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FACTORS INFLUENCING THE DEVELOPMENT OF ISLAMIC BANKING IN KENYA: A CASE OF NATIONAL BANK OF KENYA

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ABSTRACT

The purpose of this study was to establish the factors influencing the development of Islamic banking in Kenya: A case of National Bank of Kenya. Specifically, the study established the influence of customer service management, competition, legal framework and technology adoption on the development of Islamic banking. The research applied descriptive survey research design. The target population was made up of top level management, middle-level management and lower level management. Census sampling was used to involve all the top level management, middle-level management and lower level management. Both primary and secondary data was collected using questionnaires. Reliability analysis was done through test-retest method. Data collected was analyzed using SPSS (Statistical Package for Social Sciences) version 23. Descriptive statistics and inferential analysis was used for analysis and data was presented using tables. A good response rate was witnessed. From the findings; there was a strong positive relationship between the study variables.The findings revealed that healthy competition had led to development of Islamic banking, government policies and changes in the legal framework was key in development of Islamic banking and customer service management and technology adoption had led to efficieny and development of Islamic banking. The study recommended that the management should invest in research and development and develop new strategies that are competitive in the target market. Islamic banks should also try to improve further the legal review framework systems in their organization to improve performance and service delivery. The findings showed that a large part of the factors influencing the development of Islamic banking were explained by the four variables and the remaining could be accounted for by the standard error.

Key Words: *Customer Service Management, Competition, Legal Framework, Technology, Islamic Banking*

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INTRODUCTION

The concepts of Islamic Banking are provided and guided by the Quran (the Islamic Holy book) and Hadith. The Quran and Hadith provide for what is and is not prohibited in the Islamic faith (Khan, 2010). The basic concept of Islamic Banking is the prohibition of riba (Ayub, 2007). According to Khan, profits earned must be the product of risk sharing through engagement in profitable trade (Khan, 2010).

Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah, known as Fiqh al-Muamalat (Islamic rules on transactions). The basic concept of Islamic banking is the sharing of profit and loss and the prohibition of riba (usury/interest). Common terms used in Islamic banking include; profit sharing (Mudharabah), safekeeping (Wadiah), joint venture (Musharakah), cost-plus (Murabahah), and leasing (Ijarah). Under Islamic mortgage, the bank might buy the item from the seller rather than loan the buyer money to purchase it and resell it to the buyer at a profit whereas allowing the buyer to pay the bank in installments. However, the banks profit cannot be made explicit and therefore there are no additional penalties for late payment. To protect itself against default, the bank asks for strict collateral. The goods or land is registered to the name of the buyer from the start of the transaction.

The Islamic economic system differs from other systems in many ways. Islamic finance is based on Shariah, an Arabic term that is often translated into Islamic law. In Islam, tax is modified in a specific way, when and on whom it should be levied, in what percentage, and for whom it should be given. But the well-known principle of the Islamic system that is most relevant to banking industry is the prohibition of any interest- based transaction.

In almost all Islamic countries, banking systems were designed to resemble the conventional banking system. Never less, Islamic banks have similarities with the Convectional commercial banks in that they both offer similar services and play a major function in the economic development societies they operate in. Islamic finance is a financial system, the fundamental aim of which is to fulfill the teaching of the Holy Quran, as opposed to reaping maximum returns on financial assets. The basic principle in the Shariah is that exploitative contracts based on Riba (interest or usury) or unfair contracts that involve risk or speculation (Gharar) are unenforceable. However the Holy Quran contains no condemnation of morally acceptable investments that yield fair/legitimate profits and economic/social added-value (Siddiqi, 2007). Two more principles are essential to understanding Islamic finance.

NBK is a large financial services provider in Kenya, dealing with individuals, small and medium Enterprises (SMEs) and large companies. Headquartered in Nairobi, the bank owns one subsidiary company: Nat-Bank Trustee and Investment Services Limited. By December 2013, National Bank of Kenya's asset base was valued at approximately US$1.07 billion (KES: 92.5 billion), with shareholders' equity valued at about US$137.2 million (KES: 11.85 billion). By then, National Bank of Kenya was rated number eleven, by assets, among the forty-three commercial banks licensed in the country then. In 2016 National Bank of Kenya opened 25,000 accounts in its Islamic window, National Amanah, almost 19,000 of which are held by non-Muslims. The stock of National Bank of Kenya is listed on the Nairobi Stock Exchange. The aim of this study was to determine the factors influencing the development of Islamic Banking in Kenya; A case study of National Bank of Kenya.

Statement of the Problem

Islamic banking is currently one of the fastest growing segments of the financial market industry, operating in over 75 countries through 300 institutions. While past literature has established the expansion of financial institutions as a factor of Economic growth,

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research on the factors influencing the growth of Islamic banking is limited (Zaher & Hassan, 2001).

There has been a 15% growth of Islamic Finance per year making it the fastest growing segment across the world. Sharia-compliant structures are seen as important to support funding of Kenya's infrastructure projects, with the CMA dubbing Islamic finance a priority. In approximation the number of Muslims in Kenya is at only about 15 percent of the population of 40 million. But Islamic finance, which is also emerging in several other sub-Saharan countries in Africa such as Nigeria, could help Kenya encourage investment from cash-rich Islamic reserves in the Gulf and Southeast Asia (Zaher & Hassan, 2001).

Globally, the Islamic financial industry is a $2 trillion trade based on Islamic principles that avert interest, speculation and relate to ethical investment. The development of Islamic finance in Kenya over the last five years has been remarkable, with the licensing of two Islamic banks by Central Bank of Kenya in 2007, licensing of Islamic insurance (Takaful) company and Islamic asset manager, enrollment of an Islamic Collective Investment Scheme and the introduction of a Shariah component in the REITs regulations. Islamic banking started in Kenya with the licensing of Gulf African Bank (GAB) in 2007, followed by First Community Bank, both of which have since been increasing their presence in the country.

Kenya has also pioneered in the sharia-compliant insurance and reinsurance segments. The Government, through Finance Act 2010, amended section 45 of the Central Bank Act, to allow for CBK to acknowledge the payment of a return rather than interest on government securities with the aim of encouraging a spectrum of shariah compliant investment in the country

Moreover, business reforms and growth of democratic space in some parts of the continent has made Africa the third fastest-growing region in the world, after the Middle East and Asia. The number of middle-class Africans has tripled over the last 30 years to 313 million people, or more than 34 per cent of the continent’s population, according to a recent report from the African Development Bank (AFDB).These classes of people are more informed, willing to try new financial models and take advantage of exploited business opportunities and this is also seen as fueling growth of Islamic finance.

Analysts say the growth of Islamic finance in Kenya is linked to the reformist nature of the Central Bank of Kenya that reviewed its banking laws more than five years ago, and has influenced similar review in the insurance industry and now the capital markets. Kenya’s experience with Shari’ah compliant banking is already being shared by Tanzania and Uganda as they seek to enact similar laws. Considering the fact that there’s growth in Islamic Banking the study therefore intended to establish the development of Islamic Banking in Kenya.

Objectives of the Study

The general objective of the study was to establish the factors influencing the development of Islamic banking in Kenya: A case of National Bank of Kenya. The study was guided by the following objectives;

- To identify the influence of competition on development of Islamic banking in Kenya.
- To establish whether legal framework influences development of Islamic banking in Kenya.
- To establish the influence of customer service management on development of Islamic banking in Kenya.
- To determine the influence of technology adoption on development of Islamic banking in Kenya.

LITERATURE REVIEW

Efficient Market Hypothesis

Financial theory holds that adjustment in the supply of cash is the primary driver in changes in monetary action. As indicated by fiscal theory, if a country's supply of cash increments, monetary action will expand; the turnaround is additionally valid. In many creating economies, money related theory is controlled by the focal government, which may likewise be directing the vast majority of the fiscal arrangement choices. Until the center of the twentieth century, most market analysts found no blame with the way that the present keeping money and monetary framework is premium based.

Random Walk Theory

The random walk theory came to be in 1973 when author Burton Malkiel wrote "A Random Walk Down Wall Street." The random walk theory suggests that changes in stock prices have the same distribution and are independent of each other, therefore, the past movement or trend of a stock price or market cannot be used to predict its future movement. In short, this is the idea that stocks take a random and unpredictable path.

As noted in Karuana (2012), institutions are slowly moving into investment in real estate to diversify their portfolio. The use of real estate as a portfolio diversifier brings in the need to evaluate the relationship between risk and return as discussed by (Markowitz, 1958). He postulated that risk and return relate explicitly and accounted for the variability of asset returns, which he measured using the standard deviation of a security's return. The kind of assets to get into a firm's investment even at the property level is an important indicator of how a portfolio of properties should be mixed to maximize the return and minimize the risk. Markowitz's work was important, it earned a Nobel Prize in Economics, because it shifted the focus of risk measurement from the risk of each security measured in isolation to the contribution of each security to the risk of a well-diversified portfolio, it is the risk that a security adds to a well-diversified portfolio that should be used to determine the risk-adjusted rate of return used in the process of capital budgeting.

Resource-based View Theory

Initiated in the mid-1980s by (Wernerfelt, 1984; Rumelt, 1984; Barney, 1986), the Resource Based View (RBV) central premise is that firms compete on the basis of their resources and capabilities. The resource-based view assumes that firms within an industry may be heterogeneous with respect to the bundle of resources that they control. A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when human resource is managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney & Pandian, 1992, cited by Hooley & Greenley 2005, p. 96; Smith & Rupp, 2002, 48).

Diffusion of Innovations Theory

The theory proposed by Rogers (2003) is one of the most popular models in investigating the behavior of potential users in adopting new technological innovation. This theory, which stipulates that an individual first acquires knowledge about a new innovation, subsequently being persuaded towards implementation.

Persuasion as proposed by the theory is depicted by five different characteristics; Relative advantage that refers to the degree to which an individual perceives that a particular innovation is superior to another, Compatibility which refers to the extent to which an individual believes that a particular innovation is consistent with existing values, earlier experiences and current needs, Complexity whose concern is the degree to which an individual believes that a particular innovation is difficult to understand and use, trial ability referring to the perception on extent to which a particular innovation can be experimented on a limited basis; and Observability that refers to the extent to which the results of a new innovation can be seen by individuals (Rogers, 2003).

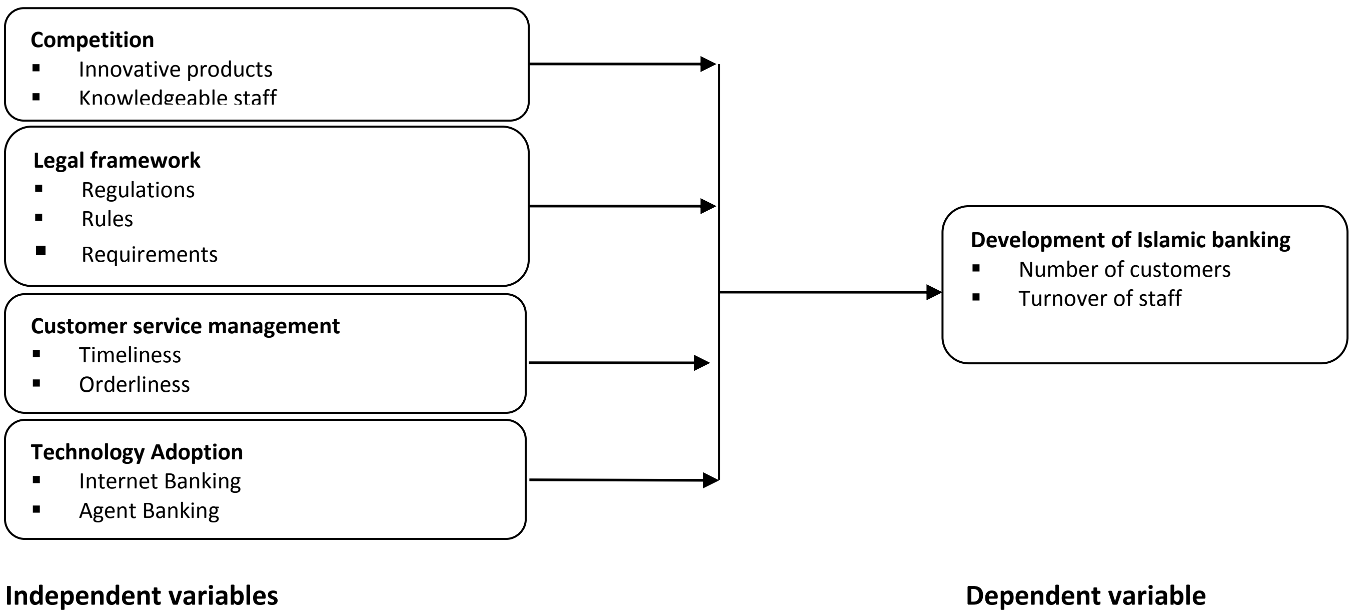

Figure 1: Conceptual Framework

Empirical Literature Review

In the case of Malaysia, Dusuki and Abdul (2007) studied several critical reasons why Malaysian customers patronize Islamic banks and measured the elements of reputation, service delivery, product price, and social responsibility of Islamic banks. The study found that a combination of Islamic and financial reputation and service quality are the main patronage factors. Specifically, among corporate customers, Ahmad and Harun (2002) conducted a study to examine their perception towards Islamic banking in Malaysia. They examined factors such as the usage of banking facilities, respondents' understanding of Islamic banking concept and practices, and personal opinions towards Islamic banking. They found that cost of the products and services is the most important factor perceived by corporate customers in selecting their banks.

Similarly, Rustam et al. (2011) discussed three main parameters to determine the perception of corporate customers towards Islamic banking in Pakistan. They examined factors such as the usage of conventional and Islamic banking facilities, respondents' understanding of Islamic banking system, and their personal opinion on various aspects of Islamic banking products like economic and religious view. They found that the Islamic banking industry has good potential within the Pakistani corporate sector. Instead of the Islamic banks' customers, few studies conducted to determine perception of bankers and students towards Islamic banking. For example, a research conducted by Zainol and Shaari (2008) on bankers' perception towards Islamic banking in both Islamic and conventional banks. In their study, they have included several critical factors, namely Islamic products and services, the training and experience, and the potential of Islamic banking in Malaysia. The result revealed that bankers in Islamic banks have more positive perceptions towards Islamic banking as compared to bankers in conventional banks.

Bley and Kuehn (2004) focused on students' knowledge and perception towards conventional and Islamic finance in United Arab Emirates (UAE). This study investigated the elements of financial knowledge, religion and language on self-reported attitudes and preferences for financial services and found that students 'knowledge on conventional banking terms and concepts was higher than Islamic

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banking terminology. However, students with higher academic achievement showed a better response towards understanding Islamic banking concepts and practices. Razak and Mohamed (2008) conducted a study on the acceptance of Muslim and non- Muslim customers on Islamic banking in Malaysia towards the features and operation of a specific product of Islamic banking, which is Bai BithamanAjil (BBA). This study found a high level of dissatisfaction among customers as evidenced by their low intention to use BBA, which the researchers then suggested, is replaced with Musharaka-Mutanakisah Partnership (MMP).

In case of retail banking, Thambiah et al. (2011) studied customers' perception and preference on Islamic Retail Banking (IRB). They examined the difference in terms of awareness, perception, and preferences on IRB between the urban and rural banking customers of Malaysia. The study found that there is a significant difference in terms of awareness and on perceived complexity, uncertainty, and observability. There also seem to be some variations for returns, loan repayment period, service charges, and overdraft facilities.

Comparing Muslims to non-Muslims, Loo (2010) conducted a study in Malaysia to gauge the different attitudes and perception towards Islamic banking. He examined the elements of knowledge, understanding of Islamic banking concepts, conflict with religious beliefs, together with the other elements of attractiveness of Islamic banking, disadvantages of Islamic banking, promotional influence, prospects of Islamic banking, and willingness to do business with Islamic banking. This study found that Muslims are supportive of Islamic banking while non-Muslims perceived Islamic banking as relevant mainly to Muslims.

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

In Kuala Lumpur, a recent study conducted by Abdullah, Sidek and Adnan (2012) on perception of non-Muslim customers towards Islamic banks in Malaysia revealed that Islamic banking services are making headway among non-Muslims in Kuala Lumpur, by observing the knowledge and understanding of Islamic banking among respondents, bank selection criteria, general perception of customers, among others.

Gaddam, Alkathlam and Abdul Malik (2009) studied the financial performance analysis of Saudi Banks for the period (2003-2007) by using simple regression analysis .The sample of their study contains 6 commercial banks. Financial performance, measured by Return on Asset (ROA) and Interest income (NIM) is considered to be the dependent variables. The Independent variables used in their paper such as assets, utilizations, operational efficiency and banks size were measured to examine their impacts on financial performance and asset size and asset utilization and operational efficiency.

Regression analysis confirmed that the financial performance of banks is greatly influenced by the operational efficiency, asset utilization and asset size (Gaddam, Alkhathlam and Abdul Malik, 2009). This study did not show the ratios used to calculate the assets utilization and operational efficiency.

Spathis,Koamidu and Doumpus (2002) studied the profitability determinants in Greek banking systems. The paper measures the effectiveness and efficiency based on the banks size (small and large banks)in

Greece by using several ratios of profitability such as Return on Equity(ROA)and Net Interest Margin (MARG).The study covered the seven large banks and sixteen small banks over the period(1990-1999) by using panel data. The evidence shows that large banks are more efficient than small banks moreover the large banks are characterized by high assets yield and low capital and interest rate yield (Spathis, Koamidu and Doumpus,2002).

Siddiqui (2007) noted that Muslims have similar organization and motivation in finance as everybody else, they end up having a system that has resulted from other people's choices the one we call conventional financial system. A genuinely distinctive system can emerge only out of a genuinely distinct orientation and motivation, a different set of norms. If Muslims do not have any they do not need a different financial system. If they have one, we need research on what it is and how can it be translated into behavioral patterns and institutions. This is quite appropriate as Muslims themselves feel that their current motivations may not be what they ought to be.

METHODOLOGY

The study adopted a descriptive research design. This was preferred because it is efficient in collecting large amounts of information within a short time. The target population was the top level management, middle level management and lower level management at the National Bank of Kenya head offices. This resulted to a total number of 124 respondents. A total sample size of 95 respondents was taken with the aid of Slovin's formula. The study used stratified random sampling technique in choosing the sample size from the three levels of management staffs. A well-planned and carefully constructed questionnaire was used to increase the response rate and to facilitate the summarization and analysis of the collected data (Creswel, 2002). The data from the completed questionnaires was cleaned, re-coded and entered into the computer using the Statistical Package for Social Sciences (SPSS) version 23 for Windows for analysis. Multiple regression was used to determine the relationship between the independent variables and dependent variable. The basic regression model was:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

Where; Y – was the dependent variable (Development of Islamic bank)

X_1- Competition, X_2- Legal framework, X_3- Customer service management and X_4- Adoption of technology

β0 – is the constant, e is the error of prediction.

The study used version 23 of Statistical Package for Social Sciences (SPSS) as a tool to analyze both quantitative and qualitative data.

RESULTS

Competition and Development of Islamic Banking

The study sought to establish the effect of competition on the development of Islamic banking. The researcher requested the respondents to indicate their level of agreement on statements provided. From the study findings, the respondents agreed on the statements. The organization staff was involved in empowerment, team orientation and capability development activities to enhance competitionshown by a mean of 4.31, Competition influences the development of Islamic banking shown by a mean of 4.25, Our organization always has a marketing team to manage change in the market as shown by a mean of 4.21, Our organization attracts and retains a well-trained labor force and managers whose knowledge, skills and abilities for effective competition as shown by a mean of 4.15 and Our organization has effective and efficient coordination and consistent advertisement to counter competition by a mean of 4.08. The respondents further agreed that our organization always had adequate resources to manage change in competitionas shown by a mean of 3.78. Consistent to the findings, Bashir and Banerjee

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(2016) revealed that effective competition measures facilitate performance in organizations.

Table 1: Effect of competition on the development of Islamic banking

Statements	Mean	Standard deviation
Our organization always have adequate resources to manage change in competition	3.78	0.191
Our organization attract and retain a well-trained labor force and managers whose knowledge, skills and abilities for effective competition	4.15	0.237
Our organization has effective and efficient coordination and consistent advertisement to counter competition.	4.08	0.229
Competition influence the development of Islamic banking	4.25	0.272
The organization staff is involved in empowerment, team orientation and capability development activities to enhance competition.	4.31	0.266
Our organization always have marketing team to manage change in the market	4.21	0.231

Effect of legal framework on the development of Islamic banking

On the effect of legal framework on the development of Islamic banking, the respondent agreed on the statements that the organizationAdherence to Public Procurements and Disposal Act influences the development of Islamic banking shown by a mean of 4.24, Government regulations influences development of Islamic bankingas shown by a mean of 4.23, Adherence to Public Financial Management Act influences the development of Islamic bankingas shown by a mean of 4.21, Government policies influences the development of Islamic bankingas shown by a mean of 4.12, Political factors influences the development of Islamic bankingas shown by a mean of 4.09.Legal framework is key in the development of Islamic bankingas shown by a mean of 4.08. Consistent to these findings a study by Zakaria and Taiwo (2013) also found that integration of legal framework in the organization structure is concerned with having effective performance.

Table 2: Effect of legal framework on the development of Islamic banking

Statements	mean	Standard deviation
Political factors influences the development of Islamic banking	4.09	0.251
Government policies influences the development of Islamic banking	4.12	0.218
Government regulations influences development of Islamic banking	4.23	0.268
Legal framework is key in the development of Islamic banking	4.08	0.239
Adherence to Public Financial Management Act influences the development of Islamic banking	4.21	0.244
Adherence to Public Procurements and Disposal Act influences the development of Islamic banking	4.24	0.210

Effect of customer service management on the development of Islamic banking

The study requested the respondents to indicate their levels of agreement on the statements relating to the effect of customer service management in the development of Islamic banking. The respondents agreed on the statements that the bank had invested in customer service management to enhance performance as shown by a mean of 4.31, customer service management had led to improvement of bank performance as shown by a mean of 4.22. The organization had optimization strategies on its resources on its service delivery improvement. as shown by a mean of 4.21 and Customer service management had led to image improvement of the organization as shown by a mean of 4.13. The respondents further agreed that customer service management had assisted the bank to discover new clients and increase revenues as shown by a mean of 4.21 and that the, customer service management had led to improvement in market share as shown by a mean of 3.79. The findings were consistent to Bello (2016) who studied the concept of customer service management and its influences on the performance of the firms. Consistently Wang and Workman (2014) established that cordial relationship with the customers is positively and significantly related to the performance.

Table 3: Effect of customer service management on the development of Islamic banking

Statements	Mean	Standard deviation
The company has invested in customer service management.	3.79	0.163
Customer service management has led to improvement of company performance.	4.06	0.197
The organization has optimization strategies on its resources on its service delivery improvement.	4.13	0.224
Customer service management has led to image improvement of the organization.	4.22	0.224
Customer service management has assisted the company to discover new clients and increase revenues.	4.21	0.241
Customer service management has led to improvement in market share	4.31	0.275

Effect of technology adoption on the development of Islamic banking

The study requested the respondents to indicate their levels of agreement on the statements relating to the effect of technology adoption on the development of Islamic banking. The study found that the respondents agreed on statements that; Technology through electronic business was very effective at reducing the costs of attracting new customersshown by a mean of 4.27, Through technology our bank had increased the market size and market structure as shown by a mean of 3.98 and Technology had encouraged our bank to develop innovative ways of advertising, delivering and supporting our marketing efforts as shown by a mean of 3.96. The The Internet was helping us to enlarge existing markets by cutting through many of the distribution and marketing barriers as shown by a mean of 3.90, To achieve competitiveness the bank should adopt technology in its operations as shown by a mean of 3.88 and that Adoption of technology promotes high levels of efficiency and development within our bank as shown by a mean of 3.78. Similar to these findings, Moran and Riesenberger (2006) found that technology adoption enhance excellence and inspire and lead effectively in multicultural teams. Consistent to the findings, Sheehan (2016) found that effective technological advancement led to increase in growth and development.

Table 4: Effect of Technology Adoption on the development of Islamic banking

Statements	Mean	Standard deviation
Adoption of technology promotes high levels of efficiency and development within our bank.	3.78	0.171
To achieve competitiveness the bank should adopt technology in its operations.	3.88	0.166
Technology through electronic business is very effective at reducing the	4.27	0.246

costs of attracting new customers		
Through technology our bank has been able to increase the market size and market structure.	3.98	0.174
The Internet is helping us to enlarge existing markets by cutting through many of the distribution and marketing barriers.	3.90	0.177
Technology has encouraged our bank to develop innovative ways of advertising, delivering and supporting our marketing efforts.	3.96	0.178

Development of Islamic banking

The study sought to establish the changes in the customer's complaints among Islamic banking between the year 2011 and 2015. The findings revealed that there were unsteady trends in the number of complaints among Islamic banks in Kenya between the year 2011 and 2015. That explained that a reduction in the negative compliments from the customers as a result of development and improvement of bank services. The findings were consistent with the findings of a study by Wanyama (2010) who revealed increasing concerns of customer complaints in the Islamic banking.

The study further sought to establish the changes in product quality as measured by the rejection rate among Islamic banking in Kenya between the year 2011 and 2015. The results revealed decreasing trends in the product rejection rate among Islamic banking in Kenya from the year 2011 to 2014, then followed by a sharp increase in the year 2015. In as much as there is an improvement in development of Islamic banks in terms of reduced rejections of substandard products and service.

Inferential Statistics

Table 5: Correlation Matrix

		Competition	Legal framework	Customer service management	Technology Adoption
Competition	Pearson correlation	1			
Legal framework	Sig Pearson correlation	0.424 0.000	1		
Customer relationship management	Sig Pearson correlation	0.315 0.000	0.421 0.000		
Technology Adoption	Sig Pearson correlation	0.453 0.000	0.362 0.001	0.334 0.001	
Development of Islamic banking.	Sig Pearson correlation	0.523 0.000	0.687 0.000	0.512 0.000	0.505 0.000
	N	76	76	76	76

**** Correlation was significant at 0.01 level (2-tailed)**

The summary of the correlation analysis indicated that the correlation between competition and development of Islamic banking was 0.523 with a corresponding p value of 0.012. The correlation coefficient was therefore significant and positive. This showed that if competition is effective in the Islamic banking, the development was also effective. The findings averred with Ngatia and Chirchir (2013) findings who also revealed that healthy competition

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is paramount in the overall performance of an organization.

Additionally, the findings showed that the correlation between legal framework and Islamic banking development was 0.687 with a corresponding p value of 0.001. The correlation coefficient was also significant and positive which implied that an improvement in legal framework integration Framework increases the development of the Islamic banking. This finding was opined by Njoroge and Ngugi (2016) who found out that there is a strong relationship between legal framework and development of Islamic banking; therefore, the study concluded that the presence of a legal framework portfolio positively affects development of firms.

The findings also indicated that the correlation between customer service management and development of Islamic banking in Kenya at was at 0.512 with a corresponding p value of 0.002. The correlation coefficient revealed a significant and positive association implying that if customer service management is increased the development of Islamic banking is also affected positively. Okombe (2012) also emphasizes that the customer service management to be implemented is very essential in enhancing the performance of the firms.

The finding results indicated that the correlation between technology adoption and the development of Islamic banking in Kenya was 0.505 with a corresponding p value of 0.002. The correlation coefficient revealed a significant and positive association implying that increase in technology adoption increases the development of Islamic banking in Kenya. According to Sadgrove (2016), good technology enhances effective performance of the firms.

Regression analysis

Model Summary

From the findings in the table the value of adjusted R squared was 0.524 an indication that there was variation of 52.4 percent on development of Islamic banking due to changes in at 95 percent confidence interval. This showed that 52.4 percent changes instrategy development of Islamic banking could be accounted. R was the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table there was a strong positive relationship between the study variables as shown by 0.743.

Table 6: Regression analysis Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743[a]	.552	.524	.3162

a. Predictors: (Constant), Competition, Legal framework, customer service management, technology adoption.

Analysis of Variance

The study also conducted an Analysis of Variance to establish the model fitness. The results were presented in Table 7. The ANOVA showed the test for the model given by the F calculated 7.8038 was statistically significant (0.013) which was less than (0.05) at 5 percent level of significance. F calculated was greater than the F critical (value = 2.4557), thus the overall model was significant.

Table 7: ANOVA Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	69.748	4	17.437	7.8038	.013b
	Residual	165.348	74	2.2344		
	Total	235.096	75			

Coefficients

$$Y_i = 1.304 + 0.651\, X_1 + 0.686 X_2 + 0.462\, X_3 + 0.497 X_4 + \varepsilon$$

From the regression equation it was found that holding competition, legal framework, customer service management, development of Islamic banking would be at 1.304. A unit increase in competition, would lead to increase in development of Islamic banking by 0.651 units. A unit increase in legal framework would lead to increase in development of Islamic banking by 0.686. A unit increase in customer service management would lead to increase in development of Islamic banking by 0.462 units and a unit increase in technology adoption would lead to increase in development of Islamic banking by 0.497units. Overall legal framework integration had the greatest effect on performance. At 5% level of significance and 95% level of confidence, all the variables were significant ($p<0.05$).

Table 8: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.304	0.381		3.42	0.014
Competition	0.651	0.179	3.636	3.64	0.012
Legal framework	0.686	0.177	3.875	3.88	0.01
Customer service management	0.462	0.145	3.186	3.19	0.02
Technology adoption	0.497	0.158	3.145	3.15	0.02

CONCLUSION

The study drew conclusion that the above factors had a great contribution towards realization of increased growth and development of Islamic banking. The study findings established that there is a significant positive relationship between competition, legal framework, customer service management, technology adoption and development of Islamic banking in Kenya. The findings also indicated that organization attract and retain a well-trained labor force and managers whose knowledge, skills and abilities for effective competition. Concisely, competition has led to improvement of in the Islamic banking.

The study found out that the legal framework is essential in the growth and development of the Islamic banking. There is a positive and significant relationship between legal framework and development of Islamic banking. Adherence to Public Financial Management Act influences the development of Islamic banking. Additionally, Adherence to Public Procurements and Disposal Act influences the development of Islamic banking

The study found out that good customer service relationship enhances development of Islamic bank. The company has invested in customer service management. Customer service management has led to improvement of the organization growth and development. Customer service management has assisted the organization to discover new clients and increase revenues. Typically, the organization has optimization strategies on its resources on its service delivery improvement.

In conclusion the study found that the in the organization the technology adoption affect development of Islamic banking. Technology adoption influences the development of Islamic banking, and the management has gone through the effective technological advancement such as the use of automated machines and agent banking.

RECOMMENDATIONS

The study recommended that the management should invest in research and development and develop new strategies that are competitive in the target market. The Islamic banks should also try to improve further the legal review framework systems in their organization to improve performance and service delivery. The organization should also focus on customer service management to enhance the performance of Islamic banking. Concisely, the Islamic organizations should implement these programs in their organization.

Suggestions for Further Studies

The objective of the study was to assess the factors influencing the development of Islamic banking in Kenya. It recommended that a similar research should be conducted with other variables or of other firms in other sectors, including the service industry in the Kenyan market. A review of literature indicated that there has been limited amount of research on the same topic. Thus, the findings of this study serve as a basis for future studies on the factors. The factors influencing the development of Islamic banking, has not been widely studied which presents gaps in African and Kenyan contexts. The study contributed to knowledge by establishing that competition effect, legal framework effect, customer service management effect and technological advancement on the development of Islamic banking Apparently, Future research may be designed to compare the findings in this study with findings that relate to firms in other regions in Kenya and other countries. Concisely, the findings showed that 55.2% of the factors influencing the development of Islamic banking is explained by the four variables and the remaining 44.8 % can be accounted by the standard error.

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