. For example, as he argues governmental, near-monopoly firms could enjoy high profit without either of Porters strategy due to the fact that they are constantly supported by the state. McGrath (2013) claims that there is no pure inside industry competition any more, now business models compete with each other, industries and product lines as well. Finally in his article completely devoted on criticism of Porter’s competitive advantage Klein argues that the way Porter explained road towards competitive advantage was quite prescriptive. Klein discredits Porter on the basis of tautology as well, claiming that on more than 500 pages he repeats the term competitive advantage without properly explaining what it really is, besides that a firm must have it. With the critique part topic of sustainable competitive advantage is completed. As one could see there are several origins of the latter proposed, however it all started with Porter’s book with the same title. Discredited or not, one have to appraise his work.

2.6 Research Gaps

A critical review of past literature showed that several conceptual and contextual research gaps existed in the effects of competitive strategies on performance. A study by Atikiya (2015) on the effects of competitive strategies on the performance of manufacturing firms in Kenya presented a contextual gap. Most studies on the effect of competitive strategies have focused generally on commercial banks in Kenya but none has ever specifically targeted Islamic banks. The study filled this research gap by assessing the effect of Competitive Strategies on Performance of Islamic Banks in Mombasa County.

2.7 Summary

This chapter contains the theories that inform the study, review literature on the topic and other related topic and the research that the current study aim to fill. These theories were discussed and their relevance linked towards the focus of the study which is the effect of competitive strategies on performance of firms with special reference to Islamic banks. Empirical review was done to identify any research gaps that the study intended to address.

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research methodology that was used in this study. It outlined the research design, its characteristics and why it was preferred over other research designs. It also provided information regarding the population of the study. The chapter also presented the sample frame and sample selection. It also provides information on the data collection method and the data collection instrument to be used in the survey. Finally, the chapter presented the data analysis method which was used and how the statistics were generated from the study.

3.2 Research Design

According to Kothari (2004) a research design can be defined as the plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process. It is therefore the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

This study adopted descriptive survey design. According to Upagade and Shende (2013) a descriptive survey is mainly concerned with description of facts only. It is a self-report that requires the collection of equitable information from sample (Orodho, 2005). Descriptive survey is appropriate for this study whose intention is to present a situation, what people currently believe in, what people are doing at the moment and so forth (Baumgartner, Strong and Hensley, 2002) with no control of the variables under investigation which is a limitation. The design is considered suitable as it allows an in-depth assessment of the effect of Competitive Strategies on Performance of Islamic Banks in Mombasa County.

3.3 Target Population

A population is the total collection of elements about which a researcher wishes to make some inferences, (Cooper et al., 2003). Mugenda (2008) describes the target population as a group or category of animals, human beings, or objects which have one or more characteristics in common; and have been selected as a focus of the study. There are 17 branches of Islamic banks in Mombasa County. Therefore, the target population of this study was 17 managers and 85 heads of departments of the Islamic banks in Mombasa County. Therefore, the units of analysis were bank managers and heads of departments. Each bank has 5 departments that include operations departments, sales, finance, personal banking and microfinance department.
Table 3.1: Population size

<table>
<thead>
<tr>
<th>Bank</th>
<th>Managers/branches</th>
<th>Heads of departments</th>
<th>Population size</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Community Bank (FCB)</td>
<td>3</td>
<td>(3*5)=15</td>
<td>18</td>
</tr>
<tr>
<td>Gulf African Bank (GAB)</td>
<td>5</td>
<td>(5*5)=25</td>
<td>30</td>
</tr>
<tr>
<td>DIB Bank Kenya Limited</td>
<td>2</td>
<td>(2*5)=10</td>
<td>12</td>
</tr>
<tr>
<td>Chase Iman</td>
<td>4</td>
<td>(4*5)=20</td>
<td>24</td>
</tr>
<tr>
<td>National Amanah</td>
<td>3</td>
<td>(3*5)=15</td>
<td>18</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>17</strong></td>
<td><strong>85</strong></td>
<td><strong>102</strong></td>
</tr>
</tbody>
</table>

(Researcher, 2016)

3.4 Sample Size and Sampling Technique

Kombo and Tromp (2009) assert that a sample is a subset of a population that has been selected to reflect or represent characteristics of a population. A census technique was used to select a sample of 17 managers. Further, simple random sampling was used to select a sample of 79 heads of departments across all the branches. Therefore, a sample size of 96 respondents was used for the study. The departments were categorized into operational, finance, sales, personal banking and microfinance each headed by head of department.

Table 3.2: Sample size

<table>
<thead>
<tr>
<th>Banks</th>
<th>Managers (census)</th>
<th>Heads of department (93%)</th>
<th>Total sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Community Bank (FCB)</td>
<td>3</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Gulf African Bank (GAB)</td>
<td>5</td>
<td>23</td>
<td>28</td>
</tr>
<tr>
<td>DIB Bank Kenya Limited</td>
<td>2</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Chase Iman</td>
<td>4</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>National Amanah</td>
<td>3</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>17</strong></td>
<td><strong>79</strong></td>
<td><strong>96</strong></td>
</tr>
</tbody>
</table>

(Researcher, 2016)

3.5 Data Collection Instruments

The study used primary data. The questionnaires had both open and closed ended questionnaires.

3.5.1 Primary Data

Primary data were obtained from the questionnaires that were administered to branch managers and heads of departments of the Islamic Banks. Orodho (2004) defines a questionnaire as an instrument used to gather data, which allows a measurement for or against a particular viewpoint. A Likert scale of five responses was used. Likert scale is an interval scale that uses five anchors or any other of strongly disagree, disagree, neutral, agree and strongly agree. The Likert scale measures the level of agreement or disagreement. Likert scales are good in measuring perception, attitude, values and behaviour. The Likert scale has scales that assist in converting the qualitative responses into quantitative values (Mugenda & Mugenda, 2003) and Zikmund, Babin, Carr &Griffin, (2010). Therefore it is justifiable to use likert scale in this study since overall measurement of performances based on innovativeness, differentiation, cost leadership and market growth.

3.5.2 Secondary data

Secondary data were used to back up primary data. Secondary data was obtained from journals and periodicals.

3.6 Data Collection Procedure

In order to establish the effectiveness of competitive strategies adopted by Islamic Banks in response to demand for banking services questionnaires were administered. The questionnaires to be administered were closed-ended. The choice of the instrument was based on the fact that it makes it easier to get adequate and accurate information necessary for the research. The two research assistants delivered the questionnaires to the respondents and have them filled in their presence to ensure better understanding of the questions and to enhance data reliability.

3.7 Pilot Test

Prior to using a questionnaire to collect data it should be pilot tested. The purpose of the pilot test was to refine the questionnaire so that respondents could have no problems in answering the questions (Saunders, Lewis &Thornhill 2012). The pilot test comprised of validity test and reliability test.
3.7.1 Reliability tests

Instrument reliability is the ability of the instrument to produce the same or highly similar or consistent results on repeated administrations (Bordens & Abbott, 2008). Cronbach’s alpha was used to test the reliability of the measures in the questionnaire. In this study, data collection instrument which is a questionnaire were tested on 10% of the sample of the questionnaires to ensure that it was relevant and effective. Reliability was tested using questionnaire duly completed by nine (9) randomly selected managers and heads of departments. These respondents were not be included in the final study sample in order to control for response biasness. The questionnaire responses were input into statistical package for social sciences (SPSS) version 20 and Cronbach’s alpha coefficient generated to assess reliability. The closer Cronbach’s alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2006). A coefficient of 0.7 is recommended for a newly developed questionnaire. The result instrument was reliable.

3.7.2 Validity tests

Validity refers to whether a questionnaire is measuring what it purports to measure (Bryman & Bell, 2015). This study used both construct validity and content validity. To ensure content validity, the questionnaires were subjected to thorough examination by two randomly selected top bank officials. They were asked to evaluate the statements in the questionnaire for relevance; and whether they were meaningful and clear. On the basis of the evaluation, the instruments were adjusted appropriately before subjecting it to the final data collection exercise. Their review comments were used to ensure that content validity is enhanced.

3.8 Data analysis and Presentation

According to Zikmund, Babin, Carr, & Griffin, (2010), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. This involves coding, editing, data entry, and monitoring the whole data processing procedure. To determine the patterns revealed in the data collected regarding the selected variables, data analysis were guided by the aims and objectives of the research and the measurement of the data collected.

The data and information obtained through the questionnaire were first checked for completeness. Data gathered from correctly filled questionnaires were coded, tabulated and analyzed using SPSS version 20. Descriptive statistics inferential statistics were used to present the study findings. The analysis of variance (ANOVA) were checked to reveal the overall model significance. In particular, the calculated f statistics were compared with the tabulated f statistic. A critical p value of 0.05 were also be used to determine whether the overall model was significant or not. A multivariate regression model was used to link the independent variables to the dependent variable as follows;

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Where,

- \( Y \) – Performance of Islamic Banks
- \( X_1 \) – Cost leadership
- \( X_2 \) – Innovativeness
- \( X_3 \) – Differentiation
- \( X_4 \) – Market growth
- \( \varepsilon \) = Error term

In the model, \( \beta_0 \) = the constant term while the coefficient \( \beta_1=1 \ldots 4 \) was used to measure the sensitivity of the dependent variable (\( Y \)) to unit change in the predictor variables \( X_1, X_2, X_3 \) and \( X_4 \). \( \varepsilon \) was the error term which captures the unexplained variations in the model.

RESEARCH RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the general findings of the study based on research objectives. The data was analysed and the study findings presented in form of tables and pie charts.

4.2 Response rate

The number of questionnaires that were administered was 96. A total of 74 questionnaires were properly filled and returned. The results for the response rate are as presented in Table 4.1.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires issued</td>
<td>96</td>
<td>100</td>
</tr>
<tr>
<td>Questionnaires returned</td>
<td>74</td>
<td>77.08</td>
</tr>
<tr>
<td>Questionnaires not returned</td>
<td>22</td>
<td>22.92</td>
</tr>
</tbody>
</table>
The results in Table 4.1 indicated an overall successful response rate of 77.08%. According to Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good, 70% is very good while above 80% is excellent. Based on these assertions from renowned scholars, 77.08% response rate was sufficient for the study.

### 4.3 Reliability Test

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved 9 respondents from the target population. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain items within a scale measure the same construct. Results of the pilot test were presented in Table 4.2.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Cronbach's Alpha</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost leadership strategy</td>
<td>0.739</td>
<td>9</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>0.796</td>
<td>9</td>
</tr>
<tr>
<td>Differentiation strategy</td>
<td>0.806</td>
<td>9</td>
</tr>
<tr>
<td>Market growth strategy</td>
<td>0.861</td>
<td>9</td>
</tr>
<tr>
<td>Performance of Islamic Banks</td>
<td>0.728</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Research data, (2017)

Cronbach Alpha was established for every variable which formed a scale. Table 4.2 shows that Market growth strategy had a value ($\alpha=0.861$), differentiation strategy ($\alpha=0.806$), Innovativeness ($\alpha=0.796$) while Cost leadership strategy had a value ($\alpha=0.739$). The closer Cronbach’s alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2006). A coefficient of 0.7 is recommended for a newly developed questionnaire. This illustrates that all variables were reliable as their reliability values exceeded the prescribed threshold of 0.7. The results of the reliability test was therefore consistent with Sekaran (2006) who noted that closer Cronbach’s alpha coefficient is to 1, the higher the internal consistency reliability. The study instrument was therefore reliable.

### 4.4 Background results

In this section, the research sought to find out the background information of the respondents that took part in the study; these include information such as gender, age, job category, level of education and years of service in their respective companies. The results are presented as below.

#### 4.4.1 Gender of respondents

The respondents were asked to indicate their gender. The results are presented in Figure 4.1.

Figure 4.1: Gender of respondents

Gender of the respondents was sought and the study found that 57.10% of the respondents were male while 42.90% of the respondents were female as shown in Figure 4.1. This shows that majority of respondents working in the banks are male. This agrees with a study by Ellis, Cutura, Dione, Gillson, Manuel &Thongori (2007) that in spite of women being major actors in Kenya’s economy, men still dominate in the formal sector citing the ratio of men to women in formal sector as 74%:26%.

#### 4.4.2 Age of the respondents

The respondents were asked to indicate their age. Table 4.3 shows the results.

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 30:</td>
<td>10</td>
<td>13.51</td>
</tr>
<tr>
<td>31-40:</td>
<td>30</td>
<td>40.54</td>
</tr>
<tr>
<td>41-50:</td>
<td>22</td>
<td>29.73</td>
</tr>
</tbody>
</table>
According to table 4.3, 13.51% of the respondents were aged less than 30 years, 40.54% were aged between 31-40 years, those aged between 41-50 years were 29.73%, while those aged above 50 years were 16.22%. This shows that the average age of employees in the banking sector is above 30 years. The results agree with Darmadi (2013) study which concluded that their employees were mature and therefore gave very reliable information.

### 4.4.3 Education level of respondents

Respondents were asked to indicate their level of education. The results are presented in figure 4.4.

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>College</td>
<td>18</td>
<td>24.32</td>
</tr>
<tr>
<td>Graduate</td>
<td>40</td>
<td>54.05</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>16</td>
<td>21.63</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data, (2017)

On the level of education, the study established that 24.32% of the respondents were college level, 54.05% were graduate level while 21.63% were postgraduate level. This implies that the employees working in Islamic Banks are skilled for the job. In addition, regarding to this study, it means that the respondents were able to read the questionnaire on their own and thus better response achieved.

### 4.4.4 Period worked in Islamic bank

The respondents were asked to indicate the duration they have worked in the bank. Results are presented in table 4.5.

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 5 year</td>
<td>14</td>
<td>18.92</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>24</td>
<td>32.43</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>27</td>
<td>36.49</td>
</tr>
<tr>
<td>More than 16 years</td>
<td>9</td>
<td>12.16</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher data (2017)

The study also sought to determine how long the respondents had been working in the organization. According to the findings, 18.92% of the respondents reported that they had been working with their organizations for less than 5 years, 32.43% indicated between 6 and 10 years, 36.49% of the respondents indicated between 11 and 15 years while 12.16% indicated they had been working with their current employer for over 16 years. This implies that majority of the respondents had worked in the bank for a long period. This finding is consistent with that of Ngui (2014) who found out that 65% of the respondents have worked in the sector for over five years, a period considered long enough for an employee to understand the operations of their respective duties.

### 4.5 Descriptive Statistics

#### 4.5.1 Effect of cost leadership strategy on Performance of Islamic banks

The first objective was to investigate the effect of cost leadership strategy on Performance of Islamic banks in Mombasa County. Descriptive results of the study are presented in table 4.6.

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banks Prices their products/services below competitors to outperform them</td>
<td>74</td>
<td>4.30</td>
<td>1.060</td>
</tr>
<tr>
<td>Islamic Banks continuously develops cost effective and innovative services/products and refines existing ones</td>
<td>74</td>
<td>4.28</td>
<td>1.043</td>
</tr>
<tr>
<td>Islamic Banks have an efficient and low cost distribution channels</td>
<td>74</td>
<td>3.43</td>
<td>1.281</td>
</tr>
</tbody>
</table>
The bank has invested on training, education, and institutional learning in order to reduce staff turnover, wastage and defects. The bank is offering quality services and products at affordable costs. The bank is practising economies of scale through lending to groups and extensive mass mobilization of members to build a large customer base.

Source: Research data, (2017)

The study findings in table 4.6 revealed that cost leadership strategy affects performance of Islamic Banks in Mombasa County. Mean scores of some of the aspects which were tested about cost leadership strategy were as follows: Islamic Banks Prices their products/services below competitors to outperform them which scored a mean of 4.30, Islamic Banks continuously develops cost effective and innovative services/products and refines existing ones scored 4.28, Islamic Banks have an efficient and low cost distribution channels scored 3.43, the bank has invested on training, education, and institutional learning in order to reduce staff turnover, wastage and defects scored 3.19, the bank is offering quality services and products at affordable costs scored 2.61 and the bank is offering quality services and products at affordable costs scored 2.54. The results are consistent with the study by Nyaunjo and Nyamweya (2015) who conducted a study to assess the effect of Cost Leadership Strategy on the performance of Liquefied Petroleum Gas Companies and found that cost leadership influences the performance of LPGCs.

Further, respondents were asked to indicate whether cost leadership affects performance of banks. Results of the study were presented in figure 4.2.

Figure 4.2 Cost leadership and performance of Islamic banks

Source: Research data, (2017)

According to results shown in figure 4.2 majority (85.00%) of the respondents indicated that Cost leadership have effect on performance of Islamic Banks in Mombasa County while 15.00% of the respondents indicated that Cost leadership have no effect on performance of Islamic Banks. The results agree with Bisungo, Chege and Musiega (2014) study that cost leadership, customer focus, and quality management competitive strategies affect business performance.

The respondents were further asked to indicate to what extent does leadership affects performance of Islamic banks. Results of the study are presented in figure 4.3.

Figure 4.3 Extent cost leadership affects performance of Islamic banks

Source: Research data, (2017)

The researcher requested the respondents to indicate the extent to which cost leadership affects performance of Islamic banks in Mombasa County. According to the findings 74.00% of the respondents reported that cost leadership affects performance of Islamic banks in Mombasa County to a great extent, 16.00% said to a moderate extent while 10.00% said to a low extent.

4.5.2 Effect of innovativeness on the performance of Islamic banks

The second objective was to determine the effect of innovativeness on Performance of Islamic banks in Mombasa County. Descriptive results of the study are presented in table 4.7.
Table 4.7 Effect of innovativeness on the performance of Islamic banks

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banks frequently develop new products/services</td>
<td>74</td>
<td>4.48</td>
<td>.527</td>
</tr>
<tr>
<td>Islamic Banks invest in Innovation and creativity</td>
<td>74</td>
<td>3.86</td>
<td>1.122</td>
</tr>
<tr>
<td>There is innovation in technology to differentiate Services/ products</td>
<td>74</td>
<td>4.71</td>
<td>.556</td>
</tr>
<tr>
<td>This bank is investing in intellectual assets</td>
<td>74</td>
<td>4.40</td>
<td>.789</td>
</tr>
<tr>
<td>The bank has invested in innovative products that suits its customers</td>
<td>74</td>
<td>3.29</td>
<td>1.601</td>
</tr>
<tr>
<td>We have a complete department fully equipped to ascertain product quality</td>
<td>74</td>
<td>3.80</td>
<td>1.504</td>
</tr>
</tbody>
</table>

Source: Research data, (2017)

The study further found that innovations affect performance of Islamic Banks in Mombasa County. It was revealed that aspect of Islamic Banks frequently develop new products/services scored 4.48, aspect of Islamic Banks invest in Innovation and creativity scored 3.86, aspect of there is innovation in technology to differentiate Services/products scored 4.71, aspect of this bank is investing in intellectual assets scored 4.40, aspect of the bank has invested in innovative products that suits its customers scored 3.29 while aspect of We have a complete department fully equipped to ascertain product quality scored 3.80. The results are consistent with the study by Karlsson and Tavassoli (2015) conducted a study on the effect of various innovation strategies of firms on their future performance and found that those firms that choose and afford to have a complex innovation strategy are better off in terms of their future productivity in compare with both those firms that choose not to innovative.

Further, respondents were asked to indicate whether innovation strategy affects performance of banks. Results of the study were presented in figure 4.4.

According to results shown in figure 4.4 majority (78.00%) of the respondents indicated that Innovation strategy have effect on performance of Islamic Banks while22.00% of the respondents indicated that Innovation strategy have no effect on performance of Islamic Banks.

Further the study sought from the respondents the extent to which Innovation strategy affects performance of Islamic banks in Mombasa County. According to the findings 57.00% of the respondents reported that Innovation strategy affects performance of Islamic banks in Mombasa County to a great extent, 28.00% said to a moderate extent while 15.00% said to a low extent. The results conger with the study by Abou-Moghli, Al Abdallah and Al Muala (2012) who conducted a study to investigate the impact of innovation on realizing the competitive advantage in the banking sector in Jordan and found that innovation has a direct positive impact on competitive advantage through its dimensions (time, quality, cost, and flexibility).

4.5.3 Effect of product differentiation strategies on the performance of Islamic banks

The third objective was to examine the effect of differentiation strategy on Performance of Islamic banks. Further, respondents were asked to indicate to what extent cost leadership affects performance of banks. Results of the study were presented in figure 4.5.
banks in Mombasa County. Descriptive results of the study are presented in Table 4.8.

### Table 4.8 Effect of product differentiation strategies on the performance of Islamic banks

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banks allows Product customization (tailor-made products) that helps improve performance</td>
<td>74</td>
<td>4.80</td>
<td>1.060</td>
</tr>
<tr>
<td>Islamic Banks maintain a strong brand/image identification which helps to build customer loyalty</td>
<td>74</td>
<td>4.38</td>
<td>1.043</td>
</tr>
<tr>
<td>Islamic Banks offer more Product Features than our competitors</td>
<td>74</td>
<td>3.03</td>
<td>1.281</td>
</tr>
<tr>
<td>We have a reputation that gives us an advantage over our competitors</td>
<td>74</td>
<td>3.79</td>
<td>1.406</td>
</tr>
<tr>
<td>We have enabled linkages in internal functions for smooth operation</td>
<td>74</td>
<td>2.65</td>
<td>1.440</td>
</tr>
<tr>
<td>We have a competitive Product Mix</td>
<td>74</td>
<td>2.39</td>
<td>1.100</td>
</tr>
</tbody>
</table>

Source: Research data, (2017)

On the side of differentiation strategy the respondents indicated that differentiation strategy affects performance of Islamic Banks in Mombasa County with the aspect of Islamic Banks allows Product customization (tailor-made products) that helps improve performance scoring a mean of 4.80, aspect of Islamic Banks maintain a strong brand/image identification which helps to build customer loyalty scoring 4.38, aspect of Islamic Banks offer more Product Features than our competitors scoring 3.03, aspect of we have a reputation that gives us an advantage over our competitors scoring 3.79, aspect of we have enabled linkages in internal functions for smooth operation scoring 2.65 while aspect of we have a competitive Product Mix scoring 2.39. The results of this study agrees with that of Kedera, Magret and Sakataka (2015) who conducted a study on the effects of Product differentiation strategies on firm product performance: A case of Kenya Seed Company (KSC) that showed that KSC witnessed a steady rise from 10-15 years ago and it was due to product differentiation strategies categorically product quality.

Further, respondents were asked to indicate whether differentiation strategy affects performance of banks. Results of the study were presented in Figure 4.6

![Figure 4.6 Differentiation strategy and performance of Islamic Banks](source: Research data, 2017)

Further the study sought to find out opinion of the respondents on the effects of differentiation strategy on performance and according to results shown in Figure 4.6 majority (71.00%) of the respondents indicated that differentiation strategy have effect on performance of Islamic Banks in
Mombasa County while 29.00% of the respondents indicated that differentiation strategy have no effect on performance of Islamic Banks. The results are consistent with the study by Kungu, Desta and Ngui (2014) who conducted a study to assess the effectiveness of competitive strategies by commercial banks: A Case of Equity Bank and found that equity bank uses different competitive strategies among them the combination strategy, cost leadership strategy, differentiation strategy, and focus strategy to boost their performance.

Further, respondents were asked to indicate to what extent cost leadership affects performance of banks. Results of the study were presented in figure 4.7.

The study inquired from the respondents the extent to which differentiation strategy affects performance of Islamic banks in Mombasa County. According to the findings 60.00% of the respondents reported that differentiation strategy affects performance of Islamic banks in Mombasa County to a great extent, 24.00% said to a moderate extent while 16.00% said to a low extent.

![Figure 4.7](image)

**Figure 4.7** the extent differentiation strategy affects performance of Islamic Banks

**Source:** Research data, (2017)

The forth objective was to investigate the effect of market growth strategy on Performance of Islamic banks in Mombasa County. Descriptive results of the study are presented in table 4.9.

<table>
<thead>
<tr>
<th>Statement</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Banks have organizational infrastructure that support successful execution</td>
<td>74</td>
<td>4.64</td>
<td>.661</td>
</tr>
<tr>
<td>Management of Islamic Banks take part in Insightful Planning on the growth potential of the core business</td>
<td>74</td>
<td>3.80</td>
<td>1.504</td>
</tr>
<tr>
<td>aspect of Islamic Banks have their own way of building a systematic framework composed of strategies for growth and key elements for successful execution</td>
<td>74</td>
<td>3.74</td>
<td>1.581</td>
</tr>
<tr>
<td>We have all sorts of product to suit different classes of clients</td>
<td>74</td>
<td>3.29</td>
<td>1.601</td>
</tr>
<tr>
<td>The bank has developed a market niche strategy to expand its market base</td>
<td>74</td>
<td>3.53</td>
<td>1.542</td>
</tr>
<tr>
<td>The bank performs cross market analysis</td>
<td>74</td>
<td>2.76</td>
<td>1.561</td>
</tr>
</tbody>
</table>

**Table 4.9** Effect of market growth strategy on Performance of Islamic banks

**Source:** Research data, (2017)

The respondents were also asked to indicate their opinion on the extent that market growth strategy affects performance of Islamic Banks in Mombasa County. It was revealed that aspect of Islamic Banks have organizational infrastructure that support successful execution scored 4.64, aspect of Management of Islamic Banks take part in Insightful Planning on the growth potential of the
core business scored 3.80, aspect of Islamic Banks have their own way of building a systematic framework composed of strategies for growth and key elements for successful execution scored 3.74, aspect of We have all sorts of product to suit different classes of clients scored 3.29, aspect of The bank has developed a market niche strategy to expand its market base scored 3.53 while aspect of The bank performs cross market analysis scored 2.76. The results are consistent with Wachira (2010) study that assessed the relationship between performance of financial sector firms listed in the Nairobi Securities Exchange and competitive strategies they have adopted in the last 3 years and found that order for firms to maintain their competitiveness in the industry they should be cost focused as well as expanding their market coverage.

Further, respondents were asked to indicate whether market growth strategy affects performance of banks. Results of the study were presented in figure 4.8

![Figure 4.8 Market growth strategy and performance of Islamic banks](image)

**Source:** Research data, (2017)

Further the study sought to find out opinion of the respondents on the effects of Market growth strategy on performance and according to results shown in figure 4.8 majority (79.00%) of the respondents indicated that Market growth strategy have effect on performance of Islamic Banks in Mombasa County while21.00% of the respondents indicated that differentiation strategy have no effect on performance of Islamic Banks. The results conger with the study by Achoki (2013) who conducted a study to determine the competitive strategies adopted by Bank of India, Kenya and that the bank emphasized on the application of market niche strategy to a large extend.

Further, respondents were asked to indicate to what extent cost leadership affects performance of banks. Results of the study were presented in figure 4.9.

![Figure 4.9: Extent Market growth strategy effect on performance of Islamic Banks](image)

In addition the study sought the opinion of the respondents the extent to which Market growth strategy affects performance of Islamic banks in
Mombasa County. According to the findings 66.00% of the respondents reported that Market growth strategy affects performance of Islamic banks in Mombasa County to a great extent, 23.00% said to a moderate extent while 11.00% said to a low extent.

4.6 Inferential statistics

4.6.1 Correlation analysis

A correlation analysis was performed to determine the nature of association between the independent variables in the conceptual framework. The finding of this analysis is represented in Table 4.10. Results showed that there existed a positive significant correlation between the four predictor variables used in this study. This is asserted so since all Pearson’s coefficient of correlation reported is significant (The coefficient range from 0.698 to 0.963). This result indicated that the movement of each of these variables is in the same direction and therefore each influences the response variable in the same direction. This means that Performance of Islamic banks are influenced by improvement of a unit of Cost leadership strategy, differentiation strategy, Innovation strategy and Market growth strategy. The results are consistent with the study by Atikiya (2015) who conducted a study determine the effect of competitive strategies on the performance of manufacturing firms in Kenya which revealed that cost leadership, differentiation and focus strategies have positive significant relationship with manufacturing firm performance in Kenya. The results are also consistent with the study by Kungu, Desta and Ngui (2014) that assessed the effectiveness of competitive strategies by commercial banks: A Case of Equity Bank and found that equity bank uses different competitive strategies among them the combination strategy, cost leadership strategy, differentiation strategy, and focus strategy.

Table 4.10: Correlation analysis

<table>
<thead>
<tr>
<th>Cost leadership strategy</th>
<th>Pearson Correlation</th>
<th>differentiatio n strategy</th>
<th>.963</th>
<th>.861</th>
<th>.797</th>
<th>.698</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>differentiation strategy</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.954</td>
<td>.904</td>
<td>.762</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>innovativeness strategy</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.885</td>
<td>.813</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>market growth strategies</td>
<td>Pearson Correlation</td>
<td></td>
<td>.697</td>
<td>.747</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance of Islamic Banks</td>
<td>Pearson Correlation</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data, (2017)

4.6.2 Model summary

Table 4.11 model summary shows R squared (R^2). This is the fraction of the variation in dependent variable (Performance of Islamic banks) that can be explained by independent variables i.e. Cost leadership strategy, differentiation strategy, Innovation strategy and Market growth strategy. R-square (71.70%) is therefore the proportion of the variation in the dependent variable that was explained by variations in independent variables.

The results of this study congers with that of Auka (2014) that revealed that banks that adopts the three Porter’s generic performed better than those that did not and that differentiation, cost leadership and focus strategy were significantly positively related to customer satisfaction. The results also agree with the study by Atikiya (2015) that revealed that cost leadership, differentiation and focus strategies have positive significant relationship with manufacturing firm performance in Kenya.

Table 4.11: Model summary

| Mode | R | R Square | Adjusted R Square | Std. Error of the Estimate |
a. Predictors: (Constant), Cost leadership strategy, differentiation strategy, Innovation strategy, Market growth strategy

Source: Research data, (2017)

4.6.3 Analysis of variance

From table 4.12, the significance (p Value= 0.000) was obtained. This implied that the regression model obtained was fit and statistically significant therefore can be deemed fit for prediction purposes

Table 4.12: Analysis of variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>10.601</td>
<td>4</td>
<td>2.650</td>
<td>43.697</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>4.185</td>
<td>69</td>
<td>.061</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>14.786</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of Islamic banks
b. Predictors: (Constant), Cost leadership strategy, differentiation strategy, Innovation strategy, Market growth strategy

Source: Research data, (2017)

4.6.4 Regression coefficients

The study sought to establish the relationship among variables. Table 4.13 represents the regression coefficients of the study.

Table 4.13: Regression coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.161</td>
<td>.321</td>
<td></td>
<td>.001</td>
</tr>
<tr>
<td>Cost leadership</td>
<td>.347</td>
<td>.030</td>
<td>.796</td>
<td>11.552</td>
</tr>
<tr>
<td>strategy</td>
<td></td>
<td></td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>differentiation</td>
<td>.149</td>
<td>.045</td>
<td>.213</td>
<td>3.311</td>
</tr>
<tr>
<td>strategy</td>
<td></td>
<td></td>
<td></td>
<td>.001</td>
</tr>
<tr>
<td>Innovation strategy</td>
<td>.082</td>
<td>.038</td>
<td>.142</td>
<td>2.148</td>
</tr>
<tr>
<td>Market growth</td>
<td>.128</td>
<td>.051</td>
<td>.171</td>
<td>2.523</td>
</tr>
<tr>
<td>strategy</td>
<td></td>
<td></td>
<td></td>
<td>.014</td>
</tr>
</tbody>
</table>

Performance of Islamic banks

Source: Research data, (2017)

From table 4.13 it was revealed that if all factors (Cost leadership strategy, differentiation strategy, Innovation strategy and Market growth strategy) constant at zero, Performance of Islamic Banks in Mombasa County, Kenya will be 1.161. The findings presented also shows that taking all other independent variables at zero, a unit increase in Cost leadership strategy will lead to a 0.347 increase in Performance of Islamic Banks in Mombasa County , Kenya; a unit increase in differentiation strategy will lead to a 0.149 increase in Performance of Islamic Banks in Mombasa County, Kenya; a unit increase in Innovation strategy will lead to a 0.082 increase in Performance of Islamic Banks in Mombasa County, Kenya and unit increase in Market growth strategy will lead to a 0.128 increase in Performance of Islamic Banks in Mombasa County, Kenya. This infers that Cost leadership strategy contribute most to Performance of Islamic Banks in Mombasa County. At 5% level of significance and 95% level of confidence, Cost leadership strategy had a (p= 0.000) level of significance; differentiation strategy had a (p=0.001) level of significance; Innovation strategy had a (p=0.035) level of significance; and Market growth strategy had a (p=0.014) level of significance. This shows that all the variables were significant (p<0.05) with Cost leadership strategy being the most significant and innovation strategy the least significant. This result was an emphasis on the role of Cost leadership strategy, differentiation strategy, Innovation strategy, Market growth strategy in providing suitable environment for banking sectors with the aim of maintaining a more stable and efficient performance of banks in particular Islamic
Banking system. This result is also important to Managers and other policy makers to find out how Cost leadership strategy, differentiation strategy, Innovation strategy, Market growth strategy could be modified to improve and maintain an effective Islamic Banking system

Cost leadership strategy has the strong positive and significant relationship, (p=0.000), on the Performance of Islamic Banks in Mombasa County. This means that a well-managed cost leadership strategy can improve and maintain an effective Performance of Islamic Banking system. This is in line with Lynch, (2003) which states that companies that attempt to become the lowest-cost producers in an industry can be referred to as those following a cost leadership strategy. The company with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. In certain instances, the company can for instance charge an average price while following the low-cost leadership strategy and reinvest the extra profits into the business

Differentiation strategy show strong positive and significant relationship, (p=0.001), with the Performance of Islamic Banks in Mombasa County. This means an effective Differentiation strategy can lead to a smooth and fast Performance of Islamic Banks.

Innovation strategy also show strong positive and significant relationship, (p=0.035), with the Performance of Islamic Banks in Mombasa county. One of the key aims of Islamic Banks is to spur industrial innovations. As banks work towards meeting the demand for supply of products, services to the public, they develop innovative products. This is in agreement with Davila, Epstein and Shelton (2009), which states that innovation is a necessary ingredient for sustained success and is an integral part of the business. In today’s knowledge economy, investments in intellectual assets are considered more and more to be key strategic elements to maintain a business’ growth, profitability and competitiveness (Berry, 2000).

Market growth strategy also show strong positive and significant relationship (p=0.014), with the Performance of Islamic Banks in Mombasa County. This means that Islamic banking sector that adopts Market growth strategy can maintain a sustainable Performance in Islamic Banking system

Thus, the optimal model for the study is;

\[
\text{Performance of Islamic Banks} = 1.161 + 0.347 \text{Cost leadership strategy} + 0.149 \text{Differentiation strategy} + 0.082 \text{Innovative products} + 0.128 \text{Market growth strategy}
\]

**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

**5.1 Introduction**

This chapter summarizes the major findings of this study. The general objective of the study was to assess the effect of Competitive Strategies on Performance of Islamic Banks in Mombasa County. In addition, this chapter provides a direction for further studies and also gives some recommendations for policy making by the relevant authorities. Questionnaires were used to gather primary data.

**5.2 Summary of Major Findings**

This study was based on four objectives and is summarized as follows:

The first objective was to investigate the effect of cost leadership strategy on Performance of Islamic banks in Mombasa County. The findings indicated that cost leadership strategy and performance of Islamic banks is positively and significantly related \((r=0.347, p=0.000)\). Regression of coefficients results showed that cost leadership strategy and performance of Islamic banks were positively and significantly related at 0.05 level of significance. This shows a strong relationship between cost leadership strategy and performance of Islamic banks in Mombasa County. Therefore cost leadership strategy should be enhanced by opening up a sustainable cost advantage over competitors and using that lower cost as a basis for either under-pricing the competitors and gaining a larger market share at their expense or earning a higher profit margin by selling at the going price.

The second objective was examining the effect of differentiation strategy on Performance of Islamic banks in Mombasa County. The findings indicated that differentiation strategy and performance of Islamic banks is positively and significantly related \((r=0.149, p=0.000)\). Regression of coefficients results showed that differentiation strategy and performance of Islamic banks were positively and significantly related at 0.05 level of significance. This shows a strong relationship between differentiation strategy and performance of Islamic banks in Mombasa County. This implies that there is need to give support to those individuals implementing differentiation strategy in the Islamic banking system.

The third objective was determining the effect of innovativeness on Performance of Islamic banks in
Mombasa County. The findings indicated that innovativeness and performance of Islamic banks is positively and significantly related (r=0.082, p=0.000). Regression of coefficients results showed that innovativeness and performance of Islamic banks were positively and significantly related at 0.05 level of significance. This shows a fairly strong relationship between innovativeness and performance of Islamic banks in Mombasa County. This implies that innovation strategy affects Performance of Islamic banks in Mombasa County and therefore it is a factor to be considered when running a banking sector.

Finally the fourth objective was to the effect of market growth strategy on Performance of Islamic banks in Mombasa County. The findings indicated that market growth strategy and performance of Islamic banks is positively and significantly related (r=0.128, p=0.000). Regression of coefficients results showed that market growth strategy and performance of Islamic banks were positively and significantly related at 0.05 level of significance. This shows a strong relationship between market growth strategy and performance of Islamic banks in Mombasa County. Therefore, management of Islamic banking sector should ensure that Cost leadership strategy, differentiation strategy, Innovation strategy, Market growth strategy given attention so that it does not deter the Performance of Islamic Banks in Mombasa County. Management of Islamic banking sector are encouraged to appreciate that these factors can add an immense value to the Performance of Islamic Banks in Mombasa County. A continuous review on these factors is therefore necessary.

5.4 Recommendations

Based on the findings of this study the researcher recommends the following:

1. Cost leadership strategy was found to be one of the factors that influence Performance of Islamic Banks in Mombasa County. It is therefore recommended that Management of Islamic banking sector should consider putting more effort on Cost leadership strategy so that the business can gain much popularity for sustainability.

2. It is recommended that bank management invests in product development research through product innovation. This will ensure that products suitable to customer demands are provided.

3. Further, the study recommends the bank should offer varied products through product differentiation. This will ensure that customers are able to access a wide range of products and services.

4. Finally, the study recommends adoption of efficient market strategies to widen the market scope. By adopting this strategy, Islamic banks will be able to widen their market base. This will assure them of improved revenue performance.

5.5 Suggestions for Further Study

For this study, factors such as Cost leadership strategy, differentiation strategy, Innovation strategy, Market growth strategy were found to be affecting Performance of Islamic Banks in Mombasa County. Further studies are encouraged on those factors that were not studied in this research study.
It is further recommended that further studies should be done on other firms which are not involve in the same nature of business so that differences and similarities can be compared.

REFERENCES


the Kenya sugar industry. Unpublished MBA project University of Nairobi.


