

**STRATEGIC CAPABILITIES AND FINANCIAL PERFORMANCE OF
ISLAMIC BANKS IN KENYA**

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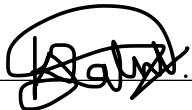
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DECLARATION

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ABSTRACT

In Kenya, commercial banks, including Islamic banks, have faced challenges such as liquidity shortages, credit risk, and inefficiencies in loan management. Amid competitive nature of the banking sector, Islamic banks remain behind in terms of performance. Given the dwindling performance, this study seeks to determine the effect of strategic capabilities on financial performance of these banks in Kenya. Specifically, the study sought to determine if network, innovation, leadership and information acquisition capabilities have an effect on the financial performance of Islamic banks in Kenya. The research is grounded on Resource Based View, Upper Echelons Theory, and the Dynamics Capabilities Theory. Methodologically, the research employed a cross-sectional descriptive design approach on a sample of 113 respondents drawn from a population of 126 branch managers, finance managers, and Information Communication Technology (ICT) managers in selected branches of three Islamic banks: Dubai Islamic Bank, Gulf Africa Bank, and Premier Bank. Stratified random sampling technique was used to select the participants, with data collection involving the use of self-administered questionnaires. Data was analysed and presented in form of tables and figures. The results established a substantial influence of strategic capabilities on the financial performance of Islamic banks in Kenya. Specifically, leadership capabilities had the strongest positive impact, innovation capabilities had a substantial positive effect together with network capabilities and information acquisition capabilities. The study concludes that strategic capabilities have significant effect on financial performance of Islamic banks in Kenya. To enhance financial performance, Islamic banks should focus on strengthening strategic leadership through visionary and ethical management practices, as leadership had the most significant impact on financial outcomes. Investing in innovation, including technology adoption and product development, will sustain competitiveness and boost customer perceptions.

Key words: Strategic capabilities; Islamic bank; financial performance

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CAGR	Compound Annual Growth Rate
CRB	Credit Reference Bureau
ICT	Information Communication Technology
IKEA	Ingvar Kamprad Elmtaryd Agunnaryd
KPIs	Key Performance Indicators
MFBs	Microfinance Banks
NIM	Net Interest Margin
RBV	Resource Based View
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Science

OPERATIONAL DEFINITION OF TERMS

Acquisition of information capability: A firm's ability to locate, identify, value and acquire external knowledge that is critical to its operations.

Innovation capability: Is the ability of a company to exploit the individual creativity of its employees by creating social environments to develop ideas and implement innovations of different degrees of innovation.

Leadership capability: Is the capacity of managers to run organizations, and to make and implement strategic and operational decisions, through an impact on and coordination of other firm resources, inputs and capabilities

Network capability: The firm's ability to interact to other business partners and manage these relationships efficiently in a dynamic market.

Strategic capabilities: It is defined as the intricate accumulative knowledge and skills of the organizations that enable them to coordinate their processes and reconfigure their assets to generate economic value and attain sustainable competitive advantage.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The corporate climate is changing more rapidly than ever on a global scale, driven by technological innovations and shifting market expectations (Tajeddini, Altinay, & Ratten, 2017). In such a volatile and competitive environment, well-established financial institutions, particularly Islamic banks, have realized the importance of developing sustainable strategic capabilities to maintain competitiveness and surpass rivals (El-Baz & Ruel, 2021). These organizations can maximize their internal and external competencies by amalgamating, developing, and modifying them to align to the shifting consumer preferences (Leonidou, Fotiadis, & Leonidou, 2019).

Strategic capability plays a pivotal role in safeguarding organizations against imitation and fostering client loyalty. Firms require a portfolio of interconnected capabilities that vary based on internal resources and external market conditions (Aagaard, 2022). For instance, companies such as Mercedes-Benz leverage strategic capability to protect their innovations and sustain customer loyalty through quality differentiation (Gittel & Rogelio, 2018; Lagrosen & Lagrosen, 2017). Similarly, IKEA demonstrates strategic capability by streamlining production and distribution systems, allowing customers to assemble products themselves, which reduces costs, maintains quality, and enhances affordability (Wang et al., 2019).

In the context of Islamic banking, tracking financial performance is essential for sustaining growth and maintaining investor and customer confidence. Monitoring key financial indicators—such as profitability, liquidity, efficiency, and risk exposure—not only enables banks to identify strengths and weaknesses but also informs strategic decisions aimed at improving operational efficiency and competitiveness (KNBS, 2024). Several studies indicate that performance gaps exist in Islamic banks, often due to limited adaptation of modern financial management practices, inconsistent adoption of Sharia-compliant innovations, and exposure to market volatility (Alqatan et al., 2021; Aress, 2023; Issack & Nyaloti, 2024). Without systematic performance tracking, banks risk misalignment between strategic objectives and actual outcomes, which may hinder long-term sustainability and stakeholder trust (CBK, 2023).

Furthermore, while some Islamic banks in Kenya have exhibited steady growth in assets and customer base, comparative studies suggest that performance outcomes remain uneven across institutions (Alqatan et al., 2021; Aress, 2023; Issack & Nyaloti, 2024). Factors such as efficiency, capital adequacy, cost management, risk governance, and digital innovation significantly influence

financial performance (Aress, 2023; Issack & Nyaloti, 2024). Identifying these gaps provides a foundation for targeted interventions that enhance competitiveness, profitability, and resilience in an increasingly dynamic banking sector (KNBS, 2024).

1.1.1 Strategic Capabilities

Strategic capabilities are defined as distinctive in-house talents that a business holds against its competitors (Lado et al., 1992). Day (1994) expanded on this concept by defining strategic capabilities as an organization's detailed accumulation of knowledge and skills that allow it to coordinate its operations and rearrange its assets in order to generate economic value and achieve long-term competitive advantage. According to Johnson et al. (2017), strategic capabilities are the distinctive firm resources and competences that contribute to establishing the organization's relevant strategies for better performance. Regardless of the definition, strategic capabilities provide businesses with a new set of options through opportunity detection and reconfiguration, potentially improving firm performance (Zgarni, 2019). As such, strategic capabilities are a critical part of businesses that must not be overlooked (Dadfar, Dahlggaard, Brege, & Alamirhoor, 2017). According to Hughes and Smith (2023), focusing on underlying or core talents does not provide a durable competitive advantage.

Regarding the definition of strategic capabilities, Seyhan et al. (2017) and Spillan et al. (2018) operationalize strategic capabilities through four important domains: marketing capability, technological capability, and management capability. Hao and Song (2016) and Kimosop et al. (2016) added an additional factor, information technology competence, to quantify strategic capabilities. Other studies have examined strategic capabilities through the lens of network capability, innovation capability, information acquisition capability, and management capability, emphasising their ability to drive superior organisational performance along with being core to achieving a sustainable competitive advantage in dynamic markets (Agyapong & Acquaaah, 2021; Fang et al., 2019; Hwang et al., 2020; Melesse, 2025; Parida et al., 2017; Payne & Katrinli, 2021; Sepúlveda & Collazos, 2025; Seyhan et al., 2017; Spillan et al., 2018; Walter et al., 2006). As a result, this study operationalizes strategic capabilities using the terms network, innovation, information acquisition, and management capability, given the broad literature surrounding them. Network capability involves organizations building relationships throughout the supply chain in order to acquire new resources as well as to gain access to consumer information (Cao & Zhang, 2016). A study by Gulati, Nohria, and Zaheer (2000) highlighted that firms with robust external

networks often outperform their peers by capitalizing on shared knowledge and resources. Information acquisition capabilities are defined as their ability to effectively receive, process, and utilize information in order to make informed decisions and improve operational efficiency (Mithas, Ramasubbu, & Sambamurthy, 2011). Furthermore, information acquisition increases enterprises' awareness of market conditions, allowing them to be more open-minded and generate more innovative products (Wei & Wang, 2016). According to Adler and Shenbar (2017), innovation capability enables firms to implement relevant process technologies, create novel commodities, respond to market demands, and manage rival threats. Innovation aptitude allows firms to adapt to changing technical environments, respond to dynamic market demands, strengthen their competitive position, and improve overall business performance (Hutton et al., 2021). Chen, Chang, and Hung (2011) note that innovation in digital services correlates with higher profitability. Leadership capability is critical for improving work attitude and performance through innovation and mindset development (Xenkou, 2017). Strong leadership not only fosters organizational innovation and transformation, but it also guarantees that strategic objectives are in sync with financial goals (Avolio, Walumbwa, & Weber, 2009).

Strategic capabilities cover a broad scope beyond network, innovation, information acquisition, and management capability. However, this study focused on these four because other strategic capabilities like human capital and technological infrastructure remain underdeveloped in Islamic banks on Kenya, and would; therefore, not provide an effective modelling of financial performance. Uii et al. (2017) identify human capital as a developing area in Islamic banks since it faces challenges like shortage of specialised professional and a need for more staff training. According to Salh and Mohammed (2019), human capital remains a significant challenge in Islamic banks in nations like Kenya mainly because there is a shortage of professionals with dual expertise in both conventional finance and Shari'ah law.

With regard to technological infrastructure, it remains an evolving area. While economic growth in developing nations like Kenya is supported by collaborations between traditional institutions and fintech firms as well as sectors like information and communication, which include advancements in financial technology, even though these are broader trends not specific to Islamic banks (Mohammed, 2015). Hassan et al. (2022) identifies that financial technology (fintech) in Islamic banks remains relatively underdeveloped compared to conventional banking due to a combination of unique religious requirements, regulatory challenges, lack of customer awareness,

and limited access to capital for startups. Thus, the underdevelopments of strategic capabilities of human capital and technological infrastructure make these factors inadequate for understanding the relationship and influence of strategic capabilities on financial performance of Islamic banks in Kenya.

1.1.2 Financial Performance

Financial performance is the extent to which a bank achieves its financial objectives, manages its operational efficiency, and maintains profitability while adhering to regulatory standards and minimizing risk exposure (Brealey, Myers, & Allen, 2020). As explained by Demirgüç-Kunt and Huizinga (2010), financial performance in banking is commonly assessed via basic metrics which include return on assets (ROA), return on equity (ROE), and net interest margin (NIM), reflecting the institution's profitability, financial efficiency, and operational effectiveness. Borrowing from Demirgüç-Kunt and Huizinga (2010), this study views financial performance from the lens of a bank's capacity to realize profitability, maintain operational efficiency, and optimize risk management while adhering to industry regulations.

Financial performance has traditionally been measured using standard ratios like Return on Assets (ROA), Return on Equity (ROE), cost-to-income ratios, and NIM (Athanasoglou, Brissimis, & Delis, 2008). Brealey et al. (2020) emphasize a thorough evaluation of financial performance by examining profitability, liquidity, and capital adequacy, alongside the effectiveness of management practices. The Basel Committee (2019) incorporates a holistic view by evaluating financial performance against capital adequacy, liquidity, and risk management frameworks, reflecting both technical and managerial dimensions. Although profitability metrics like ROA and ROE are widely used, key performance indicators (KPIs) specific to the banking sector, such as credit risk and liquidity ratios, are also critical in assessing financial performance (Vallascas & Keasey, 2012). This study measures financial performance in Islamic banks using Return on Assets, profitability index and return on investment as supported by Athanasoglou, et al. (2008).

1.1.3 Islamic Banks in Kenya

As of December 31st, 2022, the Kenyan banking industry was comprised of the Central Bank of Kenya (regulator), 40 banking institutions, 90 foreign bank representatives, 14 Microfinance Banks, 3 Credit Reference Bureaus, 19 Money Remittance Providers, 8 non-operating bank holding companies, and 69 foreign exchange bureaus made up the Kenyan banking sector as of December 31, 2022. Njeru (2022) lists 40 banking institutions. Despite being introduced in 2007,

Sharia-compliant banking services are still making very slight progress today. Kenya is one of several African nations that are playing a key role in this regard.

Three exclusive Islamic banks operate in the Kenyan banking industry. As of December 31, 2022, the three banks held a combined 1.29% market share, with Ksh. 61 billion in deposits, Ksh. 10.9 billion in shareholder funds, and Ksh. 76.5 billion in net assets. According to Njeru (2022), the three banks accounted for 0.05% of all loan accounts and 0.27% of all deposit accounts. Five traditional commercial banks, in addition to the three banks, provided Sharia-compliant items as part of their product line through specifically designed Islamic banking windows. Furthermore, to provide an extra source of income, several traditional commercial banks have created and are still interested in offering Sharia-compliant products to their growing clientele (Bashir & Gordon, 2023). Banks in that industry are making every effort to guarantee that Sharia-compliant goods significantly boost their bottom line as a result of the rise of Islamic banking in Kenya (Kivatsi, 2024).

Credit risk, inefficiencies in loan management, and a lack of liquidity have all been problems for Kenya's Islamic banks (Mutuku, 2020). For example, Islamic banks' weighted average growth in return on average equity (RoE) in the third quarter of 2023 was 21.1%, which was 3.1% less than the growth of 24.2% in the same quarter of 2022. In 2022, banks reported that non-performing loans (NPLs) had increased to Kshs 1.7 billion. In 2022, profits before taxes dropped from Kshs 2.9 billion to Kshs 2.6 billion. Dubai Investment Bank experienced a net loss of Kshs 561 million in 2021 and Kshs 665.8 million in 2022. However, the bank made KES 6.3 million in its first quarter of 2024, its first profit before taxes. In contrast, the first quarter of 2023 saw a loss of KES 125 million (CBK Supervision report, 2023). This trend raises concerns because these banks serve a significant population that the mainstream financial system does not serve because it does not adhere to sharia. The performance of Islamic banks has been declining, as seen by the performance statistics, and a plan capability is required to reverse this trend (Kopecker, 2018).

1.2 Research Problem

Strategic capabilities have been shown to positively influence organizational performance by facilitating firms' adaptation to market changes, build resources, and enhance inter-firm relationships (Agyapong, Ellis, & Domeher, 2016; Yulianrsyah, 2018). However, conflicting findings emerge from past literature regarding the specific influence of strategic capabilities on financial performance. While Pushpakumari and Watanabe (2009) and Dauda, Akingbade, and

Akinlabi (2010) found a desirable relationship, others like Yusuf and Saffu (2005) and Efendioglu and Karabulut (2010) report that strategic capabilities do not significantly affect financial outcomes. This inconsistency reflects a gap in comprehending the influence of strategic capabilities in Islamic banks, where there is limited empirical analysis on capabilities such as network management, information acquisition, and innovation (Gomera, Chinyamurindi, & Mishi, 2018).

Despite the competitive nature of the banking sector, including Islamic banks, financial performance remains a challenge in Kenya, evidenced by recent performance data. For instance, in 2022, banks' Non-Performing Loans (NPLs) increased to Kshs 1.7 billion, while its profit before tax decreased from Kshs 2.9 billion to Kshs 2.6 billion. Similarly, Dubai Investment Bank recorded consecutive net losses in 2021 and 2022, though it saw a small profit of Kshs 6.3 million in the first quarter 2024 after a loss of Kshs 125 million in first quarter of 2023 (CBK Supervision Report, 2023). This financial underperformance raises questions about the strategic capabilities of these banks, which could be crucial for improving their financial health.

In the context of Islamic banks, financial underperformance has raised concerns on the underlying regulatory and structural constraints. Aress (2023) identifies that regulatory constraints for Islamic banks in Kenya include the lack of a dedicated or specific Islamic banking regulatory framework. Islamic banks operate under existing Kenyan banking laws such as the Banking Act and Central Bank of Kenya Act, which are not designed for the unique structures of Islamic finance as well as not suited for their unique Shariah-compliant products. Structural constraints include a shortage of Shariah experts and a lack of standardised Shariah interpretation, which tends to hinder product development and market expansion (Kamau & Namisi, 2023; Mohammed, 2015). Discrepancies in Shariah interpretation have led to a lack of harmonised Shariah standards across different institutions causing divergent in opinions, making it challenging to ensure full Shariah compliance (Kamau & Namisi, 2023), with the consequences being felt even in the finance aspect. Besides, the Kenya Deposit Insurance Corporation Act does not adequately cater to Islamic banking products as it does not isolate Islamic products from conventional deposit holders (Aress, 2023; Kamau & Namisi, 2023; Mohammed, 2015). This alongside a shortage of skilled personnel in Islamic finance not only limits growth but also affects effective financial performance.

Structural and operational constraints like shortage of experts, limited product range and customer awareness along with liquidity management issues categorise under the management capability,

emphasising the need for understanding how this particular strategic capability interact with financial performance in Kenyan Islamic banks. Although there has been an increase in literature focusing on strategic capabilities, studies examining its effect on the financial wellbeing of Islamic banks in Kenya remain scarce. Prior research has focused largely on technology, human capital, and innovation (Alan et al., 2018), but there has been little investigation into the role of network, information acquisition, innovation and managerial capabilities on Islamic banks' performance in both practical and theoretical research studies. Given the mixed results in previous studies and the financial performance problems faced by Islamic banks, this research sought to address this gap by analysing the effect of strategic capabilities on the financial performance of Kenyan-based Islamic banks.

1.3 General Objective

The overall objective for the research was to assess strategic capabilities' effect on the performance of Kenyan Islamic banks. Specifically, the research sought to:

- i. Establish the effect of network capability on the financial performance of Islamic banks in Kenya.
- ii. Establish the effect of information acquisition capability on the financial performance of Islamic banks in Kenya.
- iii. Establish the effect of innovation capability on the financial performance of Islamic banks in Kenya.
- iv. Establish the effect of leadership capabilities on the financial performance of Islamic banks in Kenya.

1.4 Research Questions

The research sought to respond to the following research questions:

- i. What is the effect of network capability on the financial performance of Islamic banks in Kenya?
- ii. What is the effect of information acquisition capability on the financial performance of Islamic banks in Kenya?
- iii. What is the effect of innovation capability on the financial performance of Islamic banks in Kenya?
- iv. What is the effect of leadership capabilities on the financial performance of Islamic banks in Kenya?

1.5 Scope of the Study

The study's contextual scope was on the impact of strategic capabilities on the financial performance of Kenyan Islamic banks. The research's geographical scope encompassed all Islamic banks in Kenya. Kenyan Islamic banks have been selected because they have been relatively underexplored. Besides, the Kenyan Islamic banking sector, with institutions increasingly partaking in the development of the country through Sharia-complaint infrastructure bonds (Sukuks). The fact that Islamic banks operate under strict adherence to Sharia Law is another reason for their selection for this study given that Sharia Law prohibits interest-based lending in favour of profit-and-loss sharing models. As such, alongside the Sharia Law, there is a need to establish whether strategic capabilities shape financial performance in these financial institutions. The strategic capability constructs used include network capability, information acquisition capability, innovation capability, and leadership capability. On methodological scope, the research relied on a descriptive design approach and primary data collection through semi-structured questionnaires. On a time scope, the study covered Islamic banks' performance reports from 2021 to 2023.

1.6 Significance of the Study

1.6.1 Policy Makers

This research would be very helpful to policymakers in the Islamic banking industry since it would provide them with information about the best strategic capabilities to achieve better performance. This is expected to motivate decision-makers to create a framework of strategic capabilities that would enhance Islamic banks' financial performance.

1.6.2 Islamic Bank Industry

The study findings are expected to have practical implications for Islamic banks' strategic capabilities to realize enhanced performance. The Islamic bank's management would get insights on the contribution of core capabilities of the bank on improving financial performance. Faced with stiff competition, cultivating strategic capabilities would help Islamic banks to remain competitive and enhance financial performance.

1.6.3 Scholars and Academicians

The study's theoretical contribution would be to enhance the corpus of knowledge for upcoming scholars and researchers by igniting crucial discussions on the strategic capacities of the banking sector. The results of the study would be used by academics and researchers to further examine

the phenomena of strategic capabilities in the banking sector. Various scholars would be motivated to conduct additional research on strategic capabilities in various areas of Kenya's economy.

1.7 Chapter Summary

The chapter brought out a foundation of the study subject – financial performance and strategic capacities of Islamic banks. Additionally, the chapter outlines the research problem, study aim, general objective, particular aims and accompanying questions, study scope, and relevance of the research. A review of the literature on the research's two main themes—financial performance and strategic skills in the context of Islamic banks—will be conducted in the next chapter.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Chapter two provides a highlight of theories anchoring the research, a review of past related literature and the emanating research gaps, a conceptual representation of the study variables, and the operationalization of the study variables.

2.2 Theoretical Review

This study is anchored on the resource-based view and supplemented by the Upper echelon's theory along with the dynamics capabilities theory (DCT). Ndlovu et al. (2022) and Stewart et al. (2011) describe a theory as a system of statement that describe, explain, and predict the occurrence of real-world phenomena. In their explanation, Stewart et al. (2011) further ascertain that a theory offers insights into why things are the way they are. In support, Dwivedi et al. (2009) highlights that the purpose of theory is fourfold: to describe by setting forth what exists, to explain by accounting for how it functions, to predict by outlining the conditions under which a phenomenon occurs, and to prescribe by identifying the conditions under which a phenomenon should occur. Overall, a theory serves the function of describing, explaining, predicting, and prescribing a phenomenon in the real world.

This research adopted a multi-theoretical framework, integrating multiple theories to offer a comprehensive and holistic understanding of the concept under investigation. Tsang (2022) affirms that incorporating two or more theories is acknowledged as having the potential to provide a more thorough perspective, as it allows addressing the limitations of relying on a single theory. Given that a single theory may fall short of fully explaining a complex phenomenon, a multi-theoretical approach offers the advantage of drawing from multiple viewpoints and methods of analysis, thereby enhancing the depth of the study.

The use of a multi-theoretical framework is particularly appropriate for this study, as it allowed the researcher to explore areas of potential conflict among theories and develop a more nuanced understanding of the effect of strategic capabilities on financial performance of Islamic banks in Kenya. By leveraging different theoretical perspectives, it was feasible and easier to examine the findings from various angles, providing a more objective and robust analysis of the variables being studied. Ultimately, a multi-theoretical approach proved essential in strengthening the study's conclusions by enabling a more nuanced and comprehensive evaluation of the aspects under examination.

2.2.1 Resource Based View

Resource based view was propounded by Barney in 1991 and posits that in similar industries, there are companies whose profitability is heterogeneous from one another due to some notable distinct features and internal capabilities for each firm. The capabilities and internal resources that enable the business to achieve greater levels of profitability than its competitors are highlighted by the RBV firm. The RBV makes the assumption that long-term differences in resources and competencies among businesses can provide a competitive edge (Priem & Butler, 2011). Thus, its framework offers context for understanding how organisational elements interact to drive performance.

According to Barney (1991), companies within the same industry may have different resource endowments, which are not always completely transferable between companies, resulting in prolonged competitive edge due to heterogeneity. Thus, according to this viewpoint, resources are essential for explaining why businesses maintain a competitive edge (Barney et al., 2016). Based on RBV theory, a company that makes use of its internal resources and capabilities can perform well because these resources are stable and dependable during the strategic management process, enabling the company to deal with competition and market dynamics (Barney, 1991; Wilkens et al., 2014; Teece, 2017). Innovation capabilities, such as technological advancements or product development, can differentiate Islamic banks and improve operational efficiency, which in turn enhances financial performance.

Pertaining to this study, RBV serves as a foundational framework for assessing whether strategic capabilities influence financial performance in Islamic banks in Kenya. The theory anchors all the study's four objectives because it is particularly relevant to the evaluation of the effect of network capability, information acquisition capability, innovation capability, and leadership or management capability on the performance of Islamic banks in Kenya.

Arising from this theory therefore,

$$\text{financial performance of Islamic banks} = f(\text{internal capabilities})$$

2.2.2 Upper Echelons Theory

According to the Upper Echelons Theory (UET), which was initially proposed by Hambrick and Mason in 1984, senior managers' competencies influence organizational results (Hambrick & Mason, 1984; Liu, 2023). The theory is grounded in the belief that organizational strategies, decisions, and performance are reflections of the cognitive bases, values, and experiences of its

upper management (Hambrick & Mason, 1984; Liu, 2023). The theory argues that leaders make decisions based on their own perceptions of the world, which are shaped by their experiences, education, age, and even socioeconomic backgrounds (Hambrick & Mason, 1984; Liu, 2023). As such, the model is essential to understanding how leadership or management as an organisation aspect can shape performance.

Hambrick (2007) further developed this theory, emphasizing that the demographic and psychological characteristics of top management teams shape their strategic choices, thereby shaping the performance of the company. UET has been applied in a variety of contexts, including studies on corporate governance, organizational change, and strategic decision-making. For instance, empirical investigation by Peterson et al. (2003) found that top management team composition significantly influences organizational strategies, while a study by Nielsen (2010) highlighted how CEO experiences and characteristics shape internationalisation strategies in global firms. Critics of UET argue that the theory places too much emphasis on individual characteristics and may overlook broader organizational and environmental factors that also shape strategic outcomes (Carpenter, Geletkanycz, & Sanders, 2004). Nonetheless, its relevance in the current context cannot be overlooked as its foundational framework complements the RBV model to establish how strategic capabilities influence financial performance in Islamic banks in Kenya. Given the tenets of UET, the theory provides valuable insights into how leadership capabilities influence organizational performance. In Islamic banks, leadership capabilities could play a crucial role in shaping strategic decisions that improve financial outcomes. The theory supports the leadership capabilities variable in the study. Therefore, it anchors the fourth objective of the study whose focus is to establish the effect of leadership capabilities on the performance of Islamic banks in Kenya.

2.2.3 Dynamics Capability Theory (DCT)

The Dynamic Capability Theory was proposed by Teece and Pisano in 1994, with the scholars collaborating with Shuen, three years later, to refine and advance the model (Nayernia, 2025). According to Kogut and Zander (1992), DCT is built upon earlier concepts like *combinative capabilities* and the idea of *routines*, which is quite popular in the evolutionary theory of economic change. In their study, Eisenhardt and Martin (2000) noted that DCT was introduced to address the inadequacies of RBV, and its application alongside RBV in contemporary strategic management discourse has been broadly embraced. While RBV postulates that a company's competitiveness

stems from owning valuable, rare, inimitable, and non-substitutable (VRIN) resources, it faces significant criticism due to its static nature, which limits its ability to explain how organisations maintain their competitive advantage rapidly in dynamic environments. In such changing and turbulent situations, Teece (2007) highlights that owning resources is inadequate, and therefore, firms should position themselves such that they can adapt, reconfigure, and renew their resource base. In this regard, Zahra et al. (2006) echoes that the DCT model was introduced to precisely address this gap by focusing on how firms can continuously integrate, build, and reconfigure internal and external competencies to respond to market changes.

Given its emphasis on managerial competencies, DCT is relevant to this study. The model underscores managerial competencies in sensing, seizing, and transforming (Bağış et al., 2025; Danneels, 2016; Teece, 2007; Zahra et al., 2006). With regard to sensing, DCT accentuates managerial competencies in identifying and assessing new opportunities and threats. From the lens of seizing, DCT emphasises managerial competencies in mobilising resources to capitalise on identified opportunities through strategic actions and new business models. In the context of transforming, DCT stresses managerial competencies in the continuous renewal and reconfiguration of existing assets and organisational structures to ensure sustainable alignment with the market. Taking into account these managerial competencies, it is apparent that DCT offers a foundational framework for understanding how the variable leadership or management capability drives financial performance in Islamic performance in Kenya.

2.3 Empirical Literature Review

This section includes a review of empirical literature based on the objectives of the study.

2.3.1 Network Capabilities and Financial Performance

A significant body of literature has tried to examine the correlation between networking capabilities and financial performance. Wang et al. (2021) explored the relationship between network capabilities and corporate financial performance (CFP) in financial supply chains (FSCs) to bridge the gap in literature in SCF. Using panel data and regression analysis to analyse the joint investment activities among 1359 manufacturing firms and 289 financial service providers in China to explore how network capabilities enhance CFP in the FSCs, Wang et al. (2021) made several discoveries. In the study, the researchers focused on the network capabilities of network power and network centrality. One key finding of Wang et al. (2021) was that under FSCs environments, network centrality, including eigenvector centrality, closeness centrality and

betweenness centrality raises CFP i.e. ROA, ROE and Tobin's Q. Another key finding was that network power, including node degree and clustering coefficient also improves CFP (Wang et al., 2021). They further uncovered that network strength from the network power stream has a negative effect on Tobin's Q, revealing that when a partner of a firm has an extremely strong influence in FSCs, the bargaining ability and flexibility of the central firm is weakened, with the long-term financial performance reducing significantly (Wang et al., 2021). Despite Wang et al.'s (2021) findings being relevant to the current study, contextual gaps are evident given that it was based in China, whereas the current study focuses in Kenya.

Inasmuch as this study was conducted in China, its findings can be replicated in the Kenyan context to understand how network capability influences financial performance in Islamic banks. Silva et al. (2016) also focused on the network capability, where they offered insights on how the structure of financial networks can affect bank efficiency, focusing on Brazilian banks. Using a unique Brazilian database with supervisory and accounting data and adopting nonparametric and parametric techniques to estimate efficiency, the scholars found while that core-periphery structures are cost efficient for banks, the efficiency tends to drive banks' participation in financial networks (Silva et al., 2016). Conversely, they established that core-periphery structures are inefficient when it comes to risk-taking since they tend to lead to higher systemic risk levels in the financial system (Silva et al., 2016). Given these findings, Silva et al. (2016) emphasised the need for regulators to be increasingly aware of the excess risk inefficiencies that stem in the financial system due to individual decisions made by banks in the network. While Silva et al.'s (2016) findings are relevant to current study, contextual and knowledge gaps are evident as the study involved non-Islamic banks in Brazil.

Like Wang et al. (2021) and Silva et al. (2016), Malhotra (2017) puts emphasis on the network capability in his study where the primary goal was to establish the impact of social networking sites on financial performance of banks on India. In his study, Malhotra (2017) used a panel data of 47 local commercial banks, with findings revealing that banks that use Facebook are more profitable, and not heavily dependent on traditional sources of financing like deposits, with a significant percentage of their income coming from non-traditional activities. The scholar also found that Facebook user banks have a higher asset quality in terms of lower NPA ratio (Malhotra, 2017). From these findings, Malhotra (2017) concluded that Facebook user banks tend to show a superior financial performance, indicating that social networking sites allows Facebook user banks

to create extensive networks, whose value creation ability cannot be ignored. The fact that Malhotra (2017) focused on conventional banks in India indicates contextual and knowledge gaps. Although conducted in a non-banking sector, Wegner et al. (2023) established similar findings as Malhotra (2017) underscoring the contributing role of network capability on organisational performance. Wegner et al. (2023) carried out research on the connection between corporate performance and network capabilities. The paper did a meta-analysis of 33 studies that were carried out between 2008 and 2019. Findings from the investigation demonstrated that network capabilities considerably influence business results. Srećković (2018) studied how management and network capabilities affected the performance of entrepreneurial enterprises in architecture and real estate. The researcher used empirical data collected using a self-developed questionnaire administered to 216 architecture firms and 242 real estate development firms in Austria, Germany, and Switzerland. Adopting a hierarchical ordinary least squares regression (OLS) analysis, Srećković (2018) found that management skill aids in the performance of real estate firms, while networking capability enhances the performance of architectural firms in situations of environmental uncertainty. The findings are grounded on first world countries in Europe, differing greatly from the African/Kenyan setting, which was the focus of this investigation, even if they are consistent with the predicted link in this study. Thus, the study found a contextual gap.

The above studies were conducted in non-African countries that have superior financial regulations for banks. Even so, Saula et al.'s (2022) study conducted in Nigeria uncovered similar findings in their study whose primary focus was to determine how networking capability influences organisational performance of deposit money in banks in Nigeria. The target population of the study was 2,413 low, medium, and senior-level managers of five selected deposit money banks licensed by the Central Bank of Nigeria for commercial banking. A sample of 463 determined using Krejcie and Morgan (1970) formula and selected using the stratified proportionate random sampling technique was used. An attrition rate of 40% was also adopted in determining the sample size. A structured validated questionnaire was used to collect primary data, while multiple linear regression analysis was adopted for data analysis. From the analysis, the researchers found that networking through ATMs, branches, phones, and the Internet improved organisational performance in Nigerian deposit money banks. These findings are consistent with those Malhotra (2017) who found that banks that use Facebook, an internet-based social networking site, show superior organisational performance. Despite the relevance of Saula et al.'s (2022) findings,

contextual and knowledge gaps are evident because it is based in Nigeria and not Kenya, and it focuses on conventional commercial banks and not Islamic banks.

Locally, Achieng et al. (2024) investigated the influence of network capabilities on the financial results of commercial banks in Kenya. The investigation utilized a correlational design approach. The target population consisted of 100 bank managers and executives from various commercial banks across the country (Achieng et al., 2024). The researchers collected data through structured questionnaires and in-depth interviews, integrating both quantitative and qualitative methods (Achieng et al., 2024). The results showed that effective network capabilities substantially enhance the financial results of commercial banks by facilitating access to resources, knowledge sharing, and improved customer interactions (Achieng et al., 2024). Nonetheless, the research was based on conventional commercial banks and not Islamic banks hence contextual gaps.

2.3.2 Information Acquisition Capabilities and Financial Performance

Information acquisition capability can be described as company's ability to identify, evaluate, and obtain external knowledge critical for its operations. It involves gathering, interpreting, and applying market and environmental data to support strategic decisions, innovation, and competitive advantage (Wei & Wang, 2016). In the banking sector, effective information acquisition enables institutions to predict market dynamics, realize optima allocation of resources, and improve client service, which collectively improve financial performance.

Globally, Li and Liu (2019) examined information acquisition capabilities in Chinese and European banks, finding that banks with strong information-gathering systems exhibited higher profitability, operational efficiency, and market responsiveness. Similarly, a study by Taneja et al. (2020) in the US financial sector demonstrated that systematic acquisition and utilization of competitor and market intelligence positively affected both short-term financial outcomes and long-term strategic positioning.

Regionally, studies in African contexts also emphasize the importance of knowledge acquisition for organizational performance. For instance, Onamusi (2022) assessed knowledge acquisition capability across telecoms, FMCGs, banks, insurance companies, and SMEs in Oyo State, Nigeria, using a cross-sectional survey of 343 employees. The sample size for the study was 422 obtained using the Crochan (1963) formula for sample size calculation from an infinite population. The sample consisted of top management, middle management, and operational management level, with data being collected using a structured questionnaire. Results from the regression analysis

showed that effective information acquisition significantly enhanced organizational performance. Popoola (2018) found similar results in a study examining information acquisition and utilisation as determinants of organisational effectiveness of managers in large-scale manufacturing firms specializing in industrial and domestic products in Nigeria. In the study, Popoola (2018) adopted a descriptive research design of survey type, administering a self-developed questionnaire on 332 managers selected using the quota sampling technique across nine large manufacturing firms specialising in the production of industrial and domestic products quoted on the Nigerian Stock Exchange as at 2008. Findings uncovered that the use and acquisition of information positively influenced organizational effectiveness, although at moderate levels.

Locally, in Kenya, limited research exists specifically on Islamic banks; however, studies on conventional banks indicate that effective information acquisition contributes to improved financial outcomes. For example, Muriithi and Wanjau (2021) studied Kenyan commercial banks and reported that banks that systematically collect, analyse, and utilize market and competitor information experienced higher profitability and better risk management. Similarly, Otieno et al. (2022) noted that the use of market intelligence and customer data in Kenyan banks enhanced financial performance through improved product targeting, customer retention, and operational efficiency.

In summary, empirical evidence across global, regional, and local contexts consistently demonstrates that information acquisition capability is a critical strategic capability that positively influences financial performance. However, gaps remain in research specifically targeting Islamic banks in Kenya, highlighting the need for further investigation into how this capability affects their financial outcomes.

2.3.3 Innovation Capabilities and Financial Performance

A significant number of studies have examined the how innovation capabilities shape performance in financial institutions. Hassan et al. (2025) examined the impact of FinTech adoption on bank performance in 33 developing Asian nations from 2010 to 2022 taking into account the moderating effect of economic governance. To adequately capture distributional dynamics and robustly estimate correlations across different levels of bank performance, Hassan et al. (2025) adopted the Method of Moments Quantile Regression and Bootstrapped Quantile Regression for analysis. With findings uncovering a consistently positive and statistically significant impact of FinTech on bank performance in lower-performing banks, they indicate that innovation capability shapes financial

performance in financial institutions (Hassan et al., 2025). Despite the contextual gap, the study's findings are relevant to the current study as they focus on Islamic Fintech.

The contributing role of innovation capability on financial performance of banks is further stressed by Doran et al. (2022). In their study, Doran et al. (2022) analysed the effects that digitization had on the financial performance of banks in Central and Eastern European Union Countries (CEEC) during the 2010 to 2021 period. To effectively capture financial performance in the selected CEECs, Doran et al. (2022) focused on three variables, including ROA, ROE, and NPL as reference indicators. In regard to the impact of digitization, the researchers use several indicators as well, including the number of ATMs per 100,000 adults, the number of certificates of secure internet servers, number of credit cards, number of debit cards, percentage of individuals using internet banking, and the number of commercial banks branchers per 100,000 adults. Adopting a robust regression model, the impact of digitization on performance is emphasised, with the researchers establishing that an increase in internet banking usage along with the security of bank servers positively contributes to the performance of banks (Doran et al., 2022). While these findings are relevant to the current study, contextual and knowledge gaps are evident as Doran et al.'s (2022) research is based in CEECs and on non-Islamic banks.

Although based in twelve countries in the Middle East and North Africa (MENA) region, Mahboub (2018) likewise emphasised the impact of innovation capability on bank performance. To assess innovation capability, Mahboub (2018) focused on social media usage, mainly Facebook usage. Drawing data from yearly reports of 102 banks and from Social-baker database during the period of 2012 to 2016 while adopting simple linear regression models, the researcher found that SMU positively and significantly impacted financial and non-financial performance of banks in MENA nations, with the impact being felt across three aspects, including profitability, growth and the environment (Mahboub, 2018). In another regional study based in the Economic Commission of West African States, Manasseh et al. (2025) investigated the effect of financial technology and innovation on bank performance using data from 1997 to 2022. In the study, the scholars used ROA and ROE to measure bank performance, with financial technology being measured through mobile and internet banking, while measures of financial technology included ATMs, point of sale, mobile payment, and mobile money. Findings revealed that financial technology and innovation have a positive and significant impact on bank performance. While these studies focus on regional

contexts whose findings can be replicated in the Kenyan context, they leave a knowledge gap as clarity is not established on whether focus is on Islamic or non-Islamic banks.

A 2015 local study by Mutevu (2015) agrees with findings established by Mahboub and Manasseh et al. (2025). In the study, Mutevu (2015) investigated the effects of technological innovations on the financial performance of commercial banks in Kenya, focusing on Equity Bank of Kenya. The researcher adopted a descriptive research design and targeted Equity Bank's staffs in the Nairobi Central Business District along with those in its west, east, south and south branches together with those based at the head office. A sample size of 48 respondents was selected using the stratified random sampling from within each group in proportions, upon which a self-administered survey questionnaire was distributed using the drop-and-pick later method. Data analysis involved the use of the SPSS software, with descriptive statistics revealing that the adoption of technological innovations by banks influence their financial performance. Even though these findings are relevant to the current study as they are within the Kenyan context, a knowledge gap is evident as it focuses on conventional commercial banks, Equity Bank of Kenya, and not Islamic banks.

Muchiri and Juma (2023) offer relatable findings despite focusing on the effect of financial technology practices on the financial performance of microfinance institutions (MIFs) in Nairobi City County. Unlike Mutevu (2015) who adopted a descriptive research design, Muchiri and Juma (2023) employed the cross-sectional survey design, targeting top and middle management staffs in 13 MFIs located in Nairobi. While simple random sampling was used to select the 13 MIFS, purposive sampling was leverage in choosing respondents. Purposive sampling was considered as the researchers were interested in only selecting participants with designed knowledge relevant to the study. Both qualitative and quantitative primary data were collected through a set of questionnaires, with the former being analysed through content analysis and the latter via descriptive and inferential statistics. To establish the degree of association between financial technology practices and the financial performance of MFIs, a multiple linear regression analysis was adopted, with findings revealing that mobile banking, security technology, insurance technology had a positive and significant effect on the financial performance of MFIs based in Nairobi County. Conversely, findings disclosed that investment technology had a negative and significant effect on financial performance, indicating that investment technology is costly and hurts banks' profit margins. Despite the relevance of the findings, a knowledge gap is evident as the researchers did not focus on Islamic banks.

While investigating the effect of dynamic capabilities on the profitability of commercial banks in Nairobi City County, Gathambo and Muchemi (2025) focused on the impact of innovative capability among others. Focusing on 38 commercial banking institutions located in the Nairobi Metropolitan Area, the researchers administered a semi-structured questionnaire on a sample size 102 employees working at the selected banks. Collected data was analysed using descriptive statistics and multiple regression methods, with findings revealing that capacities for innovation have a significant positive impact on the performance of commercial banks in Nairobi City County, Nairobi. From these findings, Gathambo and Muchemi (2025) conclude that innovative capabilities allow financial institutions to automate repetitive tasks, saving on time and resources needed for operations. Inasmuch as these findings indicate that innovation capabilities enhance financial efficiency in banks, they indicate a knowledge gap relative to the current study as they do not focus on Islamic banks located in Nairobi City County, Kenya.

2.3.4 Leadership Capabilities and Financial Performance

The capacity of managers to manage organizations and develop and execute strategic and operational choices by shaping and regulating other company resources, material inputs, and capabilities is referred to as leadership capabilities (Hugill & Helfat, 2017). A significant number of researchers have examined the contributing role of leadership capabilities on financial performance in banks. Kivipõld and Vadi (2013) explored how organisational leadership capability relates to organisational performance in the context of market orientation in Estonian financial services organisations. In the study, the researchers focused on 8 organisations operating in the Estonian financial services sector: the 5 largest banks, the 2 largest insurance companies, and the largest leasing firm. Data used in the study included aggregated and non-aggregated evaluations by customers alongside aggregated financial data, with data analysis assuming two methods: a quantitative OLS regression analysis of the evaluations from selected customers, and ranking mean values of the aggregated assessments from customers and financial data in quartiles for all the 8 firms. Findings from these analyses revealed that organisational leadership capabilities relate to organisational performance. While these findings are relevant to the current study and could be replicated in the Kenyan context, they do not focus on Islamic banks, suggesting a potential knowledge gap.

Cherian and Farouq (2013) uncovered similar findings in their study focusing on how effective leadership styles drive financial performance of banks in the context of the UAE banking sector.

Targeting banks listed on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM), Cherian and Farouq (2013) employed the judgment sampling approach to select 18 banks, primarily those whose selective historical financial data was available and accessible. Results indicated that leadership styles directly impact financial performance of an organisation. In another Arab-based study, Abazeed (2020) aimed to establish the connection between organizational ambidexterity and strategic competency in Jordanian commercial banks. The data collection tool (questionnaires) was administered to 200 participants, of whom 168 gave back and were deemed legitimate for statistical analysis. The study's hypotheses were tested using structural equation modelling (SEM), an inferential statistical analytic method. The results of data analysis indicated that organizational ambidexterity and strategic competencies are mediated by knowledge management. Therefore, every aspect of strategic capabilities—marketing, market-linking, technology, and management—has an effect on organizational ambi-dexterity (exploitation and exploration) as well as knowledge management aspects (acquisition, creation, application, and storage).

Locally based studies have also reinforced the impact of leadership capabilities on financial performance of banks. Mwangi and Omwenga (2022) examined the influence of strategic management capabilities on the performance of commercial banks in Nairobi County. The researchers adopted a descriptive research design and target 42 commercial banks from where a sample of 270 study participants were obtained from a total of 902 line managers working in head offices and in middle and senior level departments. Data analysis involved the use of the SPSS software, with key analyses including descriptive statistics, Pearson's correlation and regression analysis. Findings disclosed that properly applying strategic management capabilities has a positive and significant influence on the performance of commercial banks in Kenya, with managerial capability having a weak negative relationship and collaborative decision-making processing emerging as vital alongside creativity and innovation nurturing among staffs. Proper cash management also emerged as a key aspect of banks financial capability due to its ability to ensure continuous business with minimal interruptions and timely payment of bills. Conclusively, Mwangi and Omwenga (2022) established that effective strategic management capabilities directly shape performance in commercial banks in Kenya.

The findings of Mwangi and Omwenga (2022) are backed by those of Mwangi et al. (2022). In their study, Mwangi et al. (2022) sought to establish the influence of leadership style on the

financial performance of commercial banks operating in Kenya. Grounded in the positivist research philosophy, the study adopted correlational and cross-sectional research designs, while targeting management staffs in selected commercial banks. A sample size of 385 participants was obtained from a target population of 10,395 management staff. A structured questionnaire was used to collect data while data analysis involved the use of both descriptive and inferential statistics, with parametric test statistics being adopted to establish the significance influence of variable affect at 95% significance level, along with testing the study hypothesis. Regression coefficients revealed that transformational, democratic, and autocratic leadership styles positively and significantly impact financial performance of commercial banks in Kenya partially, while that of the Laissez-Faire leadership style was not only negative and significant, but also partial. Overall, global, regional, and local underscore leadership capability as significantly contributing to financial performance in banks. While their findings are relevant to the current study, they reveal significant knowledge gaps as they do not focus on Islamic banks. Although some studies are based in Arab nations, which are predominantly Islam, there is no clarity on whether the focus was on Islamic banks.

2.4 Summary of Knowledge Gaps

A review of recent literature on strategic capabilities and financial performance of Islamic banks reveals significant knowledge, contextual gaps, and methodological. While the available studies underscore the impact of network capability, information acquisition capability, innovation capability, and leadership capabilities on the financial performance of banks, their focus is mainly on conventional and commercial banks and not Islamic banks (Achieng et al., 2024; Cherian & Farouq, 2013; Doran et al., 2022; Gathambo & Muchemi, 2025; Hassan et al., 2025; Kivipöld & Vadi, 2013; Li & Liu, 2019; Mahboub, 2018; Malhotra, 2017; Manasseh et al., 2025; Muchiri & Juma, 2023; Muriithi & Wanjau, 2021; Mutevu, 2015; Mwangi & Omwenga, 2022; Mwangi et al., 2022, 2022; Onamusi, 2022; Otieno et al., 2022; Popoola, 2018; Saula et al., 2022; Silva et al., 2016; Srećković, 2018; Taneja et al., 2020; Wang et al., 2021; Wegner et al., 2023). This highlights a knowledge gap in understanding the effect of network capability, information acquisition capability, innovation capability, and leadership capability on the financial performance of Islamic banks. Besides, the existing literature has not narrowed down research to Islamic banks, underscoring the need for a more thorough investigation into how strategic capabilities impact

financial performance in Islamic banks. Therefore, the current study sought to address this knowledge gap.

Alongside the knowledge gap, there is also a contextual gap. The literature on strategic capabilities and financial performance in Islamic banks in Kenya remains shallow, this study sought to fill this contextual gap by focusing specifically on the Kenyan context. By doing so, it provides a more in-depth understanding of whether and how strategic capabilities, including network capability, information acquisition capability, innovation capability, and leadership capability influence financial performance in Islamic banks in Kenya.

The table below summarizes some of the studies conducted in the past, their findings and the emergent research gap the study identified, which it sought to address.

Table 1: Summary of Knowledge Gaps

Author	Study Objective	Methodology	Findings	Research Gaps
Wegner, Santin, & Toigo (2023)	Network capabilities and firm performance	Systematic review of 33 papers published between 2008 and 2019.	Network capabilities to foster performance.	Methodology gaps as systematic review is biased
Srećković (2018)	Performance effect of network and managerial capability on real estate and architecture entrepreneurial firms	Systematic literature review	Management skill aids in the performance of real estate firms, while networking capability enhances the performance of architectural firms in situations of environmental uncertainty.	The results are based on developed economies in Europe, which differ greatly from the Kenyan setting in which the current study was conducted, even if they are consistent with the predicted link in this study. Thus, the study found a contextual gap.

Achieng, Karanja, and Omondi (2024)	Impact of network capabilities on the financial performance of commercial banks in Kenya.	This study utilized a correlational research design. The target population consisted of 100 bank managers and executives from various commercial banks across the country. Structured questionnaires and in-depth interviews used.	The findings indicated that effective network capabilities significantly enhance the financial performance of commercial banks by facilitating access to resources, knowledge sharing, and improved customer relationships.	However, the study focused on conventional commercial banks and not Islamic banks hence contextual gaps.
Popoola (2018)	Information acquisition and utilization as determinants of organizational effectiveness	Descriptive research design	Information acquisition, information sources and services' utilization had significant relationship with organizational effectiveness	The study present conceptual gaps as a depended variable was effectiveness and not financial performance
Onamusi (2022)	Knowledge acquisition and organizational performance.	The cross-sectional survey is intended for 343 workers from a variety of industries, including telecoms, FMCGs, banks,	Results demonstrate that the ability to acquire information significantly and favorably impacts organizational effectiveness.	The study present contextual gap as it was not focused on Islamic banks financial performance

		insurance, and small and medium-sized businesses		
Rajapathiran a & Hui (2018)	Innovation capability, relationship with innovation type and financial performance	Descriptive research design was used, primary and SEM model used for hypothesis test	Product, process, and marketing have significant effect on performance	The study focused on Insurance firms which differ from commercial banks hence contextual gaps
Torres and Jasso (2022)	Capabilities, innovation, and entrepreneurship in startups in Latin America.	Systematic literature review	Innovation and capabilities had been addressed slightly and adoption based on specific entrepreneurial capabilities was to be considered as a way of understanding the creation and trajectory of startup companies.	The study present methodological gap as it used systematic literature review which has likelihood of posing Type I or Type II errors

Adom, Boateng and Gnankob (2019)	Role of innovative capabilities on the performance of firms with the evidence from the University of Cape Coast.	The study gathered information from 250 administrative staff members at the University of Cape Coast using a descriptive research approach. Self-administered questionnaire used. Descriptive and inferential analysis used	The findings of the study showed a strong and favorable correlation between performance and inventive talents.	The study was done in University of Cape Coast which differ from Islamic banks hence contextual gap
Aboramadan and Dahleez's (2020)	How leaders' competence behaviors affected employees' affective commitment and organizational citizenship behavior	400 employees of Italian non-profit organizations provided the data. Techniques from Structural Equation Modeling (SEM) were used	Work engagement, and leaders' competence behaviors were found to have a favorable impact on organizational citizenship behavior	The study present conceptual gaps as it was limited on leadership competence and employee commitment and not financial performance
Agyapong, Aidoo and Akomea (2021)	Managerial capability and performance	Primary data from multiple sources	Managerial capability has significant effect on performance	Methodological gaps as the study adopted systematic literature review which may pose selection bias which may lead to Type I and Type II errors

Source; Researcher (2025)

2.5 Conceptual Framework

This study sought to examine strategic capabilities and financial performance in Islamic banks in Kenya, with a major focus on the strategic capabilities of network capability, information acquisition capability, innovation capability, and leadership or management capability. Ultimately, the aim is to offer recommendations for strengthening financial performance in Islamic banks in Kenya by providing knowledge on the most essential strategic capabilities that should be areas of focus by these financial institutions.

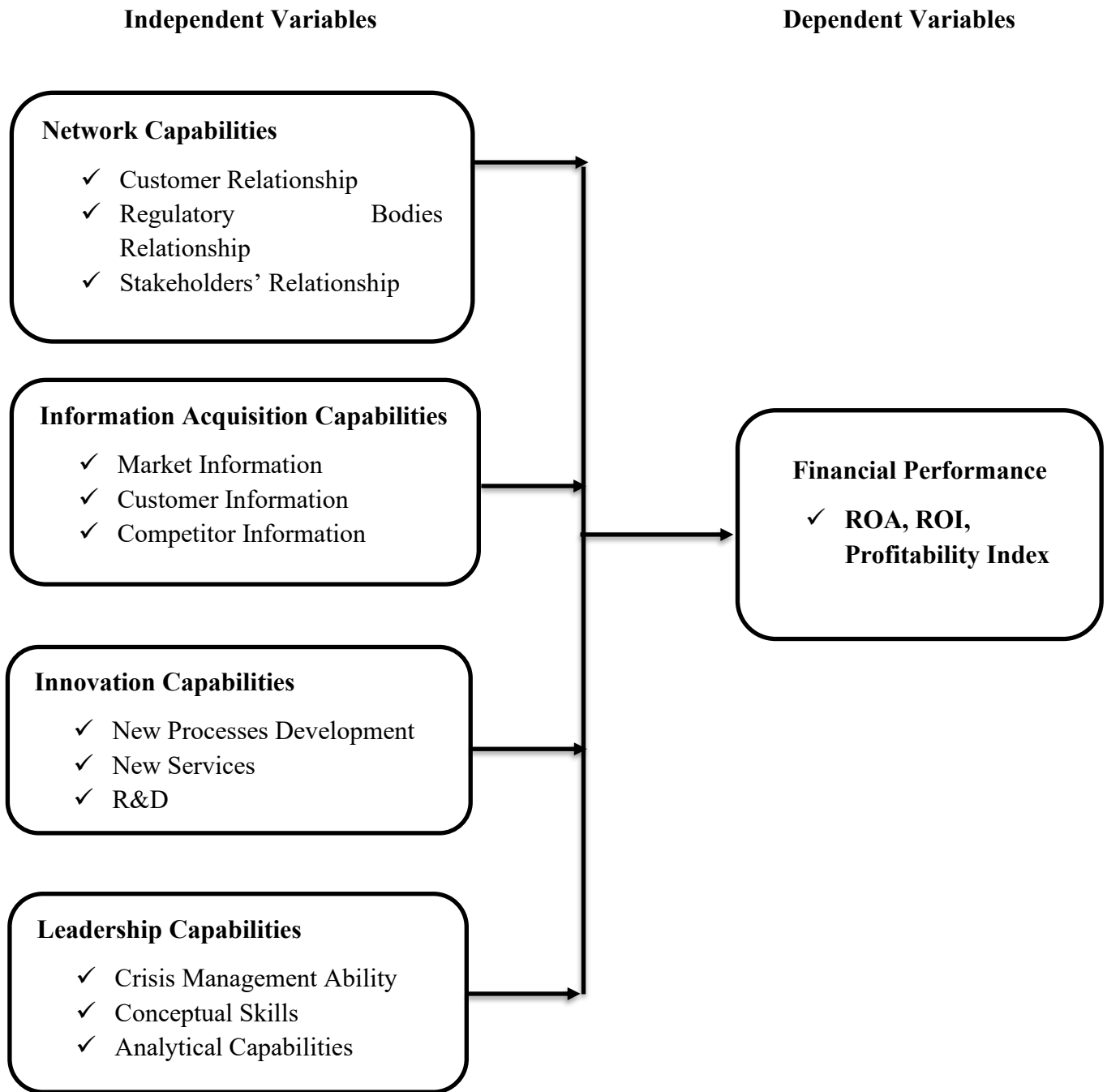
The literature has highlighted a link between strategic capabilities and financial performance in banks and FMIs. The conceptual framework for this study provides a visual representation of the interactions between key variables, guiding the inquiry into their effect on financial performance in Islamic banks in Kenya.

The conceptual framework of the study is presented in Figure 2 below. This conceptual framework is based on a multi-theoretical approach that draws on RBV, UET, and DCT theories. It builds on existing research regarding strategic capabilities and financial performance, and is structured around two categories of variables: independent variable and the dependent variable.

In this study the independent variables are network capability, information acquisition capability, innovation capability, and leadership capability. The evaluation of network capability considers three indicators so is that of information acquisition capability, innovation capability, and leadership capability. The indicators of network capability are customer relationship, regulatory bodies relationship, and stakeholders' relationship. Those of information acquisition capability include market information, customer information, and competitor information, while those of innovation capability are new processes development, new services, and research & development. The indicators of leadership capability are crisis management ability, conceptual skills, and analytical capabilities.

The dependent variable is financial performance, whose indicators are ROA, ROI, ROE, and profitability index.

Figure 1: Conceptual Framework



Source; Researcher (2025)

2.6 Operationalization of the Study Variable

The sources where theoretical constructs were adopted from is justified in the following table.

Table 2.2: Operationalization of Study Variables

Variables	Variable	Operationalization	Source
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Network capabilities	Independent	• Relationship with customers • Supplier relationship • Stakeholders' relationship	Cao & Zhang, (2016)
Information acquisition capabilities	Independent	• Market information • Customer information • Competitors information	Seyhan et al., (2017)
Innovation capabilities	Independent	• New processes development • New services • R&D	Spillan et al., (2018)
Leadership capabilities	Independent	• Crisis management ability • Conceptual skills • Analytical capabilities	Xenkou, (2017)
Financial performance	Dependent	• Return on Assets	Daley, (2012)

Source; Researcher (2025)

2.7 Chapter Summary

The chapter has analysed relevant theories that support the research, including the balanced scorecard theory, the resource-based view, the upper echelons theory, and the dynamics capability theory. Resource based view is the anchor theory of the study as it provides plausible evidence that internal strategic capabilities and internal resources enable the business to achieve greater levels of profitability than its competitors. The chapter also offers empirical literature that is pertinent to the research gaps and the study. In the context of Islamic banks, the chapter conceptualized financial performance and strategic capacities. Research design, target population, sample strategies, data gathering methods, and analysis tools and procedures are all contained in Chapter three.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the methods that were utilized for data collection, analysis, and presentation are covered in this chapter. Research paradigm, design approach, target population, sample and sampling techniques, data gathering, research quality, and analysis are all carefully covered.

3.2 Research Philosophy

Research philosophy alludes to the set of beliefs and hypothesis that regulate how knowledge is collected, analysed, and interpreted in research (Saunders, 2019). It provides a framework for choosing ideal research techniques, structuring data gathering tools, and ascertaining the validity and reliability of findings. Choosing the appropriate research philosophy is crucial as it shapes the overall approach to the research problem and influences how conclusions are drawn.

Several research philosophies exist, each with distinct ontological and epistemological assumptions. Interpretivism emphasizes understanding social phenomena from the perspective of participants, focusing on subjective experiences, meanings, and context-specific interpretations. It is commonly used in qualitative studies where human behaviour, perceptions, and social constructs are central (Creswell, 2014). Constructivism, closely related to interpretivism, posits that knowledge is co-constructed between researchers and participants, highlighting the importance of multiple realities and context-specific insights (Lincoln & Guba, 1985). Pragmatism prioritizes practical outcomes over theoretical debates, allowing the use of mixed methods to answer research questions effectively. It focuses on what works in practice rather than strictly adhering to a single epistemological stance.

For this study, the positivist research philosophy was adopted. Positivism asserts that reality is objective and can be observed, measured, and analysed using empirical data (Druckman, 2005). This philosophy relies on quantitative data and statistical analysis to test hypotheses, identify the link between variables, and draw generalized conclusions. In the context of assessing the influence of strategic capabilities on the financial performance of Islamic banks in Kenya, positivism provides a structured and objective approach to measure constructs such as network capability, information acquisition, innovation capability, and leadership capability. By using standardized instruments (e.g., Likert scale questionnaires) and analysing numerical data, the study minimizes subjectivity and ensures reliability and validity in examining how strategic capabilities influence measurable financial outcomes.

Furthermore, positivism aligns with the study's reliance on established theories, including the Resource-Based View and Upper Echelons Theory, which provide testable propositions about the relationships between strategic capabilities and financial performance. The choice of positivism is also consistent with previous empirical studies in banking and management research, where quantitative approaches have been effective in measuring organizational capabilities and performance indicators across diverse contexts (Li & Liu, 2019; Muriithi & Wanjau, 2021).

3.3 Research Design

A study design offers the framework for gathering, measuring, and analysing data to answer research questions effectively (Saunders, Lewis, & Thornhill, 2019). This study adopted a cross-sectional design approach, which comprises gathering information at a single point in time to examine the connection of variables. This design is suitable for assessing how strategic capabilities—network capability, information acquisition, innovation capability, and leadership capability—affect the financial results of Islamic banks in Kenya, without manipulating the study environment (Creswell, 2015).

The cross-sectional design was chosen because it is time-efficient, cost-effective, and allows for the gathering of quantitative data from multiple banks simultaneously. It also enables statistical analysis, such as correlation and regression, to objectively establish the strength and direction of associations between variables, aligning with the positivist research philosophy. While longitudinal studies could capture changes over time, the cross-sectional approach provides a practical and reliable snapshot of current strategic capabilities and their impact on financial results, which is the focus of the current research.

3.4 Target Population

Kothari (2014) describes population as the whole items or subjects of a researcher's interest that the researcher hopes to generalize. According to CBK report (2024) there are three Islamic banks in Kenya which include Gulf African Bank (GAB), Dubai Islamic Bank (DIB), and First Community Bank (FCB). The three Islamic banks have 42 branches country wide, and the current study targeted all branch managers, Finance managers, and Information Communication Technology (ICT) managers as the study's unit of observation. In each branch, the study targeted three employees. The total target population was therefore 126 employees.

Table 2: Target Population

Bank	Branches	Population
Dubai Islamic Bank	8	24
Gulf African Bank	12	36
Premier Bank	22	66
Total	42	126

Source: (Author, 2025)

3.5 Sampling Design

3.5.1 Sampling Frame

Mugenda & Mugenda (2012) define a sampling frame as a collection of data used to choose a sample population for statistical analysis. Three Islamic banks with Central Bank of Kenya licenses made up the sample frame.

3.5.2 Sampling Technique

Sampling technique refers to a subset or sample selection process from the population upon which the study is carried out (Kothari, 2014). The research employed the stratified random sampling design, which separated the population's components into homogeneous groups. The sample proportion was then chosen from the strata using simple random sampling. While 126 is a small population for sampling, cost and time efficiency measures motivated the need for sampling.

The sampling procedure is presented in Table 3.

As shown below, the research sample was obtained by applying Slovin's formulas to estimate the sample size.

$$n = \frac{N}{1 + N(e)^2}$$

where;

n = Sample Size,

N = Population Size, and

e = Margin of Error, which is 0.005 since the study maintains a confidence level of 95%

Table 3: Sample Proportion

Strata	Population	Sample Proportion
Dubai Islamic Bank	24	23

Gulf African Bank	36	33
Premier Bank	66	57
Total	126	113

Source: (Author, 2025)

3.6 Data Collection

The study employed primary data, which was gathered by creating a structured questionnaire that measures every variable using a five-point Likert scale. The study objectives served as a guide for designing the questionnaire. Ratings on the Likert-scale questionnaire ranged from low to high, with 1 to 5 representing the range. Information on the general respondent was covered in Section A of the questionnaire. Financial performance is in Section C, and strategic capabilities is in Section B. Also, secondary data was used to collect data on Return on Assets, return on investment and profitability index through secondary data collection sheet.

The questionnaire was administered online via google forms. Selected branch managers were sent a participation request email first. Those who confirmed availability were then sent the link to the questionnaire. The online administration of the questionnaire was considered because of the significant advantages it offers. Notably, it is cost-effective as it eliminates the expenses associated with printing, paper, postage, drop-and-pick later, and manual data entry. It is also time-efficient, provides a wider reach and accessibility, as well as ensures improved data quality and accuracy.

3.7 Pilot Testing

To ensure the reliability and validity of the research instruments, a pilot test was conducted prior to the main data collection. Pilot testing is essential in research as it helps identify potential weaknesses in the research instrument, in this case questionnaire, allowing for necessary modifications to enhance clarity, consistency, and accuracy (Mugenda & Mugenda, 2021). For this study, the pilot test involved a small sample equivalent to 10% of the total sample size (11), selected from branch managers, finance managers, and Information Communication Technology (ICT) managers in Islamic banks based in Nairobi Metropolitan Area. The selected respondents had similar characteristics to the target population, ensuring that the pilot results accurately reflected the study context (Kothari, 2020). The pilot test focused on assessing the clarity of questions, ease of administration, and the appropriateness of response categories.

3.8 Research Quality

The study tested reliability and validity to measure the research instruments' quality so as to enhance the accuracy of study findings.

3.8.1 Instrument Validity

Validity test is an exercise commissioned to the instruments or tools of research only assess the constructs which are predicted (Cooper & Schindler, 2016). If the research instrument is invalid, the study's findings are invalidated. The study assessed the soft and informal face validity of the questionnaire. The study adopted content validity which was assessed using expert opinion i.e., supervisor opinion (s) was sought with the view of incorporating their views, criticisms, and/or suggestions in modelling the questionnaire for use in the collection of data for the main study.

To further ensure construct validity, statistical techniques such as factor analysis were employed. The Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity are statistical measures used to assess the suitability of data for factor analysis (Reddy & Kulshrestha, 2019; Selickaitė et al., 2019). These tests help determine whether the data structure justifies the use of factor analysis by evaluating sampling adequacy and the presence of correlations among variables. KMO Measure of Sampling Adequacy it evaluates whether the sample size and data are suitable for factor analysis. A KMO value ranges from 0 to 1, with a value above 0.5 generally considered acceptable, and a value above 0.8 indicating excellent sampling adequacy (Reddy & Kulshrestha, 2019; Selickaitė et al., 2019). Bartlett's Test of Sphericity examines whether there are sufficient correlations among variables to justify factor analysis (Field, 2023). A significant p-value ($p < 0.05$) indicates that the correlation matrix is not an identity matrix, meaning that factor analysis is appropriate (Reddy & Kulshrestha, 2019; Selickaitė et al., 2019). For this study, the KMO value ranged from 0.500 for network capability to 0.695 information acquisition capability. Since the values were at least 0.5, the datasets were certainly valid. The Bartlett's Test of Sphericity returned a p-value of 0.05 for network capability and a p-value of less than 0.05 for the other variables, indicating that factor analysis is appropriate. The findings for construct validity are presented in Table 4 below.

Table 4: Construct Validity Test Summary (Factor Analysis)

Variables (Constructs)	Number of Items	Kaiser-Meyer-Olkin Measure	of	Bartlett's Test of Sphericity		
				Approximate Chi-Square	df	Sig.

		Sampling Adequacy.			
Network Capability	4	0.500	12.379	6	0.054
Information Acquisition Capability	4	0.695	52.783	6	0.001
Innovation Capability	4	0.674	45.388	6	0.001
Leadership Capability	4	0.681	40.578	6	0.001
Financial Performance		0.621	23.209	6	0.001

Source: Author (2025)

3.8.2 Instrument Reliability

Reliability is the capacity of the data collection tool to yield consistent outcomes when applied to different populations, at different times, or in different places (Bryman & Bell, 2015). Cronbach's alpha was used by the researcher to assess the reliability of the questionnaire (Kothari, 2014). By comparing each scale item's score to the sum of the scores for each individual survey respondent observation and comparing that observation to the variance of all individual item scores, Cronbach's alpha was calculated. The benchmark for item reliability was the Cronbach's alpha index of 0.70. Results in Table 5 indicate that all variables yielded coefficients exceeding 0.7, indicating high internal consistency of the instrument across constructs related to strategic capabilities and financial performance of Islamic banking in Kenya.

Table 5: Reliability Results Using Cronbach's Alpha

Variable	Cronbach's Alpha Index	N of Items	Decision
Network Capabilities	0.782	6	Accepted
Information Acquisition Capabilities	0.756	6	Accepted
Innovation Capabilities	0.807	6	Accepted
Leadership Capabilities	0.791	6	Accepted
Financial Performance	0.813	4	Accepted

Source: (Author, 2025)

3.9 Data Analysis Procedures

The main objective of this study sought to examine the relationship between strategic capabilities and financial performance of Islamic banks in Kenya. Given that the dependent variable, strategic capabilities, was measured using a five-point Likert scale (ranging from 1 = "Strongly Distrust" to

5 = "Strongly Trust"), ordinary least squares (OLS) regression was deemed inappropriate. OLS assumes a continuous, normally distributed dependent variable and risks producing predictions outside the bounded 1–5 range of the Likert scale. To address the ordinal and discrete nature of the trust variable, an ordered logistic regression model was employed. This model is suited for analysing ordinal outcomes, as it estimates the probability of respondents falling into specific trust categories while preserving the hierarchical order of responses (Baltagi, 2005; Wooldridge, 2003). The ordered logistic regression model operates through a latent (unobserved) variable framework. The latent propensity to financial performance of Islamic banks (Y^*) is expressed as a linear combination of independent variables and an error term:

$$Y^* = \beta_0 + \beta_1 X_1 + \epsilon \quad Y^* = \beta_0 + \beta_2 X_2 + \epsilon \quad Y^* = \beta_0 + \beta_3 X_3 + \epsilon \quad Y^* = \beta_0 + \beta_4 X_4 + \epsilon \dots \dots \dots \text{Model 3.1}$$

Where, X_1 to X_4 represent strategic capabilities (e.g., network capabilities, information acquisition capabilities, innovation capabilities and leadership capabilities), and β_1 to β_4 are coefficients capturing their effects. The observed financial performance (Y) is linked to the latent variable via threshold parameters (μ_j), which partition Y^* into discrete intervals:

$$Y = \begin{cases} 1 & \text{if } Y^* \leq \mu_1 \\ 2 & \text{if } \mu_1 < Y^* \leq \mu_2 \\ 3 & \text{if } \mu_2 < Y^* \leq \mu_3 \\ 4 & \text{if } \mu_3 < Y^* \leq \mu_4 \\ 5 & \text{if } Y^* > \mu_4 \end{cases} \quad Y = \begin{cases} 1 & \text{if } Y^* \leq \mu_1 \\ 2 & \text{if } \mu_1 < Y^* \leq \mu_2 \\ 3 & \text{if } \mu_2 < Y^* \leq \mu_3 \\ 4 & \text{if } \mu_3 < Y^* \leq \mu_4 \\ 5 & \text{if } Y^* > \mu_4 \end{cases}$$

The coefficients (β) represent the log-odds of moving to a higher financial performance for a unit increase in the predictor. However, direct interpretation of β is challenging, as it reflects changes in log-odds rather than probabilities. To address this, average marginal effects (AMEs) were calculated. AMEs quantify the change in the probability of selecting a specific financial performance category (e.g., "Strongly Agree") for a unit increase in an independent variable, holding other variables constant (Verbeek, 2004). For instance, the marginal effect for X_1 (network capabilities) on the probability of "Strongly Agree" is computed as:

$$\frac{\partial P(Y=5)}{\partial X_1} = [\Lambda(\mu_4 - X\beta) - \Lambda(\mu_3 - X\beta)] \beta_1 \quad \frac{\partial P(Y=5)}{\partial X_1} = [\Lambda(\mu_4 - X\beta) - \Lambda(\mu_3 - X\beta)] \beta_1$$

where Λ denotes the logistic cumulative distribution function.

A critical assumption of the ordered logit model is the proportional odds (parallel lines), which posits that the effect of predictors is consistent across all trust categories. This assumption was tested using a likelihood ratio test comparing the ordered logit model to a less restrictive model with category-specific coefficients. Violations would necessitate a heterogeneous ordered logit specification. Additional diagnostics included a link test to verify model specification and Variance Inflation Factor (VIF) tests to ensure the absence of multicollinearity. Goodness-of-

fit was assessed using the log-likelihood ratio test and pseudo R², though the latter is interpreted cautiously given its limited comparability to OLS R².

3.9.1 Diagnostic tests for Ordered Logistic Regression

Three key diagnostic tests were used to evaluate the suitability and fit of the ordered logistic regression models: the Log Likelihood Ratio (LLR) test, Pseudo R² (McFadden's R²), and the parallel odds assumption test.

3.9.1.1 Log Likelihood Ratio (LLR) Test

The Log Likelihood Ratio test evaluates whether the predictor variables collectively contain a substantial influence on the response variable. It compares the fit of a model containing predictors (unrestricted model) against a model with only an intercept (restricted model). The test statistic follows a chi-square distribution with degrees of freedom equal to the difference in parameters between the two models.

The LLR test can be expressed as:

$$LR = -2[\ln(LR) - \ln(LU)]$$

Where;

LR is the likelihood of the restricted model

LU is the likelihood of unrestricted model

The null hypothesis states that all coefficients except the intercept are zero. A statistically significant LLR test ($p < 0.05$) indicates that at least one predictor variable has a significant relationship with the outcome variable, justifying the inclusion of predictors in the model.

3.9.1.2 Pseudo R² (McFadden's R²)

Unlike the coefficient of determination (R²) in linear regression, which directly represents the proportion of variance explained, Pseudo R² in logistic regression provides an analogous but not identical measure of model fit. McFadden's Pseudo R² compares the log-likelihood of the full model to that of the intercept-only model:

$$\text{Pseudo } R^2 = 1 - \ln(LU)/\ln(LR)$$

Where;

$\ln(LU)$ is the log-likelihood of the unrestricted model

$\ln(LR)$ is the log-likelihood of the restricted model

The Pseudo R² ranges from 0 to 1, with higher values indicating better model fit. However, Pseudo R² values are typically lower than traditional R² values in linear regression. In social science

research, values between 0.2 and 0.4 are generally considered satisfactory, particularly when dealing with complex psychological constructs like trust.

3.9.1.3 Parallel Odds Assumption Test

The parallel odds assumption (also known as the proportional odds assumption) is fundamental to ordered logistic regression. It assumes that the relationship between each pair of outcome categories is identical. Specifically, the coefficients describing the relationship between the lowest versus all higher categories should be the same as those describing the relationship between the next lowest category and all higher categories.

This assumption can be tested using a likelihood ratio test that compares the ordered logit model (constrained) against a model that allows coefficients to vary across thresholds (unconstrained).

The test statistic is:

$$\chi^2 = -2[\ln(LC) - \ln(LU)]$$

where;

$\ln(LC)$ is the log-likelihood of the constrained model (ordered logit)

$\ln(LU)$ is the log-likelihood of the unconstrained model (generalised ordered logit)

If the test yields a significant result ($p < 0.05$), the parallel odds assumption is violated, suggesting that the effect of predictors varies across outcome categories. In such cases, alternative models such as the generalized ordered logit model may be more appropriate, as they allow coefficients to vary across response categories.

The generalized ordered logit model relaxes the parallel odds assumption by estimating different coefficients for each threshold, providing more flexibility in modelling the relationship between predictors and ordinal outcomes.

3.10 Ethical Considerations

Ethics in research refers to the activities, practices, rules, and values that determine whether an action is morally right or wrong. Key ethical considerations in research include informed consent, which ensures that participants provide their consent knowingly, intelligently, and voluntarily before participating in the study. Additional ethical considerations include anonymity, where the identity of participants is protected, and confidentiality, ensuring that sensitive data or information about respondents remains private. Respect for privacy further mandates that respondents have the right to control the information they choose to share.

To uphold ethical standards, the researcher sought approval from relevant regulatory bodies, including Strathmore University's Institutional Scientific and Ethical Review Committee (SU-ISERC) and the National Commission for Science, Technology and Innovation (NACOSTI), which is responsible for research regulation in Kenya. Additionally, the study complied with General Data Protection Regulation (GDPR) guidelines, ensuring data protection for all respondents.

3.11 Chapter Summary

The chapter has analysed methodology including design approach, target population, sample strategies, data gathering techniques, and data analysis tools and procedures.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

The study focused on examining the strategic capabilities and financial performance of Islamic banks in Kenya. This chapter presents the research findings and the corresponding discussion data based on the objectives of the study.

4.2 Response Rate

The sample size was 113 respondents (Finance managers, and Information Communication Technology (ICT) managers), and they were furnished with questionnaires to fill and return. From the 113 questionnaires distributed, 72 questionnaires were filled and returned corresponding to 63.7% response rate. According to Sataloff and Vontela (2021), a 60% response rate is generally considered sufficient for obtaining reliable and valid results. Although researchers often aim for higher response rates, Sataloff and Vontela (2021) argue that a 60% rate helps mitigate the risk of errors and provides a sound basis for analysis. The results demonstrated considerable level of respondents' concurrence during the exercise. This was in line with Mugenda and Mugenda's (2013) threshold for an adequate response rate.

Table 6: Response Rate

Category	Frequency	Percentage
Response	72	84.7%
Non-response	13	15.3%
Total	85	100%

Source: (Author, 2025)

4.3 Characteristics of Respondents

The researcher sought general information concerning respondents being studied. The demographic information considered included the number of years the respondents had worked in the Islamic banks. The results are discussed in the following subsections.

4.3.1 Respondents' Experience

The purpose of the study was to learn more about the respondents' backgrounds and length of service in the Islamic banking industry. The results in Table 7 show that most respondents (52.8%)

had worked in Islamic banks for more than 15 years, followed by those who had worked for 5–10 years (43.1%). Just 4.2% of those surveyed had less than five years of experience in the Islamic banking industry. These results imply that the respondents to the survey have a wealth of industry expertise, which raises the validity and dependability of the answers given.

Table 7: Number of Years in Operation

	Frequency	Percent
1 to 5 years	3	4.2
5 to 10 years	31	43.1
More than 15 years	38	52.8
Total	72	100.0

Source: (Author, 2025)

4.4 Descriptive Statistics

The study variables were subjected to descriptive analysis in order to determine the mean and standard deviation. The following tables display the findings.

4.4.1 Network Capabilities

Information on network capabilities in Islamic banks was the aim of the survey. Respondents were asked to rate their agreement or disagreement with the claims on network capabilities in their individual Islamic banks using a five-point Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "neutral," 4 "agree," and 5 "strongly agree." The findings are shown in Table 8 below.

Table 8: Network Capabilities Descriptive Results

	Mean	Std. Deviation
The bank prioritizes fostering relationships with its clients.	4.46	.192
We have established strong and long-term relationships with our customers through regular communication and support.	4.91	.261
The bank seeks to build strong stakeholder collaborations	4.52	.756

the bank complies promptly and effectively with guidelines and requirements set by regulatory bodies.	4.83	1.318
The bank maintains open and transparent communication with regulatory authorities.	4.79	.738
We have effective mechanisms in place to manage and strengthen relationships with our stakeholders.	4.87	.559
Overall Mean	4.73	0.637

Source: (Author, 2025)

The findings in Table 8 above demonstrate that participants considerably concurred with the statement that their bank has established strong and long-term associations with customers through regular communication and support, as shown by a high mean of 4.91 and a low standard deviation of 0.261. Similarly, participants concurred that their bank has effective mechanisms in place to manage and strengthen relationships with stakeholders (mean = 4.87, Standard deviation = 0.559) and that bank complies promptly and effectively with regulatory requirements, as indicated by a mean of 4.83 and a standard deviation of 1.318.

In addition, participants concurred that the institution maintains open and transparent communication with regulatory authorities, as shown by a mean of 4.79 and a standard deviation of 0.738 and that the bank endeavours to develop robust stakeholder engagements (Mean = 4.52, Standard deviation = 0.756). However, the statement that “the bank takes priority in building relationship with customers” recorded a slightly lower mean of 4.46 and a very low standard deviation of 0.192. Overall, the findings suggest that the bank exhibits strong network capabilities, particularly in building relationships with customers, regulatory bodies, and stakeholders as shown by high overall mean score of 4.73 and relatively low standard deviation of 0.637.

4.4.2 Information Acquisition Capabilities

The aim of the survey was to gather information regarding Islamic banks' information capability acquisition. On a five-point Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "neutral," 4 "agree," and 5 "strongly agree," participants were required to rate their concurrence or disapproval with the claims regarding the information acquisition capabilities of their particular Islamic banks. Table 9 presents the findings.

Table 9: Information Acquisition Capabilities Descriptive Results

	Mean	Std. Deviation
We have systems in place to collect and analyse customer preferences and feedback.	2.49	.994
The bank gathers information about its suppliers.	4.63	.362
The bank is always collecting intelligence on market data.	4.92	.258
We regularly analyse economic and industry data to identify new market opportunities.	4.88	.543
Our bank monitors competitor activities to stay competitive in the industry.	4.90	.216
We use insights from competitor analysis to shape our business strategies.	4.11	1.206
Overall Mean	4.322	0.597

Source: (Author, 2025)

The findings in Table 9 above demonstrate that participants substantially concurred with the statement that their bank continuously conducts intelligence gathering on market information, as indicated by a very high mean of 4.92 and a low standard deviation of 0.258. Similarly, participants strongly concurred that their bank monitors competitor activities to stay competitive in the industry (mean = 4.90, standard deviation = 0.216) and that they regularly analyse economic and industry data to identify new market opportunities (mean = 4.88, standard deviation = 0.543).

In addition, participants concurred that their bank conducts supplier information acquisition, as represented by a mean of 4.63 and a standard deviation of 0.362, and that they use insights from competitor analysis to shape business strategies (mean = 4.11, standard deviation = 1.206), although the relatively higher standard deviation suggests variability in perceptions. However, the statement “We have systems in place to collect and analyse customer preferences and feedback” recorded a noticeably lower mean of 2.49 and a standard deviation of 0.994, suggesting disagreement among respondents and highlighting a potential area for improvement in customer data systems. Overall, the findings suggest that the bank has strong capabilities in acquiring and

utilizing external information, particularly in market and competitor intelligence, as demonstrated by the high overall mean score of 4.322 and a considerably low standard deviation of 0.597.

4.4.3 Innovation Capabilities

Information about Islamic banks' capacity for innovation was the aim of the survey. Respondents were asked to rate their agreement or disagreement with the statements regarding the innovative capabilities of their individual Islamic banks using a five-point Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "neutral," 4 "agree," and 5 "strongly agree." The findings are shown in Table 10 below.

Table 10: Innovation Capabilities Descriptive Results

	Mean	Std. Deviation
Our bank regularly develops and implements new internal processes to improve efficiency	4.03	.710
We actively invest in improving operational workflows through innovative solutions.	4.69	.411
Our bank frequently introduces new financial services to meet emerging customer needs.	4.97	.203
The bank has Research & Development function	2.25	.947
Our bank allocates sufficient resources to research and development activities.	3.28	1.324
We continuously explore new ideas and technologies through R&D to enhance our services.	3.19	.626
Overall Mean	3.735	.704

Source: (Author, 2025)

The findings in Table 10 above demonstrate that participants significantly concurred with the statement that their bank frequently introduces new financial services to meet emerging customer needs, as shown by a very high mean of 4.97 and a low standard deviation of 0.203, suggesting both strong agreement and consistency in responses. Similarly, respondents agreed that their bank actively invests in improving operational workflows through innovative solutions (mean = 4.69,

standard deviation = 0.411), and that the bank regularly develops and implements new internal processes to improve efficiency (mean = 4.03, standard deviation = 0.710).

However, respondents were less favourable regarding the bank's commitment to research and development. The statement “Our bank allocates sufficient resources to research and development activities” recorded a moderate mean of 3.28 and a relatively high standard deviation of 1.324, indicating mixed responses. Likewise, participants gave a moderate rating to the statement that the bank continuously explores new ideas and technologies through R&D to enhance services (mean = 3.19, standard deviation = 0.626).

Notably, participants disapproved the assertion “The bank has a Research & Development function”, as reflected by a low mean of 2.25 and a standard deviation of 0.947, indicating a general lack of support for this capability within the organization. The overall mean score of 3.735 and a moderate standard deviation of 0.704, signals room for improvement in building structured R&D capacity.

4.4.4 Leadership Capabilities

The purpose of the survey was to learn more about Islamic banks' leadership capacities. On a five-point Likert scale, with 1 denoting "strongly disagree," 2 "disagree," 3 "neutral," 4 "agree," and 5 "strongly agree," participants were requested to rate their concurrence or disapproval with the statements regarding leadership competencies in their various Islamic banks. Table 11 below depicts the results.

Table 11: Leadership Capabilities Descriptive Statistics

	Mean	Std. Deviation
The bank has clear leadership strategies in place to manage unexpected disruptions.	4.21	.289
Our leadership team responds swiftly and effectively during times of crisis.	4.16	.865
Our leaders can develop long-term visions and strategic plans for the organization.	4.20	.718
Leadership demonstrates the ability to connect abstract ideas with practical actions.	4.37	.812

Our leaders rely on data and evidence-based analysis to make key decisions.	4.79	.185
The leadership team effectively breaks down complex problems to identify viable solutions.	4.16	.483
Overall Mean	4.315	0.559

Source: (Author, 2025)

The findings in Table 11 above show that participants significantly concurred with the assertion that their leaders rely on data and evidence-based analysis to make key decisions, as reflected by a huge mean of 4.79 and a very low standard deviation of 0.185, indicating strong consensus among respondents. Respondents also agreed that leadership demonstrates the ability to connect abstract ideas with practical actions (mean = 4.37, standard deviation = 0.812) and that the bank has clear leadership strategies in place to manage unexpected disruptions (mean = 4.21, standard deviation = 0.289). Similarly, respondents agreed that their leaders can develop long-term visions and strategic plans for the organization (mean = 4.20, standard deviation = 0.718).

The statement “Our leadership team responds swiftly and effectively during times of crisis” received a mean of 4.16 and a higher standard deviation of 0.865, pointing to a concurrence but with some variability in responses. Likewise, the statement that “The leadership team effectively breaks down complex problems to identify viable solutions” also scored a mean of 4.16 with a standard deviation of 0.483. Overall, the findings suggest that the bank possesses strong leadership capabilities, particularly in evidence-based decision-making, strategic planning, and conceptual skills. This is supported by the overall mean of 4.315 and a relatively low standard deviation of 0.559.

4.4.5 Financial Performance

The survey respondents were required to score their level of concurrence or disapproval of the different financial performance aspects. On a five-point Likert scale, where 1 denoted "poor" and 5 denoted "very good," they had to complete this task. Table 12 below findings are displayed.

Table 12: Financial Performance Descriptive Statistics

	Mean	Std. Deviation
The bank consistently achieves its targeted profit margins.	4.69	.831

Our financial performance has improved steadily over the past few years.	5.18	.172
The bank has experienced significant growth in total assets over time.	4.51	.633
The bank profitability has increased over time	4.72	.235
Overall Mean	4.775	0.468

Source: (Author, 2025)

Findings in Table 12 above suggest that respondents are very okay with the statement that their financial performance has improved steadily over the past few years, as demonstrated by a very high mean of 5.18 and a very low standard deviation of 0.172, indicating both strong agreement and consistency in responses. Similarly, respondents agreed that the bank's profitability has increased over time (mean = 4.72, standard deviation = 0.235), and that the bank consistently achieves its targeted profit margins (mean = 4.69, standard deviation = 0.831).

In addition, participants concurred that the bank has experienced significant growth in total assets over time, as reflected by a mean of 4.51 and a standard deviation of 0.633. Overall, the findings suggest that the bank demonstrates strong financial performance, with strengths in profitability and sustained financial growth. This is backed by a significant overall mean score of 4.775 and a relatively low standard deviation of 0.468.

4.5 Logistic Regression Analysis

This part provides the findings of the study based on the ordered logistic regression analysis specified in Model 3.1.

Table 13: Effect of Strategic Capabilities on Financial Performance of Islamic banks in Kenya

Variables	Ordered Logit Coefficients
Network Capability	0.560*** (0.253)
Information acquisition capability	0.540** (0.259)
Innovation capability	0.589*** (0.214)
Leadership capabilities	0.572*** (0.225)
/cut1	4.697*** (1.043)
/cut2	6.284*** (1.209)
/cut3	7.332*** (1.370)
/cut4	9.790*** (1.584)
Observation	71
LR $\chi^2(4)$	63.21 ***
Pseudo R ²	0.3042
Log likelihood	-72.270
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1	

Source: (Author, 2025)

Table 13 above reveals the ordered logit coefficients of model 3.1 and the corresponding diagnostic tests. As presented in the table, all the 71 observations from the survey were used in the analysis. The log likelihood (-72.270) is not only essential for comparing nested models, but also indicates that the model is a better fit compared to a null model with no predictors. The likelihood ratio chi-square of 63.21 with a p-value less than 0.01 ($p < 0.01$) indicates that the model adopted as a whole is statistically significant as compared to a null model that has no predictors.

The Pseudo R-squared value of 0.3042 suggests a moderately good fit statistical model. It indicates that the predictors (independent variables) included in the model explain a reasonable amount of the variation in the ordered outcome, which is the dependent variable. This means that the model moderately captures the underlying patterns in the data and it provides meaningful insights on how the IVs interact with the DV.

The model also includes four cut points (cut1 to cut4), which define the thresholds between the ordered categories of financial performance. These are necessary for estimating probabilities across the five ordinal outcome levels but are not directly interpreted substantively (Long & Freese, 2014). As far as the coefficients of the various domain are concerned, Table 13 above depicts that the values for network, information acquisition, innovation, and leadership capabilities are significantly different from zero at 1%, 5%, 1% and 1% levels of significance, respectively. As highlighted earlier these coefficients should not be interpreted rather the marginal effects of each of the domain should. Table 14 below shows the marginal effect.

Table 14: Base Model and Average Marginal Effects for Each Domain

Explanatory Variable	Base Model Coefficient	Explanation Category	Average Marginal Effects: $\frac{dE(y/x)}{dx}$
Network capability $\frac{dy}{dx}$ from 1-5	0.560**	Very poor	-0.0365**
		Poor	-0.0099**
		Neutral	-0.0083*
		Good	-0.0280*
		Very Good	0.0827**
Information acquisition capability $\frac{dy}{dx}$ from 1-5	0.540**	Very poor	-0.0352**
		Poor	-0.0095*
		Neutral	-0.0080*
		Good	-0.0270*
		Very Good	0.0797*
Innovation capability $\frac{dy}{dx}$ from 1-5	0.589***	Very poor	-0.0383***
		Poor	-0.0104**
		Neutral	-0.0087*
		Good	-0.0294**
		Very Good	0.0868***
Leadership capabilities $\frac{dy}{dx}$ from 1-5	0.572**	Very poor	-0.0372***
		Poor	-0.0101*
		Neutral	-0.0084*
		Good	-0.0286**
		Very Good	0.0843***
Key: *** p<0.01, ** p<0.05, * p<0.1			

Source: (Author, 2025)

Table 14 above shows the marginal effects when the response on the various indicators in the independent variables change from poor (1) to very good (5). The marginal effects show that agreeing with these indicators reduces the probability of a respondent selecting very poor, poor, neutral and good under the financial performance of Islamic banks domain. In addition, the

marginal effects indicate that agreeing with the indicators under the domains of network capability, information acquisition capability, innovation capability, and leadership capabilities increases the probability of a respondent choosing very good to the financial performance of Islamic banks. For each of the independent variables, the marginal effects sum to zero, showing that agreeing with the domains of the independent variables discourages the respondent from selecting very poor, poor, neutral and good under the financial performance of Islamic banks domain while simultaneously encouraging respondents to select very good. This finding serves as a consistency test for the marginal effects. Since they sum to zero, they can be interpreted as supporting the study's objectives.

4.5.1 Network Capability and Financial Performance

The first study objective was to evaluate the effect of strategic capabilities on the financial performance of Islamic banks in Kenya. Table 14 shows that the marginal effect of network capability on the probability of rating financial performance as very poor is -0.0365 and is significant at the 5% level. Therefore, when a respondent's response on the questions in the network capability domain shifts from strongly disagree to strongly agree, the likelihood of rating the financial performance of Islamic banks as very poor decreases by 3.65 percentage points, holding other factors constant. This suggests that stronger network capabilities reduce negative assessments of financial performance.

The marginal effect of network capability on the probability of selecting poor financial performance is -0.0099 and is also significant at the 5% level. Thus, when a respondent's perception of network capability improves from strongly disagree to strongly agree, the likelihood of rating financial performance as poor decreases by 0.99 percentage points, indicating a decline in unfavourable views of performance.

For neutral financial performance, the marginal effect is -0.0083 and is significant at the 10% level of significance. This means that improvement in network capability slightly reduces the likelihood of a neutral financial performance rating by 0.83 percentage points, suggesting a shift away from indecisiveness toward more definitive evaluations.

Regarding good financial performance, the marginal effect is -0.0280 and is significant at the 10% level. As the perception of a bank's network capability increases from strongly disagree to strongly agree, the likelihood of selecting good decreases by 2.80 percentage points. This suggests that

improved network capability may move responses from moderate (good) to higher (very good) performance ratings.

Finally, the marginal effect on very good financial performance is 0.0827 and is significant at the 5% level. Therefore, when the perception of a bank's network capability increases from strongly disagree to strongly agree the probability of rating financial performance as very good increases by 8.27 percentage points. This indicates that strong strategic networking by Islamic banks substantially enhances customer perceptions of financial performance.

These findings are consistent with the works of Iqbal and Mirakhor (2017), who emphasized the role of strategic alliances in enhancing institutional credibility. Similarly, Arshad and Abduh (2015) found that Islamic banks that are well-connected with other financial institutions and international networks tend to build higher levels of customer trust due to their perceived stability and information transparency.

4.5.2 Information Acquisition Capability and Financial Performance

Table 14 shows that the marginal effect of information acquisition capability on the probability of rating financial performance as very poor is -0.0352 and is significant at the 5% level. Therefore, when a respondent's perception in the information acquisition capability domain shifts from strongly disagree to strongly agree, the likelihood of rating the financial performance of Islamic banks as very poor decreases by 3.52 percentage points, holding other factors constant.

The marginal effect on poor is -0.0095 and is significant at the 10% level. This means that as perceptions of a bank's information acquisition capability improve, the probability of rating its financial performance as poor decreases by 0.95 percentage points. This implies that banks attuned to market changes and customer needs through continuous feedback and data tracking reduce negative perceptions of financial performance.

The marginal effect on neutral financial performance is -0.0080 and is significant at the 10% level. An improvement in information acquisition capability lowers the likelihood of a neutral rating by 0.80 percentage points. This suggests that effective information systems help eliminate customer indecisiveness or scepticism regarding the bank's financial performance.

The marginal effect on good financial performance is -0.0270 and is significant at the 10% level. This indicates that as information acquisition capability improves, the probability of rating financial performance as good decreases by 2.70 percentage points, with a likely shift toward a very good rating.

The marginal effect on very good financial performance is 0.0797 and is significant at the 10% level. A change from strongly disagree to strongly agree in the information acquisition capability domain increases the likelihood of rating financial performance as very good by 7.97 percentage points. This implies that robust information acquisition capabilities—such as leveraging data analytics and market intelligence—positively influence customer perceptions of financial performance.

These findings align with those of Hassan et al. (2020), who established that Islamic banks using sophisticated information tools to understand and anticipate customer behaviour foster higher trust. Additionally, Siddiqi (2008) confirmed that banks that actively monitor customer satisfaction and use data to improve services are seen as more trustworthy by clients.

4.5.3 Innovation Capability and Financial Performance

Table 14 shows that the marginal effect of innovation capability on the probability of rating financial performance as very poor is -0.0383 and is significant at the 1% level. Therefore, when a respondent's perception in the innovation capability domain shifts from strongly disagree to strongly agree, the likelihood of rating the financial performance of Islamic banks as very poor decreases by 3.83 percentage points.

The marginal effect on poor is -0.0104 and is significant at the 5% level. This means that as innovation capability improves—such as through the development of new Sharia-compliant products, adoption of advanced technologies, or improvements in operational processes—the probability of rating financial performance as poor decreases by 1.04 percentage points.

The marginal effect on neutral financial performance is -0.0087 and is significant at the 10% level. A shift toward a more favourable view of innovation capability reduces the likelihood of a neutral rating by 0.87 percentage points, indicating that increased innovation lowers customer uncertainty or indecision regarding financial performance.

The marginal effect on good financial performance is -0.0294 and is significant at the 5% level. This suggests that as perceptions of innovation capability increase, the probability of selecting good decreases by 2.94 percentage points—indicating a shift in customer assessments toward higher ratings.

The marginal effect on very good financial performance is 0.0868 and is significant at the 1% level. A change in perception of innovation capability from strongly disagree to strongly agree increases the likelihood of rating financial performance as very good by 8.68 percentage points.

This underscores that strong innovation capabilities—such as the introduction of user-friendly digital platforms or novel financial solutions—significantly enhance customer perceptions of financial performance.

These findings resonate with the study by Loo (2010), who found that the introduction of user-friendly Islamic financial technology platforms increased consumer trust in Malaysia. Likewise, Alam et al. (2019) demonstrated that Islamic banks investing in innovation are perceived as more competent and reliable by customers.

4.5.4 Leadership Capabilities and Financial Performance

Table 14 shows that the marginal effect of leadership capabilities on the probability of rating financial performance as very poor is -0.0372 and is significant at the 1% level. Therefore, when a respondent's perception of leadership capabilities in Islamic banks improves from strongly disagree to strongly agree, the likelihood of rating financial performance as very poor decreases by 3.72 percentage points. This suggests that when bank leadership demonstrates strategic vision, ethical decision-making, and responsiveness to stakeholder concerns, negative perceptions of financial performance diminish.

The marginal effect on poor is -0.0101 and is significant at the 10% level. A shift from strongly disagree to strongly agree in perceptions of leadership capabilities—such as leadership in strategic decision-making, alignment with Sharia principles, and promotion of organizational growth—reduces the probability of rating financial performance as poor by 1.01 percentage points.

The marginal effect on neutral financial performance is -0.0084 and is significant at the 10% level. An improvement in leadership capability perceptions decreases the likelihood of a neutral rating by 0.84 percentage points, indicating reduced uncertainty or ambivalence about financial performance.

The marginal effect on good financial performance is -0.0286 and is significant at the 5% level. This implies that as leadership capabilities improve, the probability of selecting good decreases by 2.86 percentage points, likely reflecting a shift toward more favourable evaluations.

The marginal effect on very good financial performance is 0.0843 and is significant at the 1% level. A shift in perception from strongly disagree to strongly agree increases the likelihood of selecting very good by 8.43 percentage points. This suggests that effective leadership—characterized by strategic foresight, ethical principles, and responsiveness—significantly enhances perceptions of the bank's financial performance.

These findings are supported by studies such as by Ahmad and Haron (2022), who found that ethical leadership in Islamic banking fosters transparency, accountability, and customer loyalty. Similarly, Zairani and Zulkifli (2017) emphasized that competent leadership that upholds Islamic values significantly boosts trust among Muslim clients.

4.6 Chapter Summary

This chapter presents the research findings, providing a comprehensive analysis of the data collected for the study. It begins by detailing the background information on the respondents, offering key characteristics and demographic data that set the context for the analysis. The chapter further explores the descriptive statistics, which summarise the central tendencies and distribution of variables related to the respondents' experiences and perspectives. The chapter also includes the ordered logistic regression analysis conducted to assess how the predictor variables interact with outcome variable. Overall, the chapter provides a comprehensive overview of the findings, presenting a thorough examination of the research objectives/questions.

CHAPTER FIVE: DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study's summary and conclusion, as directed by the goals, are presented in this chapter. The chapter also outlines the study's suggestions and potential research topics based on its findings.

5.2 Summary of Findings

This study investigated the effect of strategic capabilities (network capability, information acquisition capability, innovation capability, and leadership capability) on the financial performance of Islamic banks in Kenya. A cross-sectional research design was employed. Data analysis was conducted using an ordered logistic regression model, which was statistically significant ($LR \chi^2(4) = 63.21, p < 0.01$), with a pseudo- R^2 of 0.3042, indicating a moderately strong model fit.

Analysis of the multiple regression output showed that all the four strategic capabilities had a positive and significant index on financial performance. As with all forms of logistic regression, the coefficients (β) quantify the direction, and relative strength of relationships and, again because of the ordering of the dependent variable, are not directly interpretable substantively. Thus, marginal effects provide a better understanding of how each capability affects the chance of getting a “very good” financial performance rating. Especially, applying the random regression, the marginal changes were calculated as follows: where the one-unit improvement of the innovation capability enhanced the probability of the “very good” rating by 8.68 percentage points, which is significantly at < 0.01 level and the highest among all the four. The level of leadership capability was the second most impactful factor that raised the probability by 8.43 percentage point ($p < 0.01$), whereas network capability had a similar rise in the probability by 8.27 percentage point ($p < 0.05$). Information acquisition capability was also significant yet to a slightly lesser extent; it grew by 7.97 percentage points, and the result was statistically significant at $p < 0.10$ level. As highlighted by the results, enhancing strategic capabilities, particularly innovation and leadership can greatly help in improving the perception of stakeholders toward the financial performance of the Islamic banks.

5.3 Discussion of Findings

Determining the effect of strategic capabilities on the financial performance of Islamic banks in Kenya was the study's main goal. Financial performance served as the dependent variable, whereas network, information acquisition, innovation, and leadership capabilities operationalized strategic

capabilities. Based on the resource-based view and augmented by the social capital and upper echelons theories. The high level of questionnaire follow-up resulted in an 84.7% response rate.

5.3.1 Network Capabilities and Financial Performance

The study sought to establish the effect of network capability on the financial performance of Islamic banks in Kenya. Average marginal effects results indicated that the marginal effect of network capabilities on selecting “very good” in the financial performance domain is 0.0827 and statistically significant ($p < 0.05$). This suggests that when a respondent's perception of network capabilities—encompassing elements such as strategic alliances, branch reach, digital interconnectivity, and institutional partnerships—improves from “strongly disagree” to “strongly agree,” the probability of rating financial performance as “very good” increases by 8.27 percentage points, holding all other factors constant. The implication is that an extensive network for Islamic banks characterised by robust strategic alliances, broad branch reach, digital interconnectivity, and institutional leadership gives the perceptions of better financial performance.

The above findings as well implication are supported by the descriptive findings, which revealed that Islamic banks in Kenya have well-developed network capabilities, particularly in maintaining strong relationships with customers, stakeholders, and regulatory authorities. Respondents agreed strongly that these relationships are prioritized and effectively managed. The correlation between network capabilities and financial performance was positive and significant ($r=0.486$, $p = 0.01$). on regression results, network capabilities had a moderate positive and significant effect on financial performance of Islamic banks.

This finding suggests that when an Islamic bank strategically enhances its networking with other institutions, adopts seamless banking infrastructure, and expands its service touchpoints through partnerships, it can improve efficiency, market access, and ultimately financial performance. This aligns with the resource-based view theory, which recognises networking as an essential resource that organisations can use to maintain a competitive edge, and ultimately achieve better financial performance (Barney, 1991; Wilkens et al., 2014; Teece, 2017; Priem & Butler, 2011). Competitive advantage leads to better financial performance through increased market share, customer loyalty, higher profitability, greater value creation, and capital attraction (Farida & Setiawan, 2022; Hapsari, 2019). A strong competitive advantage can help a firm to attract more customers, leading to increased sales volume and market share (Farida & Setiawan, 2022; Hapsari, 2019). A unique competitive advantage can build customer loyalty, creating a stable base

of repeat business that contributes to more predictable revenues (Farida & Setiawan, 2022; Hapsari, 2019). Firms with a competitive advantage either via lower costs or product differentiation can earn higher profits and maintain better profit margins than their rivals. By excelling against competitors, firms can generate greater economic value as well as position themselves as more attractive investments, potentially leading to a lower cost of capital and easier access to funding.

These findings are also consistent with those of Wang et al. (2021), Silva et al. (2016), Malhotra (2017), Wegner et al. (2023), Srećković (2018), Saula et al. (2022), and Achieng et al. (2024), which acknowledge networking capability as positively contributing to better financial performance. Wang et al. (2021) established that a robust network improves corporate financial performance in financial supply chains, with Silva et al. (2016) stressing that network capability not only shapes bank efficiency, but also encourages banks' participation in financial networks, with the participation contributing to better financial performance. Malhotra (2017) also underscores network capability's contribution to financial performance, establishing that banks that use Facebook penetrate new markets, creating new networks that lead to higher profitability. While Wegner et al. (2023) accentuates that network capabilities considerably influence business results, Srećković (2018) affirms that networking capability enhances performance in situations of market uncertainty, with strong networks shielding a firm from external economic shocks. Saula et al. (2022) further notes that network through ATMs, branches, phones, and Internet enable financial institutions to gain a significant market share, which is synonymous to improved financial performance. Achieng et al. (2024) reaffirms that networking capabilities allow banks to gain access to resources, knowledge, and better customer interactions, with these aspects directly contributing to financial performance.

In essence, the current study establishes that while Islamic banks in Kenya may still be operating under Shariah Law, networking capabilities not only facilitate access to resources like information, investment partners, and capital, but also allows them to gain an extensive market share and foster customer loyalty, all of which lead to better margins and greater profits.

5.3.2 Information Acquisition Capabilities and Financial Performance

The study also sought to establish the effect of information acquisition capabilities on financial performance of Islamic banks in Kenya. The marginal effect of information acquisition capabilities on selecting "very good" for financial performance is 0.0797, and this effect is statistically

significant ($p < 0.1$). This indicates that as a respondent's perception of a bank's ability to collect, interpret, and act on market intelligence improves—from “strongly disagree” to “strongly agree”—the probability of rating financial performance as “very good” by 7.97 percentage points, holding all else constant. The implication is that when a bank effectively gathers and utilizes data such as customer feedback, competitor intelligence, regulatory developments, and emerging market trends, it enhances decision-making accuracy, strengthens risk management, and improves strategic alignment, all which directly contribute to better financial outcomes.

These findings align with the postulations of the resource-based view theory, which emphasises the crucial role resources play in not only driving performance but also ensuring firms achieve a sustainable competitive edge (Barney, 1991; Wilkens et al., 2014; Teece, 2017; Priem & Butler, 2011). Information acquisition is a crucial resource for banks, forming a vital element of their operations and a strategic necessity for not just maintaining competitiveness, but also managing risks and serving customers effectively (Ansari & Sen Gupta, 2024; Fischer, 2000). As a resource, information acquisition is evident in how banks systematically acquire more information about customers' loan or credit status to offer liquidity without inducing additional costly transfer of information (Fischer, 2000). Using information in such ways directly impacts bank's finances, leading to better financial performance under most circumstances, considering that banks usually focus on maximising profits.

The findings are also consistent with discoveries made by Li and Liu (2019), Taneja et al. (2020), Onamusi (2022), Popoola (2018) as well as Muriithi and Wanjau (2021). Similar to the findings of the current study, Li and Liu (2019) found that banks that have strong information-gathering systems exhibit higher profitability, operational efficiency, and market responsiveness. Taneja et al.'s (2020) conclusion that the systematic acquisition and utilisation of competitor and market intelligence positively influence short-term financial outcomes and long-term strategic positioning also reinforces the findings of the current study, underscoring information acquisition as central to the financial performance of banks, including Islamic ones. While Onamusi (2022) highlights effective information acquisition as significantly enhancing organisational performance, Popoola (2018) emphasises its positive influence on organisational effectiveness, with Muriithi and Wanjau (2021) echoing that banks that systematically collect, analyse, and utilise market and competitor information experience not only higher profitability but also better risk management. Otieno et al. (2022) identifies market intelligence and customer data ways of information acquisition, and

contributing to financial performance in banks by facilitating improved product targeting, customer retention, and operational efficiency.

Overall, the findings of the study reveal that while Islamic banks demonstrate strong capabilities in acquiring market and competitor information, their penetration in the Kenyan market remains low. This low penetration is evident in the number of Islamic bank branches in Kenya, which stand at 42 as of today. Market intelligence and customer data are therefore informational resources that Islamic banks in Kenya can leverage to further penetrate into the Kenyan market. This means that as a resource, information can play a crucial role of shaping strategic responses and sustaining market competitiveness for Islamic banks in Kenya.

5.3.3 Innovation Capabilities and Financial Performance

The study also sought to establish the effect of innovation capabilities on financial performance in Islamic banks in Kenya. The average marginal effects indicate a strong relationship between innovation capabilities and the perceptions of financial performance in Islamic banks. The marginal effect of 0.0868 ($p < 0.01$) on the likelihood of selecting "very good" for financial performance suggests that innovation plays a pivotal role in shaping positive evaluations of a bank's financial outcomes. This means that as Islamic banks improve their innovation capabilities, such as the development of Sharia-compliant products, the adoption of advanced technologies, and improvements in operational processes, the likelihood of respondents rating the bank's financial performance as "very good" increases by 8.68 percentage points, holding other factors constant. The implication is that customers value banks that are innovative and responsive to market demands, particularly through novel financial products and technological advancements.

This finding aligns with the resource-based view theory, which identifies innovation as one among the many resources that can potentially enhance firm performance (Barney, 1991; Wilkens et al., 2014; Teece, 2017; Priem & Butler, 2011). The introduction of user-friendly digital platforms and novel financial solutions seems to be particularly influential, as they align with customer expectations for modern, efficient, and accessible banking services. The growing preference for FinTech like mobile banking among the young population means that Islamic banks that adopt such technologies can penetrate a new market, increasing their market share in Kenya. A large market share is synonymous to high profit margins or improved financial performance.

The findings of the current study on innovation capabilities influence on financial performance in Islamic banks in Kenya are also consistent with those of Hassan et al. (2025), Doran et al. (2022),

Mahboub (2018), Manasseh et al. (2025), Mutevu (2015), Muchiri and Juma (2023), as well as those uncovered by Gathambo and Muchemi (2023). Even though Hassan et al. (2025) focused on Asian countries and non-Islamic banks, they established that FinTech impacts performance in banks, even in ones whose performance is low. Doran et al. (2022) acknowledges that the impact of digitalisation on the financial performance of banks cannot be overlooked given that internet banking usage together with the integration of digital and network security to ensure the security of bank servers contributes to the performance of banks. It enhances customer trust and loyalty, encouraging banking deposits, ultimately leading to higher profitability for the bank. Mahboub (2018) further recognises the role of innovations such as social media enabling banks network, reach new customers, and streamline customer responsiveness and services, all of which have a direct impact on financial performance. Manasseh et al. (2025) likewise accentuates mobile and internet banking along with ATMs, point of sale, mobile payment, and mobile money as financial and innovative technologies as contributing positively to financial performance in banks. Alongside mobile banking technology, Mutevu (2015) also acknowledges security and insurances technologies as having a direct impact on a bank's financial performance, with Gathambo and Muchemi (2025) further affirming that innovative capabilities allow financial institutions to automate repetitive tasks, saving on time and resources needed for operations.

In essence, the finding in regard to innovation capabilities underscores innovation as a core driver profitability and market competitiveness in Kenya's banking sector. The findings reveal that Islamic banks are equally focused on innovation whereby they are actively introducing new services and improving internal processes. Therefore, by continuously investing in innovations like FinTech and mobile banking and internet banking, Islamic banks in Kenya can attract a new market, especially the young people, whose preference for FinTechs because of the convenience they present cannot be overlooked. This strategic approach is more likely to increase profitability, and a sustainable financial performance.

5.3.4 Leadership Capabilities and Financial Performance

The study also sought to establish the effect of leadership capabilities on financial performance of Islamic banks in Kenya. The average marginal effects results demonstrate a substantial influence of leadership capabilities on perceptions of financial performance in Islamic banks. The marginal effect of 0.0843 ($p < 0.01$) on the probability of selecting "very good" with financial performance outcomes signifies that improvements in leadership quality are strongly associated with more

favourable evaluations of a bank's financial performance. the implication is that competent, adaptive, and transformative leadership plays a pivotal role in driving profitability, stakeholder confidence, and organizational success in commercial banks.

This finding aligns with the postulations of the resource-based view theory as well as those of the Upper Echelons Theory and the Dynamics Capability Theory (Barney, 1991; Wilkens et al., 2014; Teece, 2017; Priem & Butler, 2011; Hambrick & Mason, 1984; Liu, 2023; Kogut & Zander, 1992; Nayernia, 2025; Eisenhardt & Martin, 2000; Teece, 2007; Zahra et al., 2006). While RBV recognises management as an important resource, UET acknowledges the role of management in corporate governance, organisational change, and strategic decision-making, along with influencing organisational strategies. DCT further underscores managerial competencies importance in identifying and assessing new opportunities and threats, mobilising resources to capitalise on identified opportunities via strategic actions and novel business models, and in continuously renewing and reconfiguring existing assets and organisational structures to ensure sustainable alignment with the market. Like the RBV, UET, and DCT theories, which put emphasis on management or leadership capability as key to managing organisational activities that drive profitability, the findings of the current reaffirm this hypothesis as they establish leadership capabilities as significantly contributing to the financial performance of Islamic banks in Kenya.

The findings are also consistent with those of Kivipöld and Vadi (2013), Cherian and Farouq (2013), Abazeed (2020), Mwangi and Omwenga (2022), as well as those uncovered by Mwangi et al. (2022). While Kivipöld and Vadi (2013) establish that organisational leadership capabilities relate to organisational performance, Abazeed (2020) concluded management shapes firm performance by facilitating organisational ambi-dexterity and knowledge management aspects like acquisition, creation, application, and storage. According to Cherian and Farouq (2013), leadership styles directly influence organisational performance, with Mwangi et al. (2022) identifying transformational, democratic, and autocratic leadership styles as having a partially positive and significant impact on the financial performance of commercial banks in Kenya. Mwangi and Omwenga (2022) further note that leaders that encourage collaborative decision-making processing nurture creativity and innovation among employees, all which ultimately lead to better financial performance.

Overall, the findings of the current study accentuate leadership or management capabilities as influencing financial performance in Islamic banks in Kenya. Effective leadership or management

drives financial performance by setting vision, enhancing organisational productivity via engaged employees, optimising resource use, fostering innovation, making smart strategic decisions, managing risks, and aligning teams, eventually leading to increased revenue, cost reduction, and better ROI.

5.4 Conclusions

The study concludes that network capabilities significantly influence the financial performance of Islamic banks in Kenya. Improvements in strategic alliances, branch reach, and digital interconnectivity were associated with enhanced financial performance. Banks that maintain strong networks and engaged in meaningful partnerships are better positioned to strengthen market presence and reduce negative perceptions of their performance.

Information acquisition capabilities also positively affect financial performance. Banks that effectively collect and utilize external data, such as market intelligence and customer feedback, are able to make more informed strategic decisions, which enhances overall financial outcomes.

The study further concludes that innovation capabilities play a pivotal role in improving financial performance. The introduction of Sharia-compliant products, adoption of advanced technologies, and operational improvements led to better customer assessments and stronger performance perceptions.

Finally, leadership capabilities were found to be highly influential. Effective leadership, characterized by strategic vision, ethical decision-making, and responsiveness to stakeholder concerns, drives positive financial outcomes and supports the successful implementation of other strategic capabilities.

5.5 Recommendations

Given the findings, discussion, and conclusions, the study makes several recommendations regarding policy, management, and theory.

5.5.1 Policy Recommendations

Based on the study findings and conclusions, it is recommended that policymakers should streamline banking regulations or formulate a dedicated or specific Islamic banking regulatory framework to encourage strategic alliances between Islamic and non-Islamic banks in Kenya. Currently, regulatory constraints continue to undermine the network capability of Islamic banks, despite findings underscoring its importance to financial performance. The current Kenyan banking laws, including the Banking Act and Central Bank of Kenya Act are not designed for the

unique structures of Islamic finance; hence, are not suited to support unique Shariah compliant products. A dedicated regulatory framework for Islamic banks will eliminate the regulatory constraints limiting their network capability, with emerging strategic alliance with non-Islamic or conventional commercial banks contributing to their financial performance significantly.

There also is a need for policymakers to revise the Kenya Deposit Insurance Corporation Act to ensure that it also adequately caters to Islamic banking products as in the current state it does not isolate Islamic products from conventional deposit holders. This will unlock new opportunities in innovation, leading to the development of Sharia-compliant products, including FinTech solutions. Such products will enable Islamic banks to tap into the Kenyan market, contributing to the overall economic growth of the country.

Policymakers should also foster an environment that can harmonise Shariah standards across different institutions. This has the potential to lead to convergent in opinion, while also encouraging information sharing between non-Islamic or conventional commercial banks and Islamic banks. Information-sharing could lead to incubation of new financial products and joint problem-solving in line with Islamic financial principles, all of which have the potential to boost financial performance for both Islamic and non-Islamic banks.

5.5.2 Managerial Recommendations

One key managerial recommendation is for managers in Islamic banks in Kenya to invest in employee training. Despite the importance of the innovation capability, structural constraints like the lack of adequate Shariah experts and a standardised Shariah interpretation continuous to hinder product development and market expansion. Employee training has the potential to address the discrepancies in Shariah interpretation, ensuring full Shariah compliance. It also has the potential to address structural and operational constraints like shortage of experts, limited product range and customer awareness along with liquidity management issues.

Additionally, findings recommend that Islamic bank managers invest in advanced Customer Relationship Management (CRM) tools to better understand customer behaviour, preferences, and satisfaction. Regular engagement through digital platforms, personalized communication, and loyalty programs will build long-term relationships, ultimately enhancing financial performance. Given the significant effect of innovation capabilities, managers should allocate dedicated budgets and personnel to research and development (R&D). This function should focus on identifying

emerging market needs, developing Sharia-compliant financial products, and experimenting with digital technologies to improve service delivery and competitiveness.

To strengthen information acquisition capabilities, managers should implement business intelligence tools that integrate customer data, market trends, and competitor analysis. Such tools enable more informed, proactive, and agile decision-making across all departments, improving operational efficiency and responsiveness.

5.5.3 Theoretical Recommendations

The findings propose the need for a more refined strategic capabilities model tailored to Islamic banking. The model should include three core capability pillars; each aligned with Shariah principles and the unique operational environment of Islamic finance. These three core capability pillars include Shariah governance and compliance capabilities, human capital and knowledge capabilities, along with customer relationship and market capabilities. As a core differentiator, the first pillar should acknowledge the need for Islamic banks to treat Shariah governance as a *strategic capability*, not just a regulatory requirement. While the second pillar should be structured around the skill gap in Shariah, Islamic finance structuring, and digital capability, recognising them this inadequacy as a strategic constraint, the third pillar should acknowledge the fact that Islamic banking loyalty is driven by both *religious affinity* and *service quality*.

5.6 Study Limitations

While the study provides valuable insights into the relationship between strategic capabilities and financial performance of Islamic banks in Kenya, it has its limitations. One limitation is the use of a cross-sectional design, which restricts the ability to assess causality or changes over time considering that strategic capabilities and financial performance are dynamic constructs. Another limitation of the study is the use of a small sample: the study focuses on 113 respondents from three Islamic banks. This small and sector-specific sample limits generatability. Besides, the study relies solely on quantitative data. Given the complexity of strategic capabilities, a mixed-method approach would have been suitable, with qualitative methods like interviews and case studies adding depth and contextual nuance to the study. The use of Likert-scale questionnaires introduces the risk of social desirability bias whereby respondents may overstate capabilities or performance due to institutional loyalty or fear of repercussions. Support Likert-scale questionnaires with open-ended questions would have reduced social desirability bias.

5.7 Suggestions for Further Research

Future research in the same direction should consider adopting a longitudinal approach as it supports assessing causality or changes over time considering that strategic capabilities and financial performance are dynamic constructs. Thus, unlike the cross-sectional design, it has the potential to provide richer insights. Additionally, future research could conduct a comparative analysis between Islamic banks and conventional banks to determine how the effect of strategic capabilities on financial performance differs across banking models. This would help clarify whether the findings are specific to Islamic financial institutions or applicable industry wide. Moreover, future research can also consider exploring intra-sector variations to provide practical recommendations on which sectors Islamic banks should prioritise to elevate their financial performance.

5.8 Chapter Summary

This chapter provided a summary of the findings, discussion, and interpretation of findings based on the connection between strategic capabilities and financial results of Islamic banks in Kenya. The study examined four core dimensions of strategic capabilities – network, information acquisition, innovation, and leadership capabilities – and their effect on the financial performance of Islamic banks. The discussion aligned the findings with prior empirical studies, highlighting both supporting and contrasting perspectives. Furthermore, the chapter outlined limitations such as the narrow focus on Islamic banks, and the cross-sectional design of the study. Recommendations for policy and managerial were provided and finally, the chapter proposed several areas for further research.

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APPENDICES

Appendix I: Letter of Introduction

Dear Respondent,

RE: ASSISTANCE WITH DATA COLLECTION

I am Master of Commerce student at Strathmore Business School carrying out a study on “Strategic Capabilities and Financial Performance of Islamic Banks in Kenya.” This research project is a requirement for the award of a Master of Commerce degree.

I humbly ask that you help me with this study by answering the questionnaire as truthfully and accurately as you can. Rest assured that your answers to this survey will be kept completely private and used exclusively for academic research. Your name will not appear in the final research report at all.

Your assistance and cooperation will be highly appreciated.

Yours Sincerely,

Khadijah Idris Salmin

RESEARCHER

Appendix II: Questionnaire

SECTION A: General Information

1. Informed consent. I have had the study explained to me. I have understood all that I have read and have heard what was explained to me and had my questions answered satisfactorily. I understand that I can change my mind at any stage.

Mark only one Box.

YES ☐

NO ☐

SECTION A: Bank Characteristics

1. What is your job title/position in your branch? * *Mark only one Box.*

Branch Manager ☐

Finance Department Staff ☐

Operations Department Staff ☐

ICT Department Staff ☐

Other:

2. Number of years the bank has operated in Kenya. * *Mark only one Box.*

1-5 ☐

5-10 ☐

10-15 ☐

15 and above ☐

3. Which Islamic bank do you represent? * *Mark only one Box.*

Gulf African Bank (GAB) ☐

Dubai Islamic Bank (DIB) ☐

First Community Bank (FCB) ☐

4. which branch do you belong to?

.....

5. How many branches does your bank operate? *Mark only one Box.*

- Fewer than 50 ☐
- 50–200 ☐
- More than 200 ☐

6. How modernized is the infrastructure in your bank's branches? *Mark only one Box.*

- Outdated ☐
- Partially modernized ☐
- Fully modernized ☐

7. What is the ownership structure of the bank? ** Mark only one Box.*

- Private ☐
- Public ☐

8. Is the bank listed on the Nairobi Securities Exchange (NSE)? ** Mark only one Box.*

- Yes ☐
- No ☐

9. How would you describe the range of financial products offered by your branch? *Mark only one Box.*

- Moderate (e.g., savings, loans, credit cards, insurance) ☐
- Extensive (e.g., specialized investment products, wealth management, etc.) ☐

10. How frequently does your branch introduce new products or services? *Mark only one Box.*

- Rarely ☐
- Occasionally ☐
- Frequently ☐

11. What percentage of your revenue comes from non-traditional banking products (e.g., wealth management, brokerage services)? *Mark only one Box.*

- Less than 10% ☐
- 10–30% ☐
- More than 30% ☐

12. What is your branch's current CMSI index score? *Mark only one Box.*
- Below 100 ☐
 - 100–500 ☐
 - Above 500 ☐
13. How has your branch's CMSI index changed over the past three years? *Mark only one Box.*
- Decreased ☐
 - Remained stable ☐
 - Increased ☐
14. What strategies has your branch implemented to grow its CMSI index? *Mark only one Box.*
- Organic growth ☐
 - Mergers and acquisitions ☐
 - Both ☐
15. What percentage of your branch's loan portfolio is classified as non-performing loans (NPLs)? *Mark only one Box.*
- Below 2% ☐
 - 2–5% ☐
 - Above 5% ☐
16. How diversified is your branch's loan portfolio across sectors (e.g., retail, corporate, agriculture)? *Mark only one Box.*
- Low diversification ☐
 - Moderate diversification ☐
 - High diversification ☐
17. What is your branch's current cost-to-income ratio? *Mark only one Box.*
- Below 30% ☐
 - 30–50% ☐
 - Above 50% ☐

18. What steps has your branch taken to optimize operational costs? *Mark only one Box.*
- Automation of processes ☐
 - Outsourcing non-core functions ☐
 - Reducing workforce ☐
 - Other:
19. To what extent does your branch rely on digital platforms for customer service and operations? *Mark only one Box.*
- Moderate reliance ☐
 - Heavy reliance ☐
20. What percentage of your branch's customers use digital channels (e.g., mobile banking, internet banking) for transactions? *Mark only one Box.*
- Below 30% ☐
 - 30–70% ☐
 - Above 70% ☐
21. How would you rate the effectiveness of your branch's senior leadership team? *Mark only one Box.*
- Poor ☐
 - Average ☐
 - Excellent ☐
22. What is the turnover rate of senior management positions in your branch? *Mark only one Box.*
- High (above 20%) ☐
 - Moderate (10–20%) ☐
 - Low (below 10%) ☐
23. How would you rate the overall competency level of your branch's workforce? *Mark only one Box.*
- Moderate ☐
 - High ☐
24. How does your branch measure employee productivity? *Mark only one Box.*
- Output-based metrics ☐
 - Customer satisfaction scores ☐

Both ☐

Other:

SECTION B: Strategic Capabilities

On a scale of 1 to 5 where.

1 – Strongly disagree, 2 – Disagree, 3 – Indifferent, 4 – Agree, 5 – Strongly agree. Indicate the extent to which you agree or disagree with the statements.

A. Network Capabilities

- i. The bank takes priority in building relationship with customers ☐ ☐ ☐ ☐ ☐
- ii. We have established strong and long-term relationships with our customers through regular communication and support. ☐ ☐ ☐ ☐ ☐
- iii. The bank seeks to build strong stakeholder collaborations ☐ ☐ ☐ ☐ ☐
- iv. The bank complies promptly and effectively with guidelines and requirements set by regulatory bodies. ☐ ☐ ☐ ☐ ☐
- v. The bank maintains open and transparent communication with regulatory authorities. ☐ ☐ ☐ ☐ ☐
- vi. We have effective mechanisms in place to manage and strengthen relationships with our stakeholders. ☐ ☐ ☐ ☐ ☐

B. Network Capabilities

- i. The bank takes priority in building relationship with customers ☐ ☐ ☐ ☐ ☐
- ii. We have established strong and long-term relationships with our customers through regular communication and support. ☐ ☐ ☐ ☐ ☐

- iii. The bank seeks to build strong stakeholder collaborations. ☐ ☐ ☐ ☐ ☐
- iv. The bank complies promptly and effectively with guidelines and requirements set by regulatory bodies. ☐ ☐ ☐ ☐ ☐
- v. The bank maintains open and transparent communication with regulatory authorities. ☐ ☐ ☐ ☐ ☐
- vi. We have effective mechanisms in place to manage and strengthen relationships with our stakeholders. ☐ ☐ ☐ ☐ ☐

C. Information Acquisition Capabilities

- i. We have systems in place to collect and analyze customer preferences and feedback. ☐ ☐ ☐ ☐ ☐
- ii. The bank gathers information about its suppliers. ☐ ☐ ☐ ☐ ☐
- iii. The bank is always collecting intelligence on market data. ☐ ☐ ☐ ☐ ☐
- iv. We regularly analyze economic and industry data to identify new market opportunities. ☐ ☐ ☐ ☐ ☐
- v. Our bank monitors competitor activities to stay competitive in the industry. ☐ ☐ ☐ ☐ ☐
- vi. We use insights from competitor analysis to shape our business strategies. ☐ ☐ ☐ ☐ ☐

D. Innovation Capabilities

- i. Our bank regularly develops and implements new internal processes to improve efficiency. ☐ ☐ ☐ ☐ ☐
- ii. We actively invest in improving operational workflows through innovative solutions. ☐ ☐ ☐ ☐ ☐
- iii. Our bank frequently introduces new financial services to meet emerging customer needs. ☐ ☐ ☐ ☐ ☐

- iv. The bank has Research & Development function ☐ ☐ ☐ ☐ ☐
- v. Our organization allocates sufficient resources to research and development activities. ☐ ☐ ☐ ☐ ☐
- vi. We continuously explore new ideas and technologies through R&D to enhance our services. ☐ ☐ ☐ ☐ ☐

E. Leadership Capabilities

- i. The bank has clear leadership strategies in place to manage unexpected disruptions. ☐ ☐ ☐ ☐ ☐
- ii. Our leadership team responds swiftly and effectively during times of crisis. ☐ ☐ ☐ ☐ ☐
- iii. Our leaders are able to develop long-term visions and strategic plans for the organization. ☐ ☐ ☐ ☐ ☐
- iv. Leadership demonstrates the ability to connect abstract ideas with practical actions. ☐ ☐ ☐ ☐ ☐
- v. Our leaders rely on data and evidence-based analysis to make key decisions ☐ ☐ ☐ ☐ ☐
- vi. The leadership team effectively breaks down complex problems to identify viable solutions. ☐ ☐ ☐ ☐ ☐

F. Financial Performance

- i. The bank consistently achieves its targeted profit margins. ☐ ☐ ☐ ☐ ☐
- ii. Our financial performance has improved steadily over the past few years. ☐ ☐ ☐ ☐ ☐
- iii. The bank has experienced significant growth in total assets over time. ☐ ☐ ☐ ☐ ☐
- iv. The bank profitability has increased over time ☐ ☐ ☐ ☐ ☐

Section D: Additional Comments

1. In your opinion, what are the key factors influencing the financial performance of Islamic banks in Kenya?

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.....
.....

2. Do you believe strategic capabilities significantly impact the financial performance of Islamic banks? Why or why not?

.....
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.....

3. Any other comments or suggestions regarding the strategic capabilities and financial performance of Islamic banks?

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.....
.....

4. Do you have anything else you may wish to say?

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.....
.....

Thank you for your cooperation!

Appendix III: list of Islamic Banks in Kenya

1. Gulf African Bank (GAB)
2. Dubai Islamic Bank (DIB)
3. First Community Bank (FCB)

Source: <https://nairobi-online.com/directory/list-of-islamic-banks-in-kenya-branches-locations-and-contacts/>

Appendix IV: NACOSTI Permit

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 272332	Date of Issue: 20/March/2025
RESEARCH LICENSE	
	
This is to Certify that Ms.. Khadija Idris Salmin of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: STRATEGIC CAPABILITIES AND FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN KENYA for the period ending : 20/March/2026.	
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 - ii. Adversely affect the lives of Kenyans
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 - iv. Result in exploitation of intellectual property rights of communities in Kenya
 - v. Adversely affect the environment
 - vi. Adversely affect the rights of communities
 - vii. Endanger public safety and national cohesion
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Off Waiyaki Way, Upper Kabete,
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Telephone: 020 4007000, 071 3788787, 073 5404245
E-mail: dg@nacosti.go.ke
Website: www.nacosti.go.ke

Appendix V: Ethics Review Letter



7th March 2025

Ms Salmin Khadija,
khadijah.aikithiri@strathmore.edu

Dear Ms Salmin,

RE: Strategic Capabilities and Financial Performance of Islamic Banks in Kenya

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2659/25**. The approval period is from **7th March 2025 to 6th March 2026**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC

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Email admissions@strathmore.edu www.strathmore.edu

Appendix VI: Similarity Index Report

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