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Manal Sameer, Patrick Egondi & Samuel Muli

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FINANCIAL FACTORS INFLUENCING ADOPTION OF ISLAMIC BANKING BY CONVENTIONAL COMMERCIAL BANKS IN MOMBASA COUNTY

[1] Manal Sameer, [2] Patrick Egondi & [3] Samuel Muli

[1] Masters Candidate, Department of Business Administration, Kenya Methodist University, Kenya
[2,3] Lecturer, Department of Business Administration, Kenya Methodist University, Kenya

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ABSTRACT

The study looked at the financial factors that make conventional commercial banks in Mombasa County more likely to adopt Islamic banking. The study's goals to look at how loan availability, loan policy, loan cost, and loan payback time affect Kenyan commercial banks' use of Islamic banking. The study looked at commercial banks in the Mombasa CBD that offer Islamic financial services. Asset-Based View Theory, Transaction Cost Theory, and the Agency theory were used in the study. The study used descriptive survey research. The study used census method where by all of the 62 people who took part were used. The study employed closed-ended questions so that responses could be more easily categorized and interpreted. Kenya Methodist University's (KeMU) scholarly office gave the researcher permission to do the research and a letter of approval. The researcher also visited 31 traditional banks that offer Islamic banking services and asked for permission to do the research privately for a scholarly reason. The study found that increased loan accessibility and longer loan repayment periods positively influence adoption rates, suggesting that easier access to financial services and more flexible repayment terms encourage banks to adopt shariah-compliant practices. Conversely, stricter loan policies are found to have a negative impact on adoption, indicating that regulatory and policy frameworks play a crucial role in shaping banks' decisions. The study suggest underscores the importance of collaboration between conventional commercial banks and microfinance institutions to improve loan accessibility, leveraging MFIs' networks and experience with underserved populations. Additionally, the study suggests offering flexible repayment options to accommodate diverse financial circumstances, such as extended periods or customized schedules, making Islamic loans more attractive and accessible to a broader customer base.

Key Words: *Islamic Banking, Loan Accessibility, Loan Policy, Loan Cost, Repayment Period*

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INTRODUCTION

Conventional banking refers to the traditional financial system rooted in principles developed over centuries. It includes institutions like banks that provide essential services such as accepting deposits, lending money, and facilitating various financial transactions (Wilson, 2017). Conventional banking operates under strict regulatory oversight mandated by financial authorities, ensuring compliance with legal standards. It serves a broad spectrum of clients, including individuals, businesses, and governmental entities, offering a wide range of financial services tailored to their need (Wilson, 2017).

The conventional banking system and Islamic banking are distinguished from one another by the fact that conventional banking adheres to the traditional premium base rule, Islamic banking relies on the revenue free standard and the benefit misfortune sharing rule in order to conduct their business as a monetary go-between and exchange (Arif, 2016). Islamic banking refers to financial transactions that adhere to the principles and tenets of Islamic law, or sharia. Sharia is an Arabic term that refers to the practice of acting in accordance with Islamic characteristics and law. Islam, for example, forbids Muslims from engaging in riba (interest), which is defined as an increase, growth, rise, or development in a genuine sense and is prohibited under Islamic law (Khattak and Rehman, 2018).

Islamic banks work different sorts of exchanges the most significant of which are: Collection of Deposit; since premium bearing stores involve Riba, Islamic banks offer two various types of stores (Al-Ajmi, Hussain, and Al-Saleh, 2018). In the Current record, the saved capital is ensured and made accessible to the customer on request. No award is paid on the store yet is principally utilized for exchanges and wellbeing keeping. In the Investment account, stores stay with the bank for a specific recently concurred period. Clients open venture record to yield monetary return dependent on trust financing. The contributor is the financing accomplice, while the overseeing accomplice is the bank (Al-Ajmi, Hussain, and Al-Saleh, 2018).

Since the cutting edge birth of Islamic banking during the 1970s in Egypt, it has extended quickly across the globe. Such extension has occurred, specifically however not solely in nations with bigger Muslim populaces. From an inconsequential start, the business has developed to over USD 6.1 trillion in resources in 2019, and is projected to outperform USD 3 trillion imprint by 2022 (Gewal, 2019). Not just have neighborhood banks in Muslim nations received Islamic financial standards, yet huge worldwide banks have set up Islamic windows. Islamic money has spread past commercial banks, and now traverses speculation banks, insurance agencies, just as venture (for example resource the executives) and monetary organizations (for example renting). The advancement of new items, for example, sukuks (Islamic bonds), has additionally widened the scope of items accessible (Allen and Gale, 2018).

As an addition to their range of value, exchange financing, and loaning tasks, Islamic banks also provide a comprehensive range of expense-paid retail services that do not require revenue instalments, such as financial records, spot unfamiliar trade exchanges, reserve moves, letters of credit, voyager's checks and safe-store boxes, as well as protections care, speculation the executives and counsel, and other standard administrations. The ethos of Islamic banking is based on the concept of value, which allows it to accept money from both Muslims and non-Muslims in the same manner (Gelbard, Hussain, Maino, Mu and Yehoue, 2017).

Iqbal (2017) argues that the Islamic financial system has the potential to enhance economic advancement in Islamic countries by mobilizing investment funds that are usually overlooked by profit-driven banks and promoting the growth of capital markets. Investors are attracted to Islamic banks because research indicates that the returns on bank assets sometimes exceed the fixed income rates given by traditional banks. This makes Islamic financial institutions more appealing. This method has the ability to speed up economic progress by effectively distributing resources and promoting more involvement in financial markets. It is in line with Islamic concepts of justice and risk-sharing, which conventional banking models may not completely support.

An Islamic microfinance initiative in Senegal, which will create 25,000 jobs by 2022, is supported by the Inter-American Development Bank (IDB), which provides USD60.3 million out of a total of USD82 million in absolute task costs (Triki and Faye, 2018). Over the course of the past decade, the governmental authorities of Sudan have also developed Islamic microfinance. The Central Bank of Sudan established a Microfinance Unit and mandated that banks provide 12 percent of their total portfolio to microfinance activities (Islamic Development Bank, 2018).

In Kenya, there are 47 monetary organisations registered by Central Bank of Kenya, 41 of which are commercial banks and 6 of which are microfinance institutions. The Islamic financial organisations in Kenya are divided into two categories, the first being full-fledged Islamic commercial banks, which number six (First Community Bank of Kenya, Gulf African Bank of Kenya, Middle East Bank of Kenya, Dubai Bank of Kenya, Bank of India Kenya, and Bank of Baroda Kenya), and the second being regular banks that provide Islamic financial administrations (KCB, Standard Chartered, Barclays Bank Kenya, National Bank Kenya, and Bank of India Kenya) (KBA, 2020).

IMF Multi-Country Report (2018) perceived that Kenya is yet to refine its prudential guidelines to cook for Islamic banking notwithstanding the way that the Shariah banks are offering advance items that are collateralised uniquely in contrast to ordinary bank credits. The report noted Kenya is likewise on the way up with a Shariah-agreeable store protection conspire and is proceeding to oversee store protection charges in a solitary pool for all banks a circumstance that could confuse pay of contributors in the occasion a bank offering ordinary and Islamic items breakdowns. The report additionally noticed that there was a developing requirement for guideline of the area to guarantee that Islamic banking was being polished inside the acknowledged boundaries of shari'ah consistence (IMF Multi-Country Report, 2018).

Problem Statement

The global banking sector has witnessed significant advancements, with institutions increasingly diversifying their service offerings to include specialized products such as Islamic banking. This evolution reflects a strategic response to changing consumer preferences and regulatory environments, as banks seek to cater to niche markets and enhance their competitive positions (Sundararajan & Errico, 2012). Islamic banking, in particular, has gained traction worldwide due to its adherence to Sharia principles, which emphasize ethical financial practices like profit-sharing and asset-backed transactions instead of interest-based lending (Honohan, 2019). The adoption of Islamic banking by conventional commercial banks globally underscores a broader trend towards financial inclusivity and innovation, aimed at meeting the diverse needs of customers seeking alternative banking solutions (Illias, 2019).

The adoption of Shariah-compliant financial products faces multiple challenges including: inadequate legal and regulatory frameworks, a shortage of skilled Islamic finance professionals, inconsistent Shariah standards, and misconceptions about Islamic banking. Moreover, strong demand from Muslim communities, economic instability, heightened competition, excess liquidity unable to be invested in productive assets like government securities, high cost-to-income ratios, and lack of qualified personnel in Islamic finance all contribute to these challenges (KBA, 2019). As a result, the focus of this study was to examine the financial factors that influence conventional commercial banks to adopt Islamic banking in Kenya.

Objective of the Study

This study examined financial factors that influence conventional commercial banks to adopt Islamic banking in Kenya. The study was guided by the following specific objectives;

- To find out how loan accessibility influences the adoption of Islamic banking in conventional commercial banks in Mombasa County
- Determine how loan policy influence the adoption of Islamic banking in conventional commercial banks in Mombasa County.
- To investigate how cost of loan influence adoption Islamic banking by conventional commercial banks in Mombasa County.
- To investigate how loan repayment period influence adoption of Islamic banking by conventional commercial banks in Mombasa County.

LITERATURE REVIEW

Theoretical Framework

Resource based view Theory

In the 1970s, experts Gerald Salancik and Jeffrey Pfeffer published a book called The External Control of Organizations: A Resource Dependence approach, which introduced the idea of a resource-based approach. According to resource-based theory, resources are important to organisational success and that gaining access to and exercising control over them is a source of power for an organisation (Pfeffer and Salancik, 2008). Among the assets of a company will be its resources, capabilities, measurements, information and data, among other things, which will be monitored and restricted by the company in order to enable them to perform common processes that will enhance proficiency and viability (Barney 1991).

Organizational resources are inputs to production operations and can be divided as physical, human, capital or organizational resources according to resource-based theory. Resources can be broken down into several categories, including physical, human, financial, and organizational. It is a case of capacity when a group of resources can regularly perform a particular activity or function (Currie, 2017).

An organization's performance depends on a number of diverse resources and talents that are vital to its success. To achieve exceptional outcomes in the cutthroat rivalry of the twenty-first century, modern organizations are composed of a wide range of rapidly developing talents that are managed in a dynamic way. As a result, rather than being guided by industry structure, many firms over time have relied on a variety of resources and competencies (Currie, 2017). A company's resources comprise its physical, technical, commercial, financial, and product characteristics, as well as its human resource components, when performing a particular function. Many factors are taken into consideration, including as an employee's knowledge and experience as well as their reputation and the company's procedures (Cocks, 2016).

Transaction Cost Theory

Williamson's (1986) formulated the transaction cost theory which posits that the most effective structure for any given firm is the one that maximizes productivity while cutting down on wasteful spending. According to this idea, the costs of keeping track of, regulating, and administering any given form of transaction vary depending on its complexity. Transaction costs are defined broadly by Williamson (1986) as the expenditures incurred in the course of conducting economic transactions. According to Williamson (1986), these expenses are separate from production costs. When deciding between using a firm structure or sourcing from the market, a decision maker may consider both transaction costs and internal production costs.

According to Argyres & Zenger (2011), transactions are the socially mediated division and acquisition of private property and personal liberties. Before work can be done, customers can eat, or money can be traded, the parties involved in the transaction must agree on the terms of the deal (Williamson, 1986). The boundaries of a company aren't set by technologies or whether or not to make or buy a decision about one thing. Instead, they are the result of a lot of decisions about a lot of different things that work together (Williamson, 1986).

Perceived advantages of Islamic banking, availability of necessary technologies, consumer knowledge, and other developments all have a role in how quickly Kenyan firms embrace new ideas. When firms in Kenya understand the advantages of Islamic banking and how it aligns with their requirements, they are more inclined to embrace these innovations. This is because elements like public awareness and the availability of resources play a role in this process.

Agency Theory

The importance of incentives and self-interest in organizational dynamics is highlighted by agency theory, which was established by Alchian and Demsetz (1972) and further elaborated by Jensen and Meckling (1976), as pointed out by Perrow (1986). Agency theory holds that knowledge is seen as a commodity that may be obtained. To protect themselves against agents' potential opportunism, corporations use formal procedures such as budgeting, management by goals, and supervision by boards of directors. They also use informal management techniques. One party (the principal) transfers decision-making power to another (the agent) in a contractual arrangement; this is called an agency relationship, according to Jensen and Meckling (1976). Trust and mutual benefit are the bedrock of this relationship, yet tensions emerge when agents' and principals' objectives are at odds. Such disagreements, known as agency difficulties, highlight the need for corporate governance to maintain a wall of separation between ownership and management.

When an agent's objectives differ from those of the principal, jeopardizing the principal's control over the situation, conflicts arise because both the principle and agent are motivated by possibilities to maximize their own worth (Jensen and Meckling, 1976). Since there is a divergence of interests between the two actors, it is inevitable that the principals will be on the losing end of the bargain. As a result, the principals may impose control structures on their agent in order to prevent the agent from abusing delegation and taking advantage of the information asymmetry (Eisenhardt, 2019). In the context of aligning the interests of agents with the interests of principals, agency costs are defined as the extra expenses required by principals in order to achieve this alignment.

Agency theory helps to explaining how organizational dynamics, incentives, risk management, and monitoring affect strategic choices is made easier with the aid of Islamic finance. With regard to managing shareholder expectations and regulatory compliance, it offers a prism through which banks may traverse the challenges of implementing new financial paradigms.

Pecking order theory

In 1984, Myers and Sanders developed the pecking order hypothesis, which is a framework for understanding how companies rank their preferred sources of finance. It provides insight into the incentives that impact a company's decision on its capital structure. Based on the assumption of asymmetric information, in which managers have complete knowledge of the true financial status of the business but shareholders do not, this theory predicts that the firm will prefer retained profits over debt (both short- and long-term), as well as debt over equity (both long- and short-term and short-term and equity). According to Myers and Majluf (1984), corporations run the danger of having their shares devalued by outside investors when they issue riskless debt instead of equity.

Life insurance premiums and monies obtained from other obligations are examples of external finance, according to Schruers (2014). According to the pecking order hypothesis, insurers shouldn't rely on external sources for funding due to the fact that these sources don't have complete knowledge of the insurer's status, including the sufficiency of technical provision and capital buffers. A further point that he makes is that insurance responsibilities come first, and that in the event of bankruptcy or liquidation, debts are only paid after all insurance obligations have been met. Investors owning debt in an insurer, as opposed to policyholders, should be more concerned with the underlying value of the insurer as a result.

Due to their restricted access to external sources of funding, small enterprises are susceptible to a more severe version of the pecking order in their decision-making. Since businesses normally prefer to raise money from their own resources, the principle states that when they are not able to, the business will seek outside funding. It is because small and micro enterprises, unlike huge organizations, have a smaller amount of cash available to them, that they choose to rely on external sources of financing for their business growth. Pecking order theory holds true for small enterprises because it is difficult for them to obtain funding from other organizations.

Empirical Review

Loan accessibility and adoption of Islamic banking

Ali and Ahmed (2019) investigated the relationship between the availability of loans and the level of satisfaction experienced by customers in Islamic banking. The results of their research showed that Islamic banks' customers are much more satisfied when they have quicker access to loans. The study emphasized that customers who experience a smooth and transparent loan approval process are more likely to be satisfied with their banking experience. This positive customer experience can lead to higher levels of customer retention and loyalty. They recommended that Islamic banks streamline their loan approval processes to improve customer experiences and attract more clients.

Abdullah and Hassan (2021) analyzed Loan Accessibility and Customer Loyalty in Islamic Banking. Their research revealed a strong correlation between easy loan access and customer loyalty. The findings suggested that customers who perceive obtaining loans from their banks as convenient are more inclined to maintain loyalty towards those financial institutions. It was recommended that Islamic banks prioritize making loans more accessible to enhance customer loyalty and retention. By doing so, banks can build a more stable and devoted customer base.

Loan policy and adoption of Islamic banking

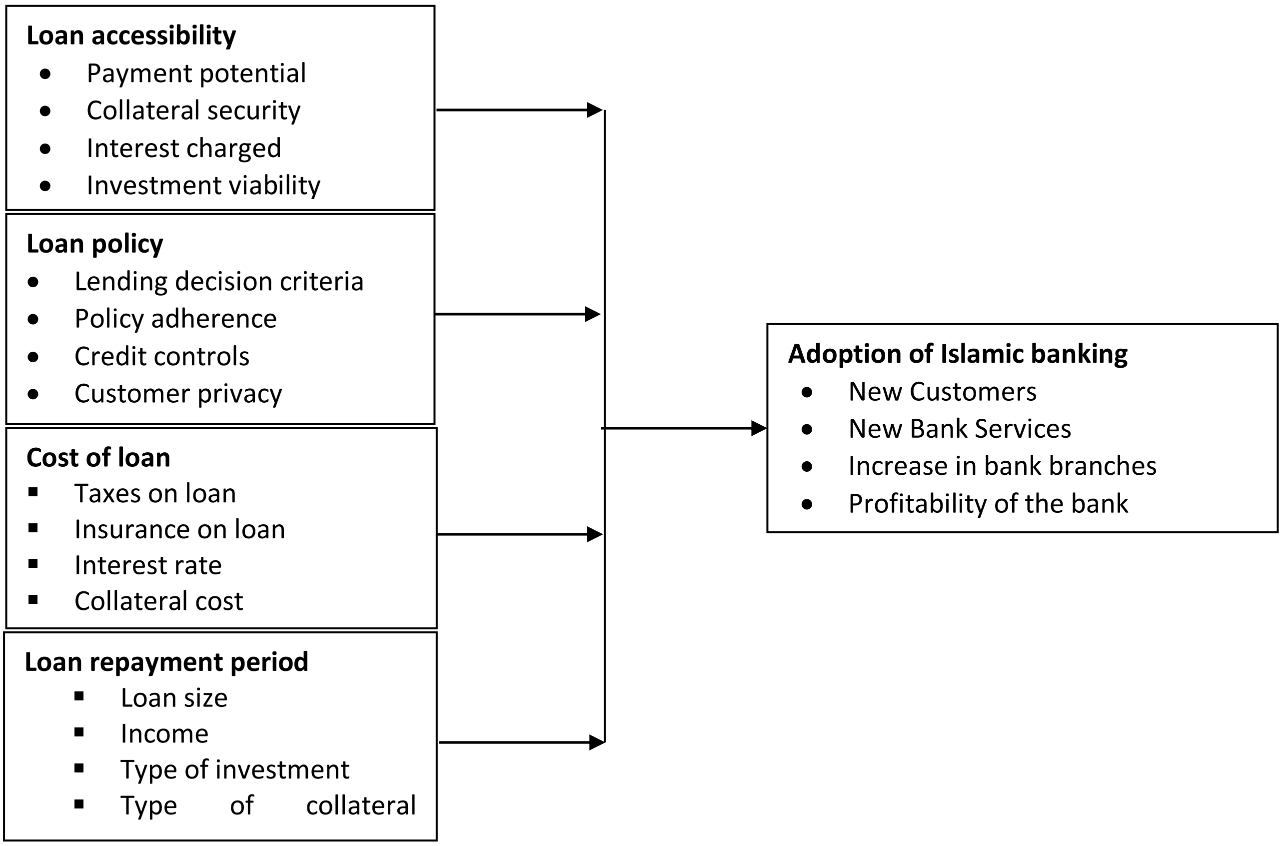
Rahman and Ali (2021) investigated "The Impact of Loan Policies on Risk Management in Islamic Banks." According to their results, Islamic banks' successful risk management procedures are facilitated by well-defined lending regulations. The research made apparent that establishing precise standards and requirements for loan approvals may reduce the financial risks connected to lending operations. They recommended that Islamic banks maintain stringent loan policies to mitigate financial risks and ensure sustainability, emphasizing the importance of aligning loan practices with Sharia principles to maintain trust and stability (Rahman & Ali, 2021).

An investigation of the connection between interest rates and defaulted loans was carried out by Mwangi (2016), who used information gathered from commercial banks in Kenya as their primary source of information for the study. The study used descriptive research in order to conduct an analysis of each and every one of Kenya's 43 commercial banks that are authorized to carry on operation within Kenya. It was found that there were statistically significant, negative, and excellent linear relationships between bank non-performing loans and interest rate changes in both the short and long timeframes, according to the study's findings. The study's results show that there is a statistically significant link between how well commercial banks do financially and how interest rates change over time.

Loan repayment period and adoption Islamic banking

Hossain and Alam (2023) conducted a study titled Impact of Loan Repayment Period on Customer Satisfaction in Islamic Banking in Malaysia. Their research revealed that customers highly valued shorter loan repayment periods due to the reduced financial burden and quicker clearance of debt. The findings suggested that Islamic banks with shorter repayment options had higher customer satisfaction levels. They recommended that Islamic banks should offer a variety of repayment period options to cater to different customer needs and enhance overall satisfaction (Hossain & Alam, 2023).

Kasmani (2017) conducted research with the purpose of investigating the growth of Islamic banks in Kenya. Based on the findings of the investigation, it was determined that the majority of the bank's customers are Muslims, whereas non-Muslims gave the impression of being significantly underrepresented. According to modern deductions made inside the Islamic banking sector, the vast majority of respondents were self-employed. One more reason given by the respondents for opening an account with an Islamic bank was that Islamic banks have better product portfolios.



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

This research utilized a descriptive research design. The target population was made up of 62 Branch Manager & Operations Manager in 31 commercial banks offering Islamic financial administrations in Mombasa County. The respondents were bank directors and operational managers. The research was conducted using the census approach, which meant that all 62 participants were included in the study.

This paper used both primary and secondary sources of information. The primary data was collected through surveys. Secondary information was gathered from publicly available financial documents of the banks under investigation.

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A pilot study was conducted to ensure the questionnaires' reliability by determining whether the study's goal was met, whether the data collection instruments were ambiguous, and whether the research objectives were adequately addressed. Cronbach Alpha coefficient was utilized to evaluate the reliability of the pre-testing process.

The information included in the questionnaires returned by the respondents was collected and separated using estimates such as frequencies, means, modes, and standard deviation, which was performed with the help of the Statistical Package for Social Sciences (SPSS) version 23. Correctness, completeness, and consistency of the data was ensured by modification of the information that was reviewed. The results were presented in the form of frequency distributions, percentages, tables, bar graphs, and pie charts. The model was as follows;

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$

Y = Adoption of Islamic banking in conventional commercial banks (Dependent Variable)

X1 = Loan Accessibility

X2 = Loan Policy

X3 = Cost of Loan

X4 = Loan Repayment Period

ε = Error Term

β0 = Constant Term

β_1, β_2, β_3 & β_4 = Coefficients of the determination of the independent variables.

RESULTS

Loan Accessibility

Table 1: Loan Accessibility

Particulars	Mean	Std Dev
The bank considers a customer’s financial potential before offering a loan	4.31	.912
The Banks consider the viability of an investment before offering a loan	3.82	1.14
The bank offers diversified collateral for loans offered in Islamic banking	3.22	0.85
After offering a loan, the bank attaches a customer to its relationship officers to continuously monitor and advice on investments	4.36	0.98
The bank doesn’t charge interest on loans hence attracting many customers	3.22	1.51

The research discovered that the bank takes into account a customer's financial capacity before granting a loan as shown in table 1. The mean and standard deviation of the study were 4.31 and 0.912, respectively. A mean of 3.82 and a standard deviation of 1.14 was derived from financial institutions that consider the viability of an investment prior to deciding whether or not to grant a loan. The banks that offer diversified collateral for loans offered in Islamic banking outperformed their counterparts with a mean of 3.22 and a standard deviation of 0.85. After making a loan, the bank assigns a client to one of its relationship officers, who are responsible for providing ongoing monitoring and guidance on investments showed a mean 4.36 and the standard deviation was 0.98. Looking at whether the bank has attracted a big customer base due to its interest-free lending offerings showed a mean of 3.22 and the standard deviation was 1. 51.

Loan Policy

Table 2: Loan Policy

Particulars	Mean	Std Dev
All of the loan policies and regulations issued by the Central Bank of Kenya are adhered to and implemented by the bank	3.68	0.70
With the use of established procedures, the bank can effectively handle non-performing loans.	3.11	0.92
The bank incorporated in place the best consumer protection mechanisms that will protect consumer privacy of information from unauthorized person.	4.37	0.88
The bank incorporated in place the right measures to ensure branching regulation is achieved.	3.40	1.73
The bank has best loan regulation in place as compared to other banks	4.75	1.52

In table 2, the research looked at whether all of the loan policies and regulations issued by the Central Bank of Kenya are adhered to and implemented by the bank indicated a mean of 3.68, and the standard deviation was 0.70. With the use of established procedures, the bank can effectively handle non-performing loans. The mean was 3.11 and the standard deviation was 0.92. Consumer protection mechanisms put in place by the bank had a mean of 4.37 and a standard deviation of 0.88. This means that the bank had the best mechanisms in place to keep people's private information safe from people who don't belong to them. The bank put in place the right steps to make sure branching regulations were met. The bank had a mean of 3.40 and a standard deviation of 1.73. Other banks had a mean of 4.75 loans, and a standard deviation of 1.52. The best loan regulations were in place at this bank

Cost of Loan

Table 3: Cost of Loan

Particulars	Mean	Std Dev
The bank incorporated in place the best opportunity cost for our esteemed customers	3.95	0.73
The bank has best measures in place to curb unnecessary transaction costs for our customers	4.24	1.25
The bank requires customers borrowing loan to have guarantee and collateral cost considered	4.67	0.72
The bank has informed its customers on any miscellaneous cost that they may incur in case of any transaction done	3.13	0.80
The bank has put measures to ensure that cost of Islamic product to customers is affordable.	4.11	1.39

The findings revealed that the bank had put in place the best opportunity cost for our valued clients, with a mean of 3.95 and a standard deviation of 0.73, and that this was the case. With a mean of 4.24 and a standard deviation of 1.25, the bank has put the finest steps in place to keep needless transaction expenses to a minimum for our clients. Customers who borrow money from the bank are required to provide a guarantee, and the costs of collateral assessed had a mean of 4.67 and a standard deviation of 0.72. The bank has reminded its clients of any additional costs that they may pay as a result of any transaction that they have completed had a mean of 3.13 0.80. The bank has implemented efforts to guarantee that the cost of Islamic products to consumers is cheap. The mean and standard deviation were 4.11 and 1.39, respectively.

Loan Payment Period

Table 4: Loan Payment Period

Particulars	Mean	Std Dev
Loan repayment is impacted by the nature and quality of security offered	3.18	1.75
The size of a loan taken by a customer influences loan repayment	4.17	0.90
The type of investment a loan has been subjected has a great influence on the loan payment	3.03	1.10
The bank offers adequate time for a customer to pay a loan without straining	4.52	1.61
Customer bank partnership in executing an investment allows the customer to pay the loan on time	4.34	1.43

Following the facts reported above, it can be concluded that the kind and quality of collateral security has an impact on loan repayment indicated a mean of t3.18 and the standard deviation of 1.75. The amount of a loan obtained by a client has an impact on loan repayment. The mean and standard deviation of the data were 4.17 and 0.90 respectively. The kind of investment to which a loan has been exposed has a significant impact on the loan payment. The mean and standard deviation of the loan payment were 3.03 and 1.10, respectively. There was a mean of 4.52 and a standard deviation of 1.61. The bank provides appropriate time for a client to pay a loan without straining. Customer bank partnership in the execution of an investment helps the customer to pay the loan on time. The mean and standard deviation of the data were 4.34 and 1.43, respectively.

Adoption of Islamic Banking

Table 5: Adoption of Islamic banking

Particulars	Mean	Std Dev
The adoption of Islamic banking has increased customer trust and customer loyalty	3.81	0.76
The bank implemented mechanisms of retaining and getting new customers to open up accounts with our Islamic banks	3.55	0.86
The bank enhanced and initiated new banking services that meets the needs of our customers	4.31	0.81
The bank increased in Islamic bank branches across the County of Mombasa	4.09	1.05
The banks priority and ultimate objective of the bank is increase in profitability at any given period.	4.27	1.03

There was a 3.81 mean for customer loyalty with a standard deviation of 0.76, according to the results. The adoption of Islamic banking has led to more trust and loyalty from customers, according to the results above. The bank came up with ways to keep customers and get new ones to open accounts with our Islamic banks. The bank had a mean of 3.55 and a standard deviation of 0.86. There was a mean of 4.31, and there was a standard deviation of 0.81. As more people in the County of Mombasa went to Islamic bank branches, there were more of them. The average number of branches was 4.09, and the standard deviation was 1.05. At any given time, the bank's priority and ultimate goal is to make more money had 1.03 as its standard deviation and 4.27 as its mean.

Pearson's Correlation

Table 6: Pearson's Correlation

	Variables	Adoption of Islamic banking	Loan Accessibility	Loan Policy	Cost of Loan	Loan repayment period
Adoption of Islamic banking	Pearson Correlation	1				
	Sig. (2 tailed)					
Loan Accessibility	Pearson Correlation	.351**	1			
	Sig. (2 tailed)	.000				
Loan Policy	Pearson Correlation	.782**	.284**	1		
	Sig. (2 tailed)	.000	.000	.		
Cost of Loan	Pearson Correlation	.097	.056	.168**	1	
	Sig. (2 tailed)	.000	.040	.000		
Loan repayment period	Pearson Correlation	.281**	.051	.211**	.013	1
	Sig. (2 tailed)	.000	.574	.000	.971	

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

Table 6 revealed a favorable association between loan accessibility and (r = 0.351, P = 0.000). As a result, increased credit availability results in an increase in the adoption of Islamic banking by traditional commercial banks in Mombasa County. The correlation coefficient was likewise positive in the case of loan policy (r = 0.782, P = 0.000) in this case. Therefore, an improvement in lending policy would result in an increase in the adoption of Islamic banking by conventional commercial banks in Mombasa County. When the cost of the loan was taken into consideration, the correlation coefficient was equally positive (r = 0.097, P = 0.000). This suggesting that an increase in cost would increase adoption of Islamic banking by traditional commercial banks in Mombasa County, as previously stated. Lastly, the study found a positive correlation that is statistically significant between the length of time it takes to repay a loan and the number of traditional commercial banks in Mombasa County that practice Islamic banking (r = 0.281, P = 0.000). This indicates that the number of conventional commercial banks in Mombasa County that use Islamic banking will increase once the loan repayment time is put into effect.

Model Summary

Table 7: Model Summary

Model	R	R Square	Adjustment R Square	Std. Error of the Estimate
1	.632a	.398	.347	.16489

Predictors: (Constant), Loan Accessibility, Loan Policy, Cost of Loan, Loan repayment period

There is a high link between the independent variables (Loan Accessibility, Loan Policy, Cost of Loan, Loan Repayment Period) and the adoption of Islamic banking by conventional commercial banks in Mombasa County, as shown in Table 7, which shows the multiple correlation coefficient R = 0.632. The R-squared measures the amount of variation in the dependent variable that can be accounted for by the independent variables. The results reveal that the three independent variables (Loan Accessibility, Loan Policy, Loan Cost, and Loan Repayment Period) can explain 39.9 percent of the variance in the dependent variable with an R-squared of 0.398. (adoption of Islamic banking by conventional commercial banks in Mombasa County). For this research, the dependent variable, adoption of Islamic banking by Kenyan commercial banks, was shown to be influenced by other variables that were not investigated.

ANOVA

Table 8: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.831	4	.208	7.640	.000[b]
	Residual	1.251	46	.027		
	Total	2.082	50			

a. Dependent Variable: Adoption of Islamic banking
b. Predictors: (Constant), Loan Accessibility, Loan Policy, Cost of Loan, Loan repayment period

The ANOVA statistic was employed to determine the suitability of the regression model under consideration. The significance F value was 22.564 (P=0.00), which indicates that the result was significant. In other words, the regression model that was developed was both fit and statistically significant, and it may be considered suitable for use in prediction tasks.

Coefficient Correlation

Table 9: Coefficient Correlation

Model		Unstandardized Coefficients B	Std. Error	Standardized Confidents Beta	T	Sig.
1	(Constant)	1.503	.710		2.118	.040
	Loan Accessibility	.319	.135	.277	2.357	.023
	Loan Policy	-.609	.298	-1.107	-2.044	.047
	Cost of Loan	.771	.305	1.375	2.528	.015
	Loan repayment period	.215	.093	.289	2.315	.025

Dependent Variable: Adoption of Islamic banking

$Y = 1.503 + 0.319X_1 + -0.609X_2 + 0.771X_3 + 0.215X_4$

When all other predictor variables—loan accessibility, loan policy, cost of loan, and loan repayment period—are zero, the constant term denotes the baseline adoption of Islamic banking by conventional banks in Kenya. Here, the adoption rate is 1.503 units. This baseline adoption rate is statistically significant, according to the significance threshold (p-value) of 0.040. Loan accessibility showed a coefficient of 0.319, which means that, while all other variables are held constant, the adoption of Islamic banking rises by 0.319 units for every unit increase in loan

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accessibility. This link is statistically significant, according to the significance level (p-value) of 0.023. This suggests that a greater probability of conventional banks adopting Islamic banking practices in Kenya is positively correlated with easier access to loans.
lending Policy: The correlation of -0.609 suggests that a decline in the use of Islamic banking is correlated with stricter lending rules. In other words, while all other variables remain same, the adoption of Islamic banking falls by 0.609 units for every unit rise in the strictness of lending rules. This negative link may be statistically significant, as shown by the significance level (p-value) of 0.047. This research emphasizes that banks may be more likely to embrace Islamic banking if their lending rules are more flexible.

Cost of Loan indicated a coefficient of 0.771 suggests that there is a correlation between a rise in Islamic banking acceptance and greater expenses related to conventional loans. Keeping all other things equal, the adoption of Islamic banking rises by 0.771 units for every unit increase in loan costs. This positive correlation is statistically significant, as shown by the significance level (p-value) of 0.015. This implies that conventional banks can find it profitable to switch to Islamic banking procedures when the cost of traditional loans rises.

Long loan payback terms are linked to greater adoption rates of Islamic banking, according to the coefficient of 0.215 for loan repayment time. In other words, if all other variables remain constant, the adoption of Islamic banking rises by 0.215 units for every unit increase in the loan payback duration. This link is statistically significant, according to the significance level (p-value) of 0.025. This data suggests that Islamic banking frameworks may be more appealing to institutions that provide longer payback terms, which might result in greater adoption rates.

In conclusion, all of the variables were found to have P values lower than 0.05 (loan accessibility 0.025, loan policy 0.47, Cost of loan 0.015 and loan repayment period 0.025) This study found that conventional commercial banks in Mombasa County at a statistically significant rate when certain financial factors were taken into account, including the availability of loans, the bank's loan policy, the cost of loans, and the length of time it took to pay back loans.

SUMMARY OF FINDINGS

According to the findings of the research, before giving a loan to a client, the bank examines the customer's financial capacity by reviewing their financial activities as represented by their bank statement. The feasibility of an investment is also taken into consideration by the bank before making a loan. According to the data, only a small number of banks provide a diverse range of collateral for loans secured via Islamic banking. The results revealed that, after the provision of a loan, the bank assigns a client to one of its relationship officers, who are responsible for providing ongoing monitoring and investing advice. The survey also discovered that the bank does not charge interest on loans, which has resulted in a large number of consumers.

According to the findings of the research, which examined how loan policy influences the adoption of Islamic banking in conventional commercial banks in Mombasa County, the bank adheres to and implements all lending rules and regulations issued by the central bank of Kenya. According to the findings of the investigation, the bank has appropriate procedures in place to deal with non-performing loans. In addition, when compared to other banks, the bank has the finest lending regulation in place. It was also discovered that the bank has put in place the finest consumer protection procedures available, which would secure consumers' personal information from being accessed by unauthorized parties. Last but not least, the investigations revealed that the bank had put in place the necessary safeguards to guarantee that branching regulations were met.

When looking at how loan costs impact the adoption of Islamic banking by traditional commercial banks in Mombasa County, the outcomes of the research revealed that the bank has put in place the most advantageous opportunity cost for its valued clients. In addition, the bank has put in place the best practices to keep needless transaction fees for its clients to a minimum. According to the results, the bank mandates that clients who borrow money have the guarantee and collateral costs taken into consideration. The findings revealed that the bank advised its clients of any additional fees that they would face as a result of a transaction that they had completed.

Investigating the relationship between loan repayment period and the adoption of Islamic banking by conventional commercial banks in Mombasa County, the researchers discovered that the type and quality of collateral security, the size of a loan taken by a customer, and the type of investment to which a loan has been subjected all have a significant impact on the loan repayment period. According to the findings of the research, the bank provides sufficient time for a client to repay a loan without experiencing financial hardship. At the end of the research, it was discovered that customer bank participation in the execution of an investment permits the customer to make timely payments on the loan.

CONCLUSION

As a result of the ever-increasing desire among Kenyans to have credit empowerment provided by conventional commercial banks that provide Islamic banking services, the management of lending institutions should ensure that they conduct research into consumer needs in order to determine the most appropriate interest rates to charge. This will go a long way toward assisting them in understanding the demands of customers in order to be competitive in credit lending since most Islamic banking prefers to be charged low interest rates and will thus choose the supplier of credit facilities with the lowest interest rates.

The research comes to the conclusion that bank lending policy has an impact on the adoption of Islamic banking since it attracts and retains clients, hence boosting the bank's clientele base. According to the findings of the research, lending policies for commercial banks that provide Islamic banking services are created to allow the bank to provide credit to both retail and corporate customers who fulfill the stipulated standards. Furthermore, the research finds that lending rules that are developed assist credit officers to make choices on loan approval and, more crucially, to guarantee that the bank attracts more clients.

Loan policies developed by conventional commercial banks that provide Islamic banking services raise the level of bank books and shareholder value, boost customer satisfaction, minimize loan defaults, and increase the profitability of traditional commercial banks. The research goes on to argue that the implementation of efficient lending practices by commercial banks would raise their interest revenue, attract and keep lucrative customers, and expand the bank's client base, as well as improve their credit risk portfolio and bank profitability.

RECOMMENDATIONS

The study recommends that conventional commercial banks should collaborate with microfinance institutions (MFIs) in order to enhance loan accessibility for individuals and small businesses in Mombasa County. MFIs often have extensive networks and experience working with underserved populations, making them valuable partners in expanding access to Islamic financing options. By forging partnerships with MFIs, conventional banks can leverage their expertise and infrastructure to reach a broader range of customers and enhance loan accessibility in the community.

Conventional commercial banks should consider revising their loan policies to offer more flexible and Shariah-compliant loan products. This could involve developing Islamic financing options that accommodate the specific needs and preferences of customers while adhering to Islamic principles. By offering a variety of loan products tailored to different customer segments, conventional banks would attract a wider range of customers to Islamic banking.

Conventional commercial banks should ensure transparency and clarity about the costs associated with Islamic financing products. This includes disclosing all fees, charges, and penalties associated with the loan, as well as explaining the Shariah principles underlying the loan structure. This transparency builds trust with customers and ensures that they are fully informed about the cost of borrowing with Islamic banking. Clear communication about pricing will help alleviate concerns and misconceptions about the affordability of Islamic loans, thereby promoting their adoption.

The study also recommends that Conventional commercial banks should consider offering flexible repayment options for Islamic financing products to accommodate the diverse financial circumstances of customers. This could include options for extended repayment periods, grace periods, or customized repayment schedules tailored to individual needs. By providing flexibility in repayment terms, conventional commercial banks will make Islamic loans more attractive and accessible to a wider range of customers, thereby promoting their adoption.

Recommendations for Further Studies

To see whether similar findings can be obtained the same study can be carried out with a further scope to include more conventional commercial banks in other counties in Kenya to see if the same results will be achieved. Further studied can be done on the other independent variables which have not been used in this study.

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