

Effect of Strategic Planning On Sustainable Competitive Advantage of Islamic Commercial Banks in Kenya

Mohamed Abdi¹ Dr. Jane Omwenga² Dr. Wario Guyo³

¹Phd Student, School of Entrepreneurship, Procurement and Management, Jomo Kenyatta University of Agriculture and Technology, Kenya

²School of Entrepreneurship, Procurement and Management, Jomo Kenyatta University of Agriculture and Technology, Kenya

³School of Entrepreneurship, Procurement and Management, Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract: The main objective of the study was to determine influence of strategic planning on sustainable competitive advantage of Islamic commercial banks in Kenya. This study was informed by Configurational Theory. The study followed pragmatism paradigm and employed both descriptive and explanatory research design. The study targeted 210 HOD, managers and supervisors from the headquarters of the 5 banks offering Islamic banking (2 were fully fledged Islamic banks and 3 conventional banks were offer Islamic banking services). Stratified and Simple random sampling was used in this study to select 111 sampled respondents. The study shall use questionnaires to collect primary data. The primary data was collected using interview and questionnaires were comprise both open and closed- ended questionnaires. To find out the reliability of the instruments, the instruments was reviewed to find out if they was yield same results after pre-testing. The reliability of the instrument (questionnaire) was analysed using Cronbach's alpha. Data was analysed using both descriptive and inferential statistics. The results revealed that strategic planning had effect on the sustainable competitive advantage of Islamic commercial banks. This implies that strategic planning enhances sustainable competitive advantage. It is therefore recommended that the Islamic commercial banks management should encourage proper planning so as to realize and sustain competitive advantage.

Keywords: Strategic Planning, Sustainable Competitive Advantage, Islamic Commercial Bank

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I. Introduction

Islamic banking has emerged as an effective tool for funding projects globally. Most of financial institutions and centres are finding clear insights that Islamic finance has already been moving side by side within the global financial system. Islamic finance has the ability to contribute and to meet the challenges of ending poverty and boosting prosperity (Tabash, 2018). Ndukhu (2014) affirms that commercial bank in Kenya operates in an environment where it affects the environment by the outputs it produces like products and services and is also affected by the same environment through government regulations, competition from other commercial banks, inputs from its suppliers, consumption of output by its customers. However, As competition intensifies in the service industry, Islamic banking is no longer regarded as a business entity striving to fulfill only the religious obligations of the Muslim community, but more significantly as a business open to customers of all faith, that ought to be as competitive as conventional banking. This demands clear understanding of the needs and preference of their customers on Islamic banking products and services. (Seethaletchumy, Uchenna, Khong, Robert and Kim 2010)

Islamic banks in Kenya have to respond strategically to competition and have a competitive advantage over its rivals in the conventional sector by securing customers. Sustainable competitive advantage was born out of core competences that yield long term benefit to the bank offering Islamic banking. Raduan, Jegak, Haslinda and Alimin (2009) notes that businesses that engage in strategies and business that are distinctive and difficult to replicate have an edge over their competitors and are more likely to be more profitable than their competitors. Factors such as strategic types, adoption of new technologies, quality products among others have also been considered to have important influence on superior performance of firms (Atikiya, 2015). To achieve the intended goals of the organization, the organization needs to have a strategic work plan directed towards achievement of superior financial performance and a desirable position. According to Abdi (2014) strategic planning assesses both the internal and external environments to formulate strategy, implement the strategy, and evaluate the success of strategy. Strategic planning incorporates planning, employee motivation, new product development, and visionary views.

Robbins and Coulter (2009) suggest the use of strategic planning by organizations is critical in order to survive the economic, political, social and technological changes in the environment by taking advantage of the emerging opportunities from the surrounding and reducing the impact of threats from the environment. Robbins and Coulter (2009); Summers and Hyman (2005); Taylor (1995); Thompson, Strickland and Gamble (2007) further suggest that allowing employees to participate in strategic planning is important when they advance organization behaviour to explain the success of strategic planning in increasing the organization's survival chance in an ever changing environment. Porter (2004) describes business environment as dynamic, complex and competitive. To create a performing business within a competitive industry the organization needs to strategize and use strategic planning practices as a crucial factor towards establishing or positioning themselves strategically in the market.

In Kenya, Barclays bank became the first 1st bank in December 21st 2005 to launch Islamic banking products when it launched La Riba account an interest free bank account. On May 29th 2007 FCB was the pioneering bank in Kenya authorized by the CBK under Cap 488 of the Banking Act to operate as a full-fledged Sharia Compliant banking institution and it commenced operations on 1st June 2008 (First Community Bank, 2016). In the same year Gulf African Bank opened its doors and become the second fully shariah compliant bank in Kenya.

Several conventional banks have started offering Islamic banking services. These include Chase bank (Chase Iman), National Bank (National Amanah), Standard Chartered (Saadiq) and KCB (Sahil). Initially, Islamic banking had some challenges. Among the challenges that faced Islamic banking in Kenya was a lack of sharia compliant investment vehicles such as the Sukuk bond. This was because the banking Act only referred to interest and Sukuk bond do not charge interest. Consequently CBK in order to regulate Islamic banking and products made some changes to the banking Act in 2008 to include the phrase "or a return in the case of an institution carrying out business in accordance with Islamic law" when referring to interest chargeable on a savings account (Mazera, 2016). Islamic banking accounts to 2% of the share market in Kenya where Muslims make up 15% of the population of 40 million (Vizcaino, 2016). As such the 2 fully fledged Islamic banks are in tier 3 of banks in Kenya. There is therefore need to explore strategies by this banks to attract customers and increase their market share in the highly competitive banking industry

1.1 Theoretical Review

A strategy's success turns on combining external fit and internal fit. In essence, an organization with competitive strategies should have efficient management and a high level of performance, provided it is also able to achieve high levels of fit with its contemporary strategic initiatives (Thompson & Lockett, 2011). Emphasis is given to the importance of bundling strategic initiatives together with business strategies so that they are interrelated and therefore complement and reinforce each other. Implicit is the idea that strategies within bundles are interrelated and internally consistent and more particularly have a significant impact on the overall management of the organization. Effective management is as a result of ability and motivation of the human capital element. Thus; there are several ways in which workforce can acquire needed skills (such as careful selection, talent nurturing and mentorship, leadership development) and multiple incentives such as leadership and succession planning initiatives to enhance motivation and enhancement of performance management.

A key theme that emerges in relation to human capital is that individual strategies cannot be implemented effectively in isolation (Schuler & Storey, 2007) but rather combining them into integrated and complementary bundles is crucial. Snow, *et al.* (2005) argues that a bundle creates the multiple, reinforcing conditions that support employee motivation, given the preposition that the workforce has necessary reservoir of knowledge and skills to perform its work effectively (Swanson & Holton, 2005). In the configuration school, cohesion is thought likely to create synergistic benefits which in turn enable the organization's strategic goals to be met. The aim of bundling is to achieve coherence which exists when a mutually reinforcing set of human capital strategies have been formulated and coupled with the overall organization's management strategies to attain a strategic fit. The approach of bundling is holistic as it is concerned with the organization as a total entity and addresses what needs to be done as a whole in order to enable it to achieve its organizational strategic objectives.

According to Snow, *et al.* (2005), the notion of a link between business strategy and the strategic management performance of each individual in the organization is central to fit or vertical integration. Internal fit advocates bundle of strategies to ensure that organizations gain benefits from implementing a number of complementary strategies rather than only a single strategy. Most models of best fit focus on ways to achieve external fit. The most influential model of external fit is that from Schuler, *et al.* (2007) which argues that business management and performance was improve if their human capital strategies support the choice of its business strategic goals. Under this model, organizations need to work out the required employee initiatives to implement a chosen human capital strategy and devise supporting policies to enable those unique behaviours to

be strategically formulated, implemented and enhanced within the workforce fraternity. Vertical integration can be explicitly demonstrated through the linking of a business strategic goal to individual objective setting, to the measurement and rewarding of attainment of that specific strategic business goals.

In support to configuration theory, Schuler, *et al.* (2007) described the appropriateness of 'people-side' strategy as a fit of strategies that help the organization realize quality outputs and innovation enhancement. The significant difference between the contingency and configurational approach is that these configurations represent non-linear synergistic effects and high-order interactions of people-side strategies that can result in effective management that leads to better performance of the organization (Peer, *et al.* 2013).

Robinson, *et al.* (2008) noted that the key point about configurational perspective is that it seeks to derive an internally consistent set of human capital strategies that maximize both vertical and horizontal integration and then link these to organizational strategic configurations in order to maximize vertical integration and thus resulting to better organizational management and performance. Thus, put simply, configuration theorists require an organization to formulate and implement people-based strategies that can help the organization realize a positive effect through horizontal and vertical integration. The configuration approach contributes to the debate on human capital as a critical asset in recognizing the need for organizations to achieve both vertical and horizontal fit through adoption of human capital strategies so as to contribute to an organization's competitive advantage and therefore be deemed strategic. The use of relevant strategies and competency frameworks are recommended for adoption to provide coherence management activities within an organization.

II. Empirical Review Hypothesis development

Kiptugen (2003), in his case study of KCB, studied the strategic responses to an ever changing competitive environment and found out that proactive rather than reactive strategies such as research on shifting customer's preferences and needs form the foundation of its strategic planning. Akinyele & Fasogbon (2010) on the other hand studied on the impact of strategic planning on organizational performance and survival and found out that Strategic planning enhances better organizational performance in organizations. Data was collected through questionnaires to 100 respondents.

Another study by Sophia & Owuor (2015) on the effects of strategic planning activities on organizational growth, which used a descriptive research design and comprising of a sample of 50 employees of KEMRI, revealed that strategic planning if well implemented in the organization is effective towards growth of an institution. Similarly, a study by Nzuki (2017) on the influence of strategic planning on the competitive advantage of Sandoz GmbH Kenya concluded that adoption of sound strategic planning practices leads to the gaining of competitive advantage by firms. Innocent & Levi (2017) adopted a survey design in their study on the effects of Strategic Planning on Organizational Performance. Their target population was 180 members of staff of Nigerian Bottling Company Enugu out of which they sampled 124 of the employees through the Taro Yamen's formula. Their findings showed that there was a relationship between effective strategic planning and organizational performance.

Monye & Ibegbulem (2018) studied on the effect of Strategic Planning on Organizational Performance, Profitability and competitive advantage. They adopted a survey design and sampled 100 respondents. Their findings were that strategic planning enhances better organizational performance, thus impacting on profitability and competitive advantage. Another study by Olusanya, Awotungase, & Ohadebere (2012) on effective planning and organisational productivity (A Case Study Of Sterling Bank Nigeria Plc) found out that effective strategic planning influences competitive advantage of an organization.

H₀: Strategic planning has no significant influence on sustainable competitive advantage of Islamic commercial banks in Kenya.

III. Material And Methods

This study was adopt both explanatory and descriptive research deign since it would help to provide answers to the research question of how and to what extent strategic [planning of competitiveness influence Islamic banks in Kenya using both qualitative and quantitative approach. The Target population of this study was 2 full-fledged Islamic banks and 3 windows in Kenya. The study enquired information from 210 HOD, managers and supervisors from the headquarters of the 5 banks offering Islamic banking. The sample of 111 HOD, managers and supervisors from the 5 banks was obtained using Nassiuma's (2000) sample size formula. Stratified and Simple random sampling was used in this study to select employees. This was done by lottery method where the researcher assigned numbers to employees. The study shall use questionnaires to collect primary data. Cronbach's alpha coefficient (α) was also be used to The study tests the significance level of each independent variable against the dependent variable at 95% confidence level using ANOVA, Correlation and regression techniques. A 95% confidence interval reflects a significance level of 0.05. The regression model is represented below:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where,

= Competitiveness of Islamic banks

β_0 = Constant

X_2 = Strategic Planning,

ε = Error term

$\beta_1, \beta_2, \dots, \beta_5$ = Regression coefficients of the five independent variables.

IV. Findings and Discussion

This chapter discussed the research findings for quantitative. Table 1 shows the results on data transformation. From the findings, sustainable competitive advantage had the highest mean (4.04) while planning had the lowest (3.756). The standard deviations for the variables were less than 1 indicating less variation in the responses. Further, from the results in table 1, there is a positive and significant correlation between the independent variables and sustainable competitive advantage. Particularly, the correlation results showed that planning had a significant positively correlate with sustainable competitive advantage ($r = .279$, $p < .01$) which implies that there is 27.9% chance that planning was increase with the increase in Sustainable Competitive Advantage.. Based on the above results there is an indication of the linear relationship between all predictors on Sustainable Competitive Advantage within manufacturing firms, hence there need to perform a more sophisticated model such as multiple regression model to show a cause-effect relationship.

Table 1 Descriptive and Correlation Results

	Mean	Std. Dev.	Sustainable Competitive Advantage	Strategic Planning
Sustainable Competitive Advantage	4.17	0.664	1	
strategic Planning	3.74	0.822	.279**	1

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

4.1 Testing of Hypotheses

Regression analyses were performed to test the model fit and to establish the predictive power of the study models. The study further adopted multiple regression models to test hypotheses.

H_0 : *Strategic planning has no significant influence on sustainable competitive advantage of Islamic commercial banks in Kenya.*

In respect to planning and sustainable competitive advantage of Islamic commercial banks in Kenya, the results showed that the standardized coefficient beta and p value of planning were positive and significant ($\beta = 0.756$, $p < 0.05$). Thus, the null hypothesis H_{02} was rejected and the study accepts the alternative hypothesis that planning has a positive and significant effect on the sustainable competitive advantage of Islamic commercial banks in Kenya. This indicates that, for each unit increase in sustainable competitive advantage of Islamic commercial banks in Kenya, there is 0.756 unit increase in sustainable competitive advantage of Islamic commercial banks in Kenya. The study concludes that planning enhances sustainable competitive advantage of Islamic commercial banks in Kenya. The findings are supported by Davis (2015) that strategic planning is crucial to a firm's growth. The findings agree with Akinyele & Fasogbon (2010) that strategic planning enhances better sustainable competitive advantage in organization. Similarly, A by Nzuki (2017) concluded that adoption of sound strategic planning practices leads to the gaining of competitive advantage by firms.

This study findings that strategic planning affect sustainable competitive advantage of Islamic commercial banks in Kenya confers with Innocent & Levi (2017) findings that there was a relationship between effective strategic planning and sustainable competitive advantage. These findings are also supported by Monye & Ibegbulem (2018) findings hat strategic planning enhances better sustainable competitive advantage, thus impacting on profitability and competitive advantage. Olusanya, Awotungase, & Ohadebere (2012) on effective planning and organizational productivity (A Case Study Of Sterling Bank Nigeria Plc) found out that effective strategic planning influences competitive advantage of an organization

Table 2: Influence of Strategic Planning On Sustainable Competitive Advantage of Islamic Commercial Banks in Kenya

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	0.835	0.293		2.853	0.005
Strategic Planning	0.869	0.076	0.765	11.499	0.000
Model Summary					
R	0.765				
R Square	0.584				
Adjusted R Square	0.580				
Std. Error of the Estimate	0.356				
ANOVA(Goodness of Fit)					
ANOVA (F stat)	132.228				
ANOVA (F prob)	0.000				

a Dependent Variable: Mean Sustainable Competitive Advantage

V. Conclusion and Recommendations

The study concludes that strategic planning influences the Sustainable Competitive Advantage of Islamic Commercial Banks in Kenya. This implies that good planning has a direct impact on the level or rate of achieving of competitive advantage by Islamic Commercial Banks in the Kenyan banking industry. It also implies that the involvement of employees in the overall planning, the training of staff on strategic planning and the allocation of resources for planning process positively affects the realization of Competitive Advantage of Islamic Commercial Banks in Kenya. This is an indication that there is a positive relationship between effective planning and the performance of Islamic Commercial Banks in Kenya.

Regarding the influence strategic planning on sustainable competitiveness of islamic banking, the study recommends that Islamic banks management should involves staff at all levels while coming up and reviewing its Vision and Mission, involving staff in different departments while setting objectives for self and that they should evaluate of external threats and opportunities that need to be included in different department's strategic planning improves Islamic banking competitiveness. The also suggest that there need for to evaluate internal strengths and weaknesses for Islamic banking in strategic planning which can assist managers in our organization to consider the future implications of the current decisions. it further advice Islamic bank management to have policy that involve staff in decision making and participation of employees in external and internal information define the banks strategic planning process and Identification of needs and concerns of various stakeholders was included in our department's strategic planning process of Islamic bank. It also recommends for training on strategic planning and providing financial resources for strategic planning process increase effectiveness of meeting the organization's goals and objectives

The study has shown that there is need for further research on other strategic determinants of sustainable competitive advantage of Islamic commercial banks in Kenya. From the results, strategic leadership, planning, innovativeness and human resource competencies explain to some extent sustainable competitive advantage of Islamic commercial banks in Kenya, with some percentage not being explained. When shari'ah governance was introduced as intervening variables, only the relationship between strategic leadership and sustainable competitive advantage of Islamic commercial banks was explained up to about twenty nine percent. The study suggests further research to be carried out on the other strategic determinants of sustainable competitive advantage of Islamic commercial banks in Kenya not captured in the current study.

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