

ISLAMIC BANKING AND SUCCESS OF SELECTED BANKS IN MOGADISHU, SOMALIA

A Thesis
Presented to the School of
Postgraduate Studies and Research
Kampala International University,
Kampala-Uganda

In Partial Fulfillment of the Requirement for the Degree
Masters in Business Administration

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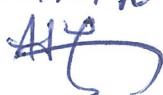
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DECLARATION A

"This thesis is my original work and has not been presented for a Degree or any other academic award in any University or Institution of Learning".

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Date

DECLARATION B

"I confirm that the work reported in this dissertation was carried out by the candidate under my/our supervision".

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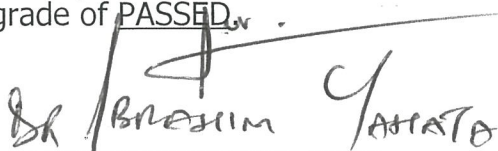
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APPROVAL SHEET

This thesis entitled "Islamic banking rules and success of selected districts banks in Mogadishu, Somalia" prepared and submitted by Mohamed Omar Abukar in partial fulfillment of the requirements for the degree of Masters in Business Administration has been examined and approved by the panel on oral examination with a grade of PASSED.



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DEDICATION

I dedicate this work to my family members for their comfort during the period of writing this report.

ACKNOWLEDGEMENT

I acknowledge the untiring effort by Dr. Sumil Novembrieta, my supervisor Mr. Gulebyo Muzamir Said and all those helped me in one way or another to make this work see the light of the day.

ABSTRACT

This study was set out to establish the extent to which Islamic banking rules affect success of selected banks in Mogadishu, Somalia; specifically the study intended to establish the (i) profile of the respondents, (ii) level of which Islamic banking rules, (iii) level business success, (iii) whether there is a significant difference in the level of which Islamic banking rules and employee conflict, (iv) whether there is a relationship in the level of communication and business success in selected banks in Mogadishu, Somalia. The study used a survey design; specifically descriptive correlation and descriptive comparative; data were collected from 197 respondents using self administered questionnaires as the key data collection instruments. Data were analyzed using frequency counts and summary statistics, Pearson Linear Correlation and Regression Analysis. The study findings revealed that there was a high level of which Islamic banking rules, there was also high level of business success, the level of Islamic banking rules and business success significantly differed among banks in Mogadishu city and that Islamic banking rules in the selected banks in Mogadishu city is significantly correlated with business success. From the above findings appropriate conclusions and recommendations including those for further research were made. Recommendations from the study were (i) Banks should state their goals clearly and ensure that they achieve their goals by ensuring that they fully understand the set goals and objectives, (ii) Banks should ensure continuous improvements in their services to cater for ever changing consumer tastes and preferences, (iii) recruit employees with the needed skills and abilities, (iv) Keep employees involved in daily activities of the organization.

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CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background of the Study

The origin of the modern Islamic bank can be traced back to the very birth of Islam when the Prophet himself acted as an agent for his wife's trading operations. Islamic partnerships (mudarabah) dominated the business world for centuries and the concept of interest found very little application in day-to-day transactions, (Sait, *et al*/2006).

Such partnerships performed an important economic function. They combined the three most important factors of production, namely: capital, labour and entrepreneurship, the latter two functions usually combined in one person. The capital-owner contributed the money and the partner managed the business. Each shared in a pre-determined share of the profits. If there was a loss, the capital-provider lost his money and the manager lost his time and labour.

According to Mahlknecht, (2009) Western commercial banks date from about two and a quarter centuries ago, when the western world was dispensing with moral and ethical considerations in economics. When the Muslim world came into contact with the west, Muslims had two choices:

- a) To accept commercial banking, arguing that the interest charged by them did not contain the element of *riba* prohibited in the Qur'an; or,
- b) To accept that interest charged was *riba* and try to develop an alternative system of banking.

But ancient Muslim institutions, such as the Shari'ah courts, had been made ineffective by the colonial powers. Muslims had no alternative but to work with the colonial institutions, including commercial banking.

Nevertheless, during the 19th century, several religious scholars argued that the term *riba* referred to loans for consumption, which people found it difficult to repay, and not to commercial banking loans, where the debtor can repay from the profits, (Aly, 2009). But the Qur'an makes no distinction between loans for consumption and loans for productive purposes. So their views were rejected. As a consequence, modern commercial banking did not make much headway in Muslim countries and to this day the presents of the conventional framework still dominates the national financial system.

When, in the 1960s, Muslim thinkers began to explore ways and means of organizing commercial banking on an interest-free basis, economists dismissed their work as wishful thinking. But, in 1963, in Mit Ghamr, in Egypt, the first Islamic interest-free bank came into being. Mt Ghamr was a rural area and the people were religious, (Benedikt 2009). They did not place their savings in any bank, knowing that interest was forbidden in Islam. In these circumstances, the task was not only to respect Islamic values concerning interest, but also to educate the people about the use of banking.

The types of accounts accepted were: savings accounts, investment accounts and zakat accounts. No interest was paid on savings accounts, but withdrawals could be made on demand. Small, short-term, interest-free loans for productive purposes could be made. Funds in investment accounts were subject to restricted withdrawals and invested on the basis of profit-sharing. The zakat account attracted the official amount of zakat.

The Mit Ghamr project was successful, as deposits increased from 1963 to 1966. The bank was cautious, rejecting about 60% of loan applications and the default ratio was zero in economically good times. But project was eventually abandoned for political reasons. Nevertheless, it had shown that commercial banking could be organized on a non-interest basis.

According to Rosly, 2006) Islamic Banking is growing at a rate of 10-15% per year and with signs of consistent future growth. Islamic banks have more than 300 institutions spread over 51 countries, including Somalia and other Islamic countries.

Some researchers have had interest in business success in different contexts. For example, Hisrich (2010), studied time management skills and venture success in Eritrean fishing industry, Delmar (1996) assessed entrepreneurship behaviour and small business performance. While this studies left gaps to be explored further to isolate factors affecting the business success in the banks that operate under the Islamic principles and rules in Mogadishu Somalia, a gap the proposed study will attempt to fill.

Problem statement

Banking institutions that wish to survive competition and succeed should ensure that, they follow banking rules and regulations (Abdullah, 1987). One set of rules that is particularly important for banking institution progress are the Islamic rules and regulations, (Abdel, 1981) given their numerous benefits such as building confidence and trust between the bank and the customers, sharing of profits and losses, enabling the poor to acquire loans and accumulate capital for investment purposes and the like(Chakrauorti, 2003). Unfortunately however, there has been very little of banks in Mogadishu success (Benedikt 2009) with many banks failing to

meet the service requirements of customers and make reasonable profits necessary for survival.

Further, given that banks today and in the future have to be change oriented those that failure to adopt the rules and regulation risk their survival. While there could be several factors affecting banking success, Islamic banking rules and regulations seem to be very important, (Abdel, 1981), hence the need for this study to examine the relationship between Islamic banking rules and success of banks in Mogadishu Somalia.

Purpose of the Study

This study explored the various Islamic banking rules, business success and the cause and effect relationship of the two variables, test hypotheses of no significant difference and no significant relationship between Islamic banking rules and business success, to bridge the gaps of previous studies and to validate existing information based on the theory to which this study is based.

Research Objectives

General: This study established the relationship between Islamic banking and success of selected banks in Mogadishu, Somalia.

Specific: This study was intended to achieve the following objectives:

1. To determine the profile of the respondents in terms of age, gender, rank, income level and highest educational qualification.
2. To determine the level of Islamic banking (prohibition of interests, mortgage selling, unacceptable transactions and profits-and-loss sharing) in selected banks in Mogadishu, Somalia.

3. To determine the level of business success in terms of sales, market share, profits, quality products, sustained growth, consumer satisfaction, employee satisfaction and owner(s) satisfaction.
4. To determine whether there is a significant difference in the level of Islamic banking and success of selected banks in Mogadishu, Somalia.
5. To determine the relationship between Islamic banking rules and success of selected banks in Mogadishu, Somalia.

Research Questions

1. What is the profile of the respondents in terms of age, gender, rank, income level and highest educational qualification?
2. What is the level of Islamic banking (prohibition of interests, mortgage selling, unacceptable transactions and profits-and-loss sharing) in selected banks in Mogadishu, Somalia?
3. What is the level of business success in terms of sales, market share, profits, quality products, sustained growth, consumer satisfaction, employee satisfaction and owner(s) satisfaction selected banks in Mogadishu, Somalia?
4. Is there a significant difference in the level of Islamic banking and success of selected banks in Mogadishu, Somalia?
5. Is there a significant relationship between Islamic banking rules and success of selected banks in Mogadishu Somalia?

Null Hypotheses

1. There is no significant difference in the level of Islamic banking (prohibition of interests, mortgage selling, unacceptable transactions

and profits-and-loss sharing) and success of selected banks in Mogadishu, Somalia.

2. There is no significant difference in level of business success in terms of sales, market share, profits, quality products, sustained growth, consumer satisfaction, employee satisfaction and owner(s) satisfaction in selected banks in Mogadishu, Somalia.
3. There is no significant relationship between Islamic banking and success of selected banks in Mogadishu, Somalia.

Scope

Geographical Scope

The proposed study was carried out in the selected banks in Mogadishu the capital city Somalia which is located in the central part of the country.

Theoretical Scope

The study was based on the assertion that Islamic banking is an interest free financial structure and is based on a complete system of social and economic justice. The study also embraced theories from several disciplines such as Psychology, Sociology and Philosophy.

Content Scope

The study focused on how Islamic banking (prohibition of interests, mortgage selling, unacceptable transactions and profits-and-loss sharing) affect business success in Mustaqball, and Dahab Shir banks which are of great importance as model banks that implement Islamic banking rules. The respondents in the research were employees of the selected banks in Mogadishu Somalia who shall proportionately be represented.

Time scope

The study considered the operations of the selected banks in Mogadishu from 2004-2010.

Significance of the Study

The findings of the findings this research shall be used by government agencies to evaluate the role of Islamic banking rules on business in banks and come up with appropriate policies to help regulate the activities of these banks

The study findings shall help policy makers in the in the banking industry and in selected banks in particular to make informed decisions concerning banking rules and banks success.

The study findings shall be used as reference for future researchers in the area of banking and related fields having contributed to operational definition of concepts, literature and methodology to guide such future studies.

Operational Definitions of Key Terms

For the purpose of this study, the following terms are operationally defined:

Islamic Banking

Business success refers to how the organization scores on the different dimensions such as sales, profits, quality products, sustained growth, consumer satisfaction, employee satisfaction and owner(s) satisfaction.

Profile refers to the characteristics of the respondents which are: age, gender, employee designation or rank, position in the organization and highest educational qualification.

Riba refers to any excess in financial dealings, usury or interest

Profits refer to the final amount of money that a business makes after all costs have been deducted.

Quality of a product refers to the ability of a product/service to fulfill the needs of the consumer by solving consumer problem(s).

Sales are what an organization gets in terms of money and other compensations in exchange for the product/services in offered.

Sustained growth refers to the ability of a firm to grow without falling in problems to necessitate borrowing funds from another source to facilitate its growth.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter discusses in detail the variables under study (Islamic banking rules and success of banks in Mogadishu Somalia), the theory to which the study was based and related studies.

Concepts, Opinions, Ideas From Authors/Experts

Islamic banking

Islamic banking (or participant banking) is banking or banking activity that is consistent with the principles of Islamic law (Sharia) and its practical application through the development of Islamic economic. Sharia prohibits the payment or acceptance of specific interest or fees (known as Riba or usury) for loans of money, (Aly K, 2009).

Islamic banking is based on principles which emphasize moral and ethical values in all dealings with wide universal appeal. Shari'ah prohibits the payment or acceptance of interest charges (riba) for the lending and accepting of money, as well as carrying out trade and other activities that provide goods or services considered contrary to its principles. While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number of Islamic banks were formed to provide an alternative basis to Muslims although Islamic banking is not restricted to Muslims.

Riba

The word "Riba" means excess, increase or addition, which according to Shariah terminology, implies any excess compensation without due consideration (consideration does not include time value of money). The definition of riba in classical Islamic jurisprudence was surplus value without counterpart, or to ensure equivalency in real value and that "numerical value was immaterial, (Aly K, 2009).

Applying interest was acceptable under some circumstances. Currencies that were based on guarantees by a government to honor the stated value (i.e. fiat currency) or based on other materials such as paper or base metal were allowed to have interest applied to them. When base metal currencies were first introduced in the Islamic world, the question of "paying a debt in a higher number of units of this fiat money being riba" was not relevant as the jurists only needed to be concerned with the real value of money (determined by weight only) rather than the numerical value. For example, it was acceptable for a loan of 1000 gold dinars to be paid back as 1050 dinars of equal aggregate weight (i.e., the value in terms of weight had to be same because all makes of coins did not carry exactly similar weight).

Principles

According to Sait, S. et al (2006) Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of shariah, known as Fiqh al-Muamalat (Islamic rules on transactions). The basic principle of Islamic banking is the sharing of profit and loss and the prohibition of riba.

Rosly et al (2006) argue that, the Shari'ah prohibits the payment of charges for the renting of money (i.e. riba, which in the definition of Islamic scholars covers any excess in financial dealings, usury or interest) for specific terms, as well as investing in businesses that provide goods or services considered contrary to its principles (Haram, forbidden). While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions within the Muslim community.

While a basic tenant of Islamic banking - the outlawing of riba, a term that encompasses not only the concept of usury, but also that of interest - has seldom been recognized as applicable beyond the Islamic world, many of its guiding principles have, (Mahlknecht, 2009). The majority of these principles are based on simple morality and common sense, which form the bases of many religions, including Islam.

The universal nature of these principles is immediately apparent even at a cursory glance of non-Muslim literature. Usury was prohibited in both the Old and New Testaments of the Bible, while Shakespeare and many other writers, particularly those writing in the 19th century, have attacked the barbarity of the practice. Much of the morality championed by Victorian writers such as Dickens - ranging from the equitable distribution of wealth through to man's fundamental right to work - is clearly present in modern Islamic society.

Mortgage transaction

In an Islamic mortgage transaction, instead of loaning the buyer money to purchase the item, a bank might buy the item itself from the seller, and re-sell it to the buyer at a profit, while allowing the buyer to pay

the bank in installments (Benedikt, 2009). However, the bank's profit cannot be made explicit and therefore there are no additional penalties for late payment. In order to protect itself against default, the bank asks for strict collateral. The goods or land is registered to the name of the buyer from the start of the transaction. This arrangement is called Murabahah.

Another approach is EIjara wa EIqtina, which is similar to real estate leasing. Islamic banks handle loans for vehicles in a similar way (selling the vehicle at a higher-than-market price to the debtor and then retaining ownership of the vehicle until the loan is paid).

An innovative approach applied by some banks for home loans, called Musharaka al-Mutanaqisa, allows for a floating rate in the form of rental. The bank and borrower form a partnership entity, both providing capital at an agreed percentage to purchase the property. The partnership entity then rents out the property to the borrower and charges rent. The bank and the borrower will then share the proceeds from this rent based on the current equity share of the partnership.

At the same time, the borrower in the partnership entity also buys the bank's share of the property at agreed installments until the full equity is transferred to the borrower and the partnership is ended. If default occurs, both the bank and the borrower receive a proportion of the proceeds from the sale of the property based on each party's current equity (Benedikt K., 2009). This method allows for floating rates according to the current market rate such as the BLR (base lending rate), especially in a dual-banking system like in Malaysia.

There are several other approaches used in business transactions. Islamic banks lend their money to companies by issuing floating rate

interest loans. The floating rate of interest is pegged to the company's individual rate of return. Thus the bank's profit on the loan is equal to a certain percentage of the company's profits. Once the principal amount of the loan is repaid, the profit-sharing arrangement is concluded. This practice is called Musharaka (Rosly, S. A. 2006).

Islamic laws on trading

According to Mahlkecht (2009) the Quran prohibits gambling (games of chance involving money) and insuring ones' health or property (also considered a game of chance). The hadith, in addition to prohibiting gambling (games of chance), also prohibits bayu al-gharar (trading in risk, where the Arabic word gharar is taken to mean "risk" or excessive uncertainty).

The Shafi legal school defined gharar as that whose nature and consequences are hidden or that which admits two possibilities, with the less desirable one being more likely. The modern scholar of Islam, Professor Mustafa Al-Zarqa, wrote that "Gharar is the sale of probable items whose existence or characteristics are not certain, due to the risky nature that makes the trade similar to gambling (Sait, *et al* 2006).

Profit-and-Loss Sharing

While Islam employs various practices that do not involve charging or paying interest, the Islamic financial system promotes the concept of participation in a transaction backed by real assets, utilizing the funds at risk on a profit-and- loss-sharing basis. Such participatory modes used by Islamic banks are known as Musharakah and Mudarabah. This by no means implies that investments with financial institutions are necessarily speculative. This can be excluded by careful investment policy,

diversification of risk and prudent management by Islamic financial institutions.

The concept of profit-and-loss sharing in an enterprise, as a basis of financial transactions is a progressive one as it distinguishes good performance from the bad and the mediocre. This concept therefore encourages better resource management. The Islamic sukuk system is similar to bonds of capitalist system, but in sukuk, money is invested concrete projects and profit share is distributed to clients instead of interest earned.

While Islamic banking permit the individual the right to seek economic well-being, Islam makes a clear distinction between what is halal (lawful) and what is haram (forbidden or unlawful) in pursuit of such economic activity. In broad terms, Islam forbids all forms of economic activity, which are morally or socially injurious. At the same time while acknowledging the individual's right to ownership of wealth legitimately acquired, Islam makes it obligatory on the individual to spend his wealth judiciously and not to hoard it, keep it idle or to squander it.

Integrity in Islamic Banking

Islamic banks need to give special care to their integrity and credibility. Some critics are disappointed that Islamic banks have deviated, to a great extent, from the philosophic and idealistic basis that inspired their originators in the 1970s.

Islamic banks come in all shapes and forms: banks and non-banks, large and small, specialized and diversified, traditional and innovative, national and multi-national, successful and unsuccessful, prudent and reckless, strictly regulated and free-wheeling. Some, particularly the

"Islamic windows" of conventional banks, are virtually identical to their conventional counterparts, while others are markedly different. Some are driven by real religious considerations, while others use religion only as a way of attracting customers.

There are considerable disagreements among scholars as to which institutions and instruments are religiously acceptable. For some, their legal structure does not allow them to carry out real Islamic business such as trading, leasing or construction activities and hence they end up doing only conventional financial operations with slight changes to appear Islamic.

There is a risk that Islamic banking ideals may get diluted with conventional banking unless Islamic banks do something to establish their distinctness as "Islamic banks". Non-sharing Islamic modes such as murabaha, salam, istisna'a and ijarah also provide a link between financial transactions and real economic activities, such as trading in tangible assets. But there have to be some underlying goods and services to be the objects of such modes of financing.

In theory, Islamic banking is an example of full-service banking, with banks achieving a 100% reserve ratio. However, in practice, this is not the case, and no examples of 100 per cent reserve banking are observed

Islamic banks have grown recently in the Muslim world but are a very small share of the global banking system. Micro-lending institutions founded by Muslims, notably Grameen Bank, use conventional lending practices and are popular in some Muslim nations, especially Bangladesh, but some do not consider them true Islamic banking. However, Muhammad Yunus, the founder of Grameen Bank and microfinance banking, and other supporters of microfinance, argue that the lack of collateral and lack of

excessive interest in micro-lending is consistent with the Islamic prohibition of usury (riba).

Business Success

Mullins (2002) refers to business success as referring to output or results of an organization as measured against its intended outputs (or goals and objectives). In this study, business success refers to how the organization scores on the different dimensions such as sales, market share, profits, quality products, sustained growth, consumer satisfaction, employee satisfaction and owner(s) satisfaction.

A sales is the exchange of goods or services for an amount of money or its equivalent; sales are the lifeblood of a business as it is what helps you pay employees, cover operating expenses, buy more inventory, market new products and attract more investors. Sales forecasting is a crucial part of the financial planning of a business; self-assessment tool uses past and current sales statistics to intelligently predict future performance. (Glen, 2008).

Market share is market's total sales that are earned by a particular company in relation to other players in the market over a specified time period. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general view of the size of a company to its market and its competitors and increasing market share is one of the most important objectives of business because market share increases can allow a company to achieve greater scale in its operations and improve profitability, as such companies are always looking to expand their share of the market, in addition to trying to grow the size of the total market by appealing to larger demographics, lowering prices, or through advertising (Gallinger, (2000).

Profits are the financial returns or rewards that business owners aim to achieve to reflect the risk that they take and given that most entrepreneurs invest in order to make a return, the profit earned by a business can be used to measure the success of that investment (Gong *et al*, 2009). Profit is also an important signal to other providers of finance to a business for instance banks, suppliers and other lenders are more likely to provide finance to a business that can demonstrate that it makes a profit (or is very likely to do so in the near future) and that it can pay debts as they fall due. Further profit is also an important source of finance for a business as the profits earned which are kept in the business (i.e. not distributed to the owners via dividends or other payments) are known as retained profits (Salamon and Robinson, 2008).

Quality product is the ability of a product to meet consumer requirements in terms of benefits offered, while Total quality control is a measure used in cases where sales decrease despite implementation of statistical quality control techniques or quality improvements. If the original specification does not reflect the correct quality requirements, quality cannot be inspected or manufactured into the product. For instance, the parameters for a pressure vessel should include not only the material and dimensions, but also operating, environmental, safety, reliability and maintainability requirements.(Perrault and Mc Carthy,1999).

Sustained growth is a measure of how much a firm can grow without borrowing more money (without having to increase financial leverage), but after the firm has sustained its growth, it must borrow funds from another source to facilitate further growth (Dyllick and Hockerts, 2002). In simple terms and with reference to a business, sustainable growth is the realistically attainable growth that a company could maintain without running into problems. A business that grows too quickly may find it difficult

to fund the growth; a business that grows too slowly or not at all may stagnate. In essence, finding a company's sustainable growth rate answers the question: how much can this company grow before it must borrow money (Galphin, 1997).

Consumer satisfaction is measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals or the extent to which consumers are happy with the products or services provided by a business. Consumer satisfaction is an important concept in business, because happy customers are those most likely to place repeat orders and explore the full range of services offered and as such consumer satisfaction has increasingly has become a key element of business strategy (Farris *et al*, 2010).

Employee satisfaction is the terminology used to describe whether employees are happy and contented and fulfilling their desires and needs at work; many measures purport that employee satisfaction is a factor in employee motivation, employee goal achievement, and positive employee morale in the workplace. Employee satisfaction, while generally a positive in your organization, can also be a downer if mediocre employees stay because they are satisfied with your work environment. Factors contributing to employee satisfaction include treating employees with respect, providing regular employee recognition, empowering employees, offering above industry-average benefits and compensation, providing employee perks and company activities, and positive management within a success framework of goals, measurements, and expectations (Mullins, 2002).

Owner(s) satisfaction is regarded as one of the ultimate goals of business which includes earnings per share, ordinary dividends per share, dividend cover, and return on equity among others (Jorgen, 2005).

Theoretical Basis for Islamic Banking

In this study, the researcher opted to view business success as a special case, and hence could make use of business success theories, which assert that there are factors (referred to as Islamic banking rules and regulations in this study) influence successes (Abdallah, A., 1987). Several studies have examined the causes of high and low business success from this theoretical orientation or perspective such as Hisrich (2010). According to the theory, Islamic banking is simply an interest-free financial structure. But, in fact, Islamic economics is a complete system of social and economic justice. It deals with property rights, the incentive system, the allocation of resources, economic freedom and decision-making and the proper role of government.

Western bankers have said that savings and investments would soon dry up if interest were not paid. But this is due to identifying "rate of interest" and "rate of return". The Qur'an says: "God has permitted trade, but forbidden riba (interest)" (2:275). Therefore it is only the fixed, or predetermined, return on savings or transactions that is forbidden, not an uncertain rate of return, such as the making of profit.

Related Studies

Several studies have discussed innovation and business success in different contexts and from different points of orientation.

For example Noor (2006) empirically showed that Islamic banking leads to improved organizational performance of Tropical bank in Uganda.

Kerir (2008) in a study of Islamic banking and performance in Salama bank in Kisimayu established which Islamic banking rules that Islamic banking rules led to the success of Salama bank.

Salim (2002) in his study Islamic banking and performance of Dahashir bank in Riyadh, Saudi.

Bagash (2006) in the study of interest free loans and performance of banks in Pakistan established that product interest free loans leads to better performance of banks as they get ownership in the business of the borrowers of the money until it is paid.

CHAPTER THREE

METHODOLOGY

Research Design

The study used a descriptive co-relational survey design; the study also used a cross sectional, comparative and ex-post facto designs and followed a quantitative paradigm. Descriptive in that data collected used to describe a phenomenon; co-relational in that it was interested in relating Islamic banking and regulations (prohibition of interests, mortgage selling, unacceptable transactions and profits-and-loss sharing) to business success and pertinent data was collected from the respondents once and for all to reduce on time and costs involved on such a large population. Comparative, in that the study determined whether there is a significant difference in the level of Islamic banking and regulations and business success in selected banks in Mogadishu, Somalia. Ex-post facto since the researcher has no control over the variables and only seeks to report what is happening in the field. The study also took a quantitative approach in that it was based on variables measured with numbers and analyzed with statistical procedures. The study was a survey since it involved a large sample (Creswell, 2003; Kahn, 1993; Kothari, 2004).

Research Population

Target Population

In this study the target population involved 452 employees of the selected banks in Mogadishu, Somalia. All the categories of employees (top level managers, middle level managers, and lower level managers) were involved because they were all directly affected by whatever policy is made on Islamic banking rules and regulations which in turn affects business success.

Table 1
Respondents of the Study

Banks	Total Target Population	Sample Size
Mustaqbal	144	78
Dahabshiil	204	108
Salama	42	11
Grand Total	390	197

Sample Size

The minimum sample size is computed using the Sloven's formula, which states that, for any given population, the required sample size is given by;

$$n = \frac{N}{1 + N(e^2)} , \text{ Where; } n = \text{the required sample size; } N = \text{the known}$$

population size; and e = the level of significance, which is = 0.05. Given a total population of 390 respondents in the selected banks in Mogadishu, Somalia, a sample of 197 were involved in the study as illustrated in Table 1.

The target population of 390 (which included 144 Mustaqbal, 204 Dahabshil, and 42 Salama employees) respondents being large, a sample of 197 respondents were used, got using stratified random sampling to reduce costs, time of doing research and to increase the degree of accuracy of the study. (Saunders *et al*, 2000). Regarding sample size, the sampling frames (i.e. employees) in the selected banks were stratified according to departments in selected banks in Mogadishu, Somalia. Then proportionate systematic random samples were chosen from the respective stratum sampling frames or lists (Creswell, 2003).

Data Collection Methods

The researcher used secondary and primary data collection approaches.

Secondary data was got from reviewing text books, journals articles, manuals, periodicals, dissertations, internet sources to mention but a few.

Primary data was got using research questionnaires as the data collection instruments because of their cost effectiveness in a survey involving literate respondents.

Research Instrument

There were two sets of questionnaires directed towards employees in selected banks in Mogadishu, Somalia; one was on Islamic banking and regulations, and another on business success. The questionnaire consisted of main title and introductory letter, with a section of 6 bio-data questions, to help classify respondents.

The questionnaire on innovation (independent variable) consists of 20 questions divided in four sub-sections distributed as follows; 5 questions on prohibition of interest, items 1-5; 5 questions on mortgage selling, items 6-10 and 5 questions on unacceptable transactions, items 11-15 and 5 questions on profits-and-loss-sharing, items 16-20, all questions in this section are close ended, based on four Likert Scale, ranging from one to four; where 1=Strongly Disagree, 2= Disagree, 3=Agree, 4= Strongly Agree.

The questionnaire on business success (dependent variable) consists of 40 questions divided in 8 sub-sections distributed as follows; 5 questions on sales, items 1-5; 5 questions on market share, items 6-10; 5 questions on profits, items 11-15; 5 questions on quality products, items 16-20; 5 questions on sustained growth, items 21-25; 5 questions on consumer satisfaction, items 26-30; 5 questions on employee satisfaction, item 31-35; 5 questions on owners satisfaction, item 36-40. All questions in this section

are close ended, based on four Likert Scale, ranging from one to four; where 1=Strongly Disagree, 2= Disagree,3=Agree, 4= Strongly Agree.

Validity and Reliability of the Instruments

The researcher tested for validity and reliability on the banking and regulations Questionnaire which is non-standardized, where content validity was done by ensuring that questions or items in questionnaire conform to the study's conceptualization. Supervisors and other senior staff in KIU who are experts in the field of study evaluated the relevance, wording and clarity of question or items in the instrument. Pre-testing for reliability was done by administering the questionnaire to employees in selected telecom firms who were not be included in the actual study.

Construct validity was ensured using Factor Analysis. Reliability of the instrument on multi item variables (e.g. prohibition of interest, unacceptable transactions and mortgage selling) was tested using the Cronbach Alpha Methods and a Cronbach alpha (α) of at least 0.7 (Amin, 2003) which led the questionnaires to be declared reasonably reliable or consistent.(Amin, 2005).

While on Business Success, the construct and criterion validity of the Business Success Questionnaire was empirically proven by Porter (1980) that shall be adopted in this study.

Data Gathering Procedures

The following data collection procedures were implemented:

A. Before the administration of the questionnaires

The researcher requested for an introduction letter from the School of Postgraduate Studies and Research addressed to the authorities of the selected banks in Mogadishu, Somalia under study for the researcher to be permitted to conduct the study. The letter contained the criteria for selecting the respondents and the request to be provided with the

list employees from the selected telecom firms. After approval, the requested list of respondents provided to the researcher by the selected banks was used by the researcher as a guide in identifying the participants of the study, after which pre-testing of the instrument on banking rules followed.

The researcher prepared the questionnaires and sat with selected research assistants to discuss and brief them on the sampling techniques and data gathering procedures.

The researcher utilized the table on respondents (Table 1) to determine the number of participants.

B. During the administration of the questionnaires

Specifically, the researcher together with researcher assistants requested the respondents: (1) to sign the informed consent; (2) to answer all questions hence should not leave any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires.

The researcher together with research assistants also tried retrieving the questionnaires within two weeks from the date of distribution.

All questionnaires retrieved were checked if completely filled out.

C. After the administration of the questionnaires

The data collected was organized, collated, summarized, statistically treated and drafted in tables using the Statistical Package for Social Sciences (SPSS).

Data Analysis

To determine the profile of the respondents, the frequency and percentage distribution was used.

The mean and standard deviation was used to compute for the level of banking rules and business success. An item analysis based on the mean scores and ranks shall reflect the strengths and weaknesses of the

respondents in terms of banking rules and regulations and business success. To interpret the obtained data, the following numerical values and descriptions were used:

Mean Range	Description	Interpretation
3.26-4.00	Strongly Agree	Very Good
2.51-3.25	Agree	High
1.76-2.50	Disagree	Moderate
1.00-1.75	Strongly Disagree	Low

t-test was used to test difference in means and to test the hypothesis for difference between means at 0.05 level of significance.

Pearson Linear Correlation (PLC) was used to test the hypothesis on correlation between communication and business performance at 0.05 level of significance.

Ethical Considerations

To ensure utmost confidentiality for the respondents and the data provided by them as well as reflect ethics practiced in this study, the following will be done:

1. All questionnaires were coded to provide anonymity of the respondents.
2. The respondents were requested to sign the informed consent.
3. Authors quoted in this study were recognized through citations and referencing.
4. A written communication to the authors of the standardized instrument on organization' performance to solicit permission to use the standardized questionnaire.
5. Presentation of findings were generalized.

Limitations of the Study

The researcher claimed an acceptable (0.05 level of significance) 5% margin of error in view of the following anticipated threats to validity with relevance to this study:

1. *Instrumentation*: The research instrument on innovation is not standardized. A validity and reliability test was done to produce a credible research tool.
2. *Attrition*: The researcher expects loss of respondents over the course of a study, such as employees retiring, resignation or death but the researcher gave out more questionnaires than the required number to reduce on this.
3. *Extraneous variables*: The researcher did not have control over the extraneous variables such as honesty of the respondents, personal biases and descriptive nature of the Design. For untruthfulness where some of the respondents are expected not to say the truth, the researcher probed the respondents further to establish the truth when it deems necessary, and personal biasness were also avoided.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Introduction

This chapter the presented the analyzed data and interpretations made there of following the study objectives. It specifically showed data on profile of respondents, level of Islamic banking, level of business success, significant differences in the level of Islamic banking and success of selected banks in Mogadishu, Somalia and the relationship between Islamic banking and success selected banks in Mogadishu, Somalia.

Profile of Respondents

Respondents in this study were described according to age, gender, employee designation or rank, income level, highest educational qualification, bank and area of residence. In each case, respondents were asked through a closed ended questionnaire, to provide their respective profile information, to enable the researcher classify and compare them accordingly. Their responses were analyzed using frequencies and percentage distributions as summarized in table 2;

Table 2
Profile of Respondents

Profile	Frequency	Percent
Age		
20-39	76	39
40-59	68	35
60 and above	53	26
Total	197	100
Gender		
Male	53	27
Female	144	73
Total	197	100
Rank		
Top level manager	31	16
Middle level manager	81	41
Lower level manager	85	43
Total	197	100
Level of income		
Low	57	29
Medium	62	32
High	78	40
Total	197	100
Highest qualification		
Certificate	29	15
Diploma	28	14
Degree	78	40
Masters	62	31
Total	197	100
Bank		
Mustaqball	54	27
Dahabshil	97	49
Salama	46	24
Total	197	100

Source: Primary data

Table2 shows most respondents in the study sample were of the age group between 20-39(39%), while age group 40-59 were 37% of the

sample, which is in line with most African countries where the biggest portion of the population lies below 35 years and very few are above 60 years; regarding gender while majority the respondents were female 73%, compared 23% who were male, indicating that the sample was dominated by females as compared to males. Regarding designation, most respondents in the study were low level managers (43%), although other designations or ranks were proportionately represented with top level managers having the least contribution 16% of the total sample, which is a normal distribution in organizational setting.

Regarding highest educational qualification, results indicate that respondents in the selected banks in Mogadishu Somalia are highly educated, with majority of the respondents 40% having degrees, while minority of the respondents 14% having certificates, while certificate holders were 15% while masters' holders were 31%.

About respondents' distribution by banks were fairly distributed in Mogadishu, Somalia, although Dahabshil banks contributed the majority of the respondents (49%), while Salama bank contributed to minority of the sample respondents (24%) while Mustaqbal contributed 27% of the sample.

Level of Islamic Banking

The independent variable in this study was Islamic banking, operationalized into prohibition of interests, mortgage selling, unacceptable transactions and profits-and-loss sharing was measured using five qualitative questions in the questionnaire, process and position innovation were each also measured using five items. All items on innovation were Likert scaled using four points ranging between 1= strongly disagree, 2=disagree, 3= agree, 4=strongly agree. The first objective in this study was set to determine the level of innovation, for which respondents were

required to indicate the extent to which they agree with each of the items or statements by filling in the number that best describes their perceptions. Their responses were analyzed and described using means as summarized in table 3;

Table3:
Level of Islamic Banking Rules in Selected Banks in Mogadishu,
Somalia
n= 197

Categories	Mean	Interpretation	Rank
Prohibition of Interest			
Your banking is based on the Islamic of transaction.	2.99	High	1
In the bank I work for money is only considered a medium of	2.96	High	2
We emphasize Islamic moral and ethical values in our dealings	2.82	High	3
Your banking is based on the Islamic of transaction.	2.74	High	4
In your transactions, there is sharing of information with customers	2.25	High	5
SUB-TOTAL	2.75	High	
Mortgage selling			
You buy and sell mortgage on instrumental payment	2.91	High	6
Your bank allow floating rate in form of rentals	2.88	High	7
You lend money to companies by issuing floating rate	2.70	High	8
Individuals and the World as a whole knows the burden of interest in mortgage banking	2.65	High	9
In your dealing in mortgage, we do not charge additional penalties for late payment	2.18	High	10
SUB-TOTAL	2.67	High	
Unacceptable transactions			
You do not involve in transactions	2.96	High	11

involving Alcohol			
You do not deal in transactions involving pork and its products	2.92	High	12
We do not transact business involving gambling	2.91	High	13
You do not deal in transactions involving insuring ones health and property	2.74	High	14
You only engage in Islamic ethical investment and moral purchasing	2.54	High	15
SUB-TOTAL	2.81	High	
Profit and loss-sharing			
You diversify risk and we have a prudent management of our institution	2.76	High	16
You support transactions involving utilization of funds at risk on a profit and loss sharing basis	2.75	High	17
We have a careful investment policy	2.23	High	18
You promote the concept of participation in transactions backed by real assets	2.08	High	19
We have a clear distinction between businesses that are halal(lawful) and those that are haram	2.01	High	20
SUB-TOTAL	2.37	High	
Overall-total	2.65	High	

Source: Primary data

Results in table 3 indicate that there are different levels of Islamic banking and regulations on different aspects. For example, respondents rated the level of prohibition of interest to be high (mean=2.75), equivalent

to agree, mortgage selling rated high (mean=2.67) equivalent to agree and unacceptable transactions rated to be high (mean=2.81), equivalent to agree and profits and loss sharing rated high on Likert scale. Overall, all items on innovation were to rated to be high (mean=2.65), indicating that there is a relatively a high level of rules and regulations in selected banks in Mogadishu, Somalia.

This concurs with Kerir (2008) in a study of Islamic banking and performance in Salama bank in Kisimayu who established that that there was high level of Islamic baking that led to the success of Salama bank. Similarly, Bagash (2006) in the study of interest free loans and performance of banks in Pakistan established that who established that there was high level of Islamic banking in banks in Pakistan that led to better performance of banks as they got ownership in the business of the borrowers of the money until loan is paid.

Level of Business Success

The dependent variable in this study was success banks, which was broken into sales, market share, profits, quality products, consumer satisfaction, employee satisfaction and owner(s) satisfaction. Each of these components was measured using three items or questions in the questionnaire, with each question rated with four point Likert scale, ranging between one to four, where 1=strongly disagree, 2=disagree, 3=agree and 4=strongly agree. The second objective in this study was set to determine the level of success of banks, for which respondents were required to rate the level of business success by indicating the extent to which they agree with each item in the table. They had to this by feeling in the number that best describes their perceptions. Their responses were analyzed and described using means as summarized in table 4A and 4B below;

Table 4 A
Business Success of Selected Banks in Mogadishu, Somalia
(Item Analysis)
n= 197

Sales	Mean	Interpretation	Rank
Sales in your organization are high compared to other players in the market.	3.21	High	1
Sales in your organization are set to be increasing in future.	3.15	High	2
Sales in your organization are increasing compared to other players in the market.	3.09	High	3
Sales in your organization meet your organization's expectation.	3.05	High	3
Sales in your organization are as good as the best player in the market.	2.97	High	5
Sub Total	3.09	High	
Market share			
Market share of your organization is increasing in because of charging consumer friendly prices among others.	3.13	High	1
Market share of your organization is set to be increasing in the future compared to other players in the market.	3.09	High	2
Market share of your organization is big compared to other players in the market.	2.98	High	3
Market share of your organization is as big as the organization expects	2.95	High	3
Market share of your organization faces little or no challenges to maintain.	2.85	High	5
Sub Total	3.00	High	
Profits			
Net profits (after deducting taxes and interest) in your organization are high after deducting taxes and interest after taxes.	3.04	High	1
Net profits in your organization are set to be increasing in future	3.03	High	2
Net profits in your organization are as good as the best player in the market.	2.98	High	3
Net profits in your organization satisfy your organization's expectation	2.97	High	3
Net profits in your organization are high compared to other players in the market.	2.94	High	5
Sub Total	2.99	High	

Quality products			
Your organization produces services that are safe (i.e used	3.28	Very high	1
Your organization provides products/ services in time (without	3.19	High	2
Your organization communicates to consumers in a language	3.15	High	3
Your organization provides products/ services that are	3.13	High	3
Your organization produces products/ offers services that are	3.10	High	5
Sub Total	3.17	High	

Source: Primary data

Table 4 B
Business Success of Selected Banks in Mogadishu, Somalia
(Item Analysis)
n= 197

Consumer Satisfaction	Mean	Interpretation	Rank
Your organization gives consumers value for their money	3.26	Very high	1
Your organization abides by warranties given to consumers	3.15	High	2
Your organization offers good after sales service.	3.13	High	3
Your organization keeps consumers informed.	3.05	High	4
Your organization offers consistent channels of distribution management for its services	3.05	High	5
Sub Total	3.13	High	
Employee Satisfaction			
Your organization pays you on time.	3.18	High	1
Your organization pays you commensurately to your efforts	3.06	High	2
Your organization gives employee benefits that are adequate	3.06	High	3
Your organization is committed to non discrimination of employees	3.03	High	4
Your organization offers safe working environment for its employees	3.02	High	5
Sub Total	3.07	High	
Owner(s) Satisfaction			
Your organization keeps share holders informed of the latest development.	3.12	High	1
Earnings per share in your organization are set to be increasing	3.11	High	2
Your organization is committed to keep safe earning per share for its shareholders.	3.08	High	3
Your organization's earnings per share are better than those of other players in the market.	3.07	High	4
Your organization gives earnings per share holder on time	2.90	High	5
Sub Total	3.05	High	
Grand Total	3.07	High	

Source: Primary data

Table 4A and 4B results indicate that the level of business success is relatively high in selected banks in Mogadishu, Somalia; all the seven of business success were measured, as rated or perceived by the respondents. For example, sales was rated as high (mean =3.09), which falls under agree on the Likert scale; market share was rated as high (mean=3.00), falling under agree on the Likert scale and ranked as high business success, profit was rated as high (mean=2.99), falling under agree on the Likert scale, quality products was rated as high (mean=3.17), falling under agree on the Likert scale and ranked as high business success, consumer satisfaction was rated as high (mean=3.13), falling under agree on the Likert scale and ranked as high business success, employee satisfaction was rated as high (mean=3.07), falling under agree on the Likert scale and ranked as high business success, owners satisfaction was rated as high (mean=3.05), falling under agree on the Likert scale and ranked as high business success and ranked as high business success. To get a summary picture on how respondents rated the level of business success, a mean index for all the seven aspects of business success were rated, and computed which turned out to be 3.07, which falls under agree on the Likert scale and ranked as high business success. This agrees with Noor (2006) who empirically showed that Islamic banking was high in Tropical bank in Uganda that led to improved organizational performance of Tropical bank in Uganda .

Difference in the Level of Islamic Banking and Success of Selected Banks in Mogadishu, Somalia

The fourth objective in this study was to determine whether there is a significant difference in the level of Islamic banking and regulations and level of success of banks in Mogadishu, for which it was hypothesized that the mean perceptions of respondents from the banks in Mogadishu do not significantly differ. To test this hypothesis, the researcher compared the

mean perceptions computed in table 3 and 4 for respondents from all the four districts involved in this study, using Fisher's one way Analysis of Variance (ANOVA), results of which are indicated in table 5 below;

Table 5
Significant Difference in the Level of Islamic Banking and Business Success of Selected Banks in Mogadishu, Somalia

Variable	Bank	Mean	F-value	Sig.	Interpretation	Decision on Ho
Prohibition of Interest	Mustaqbal	3.29	1.156	0.330	No significant difference	Accepted
	Dahab shir	3.30				
	Salama	3.28				
	Total	3.29				
Mortgage Selling	Mustaqbal	2.86	0.943	0.475	No significant difference	Accepted
	Dahab shir	3.64				
	Salama	3.27				
	Total	3.20				
Unacceptable Transactions	Mustaqbal	3.29	1.192	0.309	No significant difference	Accepted
	Dahab shir	3.64				
	Salama	3.20				
	Total	3.09				
Profit and loss sharing	Mustaqbal	3.17	0.943	0.475	No significant difference	Accepted
	Dahab shir	3.75				
	Salama	3.21				
	Total	3.29				
Overall Islamic Banking rules	Mustaqbal	4.20	1.052	0.396	No significant difference	Accepted
	Dahab shir	3.94				
	Salama	3.26				
	Total	3.60				

Source: Primary data

One way ANOVA results in table 5 indicate that there is a significant difference in the level of Islamic banking rules and business success of selected banks in Mogadishu, Somalia. For example, the mean perceptions from the eight districts did not significantly differ. For instance of prohibition of interest ($F=1.156$, sig. = 0.330); process mortgage selling ($F=0.943$, sig. = 0.475); unacceptable transactions ($F=0.943$, sig. = 0.475) and profits and loss sharing ($F=1.192$, sig. = 0.309). Basing on these results, the null

hypothesis is accepted, leading to a conclusion that Islamic banking rules and success of the selected banks in Mogadishu did not significantly differ.

Relationship between Islamic Banking and Success of Selected Banks in Mogadishu, Somalia

The fifth and last objective in this study was to determine the relationship between Islamic banking rules and success of selected banks Mogadishu, Somalia; for which it was hypothesized that the two variables are not significantly correlated. To test this null hypothesis, the researcher correlated all the mean perceptions computed in Table 3 and 4 above, using the Pearson's Linear Correlation Coefficient (PLCC, r). Results of this test are indicated in table 6 below;

Table 6
Relationship between the Level of Islamic Banking and Business
Success of Selected Banks in Mogadishu, Somalia
(Sig. = 0.05)

Variables Correlated	r-value	Sig.	Interpretation	Decision on Ho
Islamic Banking Rules vs. Sales	0.579	0.000	Significant correlation	Rejected
Level of Innovation vs. Market Share	0.689	0.000	Significant correlation	Rejected
Level of Innovation vs. Product Quality	0.652	0.000	Significant correlation	Rejected
Level of Innovation vs. Sustained Growth	0.714	0.000	Significant correlation	Rejected
Level of Innovation vs. Consumer Satisfaction	0.666	0.000	Significant correlation	Rejected
Level of Innovation vs. Employee Satisfaction	0.534	0.000	Significant correlation	Rejected
Level of Innovation vs. Owner(s) Satisfaction	0.438	0.000	Significant correlation	Rejected

Source: Primary data

Table 7:
Pearson's Correlations (n =197)

Variables correlated	R-value	Sig-value	Interpretation	Ho
Success Vs Interest	.997	.000	Significant correlation	Rejected
Success Vs Mortgage	.993	.000	Significant correlation	Rejected
Success Vs Transactions	.995	.000	Significant correlation	Rejected
Success Vs Profit/Loss	.959	.000	Significant correlation	Rejected

Table 7 indicates that Islamic banking were positively and significantly correlated with all the seven forms of business success (all r-values<0.05, except owner(s) satisfaction with r-value 0.438). For example, Islamic banking rules is positively and significantly correlated with business success (r=0.579, sig. =0.000); market share (r=0.689, sig. =0.000); product quality (r=0.652, sig. 0.000); sustained growth (r=0.714, sig. 0.000); consumer satisfaction (r=0.666, sig. 0.000); employee satisfaction (r=0.534, sig. 0.000) and owner(s) satisfaction(r=0.438, sig. 0.000).

To get a general picture on the overall relationship between all the three aspects of innovation and the seven aspects of business success, two mean indices were computed for innovation and business success, after which the two indices were linearly regressed, as per results in table 8 below;

Table 8
Regression Analysis of Business Success and Innovation

Variables Regressed	Adjusted r^2	F-value	Sig.	Interpretation	Decision on H_0
Business Success vs. Islamic Banking Rules	0.616	113.384	0.000	Significant effect	Rejected
Coefficients	Beta	t-value	Sig.	Interpretation	Decision on H_0
(Constant)	--	1.426	0.155	No significant effect	Accepted
Prohibition of Interest	0.079	1.566	0.119	No significant effect	Accepted
Mortgage Selling	0.357	6.077	0.000	Significant effect	Rejected
Unacceptable Transactions	0.486	9.314	0.000	Significant effect	Rejected
Profits and Loss Sharing	0.353	6.072	0.000	Significant effect	Rejected

Source: Primary data

According to the regression analysis results in table 8, the variables included in the model account for over 62% variations in dependent variable, indicated by a high adjusted r-square of 0.616. Results further suggest that the independent variables included in the model significantly influences changes in the dependent variable (business success) ($F=113.384$, sig. =0.000). These results lead to a conclusion that level of Islamic banking significantly explains the high rates of success of in selected banks in Mogadishu, Somalia. The coefficients table further shows that of all the components of Islamic banking; prohibition of interest (0.079, sig. = 0.119) accounts for the biggest variations business success, accounting for over 49% as compared to the other three factors; prohibition of interests ($\beta=0.357$, sig. =0.000) mortgage selling ($\beta=0.357$, sig. =0.000) accounting for 4% and unacceptable transactions ($\beta=0.486$, sig. = 0.000) accounting for 48% and profits and loss sharing ($\beta=0.353$, sig. = 0.000).

This concurs with Noor (2006), Bagash (2006), Salim (2002), Kerir (2008) among others who asserted that Islamic banking (prohibition of interests, mortgage selling, unacceptable transactions and profits-and-loss sharing) leads to business success banks.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

This chapter presented the summary of the findings, conclusions, recommendations following the study objectives and pertinent hypotheses and areas of future research.

FINDINGS

This study was set out to establish the relationship between Islamic banking and success of selected banks in Mogadishu, Somalia which was guided by the following objectives; to determine the profile of the respondents in terms of age, gender, rank, income level, highest educational qualification, telecom company and district of operation; to determine the level of Islamic banking (prohibition of interest, mortgage selling, unacceptable transactions and profits and loss sharing) in selected banks in Mogadishu; to determine the level of business success in terms of sales, market share, profits, quality products, consumer satisfaction, employee satisfaction and owner(s) satisfaction in selected banks in Mogadishu; to establish whether there is a significant difference in the level of Islamic banking and business success of selected banks in Mogadishu; to establish whether there is a significant relationship between Islamic banking and business success of selected banks in Mogadishu, Somalia.

Data was analyzed using SPSS's descriptive statistics for means and standard deviations showed that; (i) level of Islamic banking (prohibition of interests, mortgage selling, unacceptable transactions and profits-and-loss sharing) mean= 2.65 ranked high; (ii) level of business success in terms of sales, market share, profits, quality products, consumer satisfaction, employee satisfaction and owner(s) satisfaction mean =3.07 ranked

high;(iii) whether there is a significant difference in the level of Islamic banking rules and business success (prohibition of interest $F=1.156$, sig. = 0.330; mortgage selling $F=0.943$, sig. 0.475, unacceptable transactions $F=1.192$,sig.0.309 and profit and loss sharing $F=1.052$, sig. =0.475) (iv) whether there is a significant relation between Islamic banking rules and business success in selected banks in Mogadishu, Somalia (r value=0.616, sig. = 0.000).

Regression analysis results indicated that the independent variables included in the model(Islamic banking rules) significantly influences changes in the dependent variable (business success) ($F=113.384$, sig. =0.000); which led to a conclusion that Islamic banking rules significantly explains the high rates success of selected banks in Mogadishu.

One way ANOVA results in table 5 indicate that there is a significant difference in the level of Islamic banking rules and business success of selected districts in Mogadishu. For example, the mean perceptions from the selected banks did not significantly differ.

The Person's Linear Correlation Coefficient results indicated a positive significant relationship between Islamic banking rules and all the seven components of business success (all r -values<0.05, except owner(s) satisfaction with r -value 0.438), and all totaling to ($r=0.579$, sig. =0.000).

CONCLUSION

There was a relatively high level of Islamic banking in terms prohibition of interests, mortgage selling, unacceptable transactions and profits and loss sharing; there was also a high level of business success in terms of sales, market share, profits, quality products, consumer satisfaction, employee satisfaction, owner(s) satisfaction in the selected banks.

The level of communication and business success significantly differed among the selected banks in Mogadishu Somalia; this is due to the differences application of Islamic banking rules in the selected banks.

Islamic banking rules in the selected banks is significantly correlated with business success, indicating that the high level Islamic banking rules in the selected banks in Mogadishu is significantly responsible for a high level of business success in this area.

RECOMMENDATIONS

This section deals with recommendations arising from the pertinent findings and conclusions of this study, following the study objectives and hypotheses;

Banks should state their goals clearly and ensure that they achieve their goals by ensuring that they fully understand why they wish to achieve them and what has been stopping them from achieving their goals and objectives as it to help them discover subconscious motivations and realities to enable them work towards set goals and objectives.

Banks should ensure continuous improvements in their products and services to cater for ever changing consumer tastes and preferences and to cater for competition that may arise from competitors.

Assemble together the right team in terms of abilities and skills to achieve business success; just as a sports team gathers the best players, you need to pull together the right team to increase your business success and make sure they share the organization's vision and dedication, and that they have the skills to bring your business to the next level by taking employees for refresher courses, seminars and motivating them well.

Create a right or positive attitude among employees as it is the best driving factor for success is having the right attitude such as thinking

positively, which makes amazing to happen and surround yourself with positive people as well and make sure you communicate to employees rightly and regularly to bring trust among members and keep their spirits high.

Banks should present the benefits of your products and services to your consumers, highlighting the unique solutions your products and services offer to solve consumers' problems but avoid being copy cats by copying competitors and packaging distinctively.

Keep employees involved in daily activities of the organization; make them feel they are important and play a vital role of the team that runs the organization to make it a success and keep reviewing your relationship with employees and find ways to keep employees happy to avoid costly attrition.

SUGGESTED AREAS FOR FURTHER RESEARCH

There is need to do research in advertising and business success, further research can also be done in loan duration and success of banks in Mogadishu.

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APPENDIX 1 A

TRANSMITTAL LETTER



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OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)

May 27, 2011

Dear Sir/Madam,

**RE: REQUEST FOR MOHAMED OMAR ABUKAR MBA/42265/91/DF
TO CONDUCT RESEARCH IN YOUR ORGANIZATION**

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration (Banking and Finance).

He is currently conducting a field research of which the title is **"Islamic Banking Rules and Success of Selected Banks in Mogadshu, Somalia."**

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,


Mr. Malibga Ramadhan
Coordinator
Business and Management, (SPGSR)

"Exploring the Heights"

APPENDIX 1B

TRANSMITTAL LETTER FOR THE RESPONDENTS

Dear Sir/ Madam,

Greetings!

I am a Masters Student in Business Administration at Kampala International University as Part of the requirements for the award is a Thesis. My study is entitled, **Islamic Banking and Business Success in Selected Banks in Mogadishu Somalia**. May I request you to participate in this study by answering all questions. Any data you will provide shall be for academic purposes only and no information of such kind shall be disclosed to others.

May I retrieve the questionnaire within five days (5)?

Thank you very much in advance.

Yours faithfully,

Mr. Mohamed Omar Abukar

APPENDIX 11
CLEARANCE FROM ETHICS COMMITTEE

Date _____

Candidate's Data

Name _____

Reg.# _____

Course _____

Title of Study _____

Ethical Review Checklist

The study reviewed considered the following:

- ☐ Physical Safety of Human Subjects
- ☐ Psychological Safety
- ☐ Emotional Security
- ☐ Privacy
- ☐ Written Request for Author of Standardized Instrument
- ☐ Coding of Questionnaires/Anonymity/Confidentiality
- ☐ Permission to Conduct the Study
- ☐ Informed Consent
- ☐ Citations/Authors Recognized

Results of Ethical Review

- ☐ Approved
- ☐ Conditional (to provide the Ethics Committee with corrections)
- ☐ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson _____

Members

APPENDIX IIIA

INFORMED CONSENT

INFORMED CONSENT

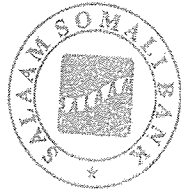
In signing this document, I am giving my consent to be part of the research study of Mr. Mohamed Omar Abukar that will focus on **Islamic Banking Rules and success of selected banks in Mogadishu Somalia.**

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for them.

Initials Mohamed A. Abukar

Date 13-07-2011



APPENDIX IIIB

INFORMED CONSENT

INFORMED CONSENT

In signing this document, I am giving my consent to be part of the research study of Mr. Mohamed Omar Abukar that will focus on **Islamic Banking Rules and success of selected banks in Mogadishu Somalia**.

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for them.

Initials A. M. J. J. J.

Date 12/07/2011



APPENDIX 1VA

FACE SHEET: PROFILE OF THE RESPONDENTS

Age_____

Gender_____

Employee designation or Rank _____

Highest Educational Qualifications_____

Bank_____

Division of operation_____

APPENDIX IVB

ISLAMIC BANKING RULES QUESTIONNAIRE

Direction: Please describe the Islamic banking in your organization. Your respective opinions are to range from 1=Strongly Disagree; 2= Disagree; 3=Agree 4=strongly Agree.

Score	Response Mode	Description
4	Strongly Agree	You agree with no doubt at all
3	Agree	You agree with some doubt
2	Disagree	You disagree with some doubt
1	Strongly Disagree	You disagree with no doubt at all

Prohibition of Interest

- ____ 1. Our banking is based on the Islamic rules of transaction.
- ____ 2. In our transactions, there is sharing of information with customers
- ____ 3. We emphasize Islamic moral and ethical values in our dealings
- ____ 4. In the bank I work for money is only considered a medium of exchange
- ____ 5. We believe interest can lead to injustice and exploitation of society.

Mortgage Selling

- ____ 6. We buy and sell mortgage on instrumental payment
- ____ 7. In our dealing in mortgage, we do not charge additional penalties for late payment
- ____ 8. Our bank allow floating rate in form of rentals
- ____ 9. we lend money to companies by issuing floating rate
- ____ 10. Individuals and the World as a whole knows the burden of interest in mortgage banking

Unacceptable Transactions

- ____ 11. We do not involve in transactions involving Alcohol

- ____12. We don't deal in transactions involving pork and its products
- ____13. We do not transact business involving gambling
- ____14. We only engage in Islamic ethical investment and moral purchasing
- ____15. We do not deal in transactions involving insuring ones health and property

Profit-and-loss-sharing

- ____16. We promote the concept of participation in transactions backed by real assets
- ____17. We support transactions involving utilization of funds at risk on a profit and loss sharing basis
- ____18. We have a careful investment policy
- ____19. We diversify risk and we have a prudent management of our institution
- ____20. We have a clear distinction between businesses that are halal (lawful) and those that are haram (forbidden or unlawful)

APPENDIX 1VC

BUSINESS SUCCESS QUESTIONNAIRE

Direction: Please respond to each item by using the scoring guide below. Kindly write your best choice in the space before each item. Be honest about your options as there is no right or wrong answers.

Score	Response Mode	Description
4	Strongly Agree	You agree with no doubt at all
3	Agree	You agree with some doubt
2	Disagree	You disagree with some doubt
1	Strongly Disagree	You disagree with no doubt at all

- _____1. Sales in your organization are high compared to other players in the market.
- _____2. Monthly sales in your organization are increasing compared to other players in the market.
- _____3. Monthly sales in your organization are set to be increasing in future.
- _____4. Monthly sales in your organization are as good as the best player in the market.
- _____5. Sales in your organization meet your expectation.
- _____6. Market share of your organization is big compared to other players in the market.
- _____7. Market share of your organization is increasing in terms of improved product attributes, consumer friendly prices among others.
- _____8. Market share of your organization is set to be increasing in the future compared to other players in the market.

- _____9. Market share of your organization faces little or no challenges to maintain.
- _____10. Market share of your organization is as big as expected.
- _____11. Gross profits in your organization are high compared to other players in the market.
- _____12. Net profits in your organization are high after deducting taxes and interest after taxes.
- _____13. Net profits in your organization are set to be increasing in future.
- _____14. Net profits in your organization are as good as the best player in the market.
- _____15. Net profits in your organization satisfy your expectation.
- _____16. Your organization produces services that are offered to day and thereafter when ever consumers need them (reliable).
- _____17. Your organization produces services that are used without causing danger or risk to the consumers.
- _____18. Your organization provides services in time without causing delays to the consumers.
- _____19. Your organization produces services that are accessible to the consumers when ever consumers need them.
- _____20. Your organization continuously improves services provided to the consumers.
- _____21. Your organization produces unique services to get sustained growth.
- _____22. Your organization makes offers a wide variety to consumers to choose from get sustained growth.
- _____23. Your organization produces products that are superior compared to other players in the market.
- _____24. Your organization produces services that are applicable to

multiple situations.

- _____25. Your organization produces services that are hard to replicate by other players in the market.
- _____26. Your organization gives consumers value for their money
- _____27. Your organization abides by warranties given to consumers.
- _____28. Your organization offers reliable and consistent channel of distribution management for its services.
- _____29. Your organization keeps consumers informed.
- _____30. Your organization offers good after sales service.
- _____31. Your pays you on time.
- _____32. Your organization pays you equivalent to your efforts.
- _____33. Your organization gives other employee benefits on top of salary.
- _____34. Your organization's commitment to non discrimination of employees is high.
- _____35. Your organization offers safe working environment for its employees.
- _____36. Your organization gives earnings per share holder on time.
- _____37. Your organization's earnings per share are better than those of other players in the market.
- _____38. Earnings per share in your organization are set to be increasing in the future.
- _____39. Your organization is committed to keep safe earning per share for its shareholders.
- _____40. Your organization keeps share holders informed of the latest development.

RESEARCHER'S CURRICULUM VITAE

Personal Profile

Name: Mohamed Omar Abukar
Date of Birth: 1st Jan, 1968
Marital Status: Married
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C/o Kampala International University
P.O. BOX 20000, Uganda

Educational Background

2003-2006	Somali Institute of Management and Administration Development (SIMAD)	Bachelor of Accounting
1980-1984	General Daud Sec School	Certificate in Sec educ.
1972- 1980	General Daud Primary School	Certificate in Primary educ.

Work Experience

1985-1990	Private Business
1991 – 1995	Financial and Marketing Manager ROWDA General trading Company
1996 - 2000	Deputy manager ROWDA General trading Company
2001 – 2011	General manager ROWDA general trading company
2005 - 2010	Consultant of BLUEFLAG General trading
2010 - 2011	Consultant of IRMAN group of Companies

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