RELATIONSHIP BETWEEN ISLAMIC FINANCING INSTRUMENTS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ISIOLO COUNTY KENYA

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A Thesis Submitted to the School of Business and Economics in Partial Fulfillment of the Requirement For the Conferment of The Degree of Masters in Business Administration (Finance) of Kenya Methodist University

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DECLARATION AND RECOMMENDATION

Declaration

I declare that this thesis is my original work and has not been presented in any other university for award of any degree.

Sign……… .... Date……………23/09/2021…………………...

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Recommendations

This thesis has been submitted in the university panel with my approval as the university supervisors.

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DEDICATION

I dedicate this work to my brothers Mohamed Huka, Halake Huka; to my sisters Zeinab Huka, Halima Huka, Hawo Huka; and to my mother Fatuma Huka.

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ABSTRACT

Islamic banking has become popular in the last three decades, not only in Arab and Islamic world but also in other parts of the World. Due to its profit-risk sharing principles, Islamic banks, compared to non-Islamic banks, seek for a just and an equitable distribution of resources. This caused non-Muslims to also adopt Islamic banking in different parts of the world. However, despite over four decades of experience of Islamic banking and finance, the industry had its critics, both Muslim and non-Muslims due to low market share rate of Islam banking in Kenya as compared to conventional banks. This study aimed to examine relationship between Islamic financial instruments and financial performance of banks in Isiolo County Kenya. The study had specific objectives such as measuring the influence of Islamic home, auto, personal and trade financing instruments on financial performance of commercial banks in Isiolo County Kenya. This study was guided by three theories; assimilation theory, Solow Swan class growth theory and social exchange theory. Assimilation theory guided the survey into Islamic home and personal instruments. Solow Swan class growth theory will guide the survey into Islamic automobile financing instruments and social exchange theory guided the survey into Islamic trade financing theory. Descriptive research design was used in the study. The respondents were customer service officers and loan officers in the ten commercial banks in Isiolo County. They were be selected using census method. Data collection was done using closed-ended questionnaires and secondary data collected through analysis of report from 2017 to 2020. To ensure validity and reliability, pre-testing of questionnaires was done at Kenya Commercial Bank in Meru town. Coded data in SPSS 24.0 computer program analyzed quantitative and qualitative data using the descriptive statistics such as mean, percentage and standard deviation. Multiple regression was used to test hypothesis of the study. Tables, graphs and detailed explanations were used to present the final results of the study. The study found out that the problem was not in provision of home financing instruments by the bank but untimely re-payment on the issued financing. In addition, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans. Further on, most Islamic personal products were almost similar to conventional products hence clients did not really distinguish between the two. In addition, it could also mean that Islamic personal products were very complicated for clients to understand them hence preferring the conventional personal products. The results further indicated that the community around Isiolo county did not actually know there were such kind of products that would be of benefit to them. The study recommends that the bank management should provide training to banking staff on how to administer Know Your Customer procedures when administering various Islamic financing instruments. There should marketing drives to educate the community more on these financing instruments.

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ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
BIS	Bank for International Settlements
CAP	Center for American Progress
CBK	Central bank of Kenya
ER	Equity Ratio
FDI	Foreign direct investments
GPR	Gross Profit Ratio
IB	Islamic Banking
ICG	Isiolo County Government
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IRA	Interagency Rapid Assessment
KBA	Kenya Bankers Association
KCB	Kenya Commercial Bank
KYC	Know Your Customer
LAPSET	Lamu Port, Southern Sudan Ethiopia Transport
NIM	Net Interest Margin
NPR	Net Profit Ratio,
OECD	Organization for Economic Co-operation and Development
OPR	Operating Profit Ratio
PWC	Price Waterhouse Cooper
RM	Research and Markets

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Anchored on Islamic norms and values, Islamic banking was a financial structure that relied on Sharia laws steered by Islamic economics (Abdullahi, 2016). Globally, these norms and values guided Islamic banking not to charge interest in its undertakings, hence enabling impartiality sharing of profits between the borrowers and the bank (Salman & Nawaz, 2018). There were developments such as introduction of Muslim digital affiliates that supported mobile banking in Germany and other European nations with huge Muslim people, (Global Ratings, 2019). There was a global growth of 8.3 percent growth in banking and mutual guarantee funds products in 2017 worth 2.05 trillion dollars while Islamic insurance grew by 25.6% valued at 399.9 billion dollars in 2017 in nations such as Bahrain and Saudi Arabia (Islamic Financial Services Board [IFSB], 2019).

Islamic finance market was rising abstemiously due to robust funds and adoption of automated transactions systems by permissible and insurance products amid other Islamic services in countries such as Canada, Russia and England (Research and Markets [RM], 2019). These aspects enhancing development of the market were leading investment on the road to the incredible growth prospects in the auspicious Islamic banking (IFSB, 2019). Saudi Arabia led in Gulf cooperation council countries with 49 percent, United Arab Emirates came second with 19 percent, Kuwait third with 16% percent, Qatar fourth with 11 percent and Bahrain fifth with 5 percent in terms of total assets growth in Islamic banks (IFSB, 2019).

Regionally, Islamic banking signified 14 percent of all banking assets in North African countries such as Algeria, Egypt, Sudan, Morocco and Tunisia. This was 25 percent growth of Muslim related banking assets (RM, 2019). In Nigeria, 24 percent advance in revenues regardless of a 16% reduction in overall assets in the Nigerian commercial banks and improved returns by 12.4 percent in Al-Baraka bank in South Africa which was an Islamic bank showed that Islamic banking is advancing at a very high rate in Africa (Moody, 2019).

Locally in Kenya, Islamic banking products being a decade old had been present with three fully fledged Islamic banks and many other conventional banks offering Islamic banks. Kenyan amongst other African nations were identified at the foremost in the establishing definite direction for Islamic finance processes and growth (Kenya National Bureau of Statistics [KNBS], 2019). In Kenya, Islamic banking began when Barclays bank introduced Islamic banking products in 2005 (Mutua, 2017). In 2007 and 2008, First Community Bank and Gulf African Bank opened their doors respectively. Kenya Commercial Bank followed suit by issuing sharia acquiescent products by distinct Islamic departments in 2009 (Mutua, 2017). In 2010, range of Sharia acquiescent investments in Kenya were introduced through the amendment of section 45 of the Finance Act (Ndungu, 2011). This was whereby the Central Bank of Kenya was acknowledged as the government's financial representative to allow the compensation of an income instead of paying interest on government securities.

In 2013, Standard Chartered Bank announced commencement of Islamic banking in Kenya and as of the end of 2013, Islamic banking was two percent of the total banking business in the whole country (International Monetary Fund, 2014). Islamic banking has over time developed its capacity to support a wider base of financial instruments, clients and investors thereby playing a significant part in enhancing growth in economy of Kenya (Kenya Bankers Association [KBA], 2015).

Therefore, employment opportunities, income generation, cohesiveness between Muslims and other communities, availability and growth of financial innovative instruments in the Islamic banking was a key financial performance propeller towards having an active Kenyan banking sector in the economy (KBA, 2015). A detailed background information on financial performance quantifiable indicators such as return on asset, gross profit ratio and equity ratio were given in this chapter. Islamic financial instruments menaces that were affecting financial performance of banks were described cohesively, statement of the problem, purpose of the study, research objectives, research hypothesis, significance of the study, scope, limitations, delimitations and study's assumptions. This chapter ended by giving a definition of terms.

1.1.2 Islamic financial instruments

Organization for Economic Co-operation and Development [OECD] (2017) defined a financial instrument as a financial contract between parties whereby ownership of things like bonds, leases, stocks were exchanged with money. Commencement of Islamic banking on large scope had brought about more sophisticated Islamic financial instrument practices in the market. This was done through daily practice of Islamic banking developing Islamic financial instrument practices into diversities to fit in different Islamic markets and nature of businesses being undertaken by the banks. Fluctuation in both internal and external environments had been forcing banks to shift their thinking. Any fluctuation in the environment brought about threats and opportunities to banks.

Therefore, banks being environmental dependents had the need to embrace the opportunities and thought of ways to curb threats early enough (Isik, 2018). Tastes and preferences of clients were changing as they became more knowledgeable which pressurized to meet these changes (Muthama, 2015). With inadequate resources and competitive encounters, Kenyan banks had been deriving strategies that when adopted would meet the ever-changing market's demands. Any business focused entity had the expedition for growth which was essential to make it become a going concern. Banks struggled, irrespective of their sizes to grow so as to house the augmented expenditures that changed with time (Bakshi & Penkar, 2104).

Bakshi and Penkar (2014) ascertained that small banks wanted to become large, large banks wanted to become even larger. Growth consequently, was an obligation if a bank wanted to stay for long in banking business. An operative and well-planned financial instrument structure could attract both new and old clients of a bank who by utilizing the instrument led to improved sales (United Kingdom AID, 2014). Improved sales eventually led to higher market share of the bank (Mckisney & Company, 2019). Higher market share in the long-run translated to greater profitability of the bank (Etale et al., 2016; Genchev, 2012).

1.1.3 Financial Performance

Naz et al. (2016) defined financial performance as how efficiently an entity used the resources available to it to exploit owner's capital and productivity. Another definition by Neto (2010) as indicated by Chiarello et al. (2014) added the aspect of entities concentrating on value formation so as to exploit owner's capital in the organization. In this study, financial performance signified the ability of a bank to exploit fully shareholder’s capital by applying all possible available resources at its dispensation. Different organizations measured financial performance differently. For example, Return on Assets [ROA], disbursement ratio and profit before tax ratio was commonly used by construction firms (Rajasekhar, 2017). Automotive firms Use Net Profit Ratio [NPR], Equity Ratio [ER] and Operating Profit Ratio [OPR] (Ramya & Kavitha, 2017). Agricultural firms used ROA and NPR similar to construction and automotive firms respectively (Bailey, 2017).

In this study, financial performance was measured using Return on Asset, Gross Profit Ratio [GPR], ER Net Interest Margin [NIM] and Total Sales [TS]. This was because these measures had been recognized by the central bank of Kenya as measures used to measure financial performance of commercial banks in Kenya (Central bank of Kenya, 2018). ROA was derived by quantifying income less of interest from liabilities by average assets (Mulualem, 2015). GPR was derived by dividing the gross profit to net sales while equity ratio was given by dividing equity of the shareholders to assets (Ojiambo, 2014). Financial performance of commercial banks in a country supported the wellbeing state of an economy. It was therefore necessary to always give it priority from time to time so as to ensure that any challenges cropping up were solved as early as possible.

Globally, commercial banks in America had experienced challenges such as very low profits, insufficient assessment of bank’s records, liquidity risks; European banks were struggling with low growth of loan portfolios issues, non-full disclosure of final reports, low interest rates, shadow banks menace; Asian banks had liquidity risks, uncertainty on behaviors of investors and frail capital foundation comparing to risk-weighted assets (Acharya & Steffen, 2014; Center for American Progress [CAP], 2019; Coskun & Georgievski, 2018; Deloitte, 2019a; Faisal, et al., 2019; Hess, 2017; Weigand, 2016). It was very expensive to operate a banking business in north African nations like Egypt and Morocco; system breakdowns and low market share issues in western African nations such as Ghana; presence of many non-regulated financial institutions in South African banks; poor loan portfolio growth and liquidity issues in East African countries like Rwanda and Tanzania (African Business Magazine [ABM], 2019; Mbonigaba, 2019; Price Waterhouse Cooper [PWC], 2019). In Kenya, banks had faced with cybercrimes, poor marketing structures, unfavorable government policies, loopholes in Islamic banking regulations and stiff competition from non-banking lenders (IMF, 2017; KBA, 2017; Mwai, 2015; Nzasiyenga, 2017; Wangui, 2016).

These challenges led to stagnation on growth of commercial banks making some of them to even close down like Chase bank that was closed in 2015 (Abdirashid, 2017). Banks adopted financial instruments that enabled faster and efficient use of banking facilities with convenience. These included mobile banking, Automatic Teller Machines [ATM] banking, WhatsApp banking, internet banking and asset securitization (Gichungu & Oloko, 2015; Kinyua, 2018; Mbugua, 2014; Muita, 2015; Nzasiyenga, 2017;). Regardless of these improvements, financial instruments practices that followed Islam norms and values documented in sharia laws were misinterpreted and not common in Kenyan banks (Abdullahi, 2016; Mutua, 2017).

1.1.4 Commercial banks in Isiolo County Kenya

Located on the upper eastern region of Kenya, Isiolo County sat on an area of 25,336.7 square kilometers (Isiolo County Government, 2020). It bordered Marsabit County to the north, Wajir County to the east, Garissa County to the south-west, Tana-river County to the south, Meru County to the south-west, Laikipia to the west and Samburu County to the north west (ICG, 2020). Isiolo town was the capital town of the Isiolo county located on main Nanyuki-Isiolo highway hence efficient accessibility. Isiolo County harbored Kenya's fifth international airport. Due to its strategic location, it had advantages of being in the middle of Lamu Port, Southern Sudan Ethiopia Transport [LAPSET] corridor project hence high chances of being developed into a resort city by 2030 (ICG, 2020). The presence of a commercial banking system in an area affected the economic growth prospects of the area because banks accepted deposit from savers and offers loans to support investments in an area (Bank for International Settlements [BIS], 2019; CBK, 2018).

In Isiolo County, Central Bank of Kenya oversaw banks such as National Bank, Kenya Commercial Bank, Barclays Bank, Family Bank, Equity Bank, Sidian bank, Consolidated Bank, Co-operative Bank, Post Bank and First Community Bank (ICG, 2020). Despite Kenya Interagency Rapid Assessment [KIRA] (2015) confirming that Muslim community formed the highest number of the population in Isiolo County which should be a distinguished market attraction for banks to offer even more Islamic financial instruments, it had just ten commercial bank branches. Comparing with its neighboring Meru County which had twenty-two commercial banks branches. The number of commercial banks in Isiolo County is very low given the attraction amenities located in the area. This validated the reason why this study ascertained whether there was really any relationship between

Islamic financial instruments and financial performance of banks located in Isiolo County Kenya.

1.2 Statement of the problem

Islamic Banking has become ever popular in the last three decades, not only in Arab and Islamic world but also in other parts of the World (Fatai, 2012). The main purpose of introducing Islamic banks was to work in harmony with the Islamic law and principles towards economic development. Due to its profit-risk sharing principles, Islamic banks, compared to non-Islamic banks, sought for a just and an equitable distribution of resources (Siddiqui, 1985). This was the reason why non-Muslims were also adopting Islamic banking in different parts of the world (IFSB, 2019). However, despite over four decades of experience of Islamic banking and finance, the industry had its critics, both Muslim and non-Muslims (African Development Bank, 2011). According to Nguena (2014), Islamic finance products and services were often accused of mimicking those of the conventional financial system, while some criticisms considered the Islamic financial system as window dressing.

Therefore, the main problem of the study was that there had been low market share rate of Islam banking in Kenya as compared to conventional banks (CBK, 2017). CBK (2017) reported that Islamic banking market share rate in Kenya was 26.10 percent comparing to that of conventional banks that had 52.94 percent market share. The Islamic banks in Kenya had reported declining profits with First Community Bank's [FCB] net profit plunging by nearly half and Gulf African Bank [GAB] reporting slower growth in earnings in 2013, reversing a trend where they recorded triple digit growth in 2012. FCB saw its full-year after-tax profit dip 45.2 per cent to Sh132.2 million from Sh241.3 million in 2012 (Herbling, 2014).

The 200,000 number of Muslim customers at Islamic banks and Islamic windows did not match with the huge population of 4.3 million Muslim community in Kenya (Abdalla, 2015; KBA, 2015; Mutua, 2017). The challenge of low market share rate had greatly affected Islamic banking where Islamic financial instruments practices were highly misunderstood to mean they were terrorism related instruments, they were meant for Muslims only, riskier and more expensive than conventional banking (DLA Piper, 2013; Shabir & Rehman, 2019). Uneven market share proportion whereby conventional banking system had way higher market share value compared to Islamic banking system, would lead to inflation in a country's banking sector products (Deloitte, 2019b). This effect eventually would be impacted on Kenyan population who relied on banks for their financial transactions affecting the overall economy of the nation.

Studies done had generally argued that market share rate had been relatively low based on different aspects such as rates of default, effectiveness of operation rates, the returns from profit sharing, and overall level of interest rates from conventional banks (Amina et al., 2019; Al Arif & Rahmawati, 2018; Bashir et al., 2011; Imam & Kpodar, 2015; Obeid & Kaabachi, 2016; Su'un et al., 2018). Other literature such as Tabash and Dhankar, (2014) carried on the role of Islamic banking on Economic growth of several countries including Qatar, Bahrain and other Middle East and Northern African countries. However, the studies were carried in countries that had embraced Islamic banking for many years making it impossible to generalize the results to the Kenyan context which adopted Islamic banking ten years ago.

In Kenya, most studies had examined different aspects of Islamic banking. For instance, Kinyanjui (2013) investigated the challenges facing the development of Islamic banking in Kenya. Talam (2014) also investigated the effect of Islamic banking on financial performance of commercial banks in Kenya. Abubakar (2014) examined the effect of Islamic banking on investment financing in Islamic banks in Kenya. Mustafa (2013) explored the effects of Islamic banks on financial deepening amongst Kenyan Muslims. However, in Kenya, no studies had been done on the relationship between Islamic financial instruments and financial performance of banks in Isiolo County. Therefore, this created a gap and a reason for undertaking this study.

1.3 General objective

The general objective of the study was to examine relationship between Islamic financial instruments and financial performance of banks in Isiolo County Kenya.

1.4 Specific objectives

i. To measure the influence of Murabaha (home financing instruments) on financial performance of commercial banks in Isiolo County Kenya.
ii. To evaluate the influence of Ijara (auto financing instruments) on financial performance of commercial banks in Isiolo County Kenya.
iii. To determine the influence of Mudaraba (personal financing instruments) on financial performance of commercial banks in Isiolo County Kenya.

iv. To ascertain the influence of Twaruq (trade financing instruments) on financial performance of commercial banks in Isiolo County Kenya.

1.5 Research hypothesis

$H_0$1: There was no significant relationship between Murabaha (home financing instruments) and financial performance of commercial banks in Isiolo County Kenya.

$H_0$2: There was no significant relationship between Ijara (auto financing instruments) and financial performance of commercial banks in Isiolo County Kenya.

$H_0$3: There was no significant relationship between Mudaraba (personal financing instruments) and financial performance of commercial banks in Isiolo County Kenya.

$H_0$4: There was no significant relationship between Twaruq (trade financing instruments) and financial performance of commercial banks in Isiolo County Kenya.

1.6 Significance of the study

Commercial banks in Kenya would acknowledge the relevance of this study since they would learn a different approach that they can use in their banking business. The fact that Islamic banks acted as middle counterparty between the depositors and the money, would give them a boost when sharing profits with customers. Therefore, a commercial bank could adopt this banking system whereby it would provide Islamic financial instruments as its products, campaign and market them to its customers. Once customers adopted these Islamic financial instruments, the bank would have a major boost on their performance.

Due to the growing demand preference of Islamic financial instruments, non-banking institutions who would need to expand their investment knowledge scope would find this study useful. They would be in a position to understand how many of Islamic financial instruments were there and how did they operate. This would help them when making investment decision in case they would want to venture into the Islamic banking in future.

On the one hand, financial regulators would benefit immensely from this study as they would comprehend the issues surrounding Islamic banking and its financial management. This would influence how they formulated the policies that affected commercial banks to ensure that financial performance of both Islamic banks and Islamic products offering conventional banks was enhanced. On the other hand, shareholders who were adventurous in nature would acknowledge of untapped Islamic bank’s stocks and shares market. They would grasp knowledge on how to go about in venturing so as to improve the horizons of their wealth focus and not just rely on conventional banks products.

Commercial bank’s customers who were not aware of Islamic banking products would find this study useful as it would act as an eye opener to know the types of Islamic financial instruments available for them to invest in. They would have a foundation on how they could open Islamic accounts and access less costly loans as compared to conventional bank’s loans which had very high interest rates. The Kenyan economy would be improved once the citizens understood the importance of Islamic banks in investments. This would be beneficial in attaining vision 2030 which required huge funding from the banking sector for investments in diverse fields.

This study would provide foundational background to future studies that were interested on Islamic banking. The results retrieved from this study would be pertinent in provision of new knowledge in finance when the relationship between Islamic financial instruments practices and financial performance of listed commercial banks in Isiolo County in Kenya were known. Presently there were few studies related to Islam finance and none on the nature taken in this study.

1.7 Scope of Study

The study was conducted in Isiolo county in Kenya. Information was collected from the ten commercial banks located in Isiolo county. The data was on home financing instruments, auto financing instruments, personal financing instruments, trade financing instruments and financial performance of commercial banks in Isiolo County. The study also concentrated on the key variables of the study which were return on asset, gross profit ratio, equity ratio, net interest margin and total sales which were used to measure financial performance in commercial banks in Isiolo county Kenya. Primary information was given by customer service officers and loan officers while referral from published data from financial reports dated from 2017 to 2020 was used for secondary information especially when analyzing bank's financial performance. This study took 3 months to be completed.

1.8 Limitations of the study

The limitation for this study was that various Islamic banking products had been still undergoing development. This meant that their measurement techniques kept on varying in different period due to changes in banking operations such as deposit and loan issuance values varying in every financial year. The other limitation was that during this covid-19 pandemic, some bank staffs were working from home so as to limit the spread of the virus.

1.9 Delimitations of the study

On the first limitation, the study consulted with the branch managers of various banks when collecting data to establish the current measuring techniques in use. On the other limitation, the study intended to send the questionnaires in form of google form so that the bank staffs currently working from home could access and answer the questionnaires.

1.10 Assumptions of the study

The key assumption was that the respondents in the research study would gladly respond to the questionnaire and give correct information for exhaustive data analysis. This would facilitate towards establishing whether there was any relationship between Islamic financial instruments and financial performance of commercial banks in Isiolo county Kenya. The other assumption was that the respondents would give responses that were honest, trustworthy and realistic.

1.11 Definition of operational terms

Conventional banking

This was a type of banking that did not follow any religious laws. It followed the normal aspect of profit generating aspect rules set aside by international financial reporting standards (Obeid & Kaabachi, 2016)

Financial instruments

This was a monetary contract between two or more counterparties who were willing to engage in a business transaction (DLA Piper, 2013).

Islamic banking

This was a type of banking that was closely associated with the sharia law that reflected Muslim norms and values (Mutua, 2017).

Islamic automobile

An Islamic automobile financing instrument was a financing backing issued by a bank to facilitate payments of acquiring a vehicle (Islam & Ahmad, 2019).

Islamic home financing

An Islamic home financing instrument was a type of a financial product that the allowed the client apply for money to acquire property such as a house or an apartment (Islam & Ahmad, 2019).

Islamic trade financing

An Islamic trade financing instrument was an instrument that financed trade activities in way acceptable by Sharia laws and regulations (IFSB, 2018).

Islamic personal financing

An Islamic personal financing instrument was a type of instrument that involved a bank buying an asset on behalf of the client and then selling the asset at a profit instead of charging interest as commonly done in conventional banks (Nawaz, 2019).

Sharia Law

This was an Islamic based religion law that was governed by norms and values of Islam traditions documented in the Quran (Muhammad, 2019).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examined past studies to give a theoretical and empirical foundation for the current study. The theoretical section began followed by the empirical part. Conceptual and operational frameworks concluded the chapter.

2.2 Theoretical Framework

This study was guided by three theories; assimilation theory, Solow Swan class growth theory and social exchange theory. Assimilation theory guided the study into home and personal instruments. Solow Swan class growth theory guided the study into automobile financing instruments, and social exchange theory guided the study into trade financing instruments.

2.2.1 Assimilation theory

Assimilation theory guided both home and personal financing instruments variables of the study. Founded on dissonance theory by Festinger's in 1957. it proposed that customers of products such as the banking instruments took a while to conduct a valuable contrast on the instruments issued by a bank and how they thought the instruments will perform. In assimilation theory, the clients dodge any dissention by altering their observations on the banking instrument and align it with their expectations. In many scenarios the clients altered their anticipations about the banking instruments to agree with the observed reality of the product to increase their fulfilment.

The theory was adopted since as commercial banks issued both Islamic home and personal financing instruments, they strived in meeting and surpassing the customers' expectations. This was due to a customer always having some expectations that by utilizing a bank's product and not any other financial institution's product, there would be an achievement of satisfaction. It would be the goal of any commercial bank issuing Islamic financing instruments to have products that offered a high level of satisfaction by meeting their ever-changing expectations on a bank's product. The theory faults were built on approach and assumptions. On the approach, the theory accepted that there was an association between expectation and satisfaction of customers.

The strength of this theory was that when a product was rolled-out to satisfy clients' needs, there was loyalty developed which was very hard to contradict. However, the weakness of this theory was that, it led to discrimination of specific category of people. For example, when a product was just mean for the Islamic affiliated clients, what would happen to non-Islamic affiliated clients? They would definitely feel discriminated by the products. This is because, just as Muslims had sheria laws, protestants also had their own Biblical principles.

It was criticized by Ayub (2002) that it did not clarify how disapproval of an expectation promoted gratification. The theory also argued that customers were inspired to change their expectations or their discernments on the product's performance hence, dissatisfaction could not happen except when the progression started with negative customer prospects (Ayub, 2002). This meant that as long as the product was received well by the customers, it was considered good enough for the market. However, the theory did not include observations on when the customers either outgrew the product or when the terms of the product changing amid in its lifetime.

2.2.2 Solow Swan class growth theory

Solow Swan class growth theory guided the automobile financing instruments. The theory was developed by Solow in 1956 and it argued that capital deposit, labor progress, and intensifications in production, normally called technological development in an investment happened when the asset surpassed depreciation expenses. As an assurance of investment development, an asset could always lead to increase in capital.

This theory was used in the study because an upsurge in automobile instrument's income promoted growth of Islamic banking's capital leading to improvement of financial performance in commercial banks. Hence the more customers were able to access automobile financing instruments, the more the bank was able to have high net income after depreciation expenses of the vehicles issued. This theory agreed that capital development was inversely proportional to client's base growth meaning that customer's attraction in a commercial bank issuing Islamic financing instruments were anchored on the diversity of those instruments to meet their needs.

The theory was criticized by a study done by Ellman (1989). Ellman (1989) indicated that there was a difference between human and physical capital. Physical capital included apparatuses, machines and buildings amongst others that were used by people in production. Differing, human capital comprised of talent assimilated through education, practice, and interactions.

2.2.3 Social exchange theory

Social exchange theory guided the trade financing theory. The theory was developed by sociologists Thibaut & Kelley in 1959. The theory held that human beings were always seeking to benefit themselves economically in any human social relations. Social exchange theory argued that human beings behaved in a way that would help them achieve some personal interests out of any interactions.

The theory was adopted because in reality of social exchange viewpoint, the conduct of a person was normally driven by yearning to pursue rewards and circumvent possible expenses in social circumstances. People chose wisely for more valuable social conduct as an effect of cogent examination of all accessible information. Since behaviors were costly and utilized immense energy, people tended to repeat the behaviors that had yielded rewards. Relative to this study, a lot of people did not appear to comprehend how Islamic banking functions and in what way did it profit their customers particularly due to proscription of Riba. However, customers who understood its benefit tended to shun any activity that could disqualify them from accessing the trade financing goal from Islamic banking, therefore looking for a way to make the most of the benefits to be expanded so as to meet their elementary individual wants.

This theory had a strength in that Islamic banking gave them a leeway to access trading finances without necessarily paying any form of interest from their profits. However, the theories weakness was that Islamic trading financing was associated with Islam religion. That meant that Muslims had the advantage of understanding the rules of accessing the financing better than non-Muslim. The clients who did not understand anything related to Islam norms and values or simply they were not Muslims, could miss a lifetime opportunity to access these funds.

The theory was criticized that Katherine (2005) that it reduced human interactions to solely rational process that came up from economic theory. That meant that the social exchange theory encouraged people to have relationships based on what they would benefit. This form of relationship could be short-time and any lack of agreed benefits could lead to termination of the relationship. In relation to banking environment, when the relationship between the bank and a client did not work, there was high likelihood, the client could not refer anyone to the bank. However, since the Islamic banking was strongly anchored on Sharia laws which were well rooted in communalism, interactions could not necessarily be only business.

2.3 Empirical Review

The study provided various past literature review on the four key objectives of the study. They were is section 2.3.1 to 2.3.4

2.3.1 Home Financing Instruments and Financial Performance of Commercial Banks

An Islamic home financing instrument was a type of a financial product in which the client applied for money to acquire property such as a house or an apartment (Islam & Ahmad, 2019). The bank then proceeded to buy the property a price equivalent to the funding sum applied by the customer and vended it to the client at a yield. Once that was done, the client would reimburse the money by installments. This type of Islamic products worked just like the conventional home loan where a client paid 10 percent deposit while the bank paid the 90 percent at the commencement of the purchase of a property (Omar & Yusoff, 2019). The types of Islamic home financing instruments that existed and that would be considered in this study were tawarruq (home-overdraft), Murabaha (home cost-plus financing), musharakah-mutanaqisah (home diminishing partnership), istisna (home mortgage), and ijarah (home rental/lease) (Ibrahim & Kamarudin, 2018).

Tawarruq was an Islamic financing done where the bank bought a property on cash then sold it to a client on installments basis (Ibrahim & Kamarudin, 2018). Murabaha was a type of agreement made where the bank bought a property such as an apartment then sold the apartment to the client at a marked-up price (Ibrahim & Kamarudin, 2018). Musharakah-mutanaqisah was a type of funding where the bank and a client who were in partnership contributed in different equivalents to buy a property (Omar & Yusoff, 2019). The bank contributed 90% while the client contributed 10%. The client continued paying interest accordingly as agreed with the bank. The more the client paid, the more the property shifted ownership from the bank to the client till they were able to fully own the property. Istisna was more like a mortgage in conventional banking. It was a type of contract where a contractor agreed to build and deliver a house at a given price in set future dates (Omar & Yusoff, 2019). The payments normally given by the bank could be done in instalments throughout the building process or at the beginning then the remainder paid at the end depending on how the parties involved agreed. Ijarah was likened to leasing in conventional banking (Ibrahim & Kamarudin, 2018). It was a long-term contract that a client got to operate or live in a property bought by the banks then leased the property to the client. Wakalah was a type of financing where the bank acted as an agent of a client to buy the property and charge a fixed agency fee (Omar & Yusoff, 2019).

The indicators of Islamic home financing instruments were issued volumes, outstanding volumes and fully paid-up volumes (Islamic Development Bank Group [IDBG], 2016). Issued volumes were the numbers of each Islamic home financing instruments distributed to clients (IDBG, 2016). Outstanding volumes were the numbers of each Islamic home financing instruments that had been defaulted or payments delayed (IDBG, 2016). Fully paid-up volumes were numbers of each Islamic home financing instruments whose payments had been done on time and in full (IDBG, 2016). An effective Islamic home financing instrument therefore needed to be known, its aim (was it an apartment or home or a business building?), required quantity of capital to accomplish the venture, time needed for the venture, profitability of the venture, associated charges shariah law acquiescence and social outcome of the venture (IDBG, 2016).

According to Islamic Financial Services Board (2019), the global Islamic financial services industry worth in 2018 was 2.19 trillion American dollars. This was seen a major improvement of Islamic capital markets, banking and takaful. Looking at the growth from a financial stability gauges perspective, the industry had significant pliability in achieving the global supervisory requirements in comparison with conventional banks. There had been an increase of Islamic banks and Islamic products in developed nations such as America and Europe. That notwithstanding, IFSB (2019) put into light some of the challenges facing Islamic banking globally such as deteriorating progress, government and firm’s debt accumulation, and developing fiscal susceptibilities which could hurt global Islamic financial services industry.

Another study by Zinser (2017) on utilization of Islamic banking and financial facilities by American Muslims. Zinser (2017) ascertained that only three Islamic home instruments such as Murabaha, musharaka and ijara were common in America. The current study sought to know if Islamic home instruments such as tawarruq, murabaha, musharakah-mutanaqisah, istisna, and ijarah instruments were common in Isiolo county Kenya. Zinser (2017) used convenience online sample which was utilized hence the study could be highly biased. The current study did not use convenience sampling but used census technique in ascertaining the relationship between Islamic Instruments and financial performance of commercial banks in Isiolo county Kenya.

Zamir and Friedemann (2018) did a review on innovative Islamic social finance for housing microfinance. According to Zamir and Friedemann (2018), though microfinance firms in developed nations had ventured in financial markets by turning their housing microfinance sets into securities, huge risk of fundamental portfolio predictable instruments of credit developments has not improved. As a way to improve credit, Zamir and Friedemann (2018) recommended application of Islam’s social finance instruments such as waqf that was trust and qard hasan which were also caring loans. Since Zamir and Friedemann (2018) concentrated on microfinance firms, the current study contrated on the commercial banks to bridge the gap that was there in knowing how banks can improve their performances especially related to credit deficiencies which was cross-sectional problem in all financial institutions.

In developing nations, Zabri and Haron (2019) did a relative investigation of financial affordability in Islamic home financing instruments in Malaysia. The study established that musharakah mutanaqisah in financial cooperatives was more viable comparing to Islamic banks. Zabri and Haron (2019), identified the bay' bithaman ajil which was a sales contract based on deferred payment was the largest in Malaysia at the time of the study. Despite these findings, the study considered only two types of home instruments such and musharakah mutanaqisah and bay' bithaman ajil in Islamic commercial banks and financial cooperatives whereas there were more types of Islamic home instruments. The study was also not conclusive since they did not study on conventional banks that offer Islamic home instruments. This study therefore looked at tawarruq, murabaha, musharakah-mutanaqisah, istisna, and ijarah instruments in both conventional and Islamic banks in Isiolo county Kenya. An establishment was ascertained which was the most commonly used Islamic home financing instrument in Isiolo county Kenya.

Al- Balushi et al. (2019) on their review on causes of the choice of accepting Islamic finance concentrating in small and medium enterprises (SMEs) in Oman found out that though the owner's acquaintance in finance had an effect on their choice towards accepting Islamic finance, their SMEs physiognomies did not influence owners' choice to accept Islamic finance. This study concentrated on the capital city town of Oman know as Muscat. Though being the capital city, the results could not be used to represent the scenario of Islam adaptability in the whole country of Oman. The study applied The Kruskal–Wallis one-way analysis of variance (ANOVA). For Kruskal–Wallis to stand, an extra dunn's post hoc test had to be conducted on the variables which was not done in the study. The current study established the adoption of Islamic finance in Kenya through understanding whether there was any relationship between Islamic financing Instruments and financial performance of commercial banks in Isiolo county Kenya.

IMF (2014) report confirmed that Islamic banking in Africa was low but had potential to develop due to financial deepening in African countries. A study was conducted by Bananuka et al. (2019) on the rudiments of the intent to accept Islamic banking in a non-Islamic emerging nation such as Uganda. The study gathered information that attitude and religiosity were important forecasters of intent to accept Islamic banking in Uganda, dissimilar to individual standards. Bananuka et al. (2019) relied on business owners of micro businesses to gather data leaving a gap on how would the scenario be in cases on macro businesses that are controlled by other parties who are not owners.

Bananuka et al. (2019) also used cross sectional research design implying that alterations in behavior in a period of time was not reviewed. Bananuka et al. (2019) applied quantitative research method, which occasionally errors on data where it confined the respondent's sentiments on the variables in the study. The current study covered banking businesses which were managed by individuals who were not the owners. This present study also achieved the objective of ascertaining whether Islamic banking products had been accepted in Kenya through establishing the relationship that existed between Islamic financial instruments and financial performance of banks in Isiolo County Kenya. When this relationship was known, one would tell whether Islamic products had been accepted or not without relying on the attitudes or behaviors of specific group of persons.

2.3.2 Automobile Financing Instruments and Financial Performance of Commercial Banks

An Islamic automobile financing instrument was a financing backing issued by a bank to facilitate payments of acquiring a vehicle (Stability and Payment Systems [SPS], 2017). The contract to pay in a set of time involved the financing amount plus a fee. The bank gave a client a loan to pay for the vehicle after the dealership of purchasing a car was complete. That is, you had to prove that you were a buying a car from a car selling company for the bank to finance the purchase. The types of automobile financing instruments and that were measured in this study were Ijarah (automobile rental/ lease), Bai' al 'inah (automobile sale contract), Murabaha (automobile cost plus financing), Wakalah (automobile contract of agency) and Tawarruq (automobile overdraft) (Ab Aziz, 2013; Khan, 2019). Al Ijarah was a type of Islamic auto financing likened to car loans where the bank bought a car on behalf of a client (Ab Aziz, 2013; Khan, 2019). The banks then gave the car to the client to utilize while repaying the instalments which were interest free.

However, there was need to know that the client paid a minimum deposit of 20 percent to a maximum of 50 percent at the commencement of the contract. The ownership of the car remained with the bank till the client paid back full installments. If the client defaulted or paid late the installments, the bank could not charge compound interest. Bai' al 'inah was a financing contract where a customer vended a vehicle to the bank on a cash base and in future purchased it back on a deferred payment basis where the value was higher than the cash value. Murabaha contracts were practiced when the bank purchased a vehicle at the appeal of a client and marked up the price of that vehicle when selling it to the client who would be re-paying on instalments. Tawarruq was an Islamic financing done where the bank bought a vehicle on cash then sold it to a client on installments basis.

The indicators of Islamic automobile financing instruments were issued volumes, outstanding volumes and fully paid-up volumes (Islamic Development Bank Group [IDBG], 2016). Issued volumes were the numbers of each Islamic automobile financing distributed to clients (IDBG, 2016). Outstanding volumes were the numbers of each Islamic automobile financing that had been defaulted or payments delayed (IDBG, 2016). Fully paid-up volumes were numbers of each Islamic automobile financing whose payments had been done on time and in full (IDBG, 2016). An effective Islamic automobile financing product were sharia acquiescent and at the same time welcoming and cost efficient (IDBG, 2016).

Islamic banking was slowly gaining market share over the conventional banking (Oracle Financial Services [OFS], 2017). Ersnt and Young's World Islamic Banking Competitiveness Report (2016) agreed that Islamic banking assets with commercial banks worldwide grew to US $1.8trillion by 2020 from US $920 billion in 2015. The utmost noteworthy parties continued to be nations such as Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman, which had huge Islamic Banking assets. According to a report by OFS (2017), the most common types of Islamic instruments used to finance automobile globally were murabaha and Ijarah. European nations such as Turkey, United Kingdom and France, were viewed a low dissemination of retail Islamic banking equated to the comparatively huge number of probable Muslim retail clients. Since sukuk was the major Islamic instrument selling most in Europe, there was need to know the major Islamic instrument selling most in Kenya when relationship between Islamic financial instruments and financial performance of commercial banks in Kenya was known.

Vehicle financing had a growth of 2.5% in a developed country such as Malaysia which was the third largest Islamic market globally (Financial Stability and Payment Systems [FSPS], 2017). FSPS (2017) titled as Islamic finance development report shed light that a profit of R.M 6.7 billion was achieved due to different forms of financing in which vehicle financing was a part of. With robust regulatory structures, sharia committees, talent growth opportunities, automation of Islamic banking, local and global connections were some of the measures that Malaysia used to ensure this notable growth in Islamic banking. There was therefore need to ascertain on the performance state of Islamic banking products in Kenya through the current study.

Khan (2019) on the study termed as Shariah governance in theory and practice affirmed that various commercial banks such as Meezan bank in Pakistan, Kuwait Finance House in Kuwait and Al Barakah bank in Bahraini used ijarah instrument to finance automobiles; Dubai Islamic bank in Dubai used ijarah muntahia bittamleek a type of ijarah to also finance automobiles; Al Barakah bank in Bahraini alternatively used taqseet which was a type of murabaha and musharakah to finance automobiles. There was therefore need to know the kind of Islamic automobile financing that was present in commercial banks located in Isiolo county Kenya.

Ab Aziz (2013) did a review on the relationship between service quality factors and customer satisfaction of auto financing in Maybank Berhad and Bank Islam Malaysia Berhad. While considering two automobile instruments such as Ijarah and Bai Bithaman

Ajil of May bank and Bank Islam Malaysia Berhad respectively, the study established that customer satisfaction was derived most when service quality factors were improved. Ab Aziz (2013) had sixteen hypothesis which was not realistic in a normal study hence the study could be biased. In the current study, more automobile instruments were considered and there were only four hypotheses to guide the study on the relationship between Islamic financing instruments and financial performance of commercial banks in Isiolo county Kenya.

A report by the committee for economic and commercial cooperation of the organization of Islamic corporation [COMCEC] (2017) gave an analysis of an African nation like Nigeria. COMCEC (2017) found out that utmost of the elementary Islamic financial pacts that were issued by the Islamic financial organizations were Qard Hasan, Mudarabah, Murabahah and Ijarah. The report confirmed that insufficient Islamic finance architecture jeopardized its progress and expansion; underdeveloped legal and regulatory systems; and few talents and skills to develop the instruments at a more advanced level. This gave this current study a gap to know what kind of challenges were faced on Islamic financial instruments in Isiolo county Kenya.

2.3.3 Personal Financing Instruments and Financial Performance of Commercial Banks

An Islamic personal financing instrument was a type of instrument that involved a bank buying an asset on behalf of the client and then selling the asset at a profit instead of charging interest as commonly done in conventional banks (Nawaz, 2019). The types of personal financing instruments and that were measured in this study were Qard al-hasan (interest free loan), Rahn (collateral loan), hawala (promissory notes), Wadiah (Deposit loans), Amanah (fiduciary sale) (Ali, 2016; Ditkoff, 2017; Jouti, 2019). Quard al-hassan were also referred to as caring loans in which the banks issued loans as assistance to the less privileged who paid back the loans when able to repay with free interest (Ditkoff, 2017; Jouti, 2019). Rahn was a type of Islamic personal financing where one was given a loan guaranteed with collateral commonly known as marhoon (Ali, 2016; Ditkoff, 2017). Wakala was a type of contract where one party(client) engaged the bank to act as a representative on their behalf for a fee (Ditkoff, 2017; Jouti, 2019). Hawala was a movement of money from a place that had plenty of it to another place that had scarcity of it (Ditkoff, 2017; Ali, 2016). Hawala products types were short term, discountable, negotiable, promissory note (or bill of exchange) called hundi. Once transferred from one debtor to the other, the first debtor was not obligated anymore. Wadiah was a safekeeping personal financing instrument. Amanah was a trust instrument (Ali, 2016; Ditkoff, 2017; Jouti, 2019).

The indicators of Islamic personal financing instruments were issued volumes, outstanding volumes and fully paid-up volumes. Issued volumes were the numbers of each Islamic personal financing instruments distributed to clients (IDBG, 2016). Outstanding volumes were the numbers of each Islamic personal financing instruments that had been defaulted or payments delayed (IDBG, 2016). Fully paid-up volumes were numbers of each Islamic personal financing instruments whose payments had been done on time and in full (IDBG, 2016). An effective Islamic personal financing instrument adhered to Sharia principles of being just and ensuring equity; not caused unfair enrichment and founded on accurate agreement of all parties (IDBG, 2016).

According to Global Islamic Report [GBI], identified Dubai bank as the strongest Islamic retail bank globally (GBI, 2019). KT bank was recognized as the most pioneering bank in the Eurozone for introducing various wide-ranging Islamic financing instruments and amongst these instruments were the current and participation accounts, fixed-term deposits, savings plans, euro account services for institutional clients, periodic payments loans, and most recent payment instrument such as automatic payment card in Germany and Turkey.

Another report by Islamic Development Bank [IDB] (2018) gave developments done on personal financing in Islamic banking. These developments were nearness to customers via devolution of Islamic banking, exploiting human capital growth, actual use of Islamic personal instruments amongst others for justifiable expansion, fast approval and disbursement of personal loans in developed countries in Europe and Asia. That going without say, challenges such as increasing wealth and income disparities, universal inequities that were excavating due to technological advancement, environment influence due to fiscal development had still engulfed.

European Central Bank [ECB] (2013) grouped the kind of Islamic financing instruments into profit and sharing contracts such as mudarabah and musharakah; mark-up contracts such as murabahah and ijarah; Sukuk contracts and Takful contracts. Other contracts were bay ’al-mu’ajjal, bay’al-salam, bay’al-istisna and tawarruq. ECB (2013) agreed that Islamic financing instruments had advanced to a level that they could be dismissed globally due to factors such as copious liquidity flows due to income generated from oil commodities in Middle East nations, active advocation by jurisdiction towards Islamic financing, growing Muslim population, perception that Islamic products promoted universal financial stability; and extensive research being done on Islamic banking. ECB (2013) confirmed that Islamic personal financing instruments faced risks such as credit default risk, market risk due to volatility, liquidity risk due to maturity mismatch and operational risks due to fraud activities. There was therefore need to establish what challenges faced Islamic personal financing instruments in commercial banks in Isiolo county in Kenya.

In developing nations an investigation was done by Nawaz (2019) on issues that regulated the development proportion in the Islamic banking and finance in Pakistan. Nawaz (2019) concentrated on two factors such as Islamic equity funds and banking assets such as personal finance instruments which depended on populace, time duration, and Gross Domestic Product [GDP]. The study concluded that the arbitrating purpose of the two dependent factors is consolidating the connection between income and growth of Islamic finance structure in Pakistan. This meant that an instrument such as personal financing instrument's purpose was solidifying improvement of financial performance. Nawaz (2019) relied mostly on secondary data which was easily manipulatable hence a study could be anchored on false information leading to false representation on the situations at hand. The current study used questionnaires to ascertain the relationship between Islamic financial instruments and financial performance of commercial banks in Isiolo county Kenya which was also a developing nation.

Even though Islamic banking had been established in Gulf and South East Asian nations, Half of Africa as a continent who were Muslims are putting effort to familiarize itself with Islamic finance (Ali, 2016). South Africa, Nigeria, Mauritius and Kenya were progressing in Islamic banking Africa. There had been rising middle class, expansion of infrastructures and vicissitudes in regulatory and policy framework improvements. Yet, liquidity glitches, sluggish expansion of new instruments, regulatory problems, stiff rivalry from superior conventional banks, lack of expertise in Islamic banking and low public awareness are some of the hiccups facing Islamic banking in Africa (Ali, 2016). These concerns were articulated by Ali (2016) on current advances and contests in Sub-Saharan Africa. The study however failed to look at all Islamic instruments and only concentrated on Sukuk (Islamic bonds). The current study looked at other Islamic products such as personal financing instruments amongst others to verify if indeed the challenges experienced in Islamic instruments such as bonds were similar to all Islamic products.

According to Jouti (2019), in Morocco on the study on joined methods for building justifiable Islamic communal finance bionetworks, found out that the phenomenon of provision of financial solution to various stakeholders needed adequate Sharia compliant capital to attain justifiable objectives. This was in agreement with another study made by Ditkoff (2017) who agreed that indeed social and environmental encounters confronting people and their rising complications were stressing many governments who were unable to contain them. Besides, numerous social inventiveness had ruthless goals which were not being reasonably attained giving the need to rely on banking products such as Islamic personal financing instruments. This study aimed at examining whether the needs of individual finance needs were causing improvement of Islamic personal financing instruments which enhanced financial performance of Isiolo county commercial banks.

2.3.4 Trade Financing Instruments and Financial Performance of Commercial Banks

An Islamic trade financing instrument was an instrument that financed trade activities in way acceptable by Sharia laws and regulations (IFSB, 2018). The types of trading financing instruments that were measured in this study are Al-Qard Al-Hasanah (Interest free trade loans), Mudarabah (profit and loss sharing), Kafalah (contract of guarantee), Islamic accepted bill, Musawamah (commodity trading) and Murabaha (cost-plus trade financing) (Chu & Muneeza, 2019). Al-Qard Al-Hasanah was a type of interest free funding given to poor communities to engage in various economic activities such as productive trading to improve their economic situations and pay back the principal amount with no added profits after one year (Chu & Muneeza, 2019; Wendo, 2010).

Mudarabah was a type of a contract between a bank and a client whereby the bank issued money to client to trade and the returns paid according to ratio agreed at the commencement of the contract (Chu & Muneeza, 2019; Wendo, 2010). In case of a loss incurred in the trade, the risk lied to the bank. Kafalah was an independent agreement of assurance where the bank approved to pay for any due debt on behalf of the client to their creditors (Chu & Muneeza, 2019; Wendo, 2010). Islamic accepted bill was a type of trade financing where a bank agreed to financially back an auction or buying of goods on behalf of the client (Chu & Muneeza, 2019; Wendo, 2010). Musawamah was an agreement utilized if the precise price of the item vended to the bank was unknown or known (Wendo, 2010). Bai Salaam was an Islamic agreement in which full imbursement was made in early payment for definite goods such as agricultural products to be brought at a future date (Wendo, 2010). Murabaha was a debt-based sale of an asset or commodity with an agreed profit margin on the cost price (Chu & Muneeza, 2019).

The indicators of Islamic trade financing instruments were issued volumes, outstanding volumes and fully paid-up volumes (IDBG, 2016). Issued volumes were the numbers of each Islamic trade financing instruments distributed to clients (IDBG, 2016). Outstanding volumes were the numbers of each Islamic trade financing instruments that had been defaulted or payments delayed (IDBG, 2016). Fully paid-up volumes were numbers of each Islamic trade financing instruments whose payments had been done on time and in full (IDBG, 2016). An effective Islamic trade financing instrument managed trading risks and secured payments between trading partners (Ali, 2013)

A global report published by Islamic Development Bank Group (2016) advocated for four key pillars of having an Islamic official basis and community rule concerned with the purposes of justifiable expansion and collective wealth; wise supremacy and responsible guidance; raise of the economy and entrepreneurship founded on risk allotment; and monetary and communal attachment for everyone, endorsing expansion, development, and communal wealth. These foundations were important especially towards trade financing in Islamic banking. In as much as everyone would want to be economically empowered, there could be a sense of communism in each and every client to reduce poverty.

IDBG (2016) was developed to suggest ways curbing challenges such as rising discrimination; poor regulatory frameworks that had not keyed in precise aspects like distribution of risk; deteriorating liquidity in Islamic banks; small and medium enterprises not being able to get trade financing; Islamic finance standard-setters in the review groups of global standard-setters had not been granted with membership hence there had been weak collaboration between these establishments; and global monetary institutions such as IMF)and Multifaceted Development Banks [MDBs] not being engaged in Islamic finance by strategy guidance, and volume expansion diagnosis.

A very different perspective of trade financing as of the norm was seen by Chu and Muneeza (2019) who did a study that was concerned with belt and road initiative and Islamic financing. Majoring on the public private partnership infrastructure financing, Chu and Muneeza (2019) put across the fact that belt and road initiative was a universal trade network transversely via Asia, Africa, Europe and Oceania which tries to redraw olden Silk Road to boost universal trade and fiscal expansion. Chu and Muneeza (2019) objective of examining how Islamic finance contracts such as trade financing instruments could be appropriate within a public private partnership framework, the study established that Islamic finance could be combined in mammoth infrastructure. The study examined only two mudaraba and murabaha trade financing instruments of financing the partnership financing and interbank lending respectively. The other instruments were asset financing instruments. The current study examined trading financing instruments such as Al-Qard Al-Hasanah, Mudarabah, Kafalah, Musawamah and Murabaha in Isiolo county commercial banks.

Asian Development Bank Institute [ADBI] (2018) advocated the reason why Islamic industry had improved in Asian nations was because of increase in Muslim populations. The report articulated the governments had participated on enhancement of investments and attainment of justifiable capital to improve fiscal development by utilizing the enormous liquidity from oil- and commodity-producing nations. ADBI (2018) showed that Islamic banks issue cash loans but offer facilities founded on Islamic contracts such as Musharakah, Mudarabah, Muzaraah Musaghat, Murabahah and Ijarah. This current study would want to ascertain whether this was the case in commercial banks located in Isiolo Kenya.

In developing nations such as Nigeria and Oman recorded fast growths in assets and financing such as trade financing mostly because of the lesser Islamic banking foundation these nations (IFSB, 2018). IFSB (2018) indicated the developments made on trade financing included Morocco’s Al-Maghrib bank allowing five banks to issue Islamic products such as trading financing products to minimize the low market share of Islamic banking in the country. This was made probable after law in 2015 was enacted to normalize participative financial products such as trade financing in the country and formation of a central sharia committee for participative finance mandated with the delivery of initial consent for Islamic contracts.

Wendo (2010) reviewed the response strategies of Islamic banks to competition in the commercial banking sector and documented that the Islamic banks used both strategic and operational strategies to cope with the fierce competition in the banking sector. The study concentrated more of Islamic banks which were fewer than conventional banks in Kenya. The current study therefore considered both the conventional and Islamic banks to know how Islamic financing instruments were coping with conventional bank's products to ensure they increased their market share in Isiolo county Kenya.

2.4 Summary of Research Gaps

The challenges facing Islamic housing financing instruments in developed nations were deteriorating progress; government and firm's debt accumulation; developing fiscal susceptibilities which could hurt global Islamic financial services industry; and few Islamic products presence in most banks such as Murabaha, musharaka and ijara hence limiting the choice of financing methods. In developing nations, most studies on Islamic housing financing instruments avoided conventional banks and concentrated on Islamic banks only raising a gap on knowing what happened in conventional banks offering Islamic banking instruments; few products presence such as musharakah mutanaqisah and bay' bithaman ajil; behavior and attitude approach being mostly used in determining the Islamic finance inclusion in developing nations while shying away from the influence that Islamic banking had on financial performance of commercial banks.

The challenges facing Islamic automobile financing instruments in developed nations were slow market share growth; low dissemination of retail Islamic banking equated to the comparatively huge number of probable Muslim retail clients. In developing nations, the issues and gaps surrounding Islamic automobile financing instruments included; insufficient Islamic finance architecture which jeopardizes its progress and expansion;

underdeveloped legal and regulatory systems; scarcity of talent and skills to develop the instruments at a more advanced level.

The tests facing Islamic personal financing instruments in developed nations were increasing wealth and income disparities, universal inequities that were excavating due to technological advancement, environment influence due to fiscal development; credit default risk, market risk due to volatility, liquidity risk due to maturity mismatch and operational risks due to fraud activities. In developing nations Islamic personal financing instruments had issues such as liquidity glitches, sluggish expansion of new instruments, regulatory problems, stiff rivalry from superior conventional banks, lack of expertise in Islamic banking and low public awareness; ruthless goals which are not being reasonably attained giving the need to rely on banking products such as Islamic personal financing instruments.

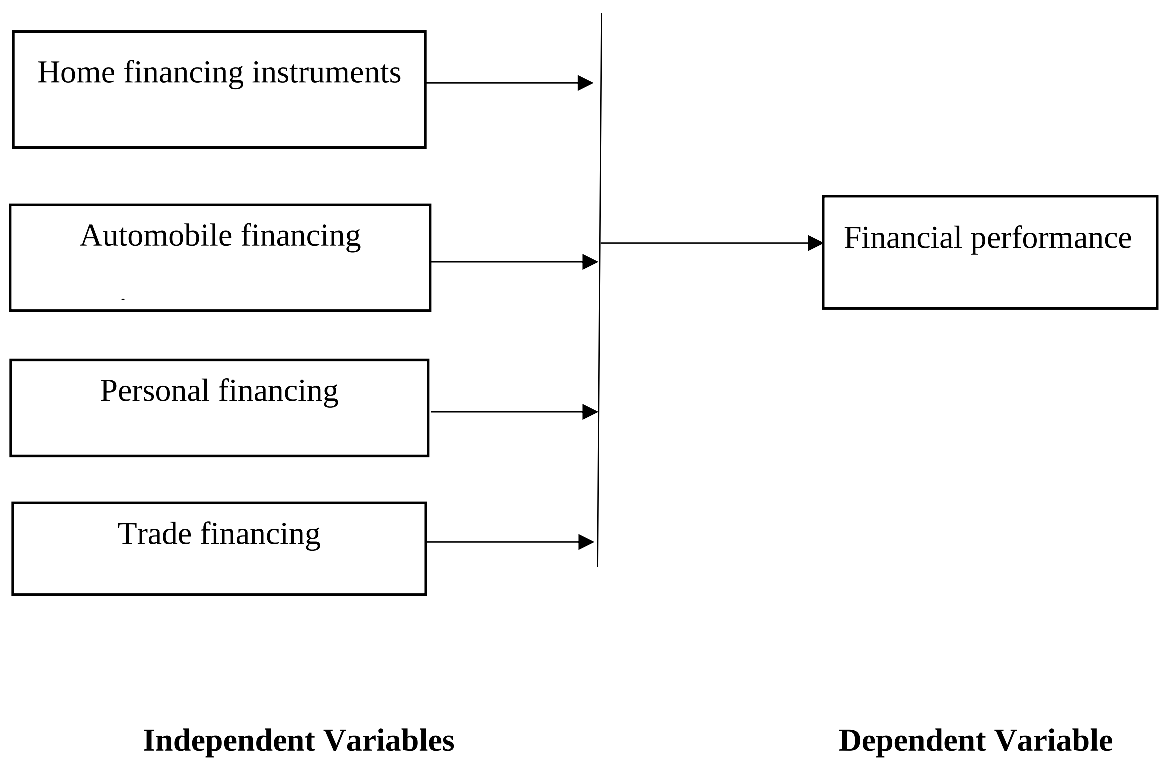
The contests facing Islamic trading financing instruments in developed nations globally included; rising discrimination; poor regulatory frameworks that have not keyed in precise aspects like distribution of risk; deteriorating liquidity in Islamic banks; small and medium enterprises not being able to get trade financing; Islamic finance standard-setters in the review groups of global standard-setters have not been granted with membership hence there has been weak collaboration between these establishments; and Global monetary institutions such as International Monetary Fund (IMF) and multifaceted development banks (MDBs) not being engaged in Islamic finance by strategy guidance, and volume expansion diagnosis. In developing nations Islamic trading financing instruments have issues such as low market share of Islamic banking; few studies done pertaining Islamic trade financing instruments in conventional banks.

2.5 Conceptual Frame work

Figure 2.1 is a diagram that was used to elucidate the variables under review. It demonstrated dependent variable on the right and independent variables on the left. The dependent variable was financial performance whereas the independent variables entailed Islamic home financing instruments, Islamic auto financing instruments, Islamic personal financing instruments, and Islamic trade financing instruments.

Figure 2.1

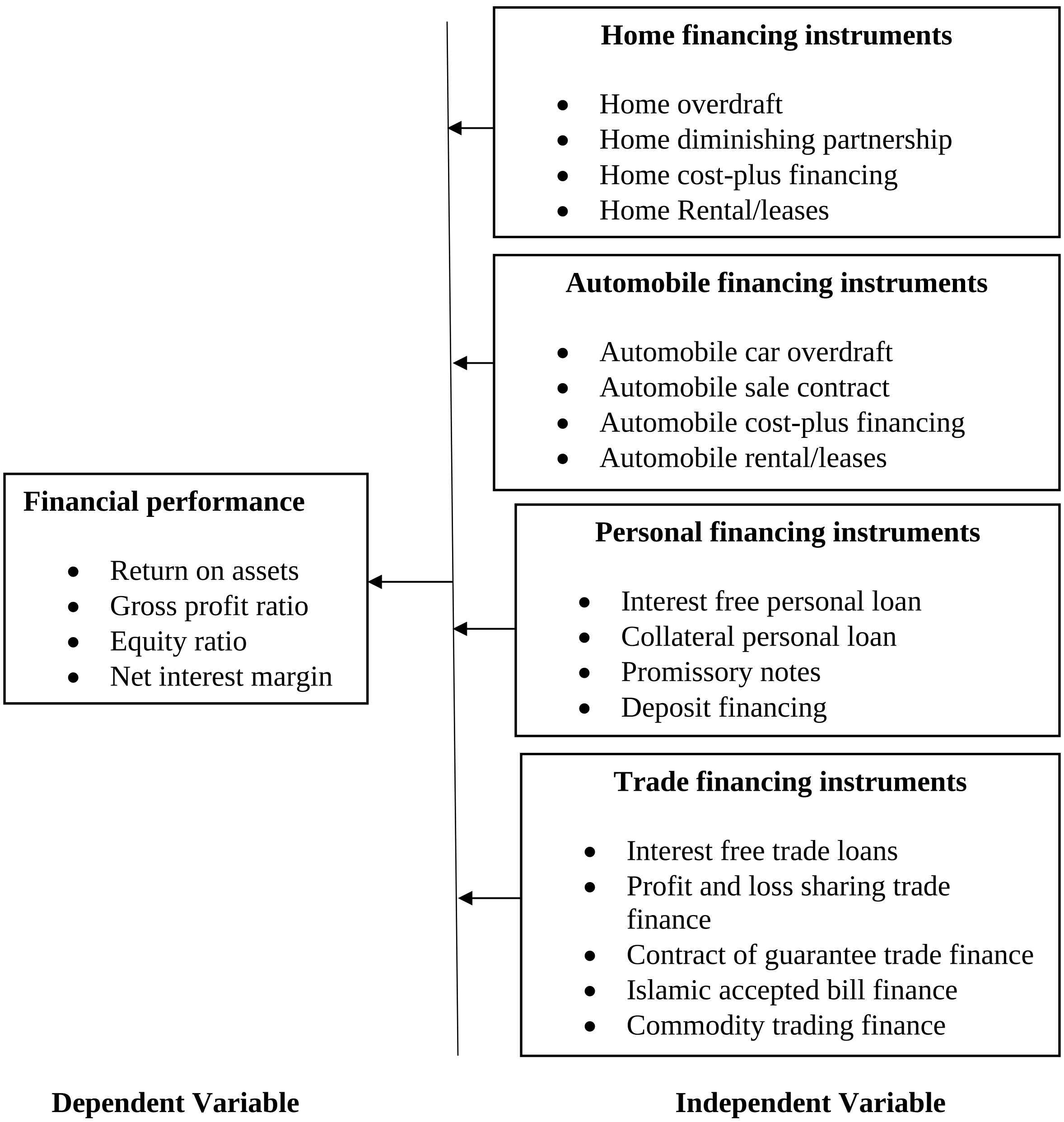
Conceptual Framework



2.7.1 Operational framework

Figure 2.2

Operational Framework



Financial performance was the dependent variable in this study. Return on asset, gross profit ratio, equity ratio, net interest margin and total sales were used to measure financial performance in commercial banks in Isiolo county Kenya (OFS, 2017; Zabri & Haron, 2019). The independent variables explored included the home financing instruments, automobile financing instruments, personal financing instruments and trade financing instruments (Bananuka et al., 2019; Zabri & Haron, 2019). What was analyzed in home financing instruments were tawarruq (home-overdraft), Murabaha (home cost-plus financing), musharakah-mutanaqisah (home diminishing partnership), istisna (home mortgage), and ijarah (home rental/lease) (Bananuka et al., 2019; Zabri & Haron, 2019).

What was analyzed automobile financing instruments were Ijarah (automobile rental/ lease), Bai' al 'inah (automobile sale contract), Murabaha (automobile cost plus financing), Wakalah (automobile contract of agency) and Tawarruq (automobile overdraft) (Ernst & Young, 2016; OFS, 2017;). What was analyzed in Islamic personal financing instruments are Qard al-hasan (interest free loan), Rahn (collateral loan), hawala (promissory notes), Wadiah (Deposit loans), Amanah (fiduciary sale) (Ali, 2016; Ditkoff, 2017; Jouti, 2019). What was analyzed in trading financing instruments were Al-Qard Al-Hasanah (Interest free trade loans), Mudarabah (profit and loss sharing), Kafalah (contract of guarantee), Islamic accepted bill, Musawamah (commodity trading) and Murabaha (cost-plus trade financing) (IFSB, 2018; Wendo, 2010).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter intended to describe the research methodology that was used in the study. This entailed the location of the study, research design, target population, sampling techniques and sample size. The instruments that were used to collect data were explained followed by how data would be collected while ensuring that both the reliability and validity was known. The chapter ended by describing how data was analyzed and ethical considerations that were used in the study.

3.2 Location of the study

The location of a study was where the researcher intended to undertake the study from. That is, where the data of the study would be collected to facilitate the success of the study's objectives. This study intended to be done at Isiolo County. This was specifically be done at the ten commercial banks in Isiolo county Kenya. Isiolo county was chosen because of various amenities such as the presence of an international airport, LAPSET road amongst other major developments in Eastern province provide various banking business opportunities in the commercial banks in Isiolo County.

3.3 Research design

A research design was the technique through which a researcher used when gathering information on particular study and also when analyzing it to be able to interpret the information and link it to the study's objectives and purpose (Kothari & Garg, 2014). The study used descriptive research design which enabled a research study to explain why, when and how the variables of a study would be achieved (Jwan, 2010). Descriptive research was ideal research design in this study to elaborate the kind of relationship that was between Islamic financial instruments and financial performance of banks in Isiolo County Kenya.

3.4 Target population

The target population entailed the group of people or entities through which information required to derive at the objectives of the study was gotten from (Zikmund et al., 2010). Ten commercial banks in Isiolo county were the target population in this study. They included the National Bank, Kenya Commercial Bank, Barclays Bank, Family Bank, Equity Bank, Sidian bank, Consolidated Bank, Co-operative Bank, Post Bank and First Community Bank. Commercial banks in Isiolo County had improved the economic growth prospects of the area because these banks accepted deposit from savers and offers loans to support investments in an area (BIS, 2019; CBK, 2018). Adding to that, commercial banks had been providing initiative led education to the society on various types of Islamic financing instruments, their relevance and applicability in Isiolo County residents. Some of these initiatives from the commercial banks had been done in various events such as county government public meetings amongst others. The study relied on the respondents such as customer service and loan officers working at the ten commercial banks in Isiolo county. There were currently 45 customer service officers and 96 loan officers in the ten commercial banks in Isiolo county. This is indicated in table 3.1.

Table 3.1

Target population

Commercial Bank	Customer service officers	Loan officers	Total
1. National bank	4	9	13
2. KCB	6	14	20
3. Absa bank	4	10	14
4. Family bank	5	8	13
5. Equity bank	4	12	16
6. Sidian bank	3	7	10
7. Consolidated bank	4	10	14
8. Co-operative bank	7	8	15
9. Post bank	2	6	8
10. First community bank	6	12	18
Total	**45**	**96**	**141**

The study used census technique to select all of the ten commercial banks' customer service and loan officers.

3.5 Data collection instruments

The study used both primary and secondary data. Primary data was collected through the use of closed ended questionnaires. The closed ended questionnaires had queries regarding Islamic home, auto, personal and trade financing instruments (appendix III). The questionnaires had a 5 structured Likert scale ordinal scale. This scale included options such as 1-Strongly disagree, 2-disagree, 3- Neither agree or disagree, 4- Agree, 5- Strongly agree as advised by Cooper and Schindler (2011). Secondary data was collected through analysis of 4 published data from financial reports dated 2017 to 2020. The analysis involved reports such as income statement and statement of affairs report. These reports aided in indicating how performance of these commercial banks had been progressing. The secondary data collection instrument was as indicated in appendix IV.

3.6 Pre-testing of research instruments

Pre-testing was a way through which a study sought to know whether the research instruments that were intended to be used would serve their purpose effectively (Cooper & Schindler, 2011). Pre-testing was done in one commercial bank which was Kenya Commercial Bank (KCB) in Meru. This was because according to Mugenda (2008), a pre-test study should be 10 percent of the main study which was one bank since our main study targets 10 commercial banks.

The study conducted a pre-test study in KCB located in Meru town. This bank offered various Islamic banking products and it was located in Meru town which was neighboring town to Isiolo county. In addition, Meru region had substantial number of Islam communities living in the region. This created a very conducive region to pre-test the questionnaires. The pre-test questionnaires were answered by 5 customer service officers and 10 loan officers. This was because according to Mugenda (2003), 10 percent of the main study respondents should be replicated in the pre-test study. Therefore, 10 percent of the targeted 45 customer service officers were approximately 5 respondents. Also, 10 percent of the targeted 95 loan officers were approximately 10 respondents. The pre-test officers were required to fill in the pre-test questionnaires to the best of their ability. In case they encountered an issue, they were free to indicate in the questionnaires their comments.

3.6.1 Reliability

Reliability was the dependability of a study instrument's results when used at a target population (Kothari & Garg, 2014). There were many ways of measuring reliability such as test-retest reliability, parallel form reliability and internal consistency reliability (Eisinga et al., 2012). However, this study used Cronbach's alpha coefficient in determining reliability Cronbach's alpha coefficient. It ranged from 0 to1 hence any study's research instrument to be reliable, had to have a minimum of 0.7 Cronbach's alpha. The higher the range the more reliable a study's instruments were. In this study, reliability test was applied when the pre-test results were subjected to Cronbach's alpha coefficient test to determine whether they were suitable in this study or not.

3.6.2 Validity

Validity was the ability of a research instrument to effectively measure what it was meant to measure (Kothari & Garg, 2014; Salkind, 2014). Types of validity such as content, criterion and face validity were observed in this study. Content validity was observed by making sure that questions inquired were relatable to Islamic home, auto, personal and trade financing instruments (Salkind, 2014). The prior literature facilitated to ensure that both the questionnaires issued had done that. Criterion validity tested how well did the outcome of the study measure the influence of Islamic home, auto, personal and trade financing instruments on financial performance of commercial banks in Isiolo County Kenya (Salkind, 2014). This was observed when there was a comparison of the pre-tests results with various studies that had ever dwelt on the variables of the current study. To achieve that, this study heavily consulted the already reviewed literature to identify the studies that had talked about the main constraints of the study (Salkind, 2014).

3.7 Data collection procedure

The study first obtained an introductory letter from Kenya Methodist University to aid in application of research permit from NACOSTI. Once the research permit was issued, the researcher then proceeded to the various banks and sought authorization from the branch managers (see appendix I). Once the permission was granted, the researcher then proceeded to identify the respondents of the study who were customer service officers and loan officers. The researcher hired 2 research assistants for the work. The research assistants had background experience on finance and later trained for a day on various aspects such as data retrieval skills, presentation and confidence. The research assistants identified the respondents through asking the manager to assist in identifying them.

Once the respondents were identified, the research assistants introduced themselves and the purpose of the study was elaborated further through a respondent introductory letter as shown in appendix II. The research assistants then issued the questionnaires and after which they informed the respondents that they should fill in the questionnaires in a period not exceeding one week. After one week, the research assistants went and collected the already filled in questionnaires for data analysis. The research assistants stored the questionnaires in a safe place under lock and key once the analysis was completed. The research assistants also used computers that were connected to the internet to retrieve the reports. The procedure for retrieval of the reports involved searching various commercial banks that were of importance in the study, search report portal on the websites of the bank and later downloaded the relevant reports of the study.

3.8 Data Analysis

Quantitative and qualitative data was expected to be collected in this study. Once quantitative data was collected, incomplete questionnaires were sorted out to identify any ambiguity as well. Thereafter, proper coding of sort out data was done by the help of Statistical Package for Social Sciences (SPSS software, Version 24). The coding involved conveying different statistics arrangements with numbers to assist in analysis. Different computation on descriptive statistics such as mean, standard deviation and percentages were first computed. Later on, there was linear regression analysis to test each hypothesis and multiple regression analysis to study the influence Islamic home, auto, personal and trade financing instruments had towards financial performance of commercial banks in Isiolo County Kenya. The model was as follows:

Coffee production = $C + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$

Where;

X1= Islamic home financing instrument

X2= Islamic auto financing instrument

X3= Islamic personal financing instrument

X4 = Islamic trade financing instrument

C = constant coefficient (intercept)

β = slope coefficient of independent variables

Ɛ= error term

Normality test, linearity test, auto-correlation test and multicollinearity were used to determine the suitability of using regression in the analysis. In addition to descriptive interpretation, tables and detailed explanations were used to present the final results of the study.

Further on, secondary data derived from reports were documented as it was. The information was filled in secondary data collection sheet indicated at appendix IV in this study. The key interests on the reports included the amounts related to return on assets, gross profit ratio, equity ratio, net interest margin and total sales from 2017 to 2020.

3.9 Ethical Considerations

The researcher first sought approval to conduct the study from Kenya Methodist University. This was followed by obtaining research permit from the National Council of Science, Technology and Innovation (NACOSTI) to carry on the study. Then lastly, the study sought authorization from management team of various listed commercial banks through an authorization letter (Appendix I). Once permission was granted by the commercial banks management, the researcher issued each respondent with a letter of introduction (Appendix II). This introduction letter described the intent of the research, consensus of the research and what was willingly expected from the respondents. Confidentiality was key to the study especially in not revealing the identities of respondents.

The questionnaires that were used in this study did not have any question regarding respondent's name, telephone number and email. This was because, the study was ethically responsible to conceal the identity of the respondents as much as much. This helped the study become as confidential as possible. Each bank was represented by a special code. The questionnaires were also strictly asked very relevant questions related to this study. Any other assistance received from various individuals such as respondents and other peoples' work used were acknowledged in the form of American Psychological Association (APA) 7th edition referencing. Once the respondents had completed the questionnaires, the researcher stored them in a safe place before and prior to data analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter gave the results of the study and the discussion of the relevance of the results in addressing the study's objectives. The chapter addressed the reliability results of the pre-test, response rate and diagnostic statistics. On the second part, the chapter addressed the linear regression of the dependent and independent variables. This was done through giving descriptive statistics of the all the variables, model summary and analysis of variance. Last part, multiple regression was given on model summary of combined variables, analysis of variance and regression coefficients which had the model of the study.

4.2 Reliability results

The study conducted a pre-test at KCB in Meru. The pre-test questionnaires were answered by 5 customer service officers and 10 loan officers. Table 4.1 gives the reliability results gotten.

Table 4.1

Reliability Results

Instrument	Cronbach's Alpha	N of Items
Questionnaire	.815	15

According to Table 4.1, the Cronbach's Alpha Coefficients were 0.815. It had surpassed the minimum of 0.7 Cronbach's alpha which Cooper and Schindler (2012) indicated that the study's questionnaires are considered reliable to underpin the study's objectives.

4.3 Response rate

There were currently 45 customer service officers and 96 loan officers in the ten commercial banks in Isiolo county selected through census method. The total included 141 respondents. When the study issued the questionnaires, 116 (82%) questionnaires were returned when fully filled. This was a very high return rate of the questionnaires. Mugenda and Mugenda (2003) also agreed that any results above 70% were considered to be excellent.

4.4 Background Information

The study inquired from the questionnaires the various respondent's background information. This information would be necessary to explain the various aspects as far as the financial performance of the 10 commercial banks in Isiolo county were concerned. The study inquired on the number of years that the customer service officers and loan officers had worked in the specific Isiolo bank branch. The study grouped the years of experience from less than 1, 1-2 years, 2-5 years, 5-10 years and above 10 years. The second question was related to the job position of the customer service officers and loan officers had worked in the specific Isiolo bank branch. The last question in this segment required the customer service officers and loan officers to indicate their academic qualifications. Table 4.2 gives the results.

Table 4.2

Background Information

Work experience in current bank branch	Frequency	Percent	Cumulative Percent
Less than 1 year	26	22	22
1-2 years	39	34	56
2-5 years	15	13	69
5-10 years	9	8	77
Above 10 years	27	23	100
Total	**116**	**100**	
Job position	**Frequency**	**Percent**	**Cumulative Percent**
Customer service officer	27	23	23
Loan officers	89	77	100
Total	**116**	**100**	
Academic qualification	**Frequency**	**Percent**	**Cumulative Percent**
Certificate	0	0	0
Diploma	34	29	29
Degree	57	49	78
Postgraduate	25	22	100
Total	**116**	**100**	

Table 4.2 indicates that 39(34%) officers had worked 1-2 years and the 9(8%) had interestingly worked between 5-10 years. These results indicated that banking staffs had hardly stayed at Isiolo work station for long. Most of them were relatively new in the branch which is confirmed with the few numbers of staffs 9(8%) who had stayed for 5-10 years. These results prove that there were very few staff who tolerated the harsh conditions of Isiolo county hence requesting for subsequent transfers. This left the banks with staffs

who were less familiar with clientele portfolios of who had taken loans and their repayment structure of products so as to market other products such as Islamic financing instruments to them. Adan (2017) also indicated that the period that banking staff stayed in one particular Islamic bank was a factor that affected the development of client base in these banks

Table 4.2 also indicates that the specific officers who took part in the study included the customer service officers who were 27(23%) and loan officers who were 89(77%). These results indicated that customer service officers were very busy in providing customer services such as orientation and registration of customers to Islamic products. However, the high number of loan officers responding to the questionnaires as compared to customer service officers proved that the loan officers were more less engaged in their tasks on giving the clients loans. What this meant is that the clients did not understand the intricacies of Islamic banking products oriented with. Therefore, very few clients actually took loan facilities such as Islamic home loans, car loans, personal loans, and trading loans. Asian Development Bank Institute (2018) agreed that all departments in the banking sector need to work in harmony with each other to improve Islamic finance. Improved Islamic financne uptake was measured on the number of clients registred to have taken Isamic products and financing.

According to Table 4.2, 57(49%) officers were degree holders and 34(29%) officers had diploma. None of the officers had a certificate qualification. These results indicated that the banking staff were very equipped as long as educational qualifications were concerned. The fact that none of them had a certificate qualification indicated that the banks had restructured and implemented tough measures on employing graduates as their working staff. This meant that indeed the banking staff had mental capacity to understand and convince clients on the advantages of undertaking Islamic home financing instruments over conventional products. According to Deloitte (2019a), one of the major transformation in the Kenyan banking sector was advancement of educational qualification. There were more graduates recruited more than any other period of time.

4.5 Diagnostic Tests

The study tested various regression assumptions that were needed in ascertaining whether the results gotten qualified for further analysis. To be able to achieve that, the study examined normality, linearity, autocorrelation and multicollinearity tests.

4.5.1 Normality Test

The study examined the normality test. This test was relevant in ascertaining whether the data set was well-modeled by a normal distribution. This study used One-Sample Kolmogorov-Smirnov Test to test normality. Table 4.3 gives the results.

Table 4.3

Normality Test- One-Sample Kolmogorov-Smirnov Test

		Home Financing	Auto Financing	Personal Financing	Trade Financing	Financial performance
N		116	116	116	116	116
Normal Parameters[a,b]	Mean	21.97	21.28	13.27	21.21	16.47
	Std. Deviation	2.151	2.623	3.502	2.383	2.327
Most Extreme Differences	Absolute	.202	.223	.097	.156	.177
	Positive	.126	.223	.097	.082	.138
	Negative	-.202	-.199	-.066	-.156	-.177
Kolmogorov-Smirnov Z		2.176	2.401	1.044	1.683	1.907
Asymp. Sig. (2-tailed)		.337	.291	.226	.181	.361

a. Test distribution is Normal.

b. Calculated from data.

According to Table 4.3, Home Financing had an Asymp value of 0.337; Auto Financing had an Asymp value of 0.291; Personal Financing had an Asymp value of 0.226; Trade Financing had an Asymp value of 0.181; Financial performance had an Asymp value of 0.361. Since all the Asymp value were above 0.05, the study assumption was that the data set was normal.

4.5.2 Linearity Test

The study conducted linearity test to examine the relationship that existed between home financing, auto financing, personal financing, and trade financing. Table 4.4 gives the results.

Table 4.4

Linearity Test

			Sum of Squares	df	Mean Square	F	Sig.
Home Financing	Between Groups	(Combined)	134.231	9	14.915	3.235	.002
		Linearity	99.343	1	99.343	21.551	.000
		Deviation from Linearity	34.888	8	4.361	.946	.482
	Within Groups		488.631	107	4.610		
	Total		622.862	116			
Auto Financing	Between Groups	(Combined)	184.560	11	16.778	3.981	.000
		Linearity	88.830	1	88.830	21.078	.000
		Deviation from Linearity	55.730	10	5.573	1.271	.296
	Within Groups		438.302	105	4.214		
	Total		622.862	116			
Personal Financing	Between Groups	(Combined)	94.310	13	7.255	1.400	.172
		Linearity	44.506	1	44.506	8.589	.004
		Deviation from Linearity	49.804	12	4.150	.801	.649
	Within Groups		528.553	103	5.182		
	Total		622.862	116			
Trade Financing	Between Groups	(Combined)	114.086	11	10.371	2.120	.025
		Linearity	55.763	1	55.763	11.399	.001
		Deviation from Linearity	58.323	10	5.832	1.192	.305
	Within Groups		508.776	105	4.892		
	Total		622.862	116			

According Table 4.4, the deviation from linearity of home financing was 0.482; auto financing was 0.296; personal financing was 0.649, trade financing was 0.305. This indicated that the four variables were above 0.05 hence the study assumption was that the variables were linear.

4.5.3 Autocorrelation Test

The study conducted autocorrelation test using the Durbin-Watson on home financing, auto financing, personal financing, and trade financing. Durbin- Watson value should be between 0-4. If it is 0-2 then there is a positive correlation; 2 indicates no auto-correlation; and if it is 2-4 then there is a negative value (Turner, 2019). Table 4.5 gives the results.

Table 4.5

Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	.851[a]	.724	.706	2.073	1.907

a. Predictors: (Constant), Trade Financing, Personal Financing, Auto Financing, Home Financing

b. Dependent Variable: Financial Performance

From Table 4.5, the Durbin-Watson value was 1.907 indicating that there was a positive correlation among home financing, auto financing, personal financing, and trade financing and financial performance.

4.5.4 Multicollinearity Test

The study lastly tested multicollinearity between the variables of the study to examine their tolerance and VIF levels. Tolerance level should be above 0.2 and VIF below 5 Table 4.6 gives the results.

Table 4.6

Multicollinearity Test

Model	**Collinearity Statistics**	
	Tolerance	**VIF**
(Constant)		
Home financing instruments	.219	4.562
Auto financing instruments	.432	2.315
Personal financing instruments	.953	1.049
Trade financing instruments	.226	4.422

According to Table 4.6, home financing instruments had a tolerance level of 0.219 and VIF of 4.562; auto financing instruments had a tolerance of 0.432 and VIF of 2.315; personal financing instruments had a tolerance of 0.953 and VIF of 1.049; and trade financing instruments had a tolerance of 0.226 and VIF of 4.422.

4.6 Descriptive statistics of Financial Performance

This study had a general objective of examining the relationship between Islamic financial instruments and financial performance of banks in Isiolo County Kenya. Therefore, the study had asked questions inform of questionnaires related to financial performance. The study used a Likert Ordinal scale indicating; strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Table 4.7 indicates the results.

Table 4.7

Descriptive Statistics of Financial Performance

Statements N=116	**1**	**2**	**3**	**4**	**5**	**Mean**
Islamic home financing instruments have improved the financial performance	1(1%)	5(4%)	0(0%)	12(10%)	98(85%)	**4.73**
Islamic auto financing instruments have improved the financial performance	2(2%)	19(16%)	0(0%)	43(37%)	52(45%)	**4.07**
Islamic personal financing instruments have improved the financial performance	6(5%)	48(41%)	0(0%)	62(53%)	0(0%)	**3.02**
Islamic trade financing instruments have improved the financial performance	3(3%)	5(4%)	0(0%)	14(12%)	94(81%)	**4.65**

According to 4.7, most respondents confirmed that Islamic home financing instruments had greatly improved the financial performance on a mean of 4.73 as compared to other variables such as auto, personal and trade financing instruments. However, personal financing instruments on a mean of 3.02, were considered to minimally caused growth of performance. These results indicated that due to high competition from conventional banking products, there was very low intake of personal Islamic personal financing. This could be attributed to the fact that most Islamic personal products were almost similar to conventional products hence clients did not really distinguish between the two. In addition, it could also mean that Islamic personal products were very complicated for clients to understand them hence preferring the conventional personal products. In agreement, Mambodallu (2018) complained also that similarity between conventional and Islamic products was a major concern on why growth of Islamic banking was stunted in Kenya.

4.6.1: Financial performance sub-variables

The study explored on various sub-variables on the financial performance of Isiolo commercial banks. These sub variables were ROA, GPR, ER, NIM and total sales for a period between 2017-2020. Table 4.8 gives the results.

Table 4.8

Financial Performance from reports

Variable	N	Mean	Std Dev
ROA	10	4.7	0.41
GPR	10	4.9	0.34
ER	10	3.2	1.24
NIM	10	3.8	1.04
Total sales	10	2.1	1.94

According to Table 4.8, GPO and ROA stood out with highest means of 4.9 and 4.7 respectively. Nevertheless, Total sales had very low mean of 2.1 showing that the ten commercial banks in Isiolo did not do very well in selling various products such as Islamic products to its clients. This in fact affected greatly the equity ratio of the shareholders. In agreement, Mutua (2015) named poor sales as one of the most improtant elements that is paralysing the development of Islamic banking products in Kenya.

4.7 Descriptive statistics of Islamic Home Financing Instruments

This study had an objective of measuring the influence of home financing instruments on financial performance of commercial banks in Isiolo County Kenya. Therefore, the study had asked questions inform of questionnaires related to home financing. The study used a

Likert Ordinal scale indicating; strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Table 4.9 indicates the results.

Table 4.9

Descriptive Statistics of Islamic Home Financing Instruments

Statements N=116	1	2	3	4	5	Mean	Std Dev
Easily accessible to clients with shortest turn-around time which enhances total sales	0(0%)	0(0%)	0(0%)	12(10%)	104(90%	**4.90**	**0.31**
The repayment interest rates are reasonable and positively contribute to net interest margin	0(0%)	5(4%)	1(1%)	12(10%)	98(85%)	**4.75**	**0.68**
Clients have the options to choose home financing instruments which boosts return on assets	1(1%)	0(0%)	0(0%)	9(8%)	106(91%	**4.89**	**0.45**
There is timely payment to most Islamic home financing instruments	18(16%)	18(16%)	2(2%)	50(43%)	28(23%)	**3.45**	**1.41**
Many clients are willing to take home financing hence a huge customer base	0(0%)	17(15%)	4(3%)	59(51%)	36(31%)	**3.98**	**0.97**

Based on the results indicated on Table 4.9, it is clear that home financing instruments were easily accessible to clients with shortest turn-around time which enhanced total sales (mean of 4.9). However, there was low timely payment to most home financing instruments (mean of 3.45). It was therefore revealed that the problem was not in provision of home financing instruments by the bank but untimely re-payment on the issued financing. This meant that banks debt retrieval department was not actively engaged in coming up with creative ways of enticing clients to pay up their debts. Ojiambo (2014) ellaborated that in real estate finance, irregular and late payments was a grwoing concern that was making commercial banks register very low profits. In addition, Oracle Financial Services (2017) notes that though Islamic banking purposed to end this issue of late payment through elimination of interest rates in Islamic products, the processes are still getting challenges in clients re-paying the banks.

4.7.1 Model Summary of Home Financing Instruments

The study assessed the level of contribution of home financing instruments towards financial performance through model summary. Table 4.10 gives the results.

Table 4.10

Model Summary of Islamic Home Financing Instruments

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	.927[a]	.859	.852	2.143	1.982

a. Predictors: (Constant), Islamic Home Financing

b. Dependent Variable: Financial Performance

According to Table 4.10, the R value was 0.927 and R-square of 0.859. This indicated that Islamic home financing instruments' level of contribution towards financial performance was 85.9%. This indicated that clients had opted greatly in using Islamic home financing instruments to fund their housing needs as compared to conventional banking. This means that the terms and conditions on Islamic housing products were more humane to the current economic times especially during covid-19 period. In agreement with the findings Shabir and Rehman (2019) stated that Islamic products such as mortgages were a clear opportunity for investors to invest in various housing investments with reliable and more stable conditions as compared to conventional banking ones.

4.7.2 ANOVA of Home Financing Instruments

The study also explored on whether its hypothesis would hold or not. Home financing instruments had a null hypothesis that there was no significant relationship between home financing instruments and financial performance of commercial banks in Isiolo County Kenya. The study conducted an analysis of Variance (ANOVA) as indicated in Table 4.11.

Table 4.11

ANOVA of Islamic Home Financing Instruments

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	99.343	1	99.343	21.633	.000[b]
Residual	523.519	115	4.592		
Total	622.862	116			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Islamic Home Financing

According to Table 4.11, the significance value was 0.000 which was below 0.05. The study therefore rejected null hypothesis that there was no significant relationship between home financing instruments and financial performance of commercial banks in Isiolo County Kenya.

4.8 Descriptive statistics of Islamic Auto Financing Instruments

This study had an objective of measuring the influence of auto financing instruments on financial performance of commercial banks in Isiolo County Kenya. Therefore, the study had asked questions inform of questionnaires related to auto financing. The study used a Likert Ordinal scale indicating; strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Table 4.12 indicates the results.

Table 4.12

Descriptive Statistics of Islamic Auto Financing Instruments

Statements N=116	1	2	3	4	5	Mean	Std Dev
Attractive lending terms to clients	1(1%)	2(2%)	0(0%)	16(14%)	97(83%)	**4.78**	**0.62**
Sharia committee has boosted confidence on auto loans	0(0%)	25(22%)	0(0%)	61(53%)	30(25%)	**3.83**	**1.04**
Ijarah Bai' al 'inah, Murabaha, Wakalah, and Tawarruq are present	0(0%)	17(15%)	0(0%)	59(51%)	40(34%)	**4.05**	**0.97**
Improvement of service quality has boosted satisfaction	0(0%)	5(4%)	0(0%)	60(52%)	51(44%)	**4.35**	**0.70**
Provision of sufficient Islamic finance architecture	0(0%)	8(7%)	0(0%)	61(52%)	47(41%)	**4.27**	**0.78**

According to Table 4.12, the respondents agreed that the lending terms of Islamic automobile financing have attracted diverse clients (mean of 4.78). However, in comparison with other statements, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans (mean of 3.83). This proved that the confidence that clients had on auto financing, was not purely on the nature and process of administration of the financing but also due to reliability. Rahman (2018) confirmed that indeed it takes more than methods of Islamic financing products administration to guarantee its succession. However, having more reliable terms played a significant role in ensuring that clients subscribed to the said products.

4.8.1 Model Summary of Auto Financing Instruments

The study assessed the level of contribution of auto financing instruments towards financial performance through model summary. Table 4.13 gives the results.

Table 4.13

Model Summary of Islamic Auto Financing Instruments

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.862[a]	.743	.735	2.164	1.969

a. Predictors: (Constant), Islamic Auto Financing

b. Dependent Variable: Financial performance

According to Table 4.13, the R value was 0.862 and R-square of 0.743. This indicated that Islamic auto financing instruments' level of contribution towards financial performance was 74.3%. The Durbin- Watson value was 1.969. This value lied between 0 and 2 hence indicating that there was a positive correlation between auto financing instruments and financial performance. These results meant that clients also significantly utilized automobile loans guided by sharia laws. Nawaz (2019) also found out that as long as

Islamic banking products such as car loans were adequately covered under sharia laws, clients took the opportunity to try them out.

4.8.2 ANOVA of Auto Financing Instruments

The study also explored on whether its hypothesis would hold or not. Auto financing instruments had a null hypothesis that there was no significant relationship between auto financing instruments and financial performance of commercial banks in Isiolo County Kenya. The study conducted an analysis of Variance (ANOVA) as indicated in Table 4.14.

Table 4.14

ANOVA of Islamic Auto Financing Instruments

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	88.830	1	88.830	18.963	.000[b]
	Residual	534.032	115	4.684		
	Total	622.862	116			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Islamic Auto Financing

According to Table 4.14, the significance value was 0.000 which was below 0.05. The study therefore rejected null hypothesis that there was no significant relationship between auto financing instruments and financial performance of commercial banks in Isiolo County Kenya.

4.9 Descriptive statistics of Islamic Personal Financing Instruments

This study had an objective of measuring the influence of personal financing instruments on financial performance of commercial banks in Isiolo County Kenya. Therefore, the study had asked questions inform of questionnaires related to personal financing. The study used a Likert Ordinal scale indicating; strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Table 4.15 indicates the results.

Table 4.15

Descriptive Statistics of Islamic Personal Financing Instruments

Statements N=116	1	2	3	4	5	Mean	Std Dev
Presence of current and savings accounts, fixed-term deposits, and personal loans	15(13%	51(44%)	0(0%)	50(43%)	0(0%)	**2.73**	**1.15**
Growing needs of clients have improved personal financing.	15(13%	48(41%)	3(3%)	46(40%)	4(3%)	**2.79**	**1.20**
Periodic review of personal financing instruments	50(43%	23(20%)	18(15%	11(10%)	14(12%)	**2.28**	**1.41**
This bank offers training and brochures to clients on personal products	46(39%	23(20%)	11(10%	22(19%)	14(12%)	**2.44**	**1.50**
There are marketing initiatives on personal products	7(6%)	47(40%)	3(3%)	54(47%)	5(4%)	**3.03**	**1.14**

According to Table 4.15, most of the officers in the study agreed that the bank had offered various marketing initiatives to balance between Islamic personal products and conventional personal products (mean of 3.03). However, most of the disagreed on mean of 2.28 that there was a periodic review of personal financing instruments so that they are able to handle the ever-changing customer preferences. This indicated that the changing client's needs were not effectively handled. In addition, the bank had too old products that were very unattractive to clients hence causing low intake of the personal financing products. In agreement, Islamic Development Bank Group (2016) reported that one of major concerns on why Islamic finance had to yet fully established its roots was due to incapacity to adjust frequently depending on the needs of the clients. That is, the Islamic financing was more focused on following sharia laws than providing full satisfaction to the clients' needs.

4.9.1 Model Summary on Personal Financing Instruments

The study assessed the level of contribution of personal financing instruments towards financial performance through model summary. Table 4.16 gives the results.

Table 4.16

Model Summary of Islamic Personal Financing Instruments

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.686[a]	.471	.063	2.252	1.753

a. Predictors: (Constant), Islamic Personal Financing

b. Dependent Variable: Financial Performance

According to Table 4.16, the R value was 0.686 and R-square of 0.471. This indicated that Islamic personal financing instruments' level of contribution towards financial performance was 47.1%. The Durbin- Watson value was 1.753. This value lied between 0 and 2 hence indicating that there was a positive correlation between personal financing instruments and financial performance. The results show that there was still a lot to be covered as far as ensuring personal products that are Islamic in nature were undertaken by the clients. Clients had really avoided these products because they did not satisfy their changing needs. This could be attributed to the strict nature of these products to adhere to sharia laws hence little or none of periodic review in done on them by the issuing banks.

4.9.2 ANOVA of Personal Financing Instruments

The study also explored on whether its hypothesis would hold or not. Personal financing instruments had a null hypothesis that there was no significant relationship between personal financing instruments and financial performance of commercial banks in Isiolo County Kenya. The study conducted an analysis of Variance (ANOVA) as indicated in Table 4.17.

Table 4.17

ANOVA of Islamic Personal Financing Instruments

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.506	1	44.506	8.773	.004[b]
	Residual	578.356	115	5.073		
	Total	622.862	116			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Islamic Personal Financing

According to Table 4.17, the significance value was 0.004 which was below 0.05. The study therefore rejected null hypothesis that there was no significant relationship between personal financing instruments and financial performance of commercial banks in Isiolo County Kenya.

4.10 Descriptive statistics of Islamic Trade Financing Instruments

This study had an objective of measuring the influence of trade financing instruments on financial performance of commercial banks in Isiolo County Kenya. Therefore, the study had asked questions inform of questionnaires related to trade financing. The study used a Likert Ordinal scale indicating; strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Table 4.18 indicates the results.

Table 4.18

Descriptive Statistics of Islamic Trade Financing Instruments

Statements N=116	1	2	3	4	5	Mean	Std Dev
Presence of Al-Qard Al-Hasanah, Mudarabah, Kafalah, Islamic accepted bill, Musawamah, and Murabaha	3(3%)	11(10%)	0(0%)	20(17%)	82(70%)	**4.44**	**1.07**
Non-biased trading products.	0(0%)	5(4%)	1(1%)	12(10%)	98(85%)	**4.75**	**0.68**
Competitive trade financing products	1(1%)	9(8%)	0(0%)	17(15%)	89(76%)	**4.59**	**0.91**
Community education on Islamic trade products	18(16%	18(16%)	2(2%)	50(43%)	28(23%)	**3.45**	**1.41**
Qualified staff	0(0%)	17(15%)	4(3%)	59(51%)	36(31%)	**3.98**	**0.97**

According to Table 4.18, majority of officers agreed that their banks issue trading financing instruments without biasness to all qualifying clients (mean of 4.75). However, they disagreed to some extent that the community was fully educated on various Islamic trade products especially in social gatherings (mean of 3.45). These results indicate that the community around the Isiolo county did not actually know there were such kind of products that would be of benefit to them. What this means is that the banks rarely organized marketing ventures around the area to sensitize the community on their various trade financing instruments. The resultant repercussion was that the bank was unable to reach out to the neediest members of the society to whom these trade financing products were meant for in the first place by the sharia law. According to Muhammad (2019), Sharia law was put into place to ensure there is equality between the poor and the rich. This equality would be brought about by ensuring that the poor were given resources and opportunities to develop themselves further.

4.10.1 Model Summary on Personal Financing Instruments

The study assessed the level of contribution of trade financing instruments towards financial performance through model summary. Table 4.19 gives the results.

Table 4.19

Model Summary of Islamic Trade Financing Instruments

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.831[a]	.690	.682	2.230	1.862

a. Predictors: (Constant), Islamic Trade Financing

b. Dependent Variable: Financial Performance

According to Table 4.19, the R value was 0.831 and R-square of 0.682. This indicated that Islamic trade financing instruments' level of contribution towards financial performance was 69%. The Durbin-Watson value was 1.862. This value lied between 0 and 2 hence indicating that there was a positive correlation between personal financing instruments and financial performance.

4.10.2 ANOVA on Trade Financing Instruments

The study also explored on whether its hypothesis would hold or not. Trade financing instruments had a null hypothesis that there was no significant relationship between trade financing instruments and financial performance of commercial banks in Isiolo County Kenya. The study conducted an analysis of Variance (ANOVA) as indicated in Table 4.20.

Table 4.20

ANOVA of Islamic Trade Financing Instruments

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	55.763	1	55.763	11.210	.001[b]
	Residual	567.099	115	4.975		
	Total	622.862	116			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Islamic Trade Financing

According to Table 4.20, the significance value was 0.001 which was below 0.05. The study therefore rejected null hypothesis that there was no significant relationship between trade financing instruments and financial performance of commercial banks in Isiolo County Kenya.

4.11 Multiple regression

The study also did analysis on the linear relationship between the four Islamic financing instruments and the financial performance. The study developed model summary, ANOVA and regression coefficients of the variables.

4.11.1 Model Summary of Islamic Financing Instruments

The study assessed the level of contribution of all financing instruments towards financial performance through model summary. Table 4.21 gives the results.

Table 4.21

Model Summary of Islamic Financing Instruments

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	.851[a]	.724	.706	2.073	1.907

a. Predictors: (Constant), Trade Financing, Personal Financing, Auto Financing, Home Financing

b. Dependent Variable: Financial Performance

According to Table 4.21, the R value was 0.851 and R-square of 0.724. This indicated that Islamic financing instruments' level of contribution towards financial performance was 72.4%. The Durbin-Watson value was 1.907. This value lied between 0 and 2 hence indicating that there was a positive correlation between financing instruments and financial performance.

4.11.2 ANOVA of Financing Instruments

The study also explored on the influence between Islamic financial instruments and financial performance of banks in Isiolo County Kenya. The study conducted an analysis of Variance (ANOVA) as indicated in Table 4.22.

Table 4.22

ANOVA of Islamic Financing Instruments

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	145.782	4	36.445	8.480	.000[b]
	Residual	477.081	111	4.298		
	Total	622.862	115			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Islamic Trade Financing, Islamic Personal Financing, Islamic Auto Financing, Islamic Home Financing

According to Table 4.22, the significance value was 0.000 which was below 0.05. The study therefore indicated that financing instruments had a significant influence on financial performance of commercial banks in Isiolo County Kenya. The results indicate that all financing instruments were relevant and had a significance when dictating financial performance of commercial banks.

4.11.3 Regression Coefficient of Islamic Financing Instruments

The study also analyzed regression coefficients of financing instruments and financial performance. It was discovered that home instruments had a β=.488, P=0.012; auto instruments had a β=.0.216, P=0.006; personal instruments had a β=-0.138, P=0.014; and trade instruments had a β=-0.306, P=0.307. The results are indicated in Table 4.23.

Table 4.23

Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	5.797	2.022		2.867	.005
Islamic Home Financing	.488	.192	.451	2.542	.012
Islamic Auto Financing	.216	.112	.244	1.928	.006
Islamic Personal Financing	.138	.057	.208	2.445	.014
Islamic Trade Financing	-.306	.171	-.313	-1.794	.037

a. Dependent Variable: Financial Performance

According to Table 4.23, the general model was Y= C+ β1X1+ β2X2+ β3X3. This is where Y was financial performance; C was constant; XI was Islamic Home Financing; X2 was Islamic Auto Financing; X3 was Islamic Personal Financing; X4 was Islamic Trade Financing. When equated with the derived coefficient; Academic performance = 5.797C+0.488XI+0.216X2-0.138X3-0.306X4. The results indicated that by adding one unit of XI, X2, X3, and X4, financial performance was increased or decreased by 5.797+0.488+0.216+0.138-0.306 respectively. The overall results show that the model is valid and is statistically significant, but each construct becomes insignificant in a combined model as indicated by sig. values in the regression weight table 4.23.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study aimed to examine relationship between Islamic financial instruments and financial performance of banks in Isiolo County Kenya. The study had specific objectives such as measuring the influence of Islamic home, auto, personal and trade financing instruments on financial performance of commercial banks in Isiolo County Kenya. This study was guided by three theories; assimilation theory, Solow Swan class growth theory and social exchange theory. Assimilation theory guided the survey into Islamic home and personal instruments. Solow Swan class growth theory will guide the survey into Islamic automobile financing instruments and social exchange theory guided the survey into Islamic trade financing theory. Descriptive research design was used in the study. The respondents were customer service officers and loan officers in the ten commercial banks in Isiolo County. They were be selected using census method. Data collection was done using closed-ended questionnaires and secondary data collected through analysis of report from 2017 to 2020.

5.2 Summary of the Results

The study analysis of the results is provided under sections below.

5.2.1 Home Financing Instruments

This study had an objective of measuring the influence of home financing instruments on financial performance of commercial banks in Isiolo County Kenya. Home financing instruments were easily accessible to clients with shortest turn-around time which enhanced total sales (mean of 4.9). However, there was low timely payment to most home financing instruments (mean of 3.45). The R value was 0.927 and R-square of 0.859. This indicated that Islamic home financing instruments' level of contribution towards financial performance was 85.9%. The Durbin- Watson value was 1.982. This value lied between 0 and 2 hence indicating that there was a positive correlation between auto financing instruments and financial performance. The significance value was 0.000 which was below 0.05.

5.2.2 Auto Financing Instruments

This study had an objective of measuring the influence of auto financing instruments on financial performance of commercial banks in Isiolo County Kenya. The respondents agreed that the lending terms of Islamic automobile financing have attracted diverse clients (mean of 4.78). However, in comparison with other statements, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans (mean of 3.83). The R value was 0.862 and R-square of 0.743. This indicated that Islamic auto financing instruments' level of contribution towards financial performance was 74.3%. The Durbin- Watson value was 1.969. This value lied between 0 and 2 hence indicating that there was a positive correlation between auto financing instruments and financial performance. The significance value was 0.000 which was below 0.05.

5.2.3 Personal Financing Instruments

This study had an objective of measuring the influence of personal financing instruments on financial performance of commercial banks in Isiolo County Kenya. Most of the officers in the study agreed that the bank had offered various marketing initiatives to balance between Islamic personal products and conventional personal products (mean of 3.03). However, most of the disagreed on mean of 2.28 that there was a periodic review of personal financing instruments so that they are able to handle the ever-changing customer preferences. The R-value was 0.686 and R-square of 0.471. This indicated that Islamic personal financing instruments' level of contribution towards financial performance was 47.1%. The Durbin- Watson value was 1.753. This value lied between 0 and 2 hence indicating that there was a positive correlation between personal financing instruments and financial performance. The significance value was 0.004 which was below 0.05

5.2.4 Trade Financing Instruments

This study had an objective of measuring the influence of trade financing instruments on financial performance of commercial banks in Isiolo County Kenya. Majority of officers agreed that their banks issue trading financing instruments without biasness to all qualifying clients (mean of 4.75). However, they disagreed to some extent that the community was fully educated on various Islamic trade products especially in social gatherings. The R value was 0.831 and R-square of 0.682. This indicated that Islamic trade financing instruments' level of contribution towards financial performance was 69%. The Durbin-Watson value was 1.862. This value lied between 0 and 2 hence indicating that there was a positive correlation between personal financing instruments and financial performance. The significance value was 0.001 which was below 0.05.

5.3 Conclusions of the study

The study indicated that financing instruments had a significant influence on financial performance of commercial banks in Isiolo County Kenya. On Islamic home financing instruments, the study discovered that they had a significant influence of financial performance. In addition, it was therefore revealed that the problem was not in provision of home financing instruments by the bank but untimely re-payment on the issued financing. This meant that banks debt retrieval department was not actively engaged in coming up with creative ways of enticing clients to pay up their debts.

On Islamic auto financing instruments, the study discovered that they had a significant influence of financial performance. In addition, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans. This proved that the confidence that clients had on auto financing, was not purely on the nature and process of administration of the financing but also due to reliability.

On Islamic personal financing instruments, the study discovered that they had a significant influence of financial performance. In addition, these results indicated that due to high competition from conventional banking products, there was very low intake of personal Islamic personal financing. This could be attributed to the fact that most Islamic personal products were almost similar to conventional products hence clients did not really distinguish between the two. In addition, it could also mean that Islamic personal products were very complicated for clients to understand them hence preferring the conventional personal products. The results also showed that there was still a lot to be covered as far as ensuring personal products that are Islamic in nature were undertaken by the clients. Clients had really avoided these products because they did not satisfy their changing needs. This could be attributed to the strict nature of these products to adhere to Sharia laws.

On Islamic trade financing instruments, the study discovered that they had a significant influence of financial performance. The results indicate that the community around Isiolo county did not actually know there were such kind of products that would be of benefit to them. What this means is that the banks rarely organized marketing ventures around the area to sensitize the community on their various trade financing instruments. The resultant repercussion was that the bank was unable to reach out to the neediest members of the society to whom these trade financing products were meant for in the first place by the sharia law.

5.4 Recommendations of the study

The study recommends that the bank management should provide training to banking staff on how to administer Know Your Customer [KYC] procedures when administering various Islamic home financing instruments. There should be emphasis by banking branches on providing this home financing facility to only qualified clients so as to avoid lack of payment. Loan officers should be motivated through good salaries and allowances so that they can swiftly follow-up on clients whose payments are over-due. The bank managers should occasionally empower banking staff such as debt retrieval team through team building initiatives to help them learn and bond so as to get refreshed. The banking management should enact policies that have clear guidelines on what to do in case a client fails to pay their home financing.

The study recommends that auto financing should be provided reliably by ensuring all client concerned are amicably handled by the banking staff. The various car loan officer should be trained on good customer service to as to ensure they sell well their products without necessarily losing new clients. The bank management should also diversify auto financing to cater for all categories of vehicles for expansion of their client base.

The study recommends that there should be an immediate review of lending terms on personal loans by the banks to put into place policies that are in line with the changed client' preferences. The bank management should ensure that the products issued match with client's repayment capabilities and needs. The banking staff should be trained on how Islamic personal financing work so that they are in a capacity to elaborate clearly to clients who do not understand the brochure information.

The study recommends that the bank branches' marketing department should develop a program of community empowerment marketing drive on trade financing products. This would provide a platform to the community on the suitability of Islamic personal financing to their lives. There should be more recruitment on locals who have in-depth knowledge on various community needs to champion the marketing initiative.

5.5 Suggestion for future research

The current study investigated four Islamic financing instruments such as home, auto, personal and trade financing instruments. The future studies should explore more on other types of financing instruments such as Sukuk.

The current study examined the relationship between Islamic financial instruments and financial performance of banks in Isiolo County Kenya. Future studies should also extend to other counties such as Wajir and Marsabit and expand the study further.

This study included customer service officers and loan officers in the study hence future studies should also include other banking staff such as marketing officers.

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APPENDICIES

Appendix I: Letter of Authorization

Date....................................

To

Branch Manager

Name of the Bank.................

P.O. Box ....

Isiolo, Kenya

Dear Sir/Madam,

RE: RESEARCH DATA ON RELATIONSHIP BETWEEN ISLAMIC FINANCING INSTRUMENTS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ISIOLO COUNTY KENYA

I am a student pursuing Masters of Business Administration (Finance) at Kenya Methodist University (KeMU). I am required to undertake a research as a partial fulfillment for the conferment of the master's degree. My research topic is stated above and I am kindly requesting for your assistance in making my research a success.

The purpose of this letter is therefore to request you to grant permission to collect relevant data from your bank from selected respondents. The respondents will be customer service officer and loan officers. The information collected will be treated with utmost confidentiality and will be used for the purposes on this research only. For your information, the output of this research will add value to banks in Kenya in terms of appreciating the value of asset securitization which leads to improvement of banks performance.

I wish your bank fruitful business.

Yours Sincerely,

Abdi Huka Halake

Reg no: Bus-3-9298-3/2018

Mobile no: 0721351479

Appendix II: Letter of Consent

Date...

To..

....

Dear Sir/Madam,

RE: COLLECTION OF RESEARCH DATA

My name is Abdi Huka Halake currently pursuing Masters of Business Administration (Finance) at Kenya Methodist University (KeMU). I am carrying out research on the relationship between Islamic financing instruments and financial performance of commercial banks in Isiolo county Kenya. At the moment I am in the process of gathering relevant data for this study. You have been identified as one of the collaborators and respondents in this study and I am kindly requesting for your assistance towards making this study successful by responding to the attached questionnaire. I assure you that your responses will be treated with confidentiality and will be used solely for the purpose of this study.

I thank you in advance for your time and responses. It will be appreciated if you can fill the questionnaire within the next 7 days to enable early finalization of the study.

Yours Sincerely,

Abdi Huka Halake

Reg no: Bus-3-9298-3/2018

Mobile no: 0721351479

Appendix III: Questionnaire for customer service officers and loan officers.

This questionnaire has been designed to collect data on the relationship between Islamic financial instruments and financial performance of banks in Isiolo County Kenya.

SECTION A: BACKGROUND INFORMATION

1. Please indicate your working experience in this bank in years by ticking in the brackets?

   Less than 1 ☐

   1-2 ☐

   2-5 ☐

   5-10 ☐

   10 and above ☐

2. What position are you currently holding in this bank?

   ……………………………………………………………………………………..

   ………………………………………………………………………………………

3. Which level of the academic program mentioned above are you in?

   Certificate ☐

   Diploma ☐

   Degree ☐

   Postgraduate ☐

SECTION B: ISLAMIC HOME FINANCING INSTRUMENTS FINANCIAL PERFORMANCE

A) Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes. 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree

No	Statement	1	2	3	4	5
1.	Islamic home financing instruments are easily accessible to clients with shortest turn-around time which enhances total sales					
2.	The repayment interest rates are reasonable and positively contribute to net interest margin					
3.	Clients have the options to choose from variety of Islamic home financing instruments which boosts return on assets					
4.	There is timely payment to most Islamic home financing instruments which improves gross profit ratio					
5.	There are many clients willing to take Islamic home financing instruments hence providing a huge customer base which positively affects the share value leading to an effective equity ratio					

SECTION C: ISLAMIC AUTO FINANCING INSTRUMENTS FINANCIAL PERFORMANCE

A) Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes. 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree

No	Statement	1	2	3	4	5
1.	The lending terms of Islamic automobile financing have attracted diverse clients					
2.	Having sharia committee in disbursing car loans has enabled clients have confidence with the automobile loans					
3.	Ijarah Bai' al 'inah, Murabaha, Wakalah, Tawarruq instruments are the major financing instruments to finance automobiles					
4.	Customer satisfaction was derived most when service quality factors were improved on auto financing instruments					
5.	This bank has provided sufficient Islamic finance architecture to improve progress and expansion of auto financing instruments					

SECTION D: ISLAMIC PERSONAL FINANCING INSTRUMENTS FINANCIAL PERFORMANCE

A) Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes. 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree

No	**Statement**	**1**	**2**	**3**	**4**	**5**
1.	Our bank offers various personal financing services like current and savings accounts, fixed-term deposits, and personal loans.					
2.	Growing needs of individual finance needs have been causing improvement of Islamic personal financing.					
3.	There is a periodic review of personal financing instruments so that they are able to handle the ever-changing customer preferences					
4.	This bank offers training and brochures to clients so that they understand various details of Islamic personal financing instruments offered.					
5.	The bank has offered various marketing initiatives to balance between Islamic personal products and conventional personal products					

SECTION E: ISLAMIC TRADE FINANCING INSTRUMENTS AND FINANCIAL PERFORMANCE

A) Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes. 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree

No	Statement	1	2	3	4	5
1.	This bank provides various trade financing instruments such as Al-Qard Al-Hasanah, Mudarabah, Kafalah, Islamic accepted bill, Musawamah, and Murabaha					
2.	This bank issues trading financing instruments without biasness to all qualifying clients.					
3.	This bank has made trade financing products competitive due to realistic terms of issuance and lending					
4.	The community has been educated on various Islamic trade products especially in social gatherings					
5.	There are qualified staff that handle are issues pertaining Islamic trade products in this bank					

SECTION F: FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

This section has statements regarding the financial performance of listed commercial banks. Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes using a tick (√) or cross mark (x).

No	Statement	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
		1	2	3	4	5
1.	Islamic home financing instruments have improved the financial performance of the bank					
2.	Islamic auto financing instruments have led to improved financial performance of the bank					
3.	Islamic personal financing instruments have improved financial performance of the bank					
4.	Islamic trade financing instruments have improved financial performance of the bank					

Thank you for your feedback

Appendix IV: Secondary data collection instrument

Secondary data for the commercial banks in Isiolo county from 2017- 2020 will be collected as follows:

Name of the bank……………………………………………………………….

Variable	**Years**			
	2017	**2018**	**2019**	**2020**
Return on assets				
Gross profit ratio				
Equity ratio				
Net interest margin				
Total sales				

Appendix V: Introduction Letter from KeMU

KENYA METHODIST UNIVERSITY

P. O. Box 267 Meru - 60200, Kenya
Tel: 254-064-30301/31229/30367/31171

Fax: 254-64-30162
Email: deanrd@kemu.ac.ke

DIRECTORATE OF POSTGRADUATE STUDIES

June 15, 2021

Commission Secretary,
National Commission for Science, Technology and Innovations,
P.O. Box 30623-00100,
NAIROBI.

Dear sir/ Madam,

ABDI HUKA HALAKE (BUS-3-9298-3/2018)

This is to confirm that the above named is a bona fide student of Kenya Methodist University, Department of Business Administration, undertaking a Degree of Master of Business Administration. He is conducting research on, **'Relationship between Islamic Financing Instruments and Financial Performance of Commercial Banks in Isiolo County, Kenya'.**

We confirm that his research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a permit to enable him collect data for his research.

Any assistance accorded to him will be appreciated.

Thank you.

Dr. John Muchiri, PHD.
Director Postgraduate Studies

Cc: Dean SBUE
COD, Business Administration
Postgraduate Co-ordinator
Supervisor

Appendix VI: NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 870621

Date of Issue: 22/June/2021

RESEARCH LICENSE

This is to Certify that Mr.. ABDI HUKA HALAKE of Kenya Methodist University, has been licensed to conduct research in Isiolo on the topic: RELATIONSHIP BETWEEN ISLAMIC FINANCING INSTRUMENTS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ISIOLO COUNTY KENYA for the period ending : 22/June/2022.

License No: NACOSTI/P/21/11424

870621

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

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