THE INFLUENCE OF CUSTOMER BEHAVIOUR ON ADOPTION OF ALTERNATIVE BANKING CHANNELS AT THE CO-OPERATIVE BANK OF KENYA, NAIROBI COUNTY

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A RESEARCH PROJECT SUBMITTED IN FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS OF SCIENCE IN MARKETING, THE UNIVERSITY OF NAIROBI.

OCTOBER 2015

DECLARATION

This research project is my original work and has never been presented to any other University for the award of degree/diploma/certificate

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Supervisor

This research project has been submitted for examination with our approval as the University supervisors

Signed _____   **Date** _____

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DEDICATION

I dedicate this project to the memory of my late father, Mzee John Kahiga Ngumo, Hsc a great

man of honour whose love for education and service knew no boundaries

ACKNOWLEDGEMENT

First, I thank the University of Nairobi lecturers in the department of Business Administration for facilitating and supporting my studies at the university, you taught me well. Most of all, I am very grateful to my supervisor, Victor Ndambuki for his strict guidance throughout the project development. I thank my family and particularly my wife Dr. Ruth Wangui Mugo for being a strong encouragement on this journey.

Table of Contents

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Since the advent of the internet, intelligent telephony and e-logistics, there have been rapid and substantive changes in channels of distribution of goods and services in the world and significantly in developing economies. The main objective of the survey was to study the influence of customer behaviour on adoption of alternative banking channels at the co-operative bank of Kenya, Nairobi County. This study employed a cross-sectional survey design. This study involved a systematic collection and analysis of data in order to examine the influence of consumer behaviour on adoption of alternative banking channels in Co-operative Bank of Kenya in Nairobi County. This study involved all Co-operative Bank branches in Nairobi County. The total number of branches studied was 40, as established from the Banks' website. The study targeted individual customers of the Nairobi branches. The data for this study was collected using questionnaires. Findings from the study established that mobile banking channels from telecommunication companies are more popular for financial transactions with co-operative bank customers than the bank own mobile banking channel. The survey also established that those channels that are consistent with the consumer behaviour needs for security, recognition by peers, cost containment and ease of use, are adopted better. Customer preference for low cost transactional channels supersedes channel convenience as a criteria for selection and adoption. The study also established that although the banks' customers are familiar with alternative channels like the internet banking channels and agent banking outlets and the services offered there, this familiarity is not a key driver for adoption. The study establishes that the consumer behaviour of doing banking and financial transaction at the eleventh hour determines the selection and the consequent adoption of various alternative channels. Internet banking at Co-operative Bank has not been adopted by the customers interviewed. The study establishes that internet banking as an alternative channel doesn't meet the customer behaviour desire for ease of use and trust in relation to security. Channels that don't deliver a clear relative advantage as perceived by the customer, like the internet banking, have not been adopted. The consumer behaviour of avoiding complex service delivery channels and avoiding risk makes Automated teller machines (ATMS) remain the most adopted alternative channels after banking in the physical branches. There is no discernible gender disparity noted in the selection and adoption of alternative channels as both men and women, across income levels demonstrated similar channel adoption behaviour patterns. The study established that desire for privacy of transaction, ease of use and security are key drivers for alternative channels. Alternative channel unreliability is the single biggest reason why customers at Co-operative Bank avoid Internet and agent banking. Branch banking was the most preferred mode of banking by the respondents. Recommendations are made that Cooperative bank should run marketing programs that sell alternative channels not a convenient alternative to branches, but as cost saving alternatives useful for emergency transactions. Secondly the marketing strategies should be developed to reassure consumer that the alternative channels are not only physically secure, but that the consumer transactions are protected from external interference even inside independent agents. The bank should demonstrate to customers that it supervises and monitors the transaction that happen in all its outlets and the same security standards that exist inside a physical branch also exist in the alternative channels

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Since the advent of the internet, intelligent telephony and e-logistics, there have been rapid and substantive changes in channels of distribution of goods and services in the world and significantly in developing economies. The mobile phone has particularly challenged the traditional role of the intermediary and presented consumers with a real choice in terms of service access channels to be used. Consumers now face not only a choice between indirect and direct channels, but also a choice between different types of direct channels (Jo Black, Lockett, Ennew, Winklhofer&McKaechnie, 2002). With the increase of these access channels, reliance on a single channel is likely to be the exception rather than the rule.

Consumers today are not only using the conventional channels of branches in the financial sector but are also consolidating their transactions around alternative channels like Mobile Phones, Agencies, Automated teller machines, Internet banking and Point of Sale terminals (POS). In the presence of this consolidation, there is a growing need to understand how consumer behaviour influences how consumers choose between channels and the reasons for which one channel is selected over another.

In an attempt to optimize services and minimize costs, banks are migrating towards 24-7 service using technology and are expecting customers to enjoy the greater sense of freedom and convenience and therefore reward them with more business. This sector in Kenya has been revolutionized over the past 10 to 20 years by an onslaught of new technologies and a widespread change in the regulations governing the use of this technology. As a result, many banks have started

adapting their distribution channels and shifting from frontal personal service to direct sales and marketing via phone, email or electronic transactions.

Alternative channels at Co-operative Bank include ATMs, Telebanking, Internet banking, Agent banking, mobile phone banking, website banking, and social media banking. These are alternative to the traditional frontal person to person service.

1.1.1 Consumer Behaviour

Consumer behaviour has been defined as the totality of consumers' decision with respect to the acquisition, consumption, and disposition of goods and services, over time (Hoyer & MacInnis, 2010). According to Kotler (1999), consumer behaviour includes mental, emotional and physical activity that people use during selection, purchase, use and disposal of products and services that satisfy their needs and desires. The implication here is that consumer behaviour is the entirety of physical, mental and emotional influences that a customer goes through in the making of a transaction and the consequent relations between the consumer and the service. The second critical aspect is the concept of time.

Behaviour is not a one-off activity but rather a repeated exhibition of an activity or practice whether physical, mental or emotional. The definition formed by Solomon et al (1995) describes consumer buying behaviour as a process of choosing, purchasing, using and disposing of products or services by the individuals and groups in order to satisfy their needs and wants. Similar definition of consumer buying behaviour is offered by Schiffman and Kanuk (2000) in which they describe it as the behaviour that consumers express when they select and purchase the products or services using their available resources in order to satisfy their needs and desires.

Consumer buying behaviour is defined by Stallworth (2008) as a set of activities which involves the purchase and use of goods and services which result from the customers' emotional and mental needs and behavioural responses. It is further stated by Gabbot and Hogg (1998) that the process may contain different activities and stages. Consumer behaviour researchers agree that consumer behaviour is neither static nor an easy subject. According to Blackwell et al (2006), consumer buying behaviour is itself a complex, dynamic issue which cannot be defined easily and commonly.

Although the definitions given above vary, they all lead to a common view that consumer buying behaviour is a process of selecting, purchasing and disposing of goods and services according to the needs and wants of the consumers using their available resources in order to satisfy their needs and desires.   However, there is a general consensus among the researchers and academics that this process is subject to continual change over time as the purchase characteristics of the customers change due to their physical and psychological needs. It is therefore important that the processes, physical, psychological and emotional that consumers utilize while selecting a distribution channel in the purchase of financial services are taken into account in any consideration of consumer behaviour.

1.1.2 Concept of Innovation

Vadim (2008) defines innovation as the process of creating a product or service that delivers significant new customer value. Leonard (1999) on his part defines innovation as the creation of something that improves the way we live our lives. These two definitions while capturing the

essence of innovation as the process of creating or the end effect of creating something that improves life do not encompass the critical element of marketability.

Rogers (1962) conceived innovation as "an idea perceived as new by the individual." It doesn't matter whether the idea is objectively new as measured by the amount of time elapsed since its first discovery. Innovation can be classified into four broad areas, architectural and component innovation, competence enhancing innovation, radical and incremental innovations and product and process innovation.

The service channels innovation in the financial sector in Kenya demonstrates various aspects of these innovation approaches. Architectural innovations is where a changes of the product system has happened without significantly affecting the overall service design. In the loan application process for example, loans application takes place on phone but the approval process is still manually done by human intervention. Radical innovation is evident on the other hand where the traditional deposit and withdrawal services previously stringently provided by bank owned infrastructure of branches has now been opened up to third party agents who include privately owned kiosks and hardware shops.

1.1.3 Adoption of Innovation

Adoption has been defined as the acceptance and the continued use of an innovation (Robertson 1971:56). Alternatively, Rogers (1962) views adoption as a decision to continue full-scale use of an innovation. According to Klonglan and Coward (1970), adoption refers to the incorporation of an innovation into the behaviour pattern. Rogers and Shoemaker (1971) defines adoption as "making full use of a new idea as the best course of action available" and also as "a decision to continue full-scale use of an innovation".

These definitions agree that adoption of innovation involves acceptance, decision to act, continuity in acting and the final step of incorporation of that repeated action into the behaviour pattern. Rogers (1969) identifies the following generalizations about adoption; adoption depends on (a) the nature of the innovation, (b) the method of communication used (c) the social environment in which the adoption takes place (d) the time dimension. He observed that adoption and communication are closely linked.

Adoption of innovation becomes easier where a relative advantage is clear and the innovation is compatible with the consumer social practices and expectations. It also gets adopted in relative ease if it is not complex, can be tried out without undue risk to the consumer and is easily communicable.

1.1.4 Service Channels

Decisions about distribution channels are very important because they affect all other marketing mix choices. A service distribution channel is defined as a set of interdependent systems or organizations that help make a product or service available for use or consumption by the consumer or business user (Kotler, Gary, Agnihotri (2010).

According to the economic distribution channel theory, the ideal distribution system is determined by exploring what the consumers want in terms of service outputs from the distribution channel, how much they are willing to pay for a given service level, how service can be provided to them and what the costs of the alternative distribution channels are (Stern et al.2006).The distribution channel strategy decision is usually based on finding the most profitable way to reach a market (Ford &Mottner, 2003) . Successful channel strategy selection, implementation and management cannot only help to meet the shopping needs and habits of target customers under the cost

constraints of the seller; they must also mitigate the disadvantages caused by distribution channel conflicts.

1.2 Research Problem

Multi-channel service access within the financial sector in Kenya is a relatively new phenomenon. Previous to the introduction of the internet and mobile telephony consumers of financial services were served through bank owned branches where customers visited and transacted over the counter. There are many studies that have been done on the banking models and a few on the emerging model that is internet and electronic based. As a result, there are research findings available on factors influencing consumer choice of bank products and recently, studies have been done on consumer choice of individual channels like ebanking, internet, ATM teller machines etc., and even evaluations whether these channels contribute to profitability or not .

However there is little research information to show why consumers, though buying similar financial products, perhaps from the same bank brand will use one channel against another even where rational economic logic would expect the consumer to go for the less expensive and more convenient channel of access.

Humphrey et al (2014) studied Co-operative Bank of Kenya on the Effects of Alternative Banking channels on profitability of commercial banks which observed that when convenience of accessing banking services through alternative banking channels increases the profit of the bank increases in the same direction. Wambui (2012) researched on Distribution Strategies and Competitive advantages in Kenya Commercial bank and observed that competitive advantage is found in those innate organizational capabilities that makes its products and services easily available in the market.

One of these organizational capabilities is its distribution strategies. Schoviah (2012) has also researched on the effect of Marketing Distribution Channel Strategies on a Firms Performance among commercial banks in Kenya, and concludes that a multiple channel strategy is the most popular distribution channel strategy among banks in Kenya.

Muchiri (2012) studied the growth strategies adopted by Co-operative bank as an operational orientation while Musili (2011) examined the market segmentation practices employed by banks for competitive advantage in Co-operative bank in Kenya and reported that financial institutions use segmentation strategies to gain competitive advantage as there is little to differentiate one bank's product from another's. Magero (2012) in a study on the adoption of mobile money transfers by Co-operative bank to settle international debts reported that adoption of this technology was slow in the beginning.

This study seeks to answer the following research question: what is the influence of consumer behaviour on the adoption of alternative banking channels by Co-operative bank in Kenya customers in Nairobi?

1.3 Research Objective

The objective of the study is to establish the influence of consumer behaviour on adoption of alternative banking channels at the Co-operative Bank of Kenya in Nairobi County.

1.4 Value of the study

This study is important to researchers, the financial sector, scholars and policy makers. To the researchers, it will enlighten them and offer a practical chance to discover how consumer

behaviours influence selection and adoption of service channels in the banking sector. To the banker, particularly to channel designers and managers it will inform on what consumers look for when deciding what service channel to use. The study will inform policy makers to enable decision making on the basis of on-ground empirical and practical information. To Co-operative Bank, the study will be of immense value because it will provide specific information on how the banks' customers choose and adopt service channels.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter reviews the available related literature under the following headings; Theoretical background, the concept of alternative banking channels, Alternative Banking Channels and Consumer Behaviours, Consumer awareness and adoption of alternative banking channels, Consumer attitude and adoption of alternative banking channels, Consumer security concerns and adoption of alternative banking channels, Influence of Consumer demographics and adoption of alternative banking channels.

2.2. Theoretical Background

The study of consumer behaviour seeks to understand how consumers make decisions on how to spend their available resources in regard to purchase, usage and disposal of purchased goods and services (Kotler, 2006). Researchers suggest five typological models of man, and emphasize the need to examine quite different variables (Foxall 1990); these are Economic Man, Psychodynamic, Behaviourist, Cognitive and the Humanistic.

The economic man approach proposes that consumers make choices based on the expected outcomes of their decisions. They are viewed as rational decision makers who are only concerned with self-interest (Schiffman and Kanuk 2007,). The stimulus-response model of buyer behaviour (Kotler, 2006). Shows that marketing and other stimuli enter the consumer's mind and stimulate certain responses. Therefore, marketers must figure out what is in the buyer's Black Box (mind). The Black Box model assumes that observable behaviour is the only valid object of study and that psychological constructs are part of an impenetrable box which should not be opened.

Marketing stimuli consists of the product, price, place, and promotion. Other stimuli include major forces and events in the buyer's environment such as economic, technological, political and socio-cultural influences. All these inputs enter the buyer's black box, where they are turned into a set of observable buyer responses such as product choice, brand choice, dealer choice, purchase timing, and purchase amount (Kotler, 2006). .

The marketer wants to understand how the stimuli are changed into responses inside the consumer black box, which has two parts. The first part includes the buyers' characteristics that influence how he/she perceives and reacts to stimuli. The other part includes the buyers' decision process (Armstrong, 2006). This research project is concerned with the first part that deals with buyer behavioural characteristics.

The other models include economic view, passive view, cognitive view, and emotional view. The economic view model is the where consumer is seen as a rational decision maker. It's the classical economic model of how individuals make decisions. The criticisms of the view are that: for one to be rational, he should have all the information on the available products. Secondly, one has to be capable of currently ranking each alternative available (John C, 1995).

Passive View Model depicts that consumers are basically submissive to the self-interests and promotional efforts of marketers. Consumers are perceived as impulsive and irrational purchasers ready to yield to the arms of marketers (Schoof, 1995).

However, this view fails to recognize that the consumer plays an equal, if not dominant, role in buying situations. Consumers sometimes seek information about product or service that satisfies the mood or emotion of the moment. Also motivation, perception, and learning serves to support that consumer are rarely objects of manipulation (Schoof, 1995).

Cognitive View Model portrays a consumer as a thinking problem solver. Here consumers are depicted as either receptive to or actively searching for products and services that fulfill their needs and enrich their lives. It focuses on the process by which consumers seek and evaluate information about selected brands in retail outlets. Consumers are also seen as information processors who then form preferences and ultimately arrive at purchase intentions (John, 1995).

Marketers often prefer to think of consumers in terms of either economic or passive models. In reality, consumers relate deep feelings or emotions such as joy, fear, hope, and love with certain purchases. For example a person who misplaces a favorite fountain pen may go to great lengths to look for another despite the fact that he may have six others at hand. Consumer moods are also important to decision making because impact of where, when and whether to shop along with others (John, 1995).

Consumer behaviour is of importance to the marketers as it helps them understand why and how individuals make decisions so that they can make better marketing decisions to have a great competitive advantage at the market place (Armstrong, 2006). The critical question for marketers is: How do consumers respond to various marketing efforts the bank might use? The starting point is

2.3 The concept of alternative channels

Increasing market and technological complexity has placed unprecedented pressure on financial institutions. The demand for a digital lifestyle and the technological revolution it brings, coupled with significant demographic shift and new regulatory framework, are subjecting the finance sector to a host of new challenges.

To address these challenges provision of services to customers is now supported by a network of interactive technologies, such as the internet, mobile applications, or interactive online systems, leading to the emergence of multichannel or multi- interface service systems (Patrício et al, 2009). According to Shrotriya (2007) and Kumbhar(2009), customers are now looking for multiple delivery channels and flexible as well as convenient working hours. Therefore, commercial banks are providing services through various alternative channels.

Alternative channels are also defined as the newer method of carrying on banking operations. It includes all non-traditional means of financial services access (World Retail Banking Report, 2008, Ogilvie, 2008; Shrotryiya, 2007; Mohan, 2002; Sathye, 1999) such as Automated Teller Machines, internet banking, bank automation, core banking, credit cards, debit cards, mobile banking and EFT.

Alternative banking has also been described as branchless banking; a distribution channel strategy used for delivering financial services without relying on bank branches. While the strategy may complement an existing bank branch network for giving customers a broader range of channels it can also be used as a separate channel strategy that entirely forgoes bank branches (Kumbhar, 2009).

Alternative banking is also known as e-banking or electronic banking, online banking, virtual banking, direct banking and high tech-banking. This is contrasted with traditional banking system where customers need to visit branches to make transactions and getting information about banking services and account information, (Kumbhar, 2009). According to Howcroft (1993) alternative distribution channels provides convenient alternatives to branch banking. IBM Global Services

have defined alternative banking as a set of alternatives improving competitiveness, but also with ability to retain the existing customer as well as to attract new customers (Kimball &Gregor, 1995).

The alternatives include personal computer banking, internet banking, own managed network, TV banking, Telephone banking and mobile phone banking. This type of access to banking services is also known as quasi-banking, alternative remittance systems, and parallel banking. According to Devlin et al (2003), direct banking is the generic term that has been adopted to encompass telephone and Internet banking, as well as interactive television and most recently m-banking.

Authors vary with respect to their conceptualization of this new age banking. Some call it internet banking (Dalia, 2009; Sujana, 2009; Serkan, 2004), while some refer to it as online banking (Tommi& Mika, 2008). Despite these conceptual discrepancies in the literature, the most important thing about alternative banking is that it is a banking system fostered via the new market space. On this note, the researchers seem to have ignored the controversy surrounding its nomenclature and to interchangeably use any of the aforementioned terms to mean the same thing as alternative-banking since each of the term in one way or the other makes an input that comes under the umbrella of alternative banking.

2.4 Alternative channels and consumer behaviour

The financial sector has an established multi-channel heritage compared to other sectors in the market. According to Jo Black et al (2002) the financial services sector, has a long history in multi-channeling, suggesting a reasonable degree of consumer familiarity with multi-channels. This is opposed to the dominant single channel model of distribution in consumer goods market where different types of consumer goods require different types of channels. Wendy et al. (2005) studied customers' adoption of banking channels in Hong Kong. Their study covers four major banking

channels of automated teller machines,branches, telephone banking and internet banking and it segments customers based on demographic variables and psychological beliefs about the positive attributes possessed by the channels. The psychological factors they consider are ease of use, transaction security, transaction accuracy, speed, convenience, time utility, provision of different personal services, social desirability, usefulness, economic benefits and user involvement. The study concluded that social desirability is significant in the adoption of alternative banking channels

2.5 Consumer awareness and adoption of alternative channels

A study conducted in Thailand examining customers' discernment of using mobile banking found that a significant number of customers are either not aware of the mobile banking services or do not trust the mobile banking as a channel to conduct their banking transactions, and have found that customers may adopt the mobile banking technology only if they perceive the technology to be useful (Supathanish, 2010).

With bank customers becoming more technology savvy and aware in recent years, their usage of alternate channels of banking is increasing (Kohil & Sheleg, 2015).

2.6 Consumer demographics and adoption of alternative channels.

Tommi and Mika (2008) examined how mobile banking innovators and early adopters differ from other users of online banking services in Australia. The results indicate that only age and gender differentiate these two groups of customers, while education, income, occupation and size of the household were found to be insignificant in differentiating the groups in usage of mobile banking. A gender psychographic study of banking customers in Karnataka, India found that men and women customers exhibit different behaviour in their preferences of banking channels. Women

prioritize on channel convenience and savings, whereas men prefer safety and convenience of electronic channels when it comes to bank selection. Internet banking finds favour with women whereas men are branch banking loyalists. Women seek value from a credit card usage whereas men value the value of a loan product (Srivatsa & Srinivasan, 2007).

2.7 Consumer security concern and adoption of alternative channels

Wai-Ching (2007) explored the determinants of users' adoption momentum of e-banking in Malaysia. Ten attributes were tested namely convenience of usage, accessibility, features availability, bank management and image, security, privacy, design, content, speed, and fees and charges. Results indicated that all elements for the ten identified factors are significant with respect to the users' adoption of e-banking services. Privacy and security are the major sources of dissatisfaction. These results also reveal that privacy; security and convenience are factors that play an important role in determining the users' acceptance of e-banking services with respect to different segmentation of age group, education level and income level.

An empirical study investigating adoption of e-banking in Nigeria, identified the major inhibiting factors to internet banking adoption as, insecurity, inadequate operational facilities including telecommunications facilities and electricity supply (Chiemeke et al, 2006).In Kenya, Munyoki and Eva (2011) study on the challenges of e-banking adoption among the commercial banks in Kenya established that banks had only partially adopted e-banking as a strategy. They agreed with Wai-Ching (2007) on security stating that security was found to be the most critical factor influencing e-banking adoption.

2.8 Consumer attitude and adoption of alternative channels

Dalia (2009) research aimed at understanding and explaining customers continued intention to use Internet banking in Egypt established that perceived ease-of-use was found to be the strongest predictor of intentions to continued usage of Internet banking services. Findings equally show that demographic variables had no significant effect on continued usage of Internet banking services. Munyoki and Eva (2014) observed that Customer driven factors such as customer intention drivers, customer attitude, ease of usage by customer, usefulness of e-service to customer and customer trust respectively rated highly influencing adoption of e-banking.

2. 9 Convenience, cost saving and adoption of alternative channels

Studies demonstrate that there are two fundamental reasons underlying electronic banking development and diffusion; cost saving and customer service necessity. Sathye, 1999; Robinson, 2000,state that it has been proved that electronic banking channel is the cheapest delivery channel for banking products once established. According to Karjaluoto et al (2003) banks have reduced their branch networks and downsized the number of service staff, which has paved the way to self-service channels as many customers felt that branch banking took too much time and effort. Therefore, time and cost savings and freedom from place have been found to be the main reasons underlying electronic banking adoption.

Where research has focused attention on consumers instead of actions of institutions, the patterns that emerge broadly indicate that convenience, flexibility and control tend to encourage adoption of new channels, and concerns about security and channel complexity discourage adoption. (Cazier et al, 2006). According to Ahmad (2008) Electronic banking minimizes the cost of transactions, saves time, minimizes inconvenience, provides up-to-date information, increases operational efficiency, reduces HR requirements, facilitates quick responses, improves service quality and

minimizes the risk of carrying cash. Mukhongo et al (2014) study on the effects of alternative banking channels on the profitability of commercial banks, a case study of the Co-operative Bank of Kenya, concluded that banks should ensure that Alternative Banking channels services are designed in a way that customers can easily use them and that they should use modern technology to make them user friendly, faster and convenient.

There is a lot of research information on the factors influencing consumer adoption of various areas of e-banking but nothing, on why the adoption of alternative banking channels is low despite demonstrable advantages of e-banking over traditional banking. There is a need to study how consumer behaviour influences channel selection between traditional branch banking and alternative banking channels.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section deals with the methods and procedures which were used in carrying out this study. These include; research design, target population, sample size and sampling procedures, research instruments, data collection procedures, data analysis and ethical concerns.

3.2 Research Design

This study employed a cross-sectional survey design. According to Kothari (2004) a cross-sectional study is a one-time research or a study confined to a single time-period. This research design is appropriate for this study as it involves collecting data at one point in time and the researcher does not manipulate the variables or arrange the events that follow. This study involves a systematic collection and analysis of data in order to examine the influence of consumer behaviour on adoption of alternative banking channels in Co-operative Bank of Kenya in Nairobi County.

3.3 Target Population

Target population or universe of a study is all the members or objects involved in the study (Kothari, 2004). This study involved all Co-operative Bank branches in Nairobi County. The total number of branches in Nairobi County is 40, as established from the Banks' website. The study targeted individual customers of the Nairobi branches.

3.4 The Sample Size and Sampling Procedures

Simple random sampling was used to obtain a sample of 10 customers per branch Co-operative Bank branches for this study. According to Best and Khan (2010) simple random sampling allows individuals to be chosen in such a way that each has an equal and independent chance of being

selected. Fraenkel and Wallen (2002) recommend a minimum of 100 subjects and a maximum of 1,000 for descriptive studies. This recommendation was used as a guide for the respondents sample size of 400 people, split equally between female and male. According to Mugenda and Mugenda (2003), a sample size of between 100 and 1000 is a good representative of the target population and hence the 40 target sample is adequate for analysis.

3.5 Research Instrument

The data for this study was collected using questionnaires. The customer questionnaire (Appendix I) was constructed by the researcher and it had open-ended and close-ended items. It was structured to attract the information required to examine the influence of consumer behaviour on adoption of alternative banking channels. The questionnaire was divided into two sections: Section A captured the demographic information of the customers; the customers' gender, age, academic background, professional training, etc., Section B addressed attitude towards alternative channels on the areas of security, convenience and performance. It also measured awareness, reasons of usage and none usage and customer transaction patterns.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter is a presentation of results and findings obtained from field responses and data, broken into two parts. The first section deals with the background information, while the other section presents findings of the analysis, based on the objectives of the study as explored by the questionnaires where both descriptive and inferential statistics have been employed.

4.2 Response Rate

From the data collected, out of the 400 questionnaires administered, 368 were filled and returned. This represented a 92% response rate, which is considered satisfactory to make conclusions for the study. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very good. This also collaborates Bailey (2000) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. Based on this assertion; the response rate in this case of 90% is very good.

The high response rate was attributed to the data collection procedures, where the researchers physically administered the questionnaires to the Cooperative bank customers inside the branch as they seated waiting to be served or immediately after service while exiting the branch.

Table 4.1: Response Rate

	Frequency	Percentage
Completed questionnaires	368	92%
Uncompleted questionnaires	• 32	• 8%
Total	• 400	• 100%

Source: Research Findings

4.3 Pilot Test Results

To establish validity, the research tools were given to specialists who were experienced to assess the relevance and validity of each item in the tool in regard to the study variables. The same were rated on the scale of 1 (very relevant) to 4 (not very relevant). The most trusted method to determine the validity is by use of content validity index (CVI). CVI was obtained by adding up the items rated 3 and 4 and dividing this sum by the total number of items in the questionnaire. A CVI of 0.759 was obtained. In this reference to Oso and Onen (2009), state that a validity coefficient of at least 0.70 is acceptable as a valid research hence the adoption of the research instrument as valid for this study.

The questionnaires used had Likert scale items that were to be responded to. For reliability analysis Cronbach's alpha was calculated by application of SPSS. The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous (that is, questions with two possible answers) and/or multi-point formatted questionnaires or scales (i.e., rating scale: 1 = poor, 4 = excellent). A higher value shows a more reliable generated scale. Cooper & Schindler (2008) indicated 0.7 to be an acceptable reliability coefficient. Since, the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study.

31

4.3.0 Demographic Information

The study sought to find out the demographic information of the respondents which included; Gender, age and level of education of respondents.

4.3.1: Gender of the Respondents

The study sought to determine the gender disparity between the male and female respondents among the selected cooperative bank customers.

From the findings, majority (72%) were male respondents with (28%) being female respondents. This implies there were more male than female among the respondent taken onto account. However, both genders were well represented to effectively carry out the study.

4.4 Education level

The figure below shows the education level of the respondents.

Figure 4.1 Education level
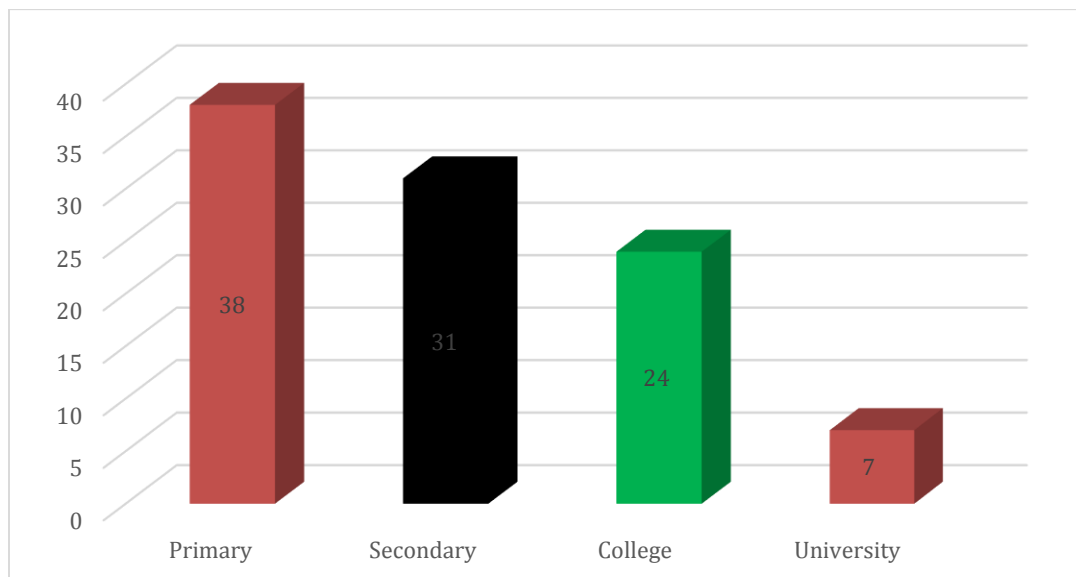
The figure above shows that 38% of the respondents had primary education, 31% had secondary, 24% had college education while the minority had a university degree at 7%.

The respondents could therefore read and interpret the questionnaire effectively as they all have primarily education and above.

4.5 Monthly income range

The figure below indicates the Monthly income range of the respondents.

Figure 4.2 Monthly income range
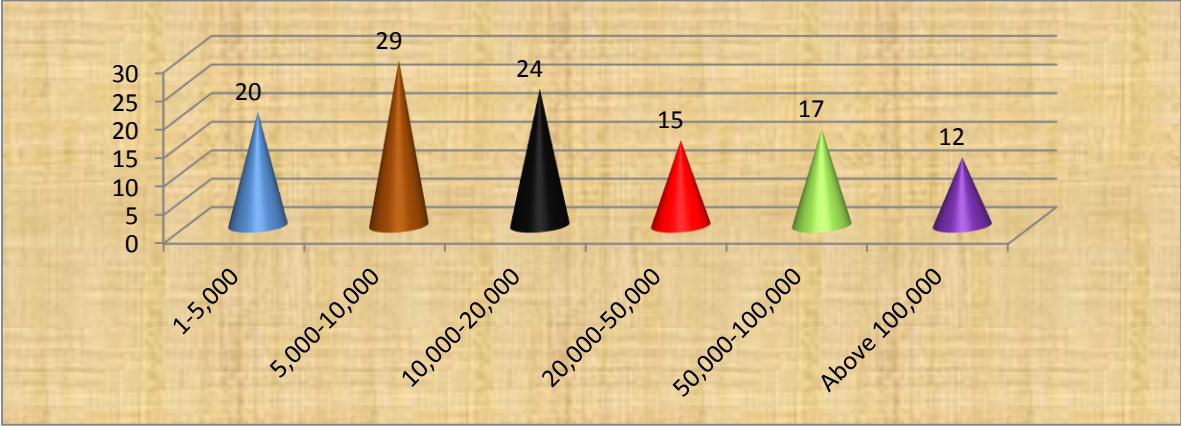
The analysis study above shows that 20% of the respondents had a monthly income of between 1-5,000, 29% had income of 5,000 and 10,000, 24% had between 10,000 to 20,000, 15% had a monthly income of 20,000 to 50,000, 17% had an income of 50,000-100,000 while 12% had an income of above 100,000.

Each respondent is therefore capable of using any of the available banking channels

4.6 The channel used frequently

The researcher had to establish the channel used frequently. The results are recorded below.

Table 4.2 The channel used least frequently

STATEMENT	Most frequently used	Partially Frequently used	Neutral	Frequently Used	Least Frequently Used	Mean	Std deviation
Automated Teller Machine	17	40	16	9	0	2.11	1.01
Branch	5	47	36	0	0	2.13	0.634
Mobile banking	0	7	0	57	23	4.26	0.494
Internet banking	0	57	16	18	0	2.12	0.601
Agent banking	11	41	15	8	0	2.20	1.00

Source: Research Findings

The study above indicates that respondents that used Automated Teller Machine were represented by a mean of 2.11 and standard deviation of 1.01. On the other hand, those directly banking at the cooperative bank branches were represented by a mean of 2.13 and standard deviation of 0.634. Mobile banking with a mean of 4.26 and standard deviation of 0.494. Internet banking with a mean of 2.12 and standard deviation of 0.601. Agent banking with a mean of 2.20 and standard deviation of 1.00.

The study above shows that majority of the respondents highly adopted mobile banking as shown with the highest mean of 4.26 and standard deviation of 0.494. These results were in line with Wai-Ching (2007) who posits that access to financial services on the mobile phone will certainly lower the cost of transfer of remittances, improving the safety and security of cash and make payments more convenient. With the transfer of electronic value from Safaricom's M-Pesa money transfer platform to a customer's bank account, a synergetic relationship is created in terms of deposit mobilization for the bank while the customers benefit in building up their savings for future investment.

4.7 Services used frequently

The researcher had to establish the services used frequently. The results are recorded below.

Table 4.3 Services used frequently

STATEMENT	Most frequently	Partially Frequently used	Neutral	Frequently Used	Least Frquently	Mean	Std deviation
Deposits	0	4	0	47	33	4.00	0.591
Withdrawal	0	54	15	17	0	3.11	0.501
Loan application	14	40	16	7	0	2.20	1.00
Bill payment	0	50	13	14	0	2.12	0.601
Account query	10	42	16	7	1	1.20	1.00

Source: Research Findings

The study shows that deposits was the service that was most frequently used with a mean of 4.00 and standard deviation of 0.591. Followed by withdrawal with a mean of 3.11 and standard deviation of 0.591. Loan application with a mean of 2.20 and standard deviation of 1.00. Bill pay ment with a mean of 2.12 and standard deviation of 0.601. While Account query with a mean of 2 .20 and standard deviation of 1.00. Account query came last with a mean of 1.20 and standard de viation of 1.00.

4.8 Frequency of using Banking services

The researcher had to establish the frequency of usage of banking services. The results are recorded below.

Table 4.4 Frequency of using Banking services

STATEMENT	Most frequently	Partially Frequently used	Neutral	Frequently Used	Least Frquently	Mean	Std deviation
Once a month	3	45	34	0	0	2.03	0.534
Once a week	1	56	15	19	0	2.10	0.500
Twice a week	0.0	7.1	14.2	16	27.5	4.33	0.23
Three times a week	7.1	14.	18	14.2	14.2	3.98	0.29
Daily	0.0	7.1	21.4	42.8	28.5	2.23	1.02

Source: Research Findings

The study above indicates that the banking service was used once a month with a mean of 2.03 and standard deviation of 0.534. Once a week with a mean of 2.10 and standard deviation of 0.500. Twice a week with a mean of 4.33 and standard deviation of 0.23. Three times a week with a mean of 3.98 and standard deviation of 0.29. While those that used the banking services on daily basis with a mean of 2.23 and standard deviation of 1.02.

The study above shows that the respondents mostly used the bank service once in a month as shown by a mean of 0.534.

4.9 Familiarity with Channel

The researcher also established the banking service channels the respondents were familiar with. The results are recorded below.

Table 4.5 Familiarity

STATEMENT	Most frequently	Partially Frequently used	Neutral	Frequently Used	Least Frquently	Mean	Std deviation
ATM	3	45	34	0	0	2.03	0.534
Internet banking	1	56	15	19	0	2.10	0.500
Branch	0.0	7.1	14.2	16	27.5	4.33	0.23
Agent banking	7.1	14.	18	14.2	14.2	3.98	0.29
Mobile banking	0.0	7.1	21.4	42.8	28.5	2.23	1.02

Source: Research Findings

The study above shows that respondents were familiar with ATM with a mean of 2.03 and standard deviation of 0.534.Internet banking with a mean of 2.10 and standard deviation of 0.500.Branch with a mean of 4.33 and standard deviation of 0.23.Agent banking with a mean of 3.98 and standard deviation of 0.29. While Mobile banking with a mean of 2.23 and standard deviation of 1.02. The respondents are quite familiar with the alternative banking channels of Agent Banking.

Figure 4.3 Familiarity
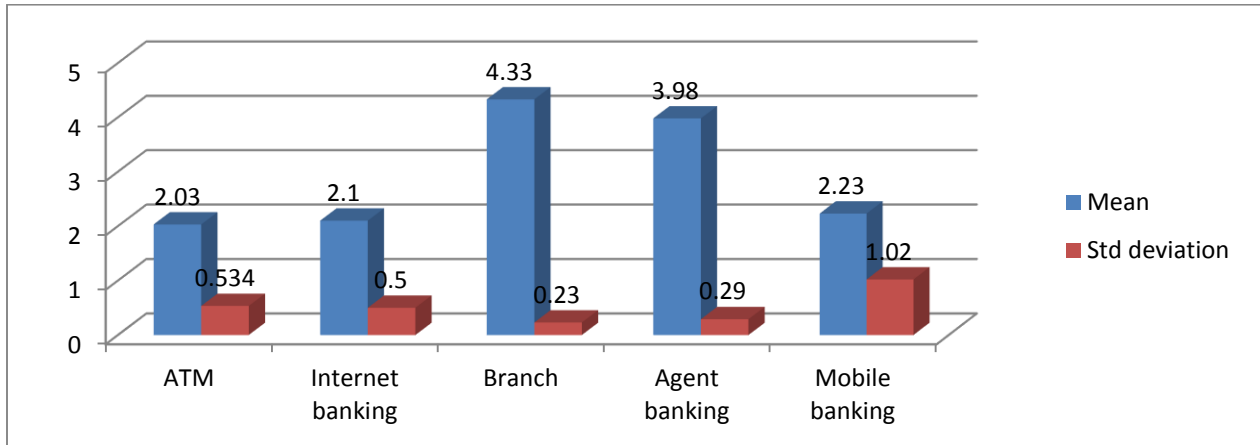
The researcher sought to establish why the respondents used the above named channels as indicated in table 4.4 below.

Table 4.6 Channel Selected

Statement	Strongly agree	Agree	Undecided	Disagree	Strongly Disagree
Convenient	6%	49%	0%	29%	16%
Affordable	17%	55.5%	2.5%	11%	16 %
Reliable	6%	16%	34%	20%	26%
Good for urgent transactions	11%	39	32%	14%	6%
My friends also use	34%	36%	22%	12%	0%
Available	41%	51%	5%	5%	0%
Easy to use	15%	53.5%	2.5%	8%	20 %

Source: Research Findings

The study above indicates that 92% of the respondents either agree or strongly agree that availability of banking channels is a strong driver of usage. 55% of the respondents either strongly agreed or agreed with convenience as the reason for usage, while 72% agreed or strongly agreed that affordability is an important driver of usage. 70% of the respondents agreed or strongly agreed that friends or social pressure is a strong reason for selecting a banking service channels

4.10 Channels Least Frequently Used

The researcher had to establish the channels least frequently used. The results are recorded below.

Table 4.7 Channels least frequently used

STATEMENT	Most frequently	Partially Frequently used	Neutral	Frequently Used	Least Frquently	Mean	Std deviation
ATM	3	35	32	0	3	3.01	0.500
Mobile banking	2	45	13	17	3	1.10	0.401
Internet banking	0.3	4.6	10.2	10	20.5	4.20	0.19
Agent banking	7.1	14.0	14	10.3	15.5	3.93	0.20
Branch	0.0	7.2	23.4	44.8	30.5	2.23	1.06

The study above indicated that Internet Banking and Agent banking channels were the two alternative banking channels that were least frequently used by the respondents with a mean a score of 4.20 and a standard deviation of 0.19 and a mean of 3.93 and a standard deviation of 0.02 respectively. ATM was more frequently used with a mean of 3.01 and standard deviation of 0.500.Mobile banking with a mean of 1.10 and standard deviation of 0.401 was the most frequently used channel. The branch was used at a higher frequency with a mean of 2.23 and standard deviation of 1.06.

The researcher sought to establish the reason why the respondents least used the channels as indicated in table 4.6 below for interpretation purposes.

Table 4.8 Channels Least Frequently Used

STATEMENT	Most frequently used	Partially Frequently used	Neutral	Frequently Used	Least Frquently	Mean	Std deviation
Unreliable	6	34	24	0	0	2.03	0.534

Difficult to use	1	56	15	19	0	2.10	0.500
Unpopular	0.0	7.1	14.2	16	27.5	4.33	0.23
Expensive	7.1	14.	18	14.2	14.2	3.98	0.29
Not good for emergencies	0.0	7.1	21.4	42.8	28.5	2.23	1.02
I don't know	7.14	7.14	7.14	57.1	21.4	4.34	0.22
Not secure	0.00	14.2	21.4	42.8	21.4	4.33	0.23

Source: Research Findings

The table above indicates that respondents pointed at unreliability as the reason to why they least frequently used the channels above with a mean of 2.03 and standard deviation of 0.534. Difficult to use is the second reason for low usage with a mean of 2.10 and standard deviation of 0.500. Unpopular with a mean of 4.33 and standard deviation of 0.23. Expensive with a mean of 3.98 and standard deviation of 0.23. Not good for emergencies with a mean of 2.23 and standard deviation of 1.02. Those with no idea with a mean of 4.34 and standard deviation of 0.22. Not secure with a mean of 4.33 and standard deviation of 0.23. This analysis indicates that the biggest reason for low usage of the channels used least frequently is respondents feeling that the channels are not popular or with other users or are expensive and other consumer behaviour concerns summarized as "I don't know" why I don't use this channel.

Figure 4.4 Channels Least Frequently Used
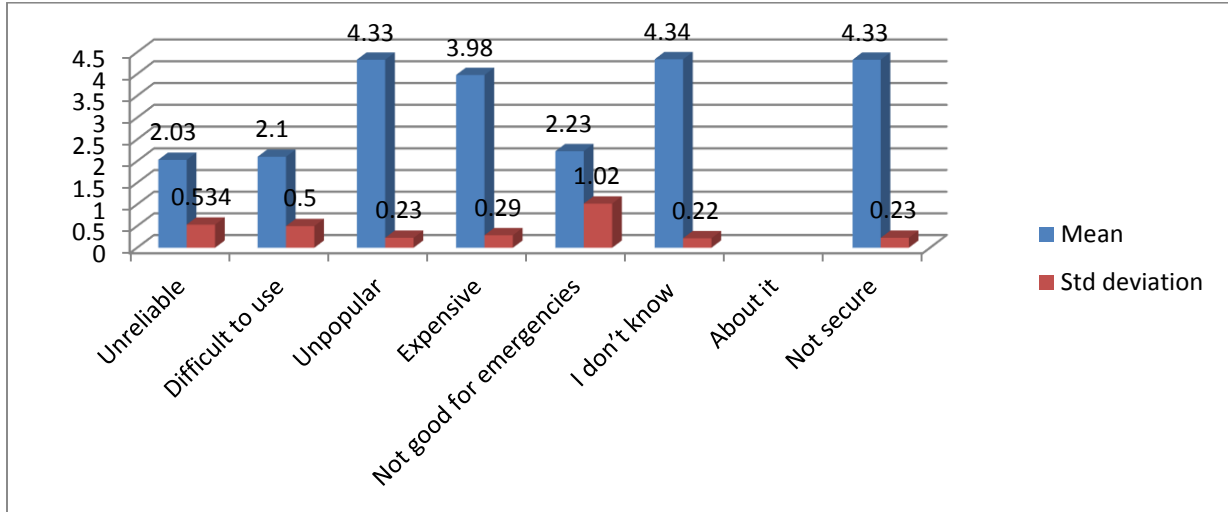
Source: Research Findings

4.9 Considering the channel to use

The researcher had to establish the criteria used by the clients when deciding which banking channel to use and what they consider most. The results are recorded below.

Table 4.9 considering the channel to use

STATEMENT	Most frequently	Partially Frequently used	Neutral	Frequently Used	Least Frquently	Mean	Std deviation
Convenience	6	34	24	0	0	2.03	0.534
Availability	1	56	15	19	0	2.10	0.500
Cost	0.0	7.1	14.2	16	27.5	4.33	0.23
Popularity among my friends	7.1	14.	18	14.2	14.2	3.98	0.29
Security	0.0	7.1	21.4	42.8	28.5	2.23	1.02
Urgency of transaction	7.14	7.14	7.14	57.1	21.4	4.34	0.22

The study above indicates that convenience with a mean of 2.03 and standard deviation of 0.534.Availabilitywith a mean of 2.10 and standard deviation of 0.500.Cost with a mean of 4.33 and standard deviation of 023.Popularity among my friends with a mean of 3.98 and standard deviation

of 0.29.Securitywith a mean of 2.23 and standard deviation of 1.02. While urgency of transaction with a mean of 4.34 and standard deviation of 0.22.Popularity among friends of the respondents and urgency of transactions are critical determinants of the service channel usage.

4.11 Channel one was most often likely to use in the future

The researcher had to establish the channel they thought they will be using in the future most often. The results were recorded in the table below for interpretation purposes.

Table 4.10 Channel one was most often likely to use in the future

STATEMENT	Most likely	Partially lik ely	Neutral	likely	Least like ly	Mean	Std devia tion
ATM	6	34	24	0	0	4.03	0.534
Branch	1	56	15	19	0	3.98	0.500
Agency banking	0.0	7.1	14.2	16	27.5	3.59	0.23
Mobile banking	7.1	14.	18	14.2	14.2	3.18	0.29
Internet banking	0.0	7.1	21.4	42.8	28.5	2.23	1.02

The results above indicate that respondents were likely to use ATM with a mean of 4.03 and standard deviation of 0.534. Branch with a mean of 3.98 and standard deviation of 0.500. Agency banking with a mean of 3.59 and standard deviation of 0.23. Mobile banking with a mean of 3.18 and standard deviation of 0.29. While internet banking with a mean of 2.23 and standard deviation of 1.02.

The results in the table above indicate that ATM is the most popular choice for future banking as shown by the majority of the respondents. This can be attributed to the fact that respondents find the ATM as cost efficient, secure and convenient.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, discussions of the findings, conclusions, recommendations and suggestions for further studies.

5.2 Summary

The purpose of the study was to establish the influence of customer behaviour on adoption of alternative banking channels at the co-operative bank of Kenya, Nairobi County. There were more male than female among the respondents, however, both genders were well represented to effectively carry out the study. All respondents had a minimum of primary education and were therefore able to read and interpret the questionnaire effectively.

It is noted from the study that the respondents have highly adopted mobile banking as shown with the highest mean of 4.26. However Mobile banking usage frequency has a low mean score of 1.1 with a standard deviation of 0.4. It is likely that respondents have adopted Safaricom Mpesa services and therefore the high adoption scores. Safaricom may have met their primarily need for Mobile banking services and therefore they don't use the banks mobile banking services as much therefore the low frequency mean.

The respondents uses banking services most often at one (1) time a month. This low usage provides an explanation for low adoption of alternative channels. Since they use banking services only once

a month they have no propensity or opportunity to experiment with various alternative banking channels.

Although respondents are familiarity with the channels like Bank Agents this familiarity doesn't translate to usage. Other consumer behaviour concerns of security, costs avoidance override familiarity. Alternative banking channels are positioned as convenient outlets for banking services when the bank is selling them to the consumers. However this research indicates that respondent concerns for cost and security of their transaction overrides their desire for convenience and therefore the low usage of alternative channels proposed by the bank as convenient.

The respondents pointed at unreliability as the reason to why they least frequently used the alternative channels with a mean of 2.03. Reliability of services is the most frequent determining factor of choice of a particular channel. Respondents select channels that are good for emergency payment. The consumer behaviour of waiting to make transaction last minute determines the channel they will select for late payments. The more reliable a channel is for late payments the higher the chances of usage.

Popularity of banking channel among friends and peers of the respondents is a key driver of usage. The more socially popular a channel is the higher the frequency of usage. Popularity among friends only comes third as a reason for channel selection after urgency of transaction and cost. Social acceptance of a channel is therefore a key drive of usage.

5.3 Conclusion

The researcher concludes that consumer behaviour factors have a high contribution to selection and adoption of alternative banking channels. Those channels that are consistent with the consumer

behaviour needs for security, cost containment, social recognition and convenience are used and adopted more frequently than those inconsistent with the respondent's behaviour.

5.4 Recommendations

Recommendations are made that Cooperative bank should prepare strategies to marketing alternative channels not as convenient alternative to branches, but as cost saving alternative useful for emergency transactions. Secondly marketing strategies should be developed to reassure consumers that the alternative channels are not only physically secure, but that consumer transactions are protected from external interference even in inside independent agents.

The bank should demonstrate to consumers that it is in charge of the transactions that happen in all its outlets and that the same security and customer experience standards in the branches are available in the alternative outlets.

Co-operative Bank should also should seek to use independent peer influencers to get them to advocate for alternative channels since the respondents rely on these social networks for certification.

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APPENDICES

APPENDIX I: QUESTIONNAIRE FOR CO-OPERATIVE BANK CUSTOMERS

SECTION A

Age ☐   **Gender: M/F**

Education level: Primary ☐ Secondary ☐ College ☐ University

Monthly income range ksh1- 5,000 ☐ 5,0-10000 10,000 ☐ ,000   ☐
20,000-50,000 ☐ 50,000-100,000, ☐   Above 100,000 ☐

SECTION B

1. Rank the following channels in terms of frequency of usage from1-5., where 5 is for the channel used most frequently and 1 for the channel used least Frequently

CHANNEL	FREQUENCY OF USE				
	1	2	3	4	5
ATM					
BRANCH					
MOBILE BANKING					
INTERNET BANKING					
AGENT BANKING					
OTHER					

2. Rank the following services in terms of frequency of usage from1-5., where 5 is for the service used most frequently and 1 for the channel used least Frequently

CHANNEL	FREQUENCY OF USE				
	1	2	3	4	5
DEPOSITS					

WITHDRAWAL				
LOAN APPLICATION				
BILL PAYMENT				
ACCOUNT QUERRY				
OTHER				

3   How often do you use Banking Services?

ONCE A MONTH	
ONCE A WEEK	
TWICE A WEEK	
THREE TIMES A WEEK	
DAILY	

4   **Which banking service channels are you familiar with? Rank your answer from 1-5 ,   Where 5 is most familiar and 1 is least familiar**

‒

	FAMILIARITY				
	1	2	3	4	5
CHANNEL					
ATM					
INTERNETBA NKING					
BRANCH					
AGENT BANKI NG					

MOBILE BAN KING					
OTHER					

5. WHY DO YOU USE THE CHANNEL SELECTED ABOVE? RANK YOUR ANSWER BETWEEN 1-5 WHERE 1 MEANS I STRONGY DISAGREE AND 5 MEANS I STRONGLY AGREE

REASON FOR USAGE	RANKING				
	1	**2**	**3**	**4**	**5**
CONVENIENT					
AFFORDABLE					
RELIABLE					
GOOD FOR URGENT TRANSACTIONS					
MY FRIENDS ALSO USE					
AVAILABLE					
EASY TO USE					

6. What comes to your mind when you hear the following terms; ATM Branch
   Mobile banking ☐ Internet Banking ☐ Others_____

7. Which ones of these Channels do you use least frequently? Rank your answer 1 – 5 where 5means rarely used and 1 means frequently used

	FREQUENCY				
	1	**2**	**3**	**4**	**5**
ATM					
MOBILE BANKING					
INTERNET BANKING					

AGENT BANKING				
BRANCH				
Other				

8. WHAT IS THE STRONGEST REASON FOR NOT FREQUENTLY USING THE   C HANNEL YOU HAVE STATED ABOVE? Rank your answer from 1 – 5 where 1 is stal est agree and 5 is strongly agree

REASON FOR NOT USING	**1**	**2**	**3**	**4**	**5**
UNRELIABLE					
DIFFICULT TO USE					
UNPOPULAR					
EXPENSIVE					
NOT GOOD FOR EMERGENCIE S					
I DON'T KNOW ABOUT IT					
NOT SECURE					

9. When you are deciding which banking channel to use, what do you consider most?   R ANK YOUR ANSWER FROM 1 – 5 WHERE ONE MEANS DISAGREE AND 5 MEA NS STRONGLY AGREE

CHANNEL	**FREQUENCY OF USE**				
	1	**2**	**3**	**4**	**5**
CONVENIENCE					
AVAILABILITY					

COST					
POPULARITY AMONG MY FRIENDS					
SECURITY					
URGENCY OF TRANSACTION					

10. Which channel do you think you will be using in the future most often? RANK YOUR A NSWER BETWEEN 1-5 WHERE 1 IS LEAST UNLIKELY AND 5 IS MOST LIKELY

CHANNEL	LIKELY TO USE IN THE FUTURE				
	1	2	3	4	5
ATM					
BRANCH					
AGENCY BANKING					
MOBILE BANKING					
INTERNET BANKING					
OTHER					