THE LINKAGE OF INTERNET BANKING AND CUSTOMER SATISFACTION IN
COMMERCIAL BANKS IN KENYA

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BUSINESS.

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DECLARATION

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

Signature: ........................................ Date: ..........................HQV....£QQ.v.

Registration Number: D61/9052/2006

This project has been submitted for examination with my approval as university supervisor.

Signature: ........................................ Date: ..................................

NAME: DR. ZACHARY BOLO AWINO PhD
DEDICATION

To my family, and all those who rendered their support in the completion of this project.
ACKNOWLEDGEMENT

I am grateful to the Almighty God for seeing me through the entire period of my study.
Thanks to my family for their encouragement and support during this entire period.
Many thanks too to my supervisor for his patience during this entire research period. You
gave me the chance to see my best side.
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## ABBREVIATIONS AND ACRONYMS

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<th>Abbreviation</th>
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<tbody>
<tr>
<td>KCB</td>
<td>Kenya Commercial Bank</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>SWIFT</td>
<td>Society for Worldwide Inter-Bank Financial Telecommunications</td>
</tr>
<tr>
<td>UTAUT</td>
<td>Unified Theory of Acceptance and Use of Technology</td>
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<tr>
<td>TAM</td>
<td>Technology Acceptance Model</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Corporation and Development</td>
</tr>
<tr>
<td>WAN</td>
<td>Wide Area Network</td>
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<tr>
<td>EFT</td>
<td>Electronic funds transfer</td>
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<tr>
<td>SMS</td>
<td>Short Message Service</td>
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<tr>
<td>NBFI</td>
<td>Non-Bank financial institutions</td>
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<td>NBS</td>
<td>Nottingham Building Society</td>
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ABSTRACT

From the banks' viewpoint, use of Internet banking is expected to lead to cost reductions and improved competitiveness. This service delivery channel is seen as powerful because it can retain current Web-based customers who continue using banking services from any location. Moreover, Internet banking provides opportunities for the bank to develop its market by attracting a new customer base from existing Internet users. It means that banking services such as services introduction, loan application, account balance inquiry, and fund transfer are provided by a bank through the Internet. This study therefore sought to determine the linkage between Internet banking and customer satisfaction in commercial banks in Kenya.

This study employed a survey method of design. The study targeted 42 respective heads of Internet banking departments and 42 corporate customers of commercial banks who use Internet banking. Primary data was collected using self-administered questionnaires. The data collected from this study was mainly presented through the use of summarized percentages, proportions and tabulations and other data presentation tools in all the sections of the questionnaires.

From the findings, the study found that Internet banking was used by commercial banks in Kenya. This was mainly because marketing staff of the bank had been helpful in communication in regards to the Internet banking services to customers, senior management and staff of the bank encouraged use of Internet banking services. Customers find Internet banking useful to them, it also made them to be more skillful, it makes their banking obligations and duties more interesting and more enjoyable and also it increases their satisfaction with the services of the bank. The study therefore recommends that for effective usage of Internet banking in commercial banks in Kenya, customers should be assured of maximum security in Internet banking services, and also assured that there is a legal recourse in case of any fraud in their account through Internet banking. Customers should also be given the skills on how to use the technology and be made aware of the advantages of using the Internet banking versus the human teller.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Internet is a global system of interconnected computer networks that use the standardized Internet Protocol Suite (TCP/IP). It is a network of networks that consists of millions of private and public, academic, business, and government networks of local to global scope that are linked by copper wires, fiber-optic cables, wireless connections, and other technologies (Wikipedia, 17 June 2009 at 22:34).

Internet banking means communication with the Bank and/or performance of transactions through the international network, thus allowing the client to perform transactions in relation to the bank and to obtain other information in the scope shown at the website of the bank. Internet banking can also be defined as "systems that enable bank customers to access accounts and general information on bank products and services through a PC or other intelligent device or any banking activity held on Internet - from promotion to sale" (Mathias & Sahut, 1999).

In today's fast moving business, customers need faster and more secure services for their financial transactions. Commercial banks in Kenya have the privilege of various delivery channels for their products and services. This includes the brick and mortar branch office networks, automated teller machines (ATM's), telebanking or mobile banking via the telecommunication channel and Internet banking (Marketing Intelligence, 2003).

In Kenya, interest in Internet banking is particularly keen since a strong case can be made that banking, along with other financial services; provide a particularly fertile environment for the development of electronic commerce. At its core, banking involves the collection, storage, transfer and processing of information on money and the Internet is an incredibly powerful and efficient tool for handling these information processes. The Internet has enabled customers to access information reporting through the web. Using their own customized selection criteria, customers can retrieve reports easily and reliably, including intra-day, real-time status of their accounts.
According to Omondi (2005) more than a third of account holders in commercial banks in Kenya can access phone banking, Internet banking or both. The article explains that people are however not comfortable with these new services- only a quarter and a few of those with the phone and the Internet banking facilities respectively have used it. Traditional branch-based retail banking remains the most widespread method for conducting banking transactions in Kenya. However, Internet technology is rapidly changing the way personal financial services are being designed and delivered. For several years, commercial banks in Kenya have tried to introduce Internet-based electronic banking systems to improve their operations and to reduce costs.

According to the annual report and financial statements 2006 for Kenya Commercial Bank Ltd (KCB), there were projections for e-banking services which were expected to exceed more than 150 million after costs and expenditures had been factored in, but only revenues of 82,813,000 million were actually received creating losses for the product services. Therefore, there is a greater need to understand users' acceptance of Internet banking, and a need to identify the factors that can affect their intention to use Internet banking. This issue is important because the answer holds the clue that will help the banking industry to formulate their marketing strategies to promote new forms of Internet banking systems in the future (Richard, J.S.2009).

1.1.1 Internet banking in Commercial Banks

Computerization in the Kenyan banking industry (Marketing Intelligence, 2003) got off to a slow start and only picked up momentum in the 2000's. The increasing volume of banking transactions was the inevitable motivator for the introduction of computers in Kenyan commercial banks. Then, by linking up technological developments in telecommunications and Information Technology, real-time on-line electronic funds transfer came into existence. A large part of the electronic funds transfer process takes place within the banking premises and thus may be invisible to the layperson.
Internet banking has been fairly successful in commercial banks, with all major retail banks providing this service to customers. Approximately one million Internet users make use of this channel, with the profile tending to be those with a higher income and occupying managerial and professional jobs. Internet banking is a subject that has been receiving great attention in the commercial banks. To some extent, the intense interest in Internet banking reflects a more general interest in the role of the Internet as a vehicle for commercial activity.

Kenyan banks have exponentially embraced the use of information and communication technologies in their service provision. They have invested huge amounts of money in implementing the self and virtual banking services with the objective of improving the quality of customer service. Some of the ICT-based products and services include the introduction of SMS banking, ATMs, Anywhere banking software's, Core banking solution, Electronic clearing systems and direct debit among others.

From the banks' viewpoint, use of Internet banking is expected to lead to cost reductions and improved competitiveness. This service delivery channel is seen as powerful because it can retain current Web-based customers who continue using banking services from any location. Moreover, Internet banking provides opportunities for the bank to develop its market by attracting a new customer base from existing Internet users (Suganthi et al., 2001; Dannenberg and Kellner, 1998; Zineldin, 1995). Internet banking means that banking services such as services introduction, loan application, account balance inquiry, and fund transfer are provided by a bank through the Internet (Cheung, 2001).

The presence of computer and information technologies in today's banks has expanded dramatically. Some estimates indicate that, since the 1980s, about fifty percent of all new capital investment in organizations has been in information technology (Westland and Clark, 2000). Yet, for technologies to improve productivity, they must be accepted and used by employees in those organizations.
1.1.2 Customer Satisfaction

To survive in highly competitive markets, organizations need to provide goods and services that yield highly satisfied and loyal customers. When customers are satisfied, they are more likely to return to those who helped them, while dissatisfied customers are more likely to go elsewhere. Retention of loyal customers is vital to organizational survival (Jones and Sasser, 1995).

It is well established that satisfied customers are key to long-term business success (Zeithaml et al., 1996; McColl-Kennedy and Schneider, 2000). Companies that have a more satisfied customer base also experience higher economic returns (Aaker and Jacobson, 1994; Bolton, 1998; Yeung et al., 2002). High consumer satisfaction leads to greater customer loyalty (Yi, 1991; Anderson and Sullivan, 1993; Boulding et al., 1993) which, in turn, leads to future revenue (Fornell, 1992; Bolton, 1998).

Organizations having superior service quality have been found to be market leaders in terms of sales and long-term customer loyalty and retention (Anderson and Sullivan, 1993; Boulding et al., 1993; Eklof and Westlund, 2002). Because of this, organizations competing in similar market niches are compelled to assess the quality of the services they provide in order to attract and retain their customers.

Customers' expectations are derived from their own accumulation of contacts with services provided to them in all walks of life. From such contacts customers accrue a generalized service expectation or standard based on their day-to-day history as customers. It is from the accumulation of these service experiences that customers establish personal standards and use them to gauge service quality. Intuitively, they could create distinctive standards of service across industries in terms of their requirements from the tangible and intangible dimensions of the services (Gronroos, 1984; Nicholls et al., 1998). That is, they might have different expectations in how they may be treated and the personal service they may expect as a customer at a banking institution than how they are likely to be treated at a concession stand at a sports event. This may include expectations of both the quality of the service setting and the personal service received.
1.1.3 Commercial Banks in Kenya

The number of commercial banks in the sector declined to 46 in December 2005 from 48 in June 2005 following a merger between one bank and one building society and one bank going under. Other non-bank financial institutions (NBFIs) include mortgage finance companies, building societies and SACCOs, which also provide basic banking services (Monthly economic review; Jan 2006 issue).

The banking sector has embraced changes occurring in Information Technology with most banks having already achieved branchless banking as a result of the adoption of communications options. According to The Central Bank Annual Supervision report (2003), the increased utilization of modern information and communications technology has for example led to several banks acquiring ATMs as part of their branchless development strategy measures.

The Central Bank notes that advancement in Information and Communications Technology (ICT) in the banking industry has enhanced efficiency and improved customer service. This is reflected particularly in the increased use of ATM cards resulting from broadening of ATM network, including additional ATM machines and a wider network of merchants that accept payment through credit/debit cards.

Several banks have also entered into the Internet banking and established websites. Internet banking however is still at its infancy and more in terms of utilization is expected in this sector. The level of competition between banks is therefore very high to attract the retail customers as from their numbers there comes in a big chunk of business either in form of deposit or loans. There has been a shift from waiting for the customers to come to the banks, to now the bank going out of its way to look for the customers. Commercial banks have now adopted strategic issue management to succeed in a world of competition.
1.2 Statement of the Problem

The Internet-user base in Kenya has peaked at over 500,000 by June 2005, which is considered to be one of the highest in Africa. The telecommunications sector in Kenya is also considered to be one of the most vibrant with the government actively taking steps to liberalization in order to spur competition in the sector (CCK, 2005). In addition, the growth of Internet users in Kenya is estimated at over percent annually (IWS, 2005). With over 46 providers of banking services, it may seem that competition within the banking industry may be intense. Internet banking is becoming an increasingly visible technology, not only in other parts of the world, but also in Kenya.

Mukulu (2005) in the review of banking sector trends indicate that banks are investing heavily in technological innovations, in particular Internet banking. Many have taken up international franchises for money transfers like Western Union and Moneygram. Retail banking is currently undergoing a great deal of change as new technologies and new ways of delivering banking services are being introduced. Some of these changes have provided more choices and variety for consumers. However, part of the changing environment has been the closure of bank branches as part of the banks’ rationalization strategies. Many rural Kenyans have experienced a decline or total loss of banking services within a reasonable distance from where they live.

Locally, a few studies have been done on Internet banking which include; an investigation into Internet banking technology adoption among Kenyan commercial banks (Millicent, 2006) and a survey of Internet banking systems adoption by institutional customers in Kenya (Mathew, 2007). To the researcher's knowledge, no known study in Kenya has dealt with the issue of the usage of Internet banking. Thus, this research fills in the gap by answering the question; what is the linkage of Internet banking and customer satisfaction in commercial banks in Kenya?
1.3 Objective of the Study

The objective of this study was to determine the linkage between Internet banking and customer satisfaction in commercial banks in Kenya.

1.4 Importance of the study

To managers

The study will increase managers' of Commercial Banks in Kenya understanding and appreciation of the linkage between Internet banking and customer satisfaction in commercial banks. Managers will also be made aware of the challenges that have been experienced in the adoption and implementation of Internet banking this will help them make appropriate adjustments to counter these challenges and achieve optimal results.

To regulators and policy makers

The study will provide insights on the strategies that can enhance the sector's growth, and hence guide in regulation and policy formulation. This will therefore help policy makers of the Banking sector such as Central Bank and ministry of Finance and Planning among others with the development and review of existing policies to achieve synergy with the existing circumstance.

To researchers and academicians

The study will avail material for reference by future researchers and academicians on the same topic of Internet banking. In addition, the study will also highlight other topics of future research like the relations between Internet banking, customer satisfaction and profitability in commercial banks in Kenya.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Internet banking allows customers to conduct financial transactions on a secure website operated by their retail or virtual bank, credit union or building society. One of the world's first home online banking services was set up by the Nottingham Building Society (NBS) in 1983. The system used was based on the UK's Prestel system and used a computer, such as the BBC Micro, or keyboard connected to the telephone system and television set.

The system (Homelink) allowed online viewing of statements, bank transfers and bill payments. In order to make bank transfers and bill payments, a written instruction giving details of the intended recipient had to be sent to the NBS who set the details up on the Homelink system. Typical recipients were gas, electricity and telephone companies and accounts with other banks.

Details of payments to be made were input into the NBS system by the account holder via Prestel. A cheque was then sent by NBS to the payee and an advice giving details of the payment was sent to the account holder. The Bank of Scotland introduced the system in 1985, and from there, the Internet banking as a subject and a business venture, received greater attention in the banking industry worldwide. To some extent, the intense interest in Internet banking reflected a more general interest in the role of the Internet as a vehicle for commercial activity (Richard, 2009).

2.2 Internet banking Trends

In recent years, developments in information technology and the subsequent evolution of Internet banking have fundamentally changed the ways in which banks implement their business and consumers conduct their everyday banking activities (Eriksson et al., 2008; Sayar and Wolfe, 2007). Internet banking allows customers to conduct a wide range of banking transactions electronically via the bank’s web site - anytime and anywhere, faster, and with lower fees compared to using traditional, real-world bank branches.
However, despite the continuing increase in the number of Internet users and despite all the apparent advantages of Internet banking for customers, in many countries the growth rate of Internet users who adopt Internet banking has not risen as strongly as expected (White and Nteli, 2004). Across Europe, Internet banking adoption rates are markedly different. For example, in Norway and Finland 70-80 per cent of Internet users adopt online banking, in Austria and Germany about 40 per cent, whereas in Greece and Romania less than 10 per cent of the Internet users make use of online banking or brokerage (Meyer, 2006). On the other hand, in Brazil the Internet banking growth rate over the past years has exceeded that of the Internet itself (Hernandez and Mazzon, 2007).

In Kenya, majority of banks have introduced Internet banking, mobile banking and other electronic banking facilities, to enhance delivery channels to their customers. It is however, important that the introduction of these products be accompanied with programs to broaden consumer horizon by enhancing their knowledge in the new and more innovative way of conducting banking business. For example, while Internet banking is fast and convenient mode of conducting banking transactions, this is yet to gain acceptance among banking consumers, due to fears of apprehension in this mode of banking.

Like many other developing countries, electronic banking in Kenya is at its nascent stages. Not many banks have embraced electronic banking but majority have at least one or two technology based delivery channels. The non-adoption of electronic banking by banks has been attributed to impaired non-availability of infrastructure and legislation to support e banking. (Marketing Intelligence, 2003)

Kenyan banks have embraced technological models such as Automated Teller Machine (ATM) at a faster rate, and they have widened the scope by offering new products of Internet banking in the local and international markets. For example, in the case of Citibank, Terry Davidson, the East African Region Business Head for Citibank said, "Citibank is a leading provider of cash management services in the East Africa Region. We are supplying global Internet banking services to over 250 companies in Kenya alone.
The introduction of CitiDirect will add an Internet banking facility for these companies, allowing them to put all their banking functions in one place. Other services that customers in other geographic markets are accessing through CitiDirect include payment initiation and netting, which enables companies to settle their intercompany obligations from a central point. These services, as well as many other corporate banking services, will become available in East Africa in future releases of CitiDirect that will also add to the range of countries and languages. Eventually, CitiDirect will be available in more than 80 countries and 20 languages." (Marketing Intelligence, 2003)

Kenya Commercial Bank is one of the major banks in Kenya, with an asset base of over KSh. 100 Billion, 132 branches and over 250 ATM's including those of PesaPoint, which it partnered with to increase e-banking services countrywide. It's one of the leading institutions in Kenya's banking and financial sector. KCB offers Banking services that are tailored to meet the unique needs of personal customers depending on their point in life or career. Other banks like Postbank, with 1.3 million customers, have hooked to over 220 ATMs countrywide up from 106. It has also partnered with PesaPoint connecting to about 110 ATMs network in 46 towns.

2.2.1 The rationale for Internet banking

The properties of the Internet make it an ideal medium for delivery of banking products and services are that, Internet delivery is cheaper than physical channels. A simple transaction cost for a non-cash payment at a branch is likely to cost the bank as much as eleven times more than over the Internet. As with all forecasts and estimates related to the Internet, different authors provide disparate accounts of the magnitude of savings. This estimate is based on studies by Downes and Mui (1998), Wylie (1999) and The Economist (1999). The cost savings come about through the combined effects of reduction and better utilizations of the workforce, equipment, more economic usage of space and operational savings.
One of the primary objectives of developing new products and services is to attract new customers and to retain existing customers (Read, 1998). Present Internet demographics suggest that it is the relatively well off and the well educated that use the Internet, which suggests that potential users are high net worth customers. Banks that are unable to respond to requests for new services, risk losing existing customers to competitors. The use of multiple distribution channels can increase effective market coverage by enabling different products to be targeted at different demographic segments. Additionally, customers are likely to place their trust in proven innovators. Therefore it is important to build a reputation for innovation. This may make it easier to sell financial services, attract more customers, and retain existing customers.

Internet banking enables mass customisation. Internet delivery has the capability to customise information to suit the needs and the likes of each user (Dannenesnberg and Kellner, 1998). Mass Customisation refers to the notion that each individual user perceives that the service they receive is personalised or customized to their needs and uses. Such features are becoming more and more important in a world saturated with mass automation and homogenised products and services.

The World Wide Web has the capability to host advertisements and other marketing campaigns without facing incremental charges for prolonged exposure like those found in the traditional media (Quelch and Klein, 1996). Once a Web page is designed and hosted on a server it serves its purpose 24 hours a day as long as it is active on the server. Costs are limited to initial development costs and maintenance costs that are less in comparison to traditional media.

Additionally, the interactive nature of the Internet facilitates a system whereby a customer can be guided through a catalogue of products and services that is most suited for them depending on their socio-economic profile. It is cheaper than traditional mailshots and far more effective since it is customised. Further, the Internet can be used very effectively to collect customer data with minimum effort. Achieving more operational usage from customer databases is also made easier.
Internet banking enables innovation. Internet technologies have paved the way for a multitude of different banking products to be innovated (Prescott and Van Slyke, 1997; Mandeville, 1998). It also facilitates the delivery of products and services in an innovative manner to customers.

Recent changes in the regulatory framework have enabled many banks to expand their services into non-traditional banking areas (Marshall, 1998). For instance, many banks have already moved into, or are in the process of moving into, insurance and stock brokerage. Many banks have the physical and computing infrastructure in place to develop with these products and services and an Internet site can serve as an ideal shop front for these services.

Perhaps, most importantly, Internet banking allows banks to delegate tasks to the customer. Many of the traditional tasks performed by bank counter clerks can now be transferred to the customer. For instance, if a customer carries out a transfer of funds between their Internet bank accounts, or pays a bill, they are carrying out a task that would have been undertaken by a bank employee on the customer's instructions in a terrestrial bank. This saves time and money and the likelihood of committing errors that are the fault of the bank are minimised. Customers benefit through peace of mind from knowing that transaction details are exactly what they wanted.

2.3 Customer Satisfaction

The most frequently mentioned outcome of the marketing process is a satisfied customer, with many definitions of marketing incorporating this important marketing concept. Marketing leads to outcomes other than satisfaction, including awareness, image perceptions and loyalty. There are also other factors that influence purchasing where satisfaction does not always play a role that is, lack of perceived differentiated competitors, such as in the banking industry. Thus, satisfaction should not be the only goal for marketing practitioners.
Interestingly, satisfaction is used as a common marketing benchmark of an organization's performance, almost to the exclusion of other issues. A major US market research firm states that customer satisfaction is the key to success and makes the emphatic statement that a satisfied customer is a repeat customer (In-Touch Survey Systems, 2003). While admirable, it is myopic to focus so intensely on only one of the factors that influences (repeat) purchase. Ideally, an organization should include other key influencers of repeat purchase in their performance reports, for example attitudinal loyalty.

Patterson et al., (1997) suggested that the nature of the relationship between satisfaction and loyalty is complex. Yet marketing literature suggests that it is quite simple: satisfaction leads to attitudinal loyalty (Lovelock et al., 2001). Defined as the intention to make future purchases (Oliver, 1980; Bolton, 1998; Page and Eddy, 1999; Jones and Suh, 2000), it is assumed that high levels of attitudinal loyalty are an outcome of high levels of satisfaction. Satisfaction is defined as an emotional post-consumption response that may occur as the result of comparing expected and actual performance (disconfirmation), or it can be an outcome that occurs without comparing expectations (Oliver, 1996).

While satisfaction itself is an emotional construct, its antecedents or drivers can be either emotional or cognitive, depending on the situation. Oliver (1989) proposed five models of satisfaction and its antecedents, three of which result from disconfirmation of expectations and can be labeled evaluative-based satisfaction. The remaining two depict satisfaction as an outcome of non-rational processes that can be labeled emotion-driven. Patterson et al. (1997) summarized previous research and indicated that satisfaction does not always have disconfirmation antecedents.

2.4 Factors Affecting Internet banking Usage

The factors that lead to Internet banking usage can be found from the literature on Internet adoption and utilization. It is usually assumed that those individuals who do not have a problem using the Internet have a petite for adopting the use of Internet banking faster than the rest of the individuals. This section will therefore show the factors that contribute to individuals to use Internet banking services.
2.4.1 Computer Self-Efficacy

In general, prior research has suggested a positive relationship between experience with computing technology and a variety of outcomes such as an affect towards computers and computer usage (Levin and Gordon, 1989; Harrison and Rainer, 1992; Agarwal and Prasad, 1999). A related construct, called computer self-efficacy, has been examined in the IS literature (for instance. Compeau and Higgins, 1995; Compeau et al., 1999; Hong et al., 2001). Computer self-efficacy is defined as the judgment of one's ability to use a computer (Compeau and Higgins, 1995). Continuing research efforts on computer self-efficacy can be observed in recent IS studies (Agarwal et al., 2000; Hong et al., 2001), which confirm the critical role that computer self-efficacy plays in understanding individual responses to information technology.

The proposed relationship between computer self-efficacy and perceived ease of use is based on the theoretical argument by Davis (1989). There also exists empirical evidence of a causal link between computer self-efficacy and perceived ease of use (for instance. Agarwal et al., 2000). Computer self-efficacy affects an individual's computer anxiety, which in turn, influences the perceived ease of use, perceived usefulness, and system usage. However, computer experience might be positively related to the existence of concerns regarding the privacy and security of online exchanges, implying that computer self-efficacy will have a negative effect on perceived credibility of the Internet banking.

2.4.2 Customer demand and requirements

Banking technological developments in Kenya make it much easier and cheaper for customers to compare and contrast products and to establish multiple banking connections (Buhl and Will, 1998). Fojt (1996) contends that better communications technology will alter dynamics of purchase decisions. Several authors (for instance. Birch and Young, 1997; Mathe and Dagi, 1996; Gandy and Brierley, 1997) have carried out research on customer requirements. As time, privacy, control and economy are among the important aspects that customers are concerned with.
Commercial banks customers in Kenya are becoming busier and hence are seeking to carry out transactions at a time of their convenience. This is confirmed by the increase in telephone-assisted banking and also the widespread use of the now ubiquitous ATMs. Today's customers are often conscious of the expenses associated with banking and are generally better informed about alternative options. Any service provided must be at minimal cost or competitive cost, and preferably at no cost. This is especially so in carrying out information-rich transactions. Educated customers are seeking methods or sources that can carry out complex transactions at minimal cost and without expensive paid advice, for instance share dealing.

Customers want the personal attention of a branch combined with the convenience of the Internet. Providing superior customer service is often the deciding factor between a good bank and an excellent bank. Are these values carried on the Internet? It is alarming to note that only a few of Internet customers are satisfied with the service they are receiving. Due to the Internet's ability to contain detailed information, the Internet is supposed to improve customer service. However, it is evident that this is not the case. For without a Web mechanism, it could be an omission or the service could be in development. The ability of the Internet to lower prices makes it impossible to compete on price. Therefore, to gain a competitive advantage, online banks have to differentiate on superior service Outwater (2001).

2.4.3 Security

One of the challenges of Internet banking includes security. According to Hutchinson (2002), while it is acknowledged that banks have an excellent record concerning security of customer information, surveys indicate that Internet users are weary about privacy issues including transparency, collection, use and disclosure of their personal information. This concern primarily relates to authentication. Security is first and foremost a requirement of Internet banking as the Internet is inherently insecure.
Securing the process in Internet banking involves authenticating both customer and banker and protecting the information to be transmitted from interception. This authentication can be done using user ID and passwords. Banks should take effective steps for the interests of customers from data tampering and hacking. Software failures can also destroy entire portions of a network and bring huge losses. In e-banking system there are many ways in which private information may be accessed by attackers. And this information could be used to make fraudulent transactions that could lead to loss of money.

2.4.4 Technological Advancement

Developments in technology have dominated the revolution in the banking sector during the last decade (Gandy, 1996). The world-wide expansion in technologies for connection has supported increased globalisation of capital flows and financial organisations. Technology has also facilitated the proliferation of new products and services supporting new consumer demands. Competitive pressures will intensify as organisations seek ever-greater productivity and efficiency improvements to sustain profitability.

There has been a market trend towards deregulation over recent years in many western countries resulting from political and ideological changes (Nellis, 1998; Llewellyn, 1996). Successive regimes have continued to deregulate industries as a response to past recessions and to support structural change by improving the efficiency and competitiveness of both public and private sectors. The pace of deregulation has not been uniform across all countries. However, Kenya has been at the forefront, with the consequence that the banking sector, in particular, is now one of the most deregulated of all sectors of the economy (Nellis, 1998). Technology development in Kenya is frequently viewed as the key element in the formulae for productivity and profitability in the 1990 and beyond. It is likely to be the key factor driving change within the banking sector for the foreseeable future.
2.4.5 Infrastructure and Costs

The other challenge for Internet banking is well-developed infrastructure. For effective deployment of e-banking services, it is necessary to have a reliable and cost effective infrastructure that can be accessible to the majority of the population. The base communication infrastructure for Internet banking is computer network with Internet facility. Most of the transactions use Internet to communicate with the customers. Automating the banking services is another prerequisite for Internet banking. Close financial links between banks and other financial institutions is necessary. This link is used for clearing and payment systems among these institutions. Offering high quality services to satisfy consumers' needs, at lower costs, are potential competitive advantage of Internet banking. Some studies show that Internet banking has successfully reduced operating and administrative costs (Siriluck and Speece, 2003; Devlin, 1995).

Information and Communication Technology (ICT) infrastructure such as Internet, WAN, Telephone lines must be adequate for Internet banking. In Kenya, due to poor telecommunication infrastructure, there are ICT challenges due to unreliable and slow telecommunication services, low bandwidth and low Internet speeds. Failures in telephone lines and other network lines are experienced frequently. This is a drawback in offering Internet banking services. This combined with frequent power disruption causes a major problem, and will lead to banks depending on generators, and as a result will incur high operational costs. These problems are considered as obstacles for the expansion of Internet banking services in the country.

In order to offer Internet banking services, banks have to invest huge amount of money. They have to incur heavy maintenance costs also. This may not be the problem for well-established banks. But in case of new and small banks, they have to face financial problems at the initial stage. Banks in developed countries have already deployed huge amount of investments for Internet banking services.
For banks in developing and underdeveloped countries, this may create financial crisis. Most common people also have a problem of Internet costs and owning a computer at their respective households. Computers have slowly been adopted in Kenya and it creates a major challenge for Internet banking services that are offered.

2.4.6 Evaluation of banking Web sites

A Web site is unique in its hypermedia attributes. Hypermedia integrates multimedia content with hypertext connection. Multimedia content refers to information, while hypertext connection pertains to navigation (Bornman and Solms, 1993). User satisfaction depends on Web site features (Doll and Torkzadeh, 1988), and hence it is important to analyse Web features of banking services delivered over the Internet. Web site features have been analyzed in terms of speed of download, content, design, interactivity, navigation and security features.

Studies have revealed that there is a significant correlation of Web site download speed and Web user satisfaction (Muylle et al., 1998; Hoffman and Novak, 1996). While speed is often a factor beyond the control of a site owner, the use of extensive high-resolution graphics and an inefficient host server has a significant negative impact. On the positive side, many commentators have observed that in general, speed of downloading has increased in recent times. Equally, it is important to recognize that speed is also dependent on the user's computing hardware and method of connection.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This section is an overall plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, the population, data collection instruments and the procedures, and data analysis.

3.2 Research Design

Since this was an initial and exploratory study to determine the linkage between Internet banking and customer satisfaction in commercial banks, the researcher considered the survey method to be a suitable research methodology to implement. Previous research has revealed that the survey method appropriate when investigating technology and electronic commerce adoption (Venkatesh, et al. 2000; Venkatesh and Brown, 2001) which was the circumstance surrounding this study.

3.3 The Population

The study focused on corporate clients of all the forty two commercial banks (Market Intelligence, 2006). The banking sector was selected because it has always taken a lead role in implementing ICT solutions and was reported to spend huge amounts on these ICT projects (Nyambati, 2001; Ngemu, 2005). Countries with an Internet penetration of between thirty and fifty percent, are likely to find themselves in the take-off phase for Internet banking services.
3.4 Data Collection

This study required collection of primary data. This was done using self-administered questionnaires available in the appendix. The questionnaires were semi-structured, and had both open-ended and closed-ended questions. The researcher had designed customized questionnaires for both the respective heads of Internet banking departments and corporate customers of commercial banks who used the service.

3.5 Data Analysis

The data collected was edited for accuracy, uniformity, consistency and completeness and arranged to enable coding and tabulation before final presentation (Cooper and Emory, 1998). The data collected from this study was mainly presented through the use of summarized percentages, proportions and tabulations and other data presentation tools in all the sections of the questionnaires.
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the data analysis and interpretations. The study targeted 42 respective heads of Internet banking departments in commercial banks and 42 corporate clients of commercial banks in Kenya. From the study, 32 respondents (74.4%) from banks responded, and 40 corporate clients (93%) responded to the questionnaires.

4.2 Responses from Banks

4.2.1 General Information

Table 1: Gender of the Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>male</td>
<td>19</td>
<td>59.4</td>
</tr>
<tr>
<td>female</td>
<td>13</td>
<td>40.6</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100.0</td>
</tr>
</tbody>
</table>

According to the findings in the above table on the gender of respondents, the majority of respondents as indicated by 59.4% were males, while females were 40.6%. This study shows that there were more males than females in commercial banks in Kenya.

Respondents Position in the organization

The researcher found out that the respondents held positions such as managers, officers, project managers and web developers in the organization. This information was very important to the researcher to help her know how well the respondents were involved with Internet banking in their organization.

Table 2: Number of Years in the Current Position

<table>
<thead>
<tr>
<th>Number of years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2 years</td>
<td>3</td>
<td>9.4</td>
</tr>
<tr>
<td>2-5 years</td>
<td>15</td>
<td>46.9</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>14</td>
<td>43.7</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The study also sought to investigate the number of years that the respondents had been in their current positions. From the findings, the majority of respondents had been in their current position for 2-5 years as shown by 46.9% of the respondents, 43.7% had been in their current position for over five years, while 9.4% of the respondents had been in their current position for 0-2 years. This information implies that most of the respondents had the necessary knowledge on Internet banking in their organizations as they had been in their current positions for more than 2 years.

**Table 3: Age of the Respondents**

<table>
<thead>
<tr>
<th>Age of Respondents</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-25 years</td>
<td>5</td>
<td>15.6</td>
</tr>
<tr>
<td>26-35 years</td>
<td>16</td>
<td>50.0</td>
</tr>
<tr>
<td>Above 35 years</td>
<td>11</td>
<td>34.2</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100.0</td>
</tr>
</tbody>
</table>

On the age group of the respondents, the study found that most of the respondents were aged between 26-35 years as shown by 50%, 34.2% were 26-35 years and 15.6% of the respondents were between the ages 20-25 years old. This information explains that the majority of staff in the commercial banks in Kenya was composed of middle aged population, between 25-44 years old.

**Table 4: Academic Level**

<table>
<thead>
<tr>
<th>Academic Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>1</td>
<td>3.1</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>16</td>
<td>50.0</td>
</tr>
<tr>
<td>Post graduate</td>
<td>15</td>
<td>46.9</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The study also sought to find out the respondents highest academic qualification they have achieved. From the study, the majority of the respondents had an undergraduate as their highest academic qualification as shown by 50% of the respondents, 46.9% of the respondents had a post graduate degree, while a small proportion of respondents indicated by 3.1% had a diploma as their highest academic qualification achieved.
These findings clearly show that the staffs in commercial banks in Kenya were well qualified for their job. The researcher also had confidence in the data collected as all the respondents were able to read, and understand the questionnaire and give the most appropriate responses.

4.2.2 Use of Internet banking

From the findings, the study found that all the banks used Internet banking in some of their operations and they also had Internet banking for their corporate clients.

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2 years</td>
<td>9</td>
<td>28.1</td>
</tr>
<tr>
<td>3-5 years</td>
<td>19</td>
<td>59.4</td>
</tr>
<tr>
<td>6 years and above</td>
<td>4</td>
<td>12.5</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The study also required the respondents to indicate how long Internet banking had been used in their bank for corporate clients. From the study, the majority of respondents as shown by 59.4% reported that Internet banking had been used for corporate clients for 3-5 years, 28.1% said that they had used the Internet banking for 0-2 years, while 12.5% of the respondents said that they had used Internet banking for corporate clients for over 6 years. From this information, the researcher concluded that the majority of commercial banks staff was exposed to the Internet banking service as it had been used in the organizations for more than 3 years as shown by 60% of the respondents.
Significant cost savings realized in comparing cost of operations before and after adoption of Internet banking.

From the findings, the study revealed from all the respondents that there were significant cost savings realized in comparing the cost of operations before and after the adoption of Internet banking.

Table 6: Reasons of banks using Internet banking

<table>
<thead>
<tr>
<th>Reasons of usage</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs saving</td>
<td>4</td>
<td>12.5</td>
</tr>
<tr>
<td>Efficiency</td>
<td>18</td>
<td>56.3</td>
</tr>
<tr>
<td>Decongest banking halls</td>
<td>10</td>
<td>31.2</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The respondents were also requested to indicate the reasons why their banks used Internet banking. According to the study, most of the respondents (56.3%) reported that they used Internet banking for efficiency, 31.2% of the respondents said to decongest banking halls, while 12.5% of the respondents said that their banks used Internet banking for cost saving.

4.2.3 Extent of use of Internet banking

Table 7: Extent of use of Internet banking

<table>
<thead>
<tr>
<th>Extent of use of Internet banking</th>
<th>None</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
<th>mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance inquiry</td>
<td>0</td>
<td>6.3</td>
<td>6.25</td>
<td>3.75</td>
<td>3.5</td>
</tr>
<tr>
<td>Fixed deposit interest rate inquiry</td>
<td>9.4</td>
<td>1.56</td>
<td>2.19</td>
<td>5.31</td>
<td>3.2</td>
</tr>
<tr>
<td>Cheque Book request</td>
<td>6.3</td>
<td>2.19</td>
<td>6.56</td>
<td>6.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Information on standing orders</td>
<td>1.25</td>
<td>4.69</td>
<td>2.81</td>
<td>1.25</td>
<td>2.4</td>
</tr>
<tr>
<td>Insufficient funds alert</td>
<td>2.19</td>
<td>5.0</td>
<td>2.19</td>
<td>6.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Account Opening and closure</td>
<td>0</td>
<td>3.44</td>
<td>4.06</td>
<td>2.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Treasury Information</td>
<td>4.38</td>
<td>4.38</td>
<td>6.3</td>
<td>6.3</td>
<td>1.8</td>
</tr>
</tbody>
</table>
The study sought to investigate the extent that the services in the above table applied in Internet banking in the banks. The results were interpreted using mean scores for easier interpretations. From the study, the services that applied in Internet banking in most commercial banks in Kenya were balance inquiry, which applied to a high extent as shown by a mean score of 3.5, fixed deposit interest rate inquiry as shown by a mean score of 3.1, account opening and closure as shown by a mean score of 2.9, request for ATM cards to be stopped as shown by a mean score of 2.8, cheque book request shown by a score of 2.7, and also request for ATM cards as shown by a mean score of 2.6. All the other services were not applied in Internet banking as their mean score was less than 2.5, which means that they were only applied to a low extent.

### 4.2.4 Challenges of using Internet banking

**Table 8: Challenges of using Internet banking**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>None</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
<th>mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security Issues</td>
<td>0</td>
<td>1.25</td>
<td>2.19</td>
<td>6.56</td>
<td>3.5</td>
</tr>
<tr>
<td>Lack of top management support</td>
<td>6.52</td>
<td>3.44</td>
<td>3.1</td>
<td>0</td>
<td>1.4</td>
</tr>
<tr>
<td>Changes in technology</td>
<td>2.19</td>
<td>2.19</td>
<td>3.13</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Literacy level of customers</td>
<td>0</td>
<td>3.1</td>
<td>6.52</td>
<td>3.44</td>
<td>3.4</td>
</tr>
<tr>
<td>Customers resistance to change</td>
<td>1.25</td>
<td>3.13</td>
<td>3.75</td>
<td>1.88</td>
<td>2.6</td>
</tr>
</tbody>
</table>
The study also sought to establish the barriers to Internet banking. According to the study, the barrier to Internet banking to a high extent was security issues as shown by a mean score of 3.5. Other barriers to Internet banking to a medium extent were literacy level of customers as shown by a mean score of 3.4, customer perception on the usefulness of Internet banking as shown by a score of 3.3, ease of use of Internet banking as shown by a score of 2.9.

Cost of servicing Internet banking use and application as shown by a mean score of 2.7 and changes in technology and customers resistance to change as shown by a mean score of 2.6 in each. Lack of top management support and lack of skills by the IT personnel were barriers to Internet banking as shown by mean scores of 1.4 and 1.8 respectively. This was because management in commercial banks fully supported Internet banking application in their banks and therefore qualified personnel in IT were recruited to aid in Internet banking in the banks.

### 4.3 Responses from Corporate Clients

#### 4.3.1 Demographics and Internet banking Details

<table>
<thead>
<tr>
<th>Table 9: Ownership of the Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership</strong></td>
</tr>
<tr>
<td>Public</td>
</tr>
<tr>
<td>Private</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
The respondents (corporate clients) were requested to indicate the ownership of their banks. According to the findings, most of the banks were privately owned as shown by 62.5% of the respondents, while 37.5% of the banks were public owned.

**Table 10: Management of the Bank**

<table>
<thead>
<tr>
<th>Management</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indigenous</td>
<td>28</td>
<td>70.0</td>
</tr>
<tr>
<td>Foreign</td>
<td>12</td>
<td>30.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The study also required the respondents to indicate the management of their banks. According to the study, most of the banks management was indigenous as shown by 70% of the respondents, while 30% of the banks management was foreign.

**Whether the Bank Offer Any Personal Banking Facilities over the Internet**

From the study, the researcher found that all the banks offered some personal banking facilities over the internet.

**Table 11: Services Offered Over the Internet**

<table>
<thead>
<tr>
<th>Service Offered</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Account</td>
<td>37.5%</td>
<td>62.5%</td>
</tr>
<tr>
<td>Viewing Transactions</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Inter-bank Transfers</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Direct Debits</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Checking Account Balances</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Remittances</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>Standing Orders set up</td>
<td>32%</td>
<td>68%</td>
</tr>
</tbody>
</table>
The respondents were also requested to indicate the personal banking facilities offered by the banks over the internet. From the study, the personal banking facilities that were offered by the banks over the internet by the majority of the banks were checking account balances as shown by 80% of the respondents, viewing transactions as shown by 70%, and remittances as shown by 68% of the respondents.

Other personal banking services offered over the internet were opening account as shown by 37.5% of the respondents, inter-bank transfers as shown by 35% of the respondents, standing orders set up shown by 32% of the respondents and also direct debits as shown by 25% of the respondents. Other personal services offered over the internet as mentioned by a few respondents were such as credit card transactions, information/enquiries, online FX transactions and online trade for letters of credit.

**Table 12: Opening Accounts**

<table>
<thead>
<tr>
<th>Account opening</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals can open accounts while abroad</td>
<td>15</td>
<td>37.5</td>
</tr>
<tr>
<td>Individuals must be physically present in Kenya</td>
<td>25</td>
<td>62.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The study also sought to establish whether when opening an account Individuals can open accounts while abroad or they must be physically present in Kenya. From the study, most of the respondents (62.5%) reported that when opening accounts individuals must be physically present in Kenya, while 37.5% of the respondents reported that individuals can open accounts while abroad.
4.3.2 Determinants of Internet banking Adoption

Table 13: Determinants of Intention to use Internet banking

<table>
<thead>
<tr>
<th>Determinants of intention to use Internet banking</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Indifferent</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>I find Internet banking useful to me.</td>
<td>0</td>
<td>0</td>
<td>2.00</td>
<td>4.00</td>
<td>4.00</td>
<td>4.2</td>
</tr>
<tr>
<td>Using Internet banking enables this bank to serve me faster</td>
<td>0</td>
<td>0</td>
<td>1.00</td>
<td>5.75</td>
<td>3.25</td>
<td>4.2</td>
</tr>
<tr>
<td>Using Internet banking increases customer satisfaction with the services of this bank.</td>
<td>5.0</td>
<td>7.5</td>
<td>1.75</td>
<td>4.00</td>
<td>3.00</td>
<td>3.8</td>
</tr>
<tr>
<td>If this bank uses Internet banking fully, it will increase its chances of retaining me as a customer.</td>
<td>1.00</td>
<td>1.75</td>
<td>2.00</td>
<td>4.00</td>
<td>1.25</td>
<td>3.3</td>
</tr>
<tr>
<td>My interaction with the Internet banking system is clear and understandable.</td>
<td>2.25</td>
<td>3.75</td>
<td>2.25</td>
<td>1.25</td>
<td>5.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Use of Internet banking has made me become more skillful.</td>
<td>5.0</td>
<td>1.00</td>
<td>5.0</td>
<td>4.25</td>
<td>3.75</td>
<td>4.0</td>
</tr>
<tr>
<td>I find the Internet banking system easy to use.</td>
<td>2.5</td>
<td>7.5</td>
<td>2.00</td>
<td>3.25</td>
<td>3.75</td>
<td>4.0</td>
</tr>
<tr>
<td>Using the Internet banking system makes it easier for me to reconcile my accounts.</td>
<td>2.50</td>
<td>3.25</td>
<td>2.25</td>
<td>1.50</td>
<td>5.0</td>
<td>2.4</td>
</tr>
<tr>
<td>The Internet banking system makes my banking obligations and duties more interesting.</td>
<td>5.0</td>
<td>7.5</td>
<td>1.25</td>
<td>4.25</td>
<td>3.25</td>
<td>3.9</td>
</tr>
<tr>
<td>Working with the Internet banking system is enjoyable.</td>
<td>5.0</td>
<td>5.0</td>
<td>1.50</td>
<td>4.75</td>
<td>2.75</td>
<td>3.9</td>
</tr>
<tr>
<td>I like transacting with my bank through Internet banking system.</td>
<td>2.50</td>
<td>4.00</td>
<td>1.75</td>
<td>1.25</td>
<td>5.0</td>
<td>2.3</td>
</tr>
<tr>
<td>The Senior management and staff of this bank encourage me to use Internet banking services.</td>
<td>0</td>
<td>5.0</td>
<td>1.00</td>
<td>5.00</td>
<td>3.50</td>
<td>4.2</td>
</tr>
</tbody>
</table>
In the above table, the study sought to establish the respondents' determinants of intention to use Internet banking. According to the study, the determinants of the intention to use Internet banking to most of the respondents were that the marketing staff of the bank had been helpful in communication in regards to the Internet banking services as shown by a mean score of 4.4, they found Internet banking useful to them, using Internet banking enables the bank to serve them faster and the senior management and staff of the bank encourage them to use Internet banking services as shown by a mean of 4.2 in each, use of Internet banking has made them become more skillful and they found the Internet banking system easy to use as shown by a mean score of 4.0 in each case, the Internet banking system made their banking obligations and duties more interesting and also working with the Internet banking system was enjoyable as shown by a mean of 3.9 in each and using Internet banking increases customer satisfaction with the services of the bank as shown by a mean score of 3.8.
<table>
<thead>
<tr>
<th>Determinants of usage behavior</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Indifferent</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a readily available technical support team to assist me with any system difficulties I may encounter.</td>
<td>0</td>
<td>0</td>
<td>2.0</td>
<td>5.3</td>
<td>2.75</td>
<td>4.0</td>
</tr>
<tr>
<td>I have adequate information to find my way around the bank's Internet banking system without difficulty.</td>
<td>0</td>
<td>7.5</td>
<td>4.3</td>
<td>2.3</td>
<td>2.75</td>
<td>3.7</td>
</tr>
<tr>
<td>It scares me to think that the bank could lose a lot of information using Internet banking.</td>
<td>0</td>
<td>2.8</td>
<td>3.8</td>
<td>5.0</td>
<td>3.0</td>
<td>3.4</td>
</tr>
<tr>
<td>I hesitate to use the system for fear of making mistakes I cannot correct.</td>
<td>0</td>
<td>0</td>
<td>1.3</td>
<td>4.5</td>
<td>4.25</td>
<td>4.3</td>
</tr>
<tr>
<td>The bank intends to upgrade their current Internet banking system in the next 12 months.</td>
<td>7.5</td>
<td>0</td>
<td>2.8</td>
<td>3.8</td>
<td>2.75</td>
<td>3.8</td>
</tr>
<tr>
<td>Improvement in the ICT infrastructure will lead to faster and better internet connection thus encourage extensive use of Internet banking</td>
<td>7.5</td>
<td>0</td>
<td>3.5</td>
<td>3.5</td>
<td>2.25</td>
<td>3.7</td>
</tr>
</tbody>
</table>

The study in the above table shows the determinants of internet usage behavior. According to the study, most of the respondents were in agreement that they hesitated to use the system for fear of making mistakes they could not correct shown by a high mean score of 4.3, the bank had the technical resources necessary to facilitate Internet banking as shown by a score of 4.2, there was a readily available technical support team to assist them with any system difficulties they could encounter as shown by a mean score of 4.0, the bank had the financial resources necessary to use Internet banking and the staff had the knowledge necessary to use Internet banking shown by a mean score of 3.9 in each case, the bank intended to upgrade its current Internet banking system in the next 12 months as shown by a mean score of 3.8.
Customers had adequate information to find their way around the bank’s Internet banking system without difficulty and improvement in the ICT infrastructure will lead to faster and also there was better internet connection thus encourage extensive use of Internet banking as shown by a mean score of 3.7 in each case. Other factors that influenced the effective usage of Internet banking technology in the bank were low cost of using the Internet banking, Internet banking is faster that over the counter banking, Internet banking can be used for 24 hours unlike over the counter banking and also it is effective.

4.3.3 Factors affecting effectiveness of Internet banking

Table 15: Possible hindrances to effectiveness of Internet banking among Commercial Banks

<table>
<thead>
<tr>
<th>Hindrances</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Indifferent</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>mean</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ICT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low level of education of Kenyan banking customers</td>
<td>2.75</td>
<td>3.5</td>
<td>2.25</td>
<td>1.25</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Slow growth in the technological sector</td>
<td>2.25</td>
<td>3.75</td>
<td>2.00</td>
<td>1.50</td>
<td>5.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Poor I.T infrastructure in Kenya</td>
<td>5.0</td>
<td>5.0</td>
<td>1.25</td>
<td>4.0</td>
<td>3.75</td>
<td>4.0</td>
</tr>
<tr>
<td>Less advancement in technology compared to developed countries.</td>
<td>0</td>
<td>7.5</td>
<td>1.0</td>
<td>5.25</td>
<td>3.0</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Organizational Barriers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers have negative attitude towards change.</td>
<td>2.5</td>
<td>5.0</td>
<td>1.00</td>
<td>4.25</td>
<td>4.00</td>
<td>4.1</td>
</tr>
<tr>
<td>Lack of commitment from the banks management.</td>
<td>4.50</td>
<td>3.00</td>
<td>2.25</td>
<td>2.5</td>
<td>0</td>
<td>1.8</td>
</tr>
<tr>
<td>Lack of frequent use of Internet.</td>
<td>7.5</td>
<td>5.0</td>
<td>2.00</td>
<td>2.75</td>
<td>4.00</td>
<td>3.9</td>
</tr>
<tr>
<td>Lack of Knowledgeable I.T. staff.</td>
<td>5.0</td>
<td>4.25</td>
<td>7.5</td>
<td>0</td>
<td>0</td>
<td>1.6</td>
</tr>
<tr>
<td>Non- Motivated workforce.</td>
<td>2.50</td>
<td>3.75</td>
<td>2.00</td>
<td>1.50</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Security and safety</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is Internet banking system insecure?</td>
<td>0</td>
<td>1.00</td>
<td>7.5</td>
<td>4.00</td>
<td>4.25</td>
<td>4.2</td>
</tr>
</tbody>
</table>
The study also sought to identify the possible hindrances to effectiveness of Internet banking among commercial banks in Kenya. On ICT, most of the respondents were in agreement that the possible hindrances to effectiveness of Internet banking were poor I.T infrastructure in Kenya as shown by a mean score of 4.0 and less advancement in technology compared to developed countries shown by a mean score of 4.1. Further, most of the respondents disagreed that low level of education of Kenyan banking customers and Slow growth in the technological sector were among the possible hindrances to effectiveness of Internet banking in commercial banks as shown by a mean score of 2.3 and 2.4 respectively.

On organizational barriers, the study found that the possible hindrances to effectiveness of Internet banking were that customers have negative attitude towards change as shown by a mean score of 4.1 and lack of frequent use of Internet as shown by a mean score of 3.9. Most of the respondents advised there was lack of commitment from the banks management shown by a score of 1.8.
Lack of knowledgeable I.T. staff as shown by a mean score of 1.6 and non-motivated workforce as shown by a mean score of 2.3 were among the possible hindrances to effectiveness of Internet banking in commercial banks. On security and safety, most of the respondents agreed that Internet banking system was insecure as shown by a mean score of 4.2 and also they perceived risk in Internet banking as shown by a mean score of 3.8. Most of the respondents were indifferent on the fact that Internet Service providers were not reliable as shown by a mean score of 3.2, while most of the respondents disagreed that they distrusted service providers as shown by a mean score of 2.4.

On legal support, most of the respondents were in agreement that their bank accepted liability in case of loss as shown by a score of 3.8, while most respondents disagreed that the bank does not offer customer protection as shown by a mean score of 2.3, there are no laws governing Internet banking as shown by a mean score of 2.1 and bank jurisdiction was not defined in Internet banking as shown by a mean score of 2.0.
CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussions, conclusions and recommendations to the study based on the objective of the study. The objective of this study was to determine the linkage between Internet banking and customer satisfaction in commercial banks in Kenya.

5.2 Discussions

The study found from the banks that all respondent commercial banks used Internet banking in some of their operations and they also had Internet banking for their corporate clients. Most of these banks had used Internet banking for over 3 years which implies that they were well exposed to the Internet banking service. The study also found that there were significant costs saving realized in comparing the cost of operations before and after the adoption of Internet banking. In most commercial banks, the reason for using Internet banking was for efficiency.

On the extent of use of Internet banking, the study revealed that the services that applied in internet banking in most commercial banks in Kenya were balance inquiry, fixed deposit interest rate inquiry, account opening and closure, request for ATM cards to be stopped, cheque book request and also request for new ATM cards.

According to the study, the barriers to Internet banking were security issues, literacy level of customers, customer perception on the usefulness of Internet banking, ease of use of Internet banking, cost of servicing Internet banking use and application and changes in technology and customers resistance to change. From corporate clients, the study found that all the banks offered some personal banking facilities over the internet. The services offered over the internet in most banks included; checking account balances, viewing transactions and remittances. The study also revealed that in the majority of the banks individuals must be physically present in Kenya when opening an account.
On the determinants of intention to use Internet banking, the study found that marketing staff of the bank had been helpful in communication in regards to the Internet banking services, the customers found Internet banking useful to them, using Internet banking enables the bank to serve the customers faster, the senior management and staff of the bank encourage the clients to use Internet banking services, use of Internet banking had made them become more skillful, the customers found the Internet banking system easy to use, the Internet banking system made their banking obligations and duties more interesting, working with the Internet banking system was enjoyable and also using Internet banking increases customer satisfaction with the services of the bank.

According to the study, the determinants of Internet banking usage behavior to most of the respondents were that they hesitated to use the system for fear of making mistakes they could not correct, the bank had the technical resources necessary to facilitate Internet banking, there was a readily available technical support team to assist them with any system difficulties they could encounter, the bank had the financial resources necessary to use Internet banking, the staff had the knowledge necessary to use Internet banking, the bank intended to upgrade its current Internet banking system in the next 12 months, they had adequate information to find their way around the bank's Internet banking system without difficulty and improvement in the ICT infrastructure will lead to faster and also there was better internet connection thus encourage extensive use of Internet banking.

From the study, the possible hindrances to effectiveness of Internet banking among commercial banks according to most of the respondents were poor I.T infrastructure in Kenya, less advancement in technology compared to developed countries, negative attitude towards change by customers, lack of frequent use of Internet, insecurity of Internet banking system, and also risk in Internet banking.
5.3 Conclusions

From the findings in chapter four and the discussions in this chapter, the study concludes that commercial banks in Kenya use Internet banking for only a few services which include balance inquiry, fixed deposit interest rate inquiry, account opening and closure, request for ATM cards to be stopped, cheque book request and also request for ATM cards.

The study also concludes that most customers use Internet banking mainly because marketing staff of the bank had been helpful in communication in regards to the Internet banking services and also senior management and staff of the bank encourage them to use Internet banking services, they find Internet banking useful to them as it is faster, has made them become more skillful, system easy to use, it makes their banking obligations and duties more interesting and more enjoyable and also it increases their satisfaction with the services of the bank.

The study concludes that there were barriers to Internet banking which were security issues, literacy level of customers, customers' resistance to change, poor I.T infrastructure in Kenya, less advancement in technology compared to developed countries, negative attitude towards change by customers, lack of frequent use of Internet, insecurity of Internet banking system, and also risk in Internet banking.

5.4 Recommendations

The study therefore recommends for effective usage of Internet banking in commercial banks in Kenya, the customers to commercial banks should be assured of maximum security in using the Internet banking services, they should also be assured that there is a legal recourse in case of any fraud in their account through Internet banking.

The researcher also recommended that the customers should be given the skills on how to use the technology and also be made aware of the advantages of using the Internet banking service versus the human teller.
5.5 Suggestions for Further Research

The study therefore recommends that further research needs to be conducted in commercial banks to establish the linkage or impact of Internet banking and other factors for instance, effectiveness in the quality of service or the effect of Internet banking and commercial banks productivity.

5.6 Implications of the study for Policy and Practice

The relevant departments should be involved to facilitate effectiveness and adopt improvements of customer satisfaction with internet banking services. Project reviews should be coordinated by the program coordination team in collaboration with the respective consultants and other stakeholders. In addition, the firm should continuously identify and assess the success of internet banking by key stakeholders - this is an area where the respondents identified to be lacking. The commercial banks in Kenya should also increase the number of services that could be served Internet banking to achieve greater customer satisfaction other than the few services available currently.
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Appendix I: Letter of Introduction from the University

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

DATE 3/.

TOWHOWI IT MAY CONCERN

The bearer of this letter, K.LUft
Registration No, Vl.

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you,

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P.O. Box 38197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM
Appendix II: Letter of Introduction to the Respondents

The Respondent

Dear Sir/ Madam,

RE: THE LINKAGE OF INTERNET BANKING AND CUSTOMER SATISFACTION

I am a postgraduate student in School of Business at the University of Nairobi pursuing an MBA Program. I am undertaking a Management Research Project on the above subject as part of the postgraduate requirement.

This questionnaire seeks to obtain information about the linkage of Internet banking and customer satisfaction.

The Information you provide will be treated with strict confidence and is purely for academic purposes. In no way will your name appear or be recorded in the final research report.

Your assistance and cooperation will be highly appreciated.

Yours truly,

Catherine Kinyua.
Appendix III: Questionnaire to Banks

Section A: Details

PART A

1. Gender

   Male [ ]    Female

2. Position in the organization

3. Number of years in the current position

   0 - 2 years

   2 - 5 years

   More than 5 years

4. Age

   20 - 25 years

   26 - 35 years

   Above 35 years

5. Education Level

   Diploma

   Undergraduate

   Post graduate
PART B

1. Does your bank use Internet banking in its operations?
   
   Yes [ ]   No [ ]

2. Does your bank have Internet banking for corporate clients?
   
   Yes [ ]   No [ ]

3. If yes, for how long has Internet banking been used in your bank for corporate clients? Tick below
   
   0 - 2 years

   3 - 5 years [ ]

   6 years and above [ ]

4. In comparing the cost of operations before and after the adoption of Internet banking, are there any significant cost savings that have been realized?
   
   Yes [ ]

   No [ ]

5. Why does your bank use Internet banking?
   
   Cost saving [ ]

   Efficiency

   Decongest Banking halls [ ]

   Others:
### Section B: Extent of use of Internet banking

<table>
<thead>
<tr>
<th>To what extent are the following services applied in Internet banking in your bank</th>
<th>None</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance inquiry.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed deposit interest rate inquiry.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheque Book request.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information on standing orders.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient funds alert.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account Opening and closure.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury Information.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Making payments; Local and Cross border.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Request for ATM cards.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Request for ATM cards to be stopped.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly statements reporting.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Section C: Challenges of using Internet banking

<table>
<thead>
<tr>
<th>To what extent is each of the following a barrier to Internet banking?</th>
<th>None</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security Issues.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of top management support.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in technology.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Literacy level of customers.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers' resistance to change.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of skills by the IT personnel.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
To what extent is each of the following a barrier to Internet banking?

<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of servicing Internet banking use and application.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer perception on the usefulness of Internet banking.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ease of use of Internet banking.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section D: List of Corporate Clients

Please provide the researcher with a list of corporate clients in your bank.

a)                                      
b)                                      
c)

Appendix IV: Questionnaire to Corporate Clients

Section A: Demographics and Internet banking Details

1. Name of the bank (Optional)

2. How can you describe the ownership of your bank,
   a) Public [ ]  b) Private [ ]  c) Both [ ]

3. How can you describe the management of your bank
   a) Indigenous [ ]  b) Foreign [ ]

4. Does your bank offer any personal banking facilities over the Internet?
   a) Yes [ ]  b) No [ ]

5. If Yes, which ones? (Tick as appropriate)
   a) Opening account [ ]  e) Checking account balances [ ]
b) Viewing transactions [ ]  
f) Remittances

c) Inter-bank transfers [ ]  
g) Standing orders set ups [ ]
d) Direct debits [ ]  
h) Others (Please specify)

6. While opening an account:
   a) Individuals can open accounts while abroad [ ]
   b) Individuals must be physically present in Kenya

Section B: Determinants of Internet banking Adoption

<table>
<thead>
<tr>
<th>I. Determinants of Intention to Use</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Indifferent</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. I find Internet banking useful to me.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Using Internet banking enables this bank to serve me faster</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Using Internet banking increases customer satisfaction with the services of this bank.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. If this bank uses Internet banking fully, it will increase its chances of retaining me as a customer.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. My interaction with the Internet banking system is clear and understandable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Use of Internet banking has made me become more skillful.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. I find the Internet banking system easy to use.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>