

DETERMINANTS OF COMMERCIAL BANKS
EMPLOYEES' READINESS TO CONVERT TO ISLAMIC
BANKING IN LIBYA

BY

MAHMOUD A. S. ABUSLOUM

A thesis submitted in fulfillment of the requirement for the
degree of Doctor of Philosophy in
Islamic Banking and Finance

IIUM Institute of Islamic Banking & Finance
International Islamic University Malaysia

DECEMBER 2020

ABSTRACT

One of the most challenging issues facing the conversion of conventional banks to Islamic banks in Libya is identifying the factors that ensure the successful implementation of this conversion process. This study investigates the determinants of employees' readiness to convert to Islamic banking in the Libyan commercial banking sector. To address the above, this study adopts the organisational change theory, in particular, the climate of change combined with personal values theory as the guiding theories of the research. The study encompasses nine determinants as independent variables. These are general support by supervision, trust in leadership, participatory management, cohesion and politicking, involvement in the change, ability of management to lead change, attitude of top management toward the change and openness to change whereas Readiness for change is the dependent variable. Two more variables (openness to change and nature of change) were inserted to test their moderating effect between two independent variables (involvement and openness) respectively and the dependent variables. To analyse these relationships, the study adopted a quantitative approach using Structural Equation Modelling (SEM). The study adopted a self-administered questionnaire survey where a total of 482 surveys were distributed of which 316 were useable. The findings of this research revealed that general support by supervisors, involvement in the change process as well as openness to change have a positive and significant impact on employees' readiness for conversion to Islamic banking. Furthermore, the findings showed that trust in leadership, participatory management, attitude of top management are statistically insignificant. Lastly, the study found a significant full moderation effect of openness to change on the relationship between involvement in the conversion process and employees' readiness to convert to Islamic banking. Moreover, a partial significant moderation effect was also found for the nature of change (imposed and voluntary) with negative direction between openness to change and employees' readiness for conversion. This means that imposed change does not affect employees' readiness for the conversion regardless of the openness level of employees whether high or low. In addition, the findings also indicated that the applied theories using the (OCQ-C, P, R) and (PVQ) instruments are valid for predicting employees' readiness to convert to Islamic banking in Libya. Recommendations of the study will assist bank managers, regulators, and the Central Bank of Libya to identify the obstacles related to human factor that hinder the conversion process. The study concludes that the positive impact of leaders' supportive climate, openness values and engaging employees in the conversion process for the successful and smooth transformation process will have a long-lasting effect to solve problems resulting from the lack of employees' readiness to convert and hence reducing employees' resistance to change.

خلاصة البحث

من أكثر التحديات التي تواجه المصارف التجارية في تحولها إلى مصارف إسلامية في ليبيا هو التعرف على العوامل التي تضمن التنفيذ الناجح خلال مرحلة التحويل. تقوم هذه الدراسة باختبار مدى استعداد الموظفين للتحويل إلى المصرفية الإسلامية ضمن القطاع المصرفي التجاري الليبي. من أجل دراسة ما ذُكر أعلاه، فإنّ الدراسة تتبنى بالتحديد نظرية التغير التنظيمي، وبالأخص الاعتماد على نظرية مناخ التغير التنظيمي ونظرية القيم الذاتية كنظريات مرشدة في البحث. تشمل الدراسة تسع محددات بصفاتها المتغيرات المستقلة. وهذه المحددات هي: الدعم العام من خلال الإشراف، والثقة في القيادة، والإدارة بالمشاركة، والتماسك واللعب السياسة داخل المنظمات، والمشاركة في التغير، وقدرة الإدارة على قيادة التغير، وسلوك الإدارة العليا تجاه التغير، والانفتاح تجاه التغير، بينما يكون استعداد العاملين للتحويل نحو الصيرفة الإسلامية متغيراً تابعاً. من أجل تحليل هذه العلاقات، فإنّ الدراسة اتّبعَت نهجاً كميّاً من خلال استخدام نمذجة المعادلة الهيكلية (SEM). تبنت الدراسة طريقة الاستبانة الذاتية لموظفي خمسة عشر مصرفاً في ليبيا، حيث تم توزيع ٤٨٢ استبياناً، و٣١٦ استبياناً منها كان صالحاً للتحليل. أظهرت نتائج هذا البحث أن الدعم العام من قبل المشرفين، والمشاركة في التغير بالإضافة إلى الانفتاح تجاه التغير لهم تأثير إيجابي وذو دلالة إحصائية على استعداد العاملين للتحويل نحو الصيرفة الإسلامية، كما كشفت النتائج بالإضافة إلى ذلك، أن الثقة في القيادة والإدارة التشاركية وموقف الإدارة العليا من التغير ليست ذات دلالة إحصائية. بالإضافة إلى ذلك، لم يظهر عاملاً التماسك واللعب السياسية صلاحية ولا موثوقية خلال عملية تحليل البيانات. أخيراً فقد وجدت الدراسة تأثيراً ذا دلالة إحصائية للمتغير المعدّل وهو الانفتاح على التغير على العلاقة بين مشاركة العاملين في عملية التحول واستعداد العاملين للتحويل نحو الصيرفة الإسلامية، كما ثبت أيضاً وجود تأثير معدّل لطبيعة التغير (الإجباري أو الطوعي) - مع اتجاه عكسي - على العلاقة بين الانفتاح على التغير واستعداد العاملين للتحويل وهذا يقتضي بأن التغير المفروض لا يؤثر على استعداد الموظفين للتغير بغض النظر عن كون مستوى الانفتاح للموظفين عالياً أو منخفضاً. وقد بيّنت النتائج أيضاً أن النظرية والنماذج المستخدمة في الدراسة (OCQ-C, P, R) و(PVQ) صالحة للتنبؤ باستعداد الموظفين للتحويل نحو الصيرفة الإسلامية في ليبيا. أخيراً فإن توصيات هذه الدراسة ستساعد مدراء المصارف التجارية الليبية، والجهات الإشرافية، ومصرف ليبيا المركزي لمعرفة العوائق البشرية التي تعرقل مرحلة التحول نحو الصيرفة الإسلامية ومعرفة العوامل البشرية أيضاً التي لها التأثير الإيجابي لضمان عملية تحول مصرفي ناجحة وسلسة يبقى لها تأثير طويل المدى لحل المشاكل الناجمة عن عدم الاستعداد للتغير.

APPROVAL PAGE

The thesis of Mahmoud A. S. Abusloum has been approved by the following:



Khaliq Ahmad bin Mohd
Supervisor



Anwar Hasan Abdullah Othman
Co-Supervisor

External Examiner

External Examiner

Chairman

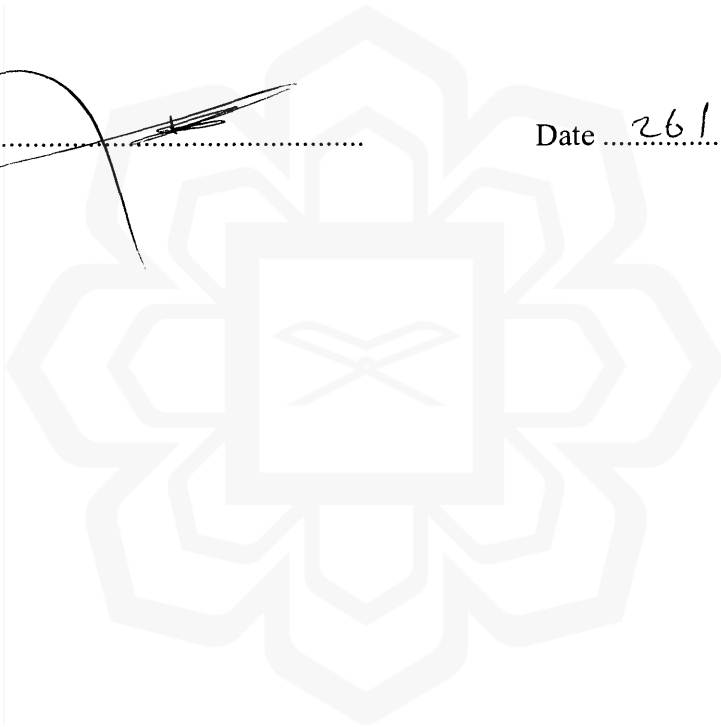
DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Mahmoud A. S. Abusloun

Signature

Date 26/7/2021



**INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**THE DETERMINANTS OF EMPLOYEES' READINESS
FOR CHANGE: A CASE OF THE PROCESS OF
CONVERTING TO ISLAMIC BANKING IN LIBYA**

I declare that the copyright holders of this thesis are jointly owned by the student and IIUM.

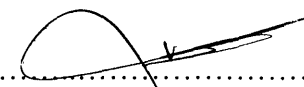
Copyright © 2020 Mahmoud A. S. Abusloun and International Islamic University Malaysia. All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Mahmoud A. S. Abusloun


.....
Signature

.....26/7/2021.....
Date

Dedicated to

*My Parents- Mr. (Late) Abdullah Abusloun and Mrs. Mabroka Khairallah
for nurturing in me love of scholars and admiration of being proud of my Country
Libya*

*and most importantly,
My wife (Ahlam Khairallah), my beloved sons (Abdullah), (Mohammed), and the baby
boy (Abdulrahman) and my loved daughter (Baraah)
for wholeheartedly supporting my PhD endeavor and bearing my daily absences*

*My Brothers and Sister
who were pillars of support and strength in my life*

ACKNOWLEDGEMENTS

The thesis was not possible without support and encouragement of number of teachers, relatives, and friends.

First of all, I would like to acknowledge the support provided by my supervisors Prof Dr Khaliq Ahmad bin Mohd and Dr. Anwar Hasan Abdullah Othman who not only encouraged my topic but supported in solving the academic issues and advised me in my daily life.

Throughout the years, my family was supportive to my academic interests. I would like to thank my father Mr. Abdullah Abusloum and mother, wife and children.

Also, IIUM & IIBF academic and administrative staff was helpful and supportive in completing the thesis. This includes, with no limitation, Prof Dr Arif Hassan for helping me to choose the topic of this thesis. Also, Prof Dr Junaidah binti Hashim and Dr. Abideen Adeyemi Adewale for giving me constructive comments during research proposal defense. Also, my friends at IIBF PhD room, including Dr Yusuf Azim Siddiqi, Hani Hazaa, and Dr Nabel Bello. Further, Mr. Jawwad Ali was helpful in formatting my thesis.

My friends and colleagues from the industry were helpful in facilitating my research progress, guiding me on practical aspects as well as providing me with books and references which proved to me very helpful in driving my final conclusion including Mr. Mohammed Al Faqih, Dr Jamal Ajaj, Mr. Farid Suhaib, Dr Adil Saaid, Dr. Marie Abdallah and Mr. Awad al-Mismari.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration	v
Copyright Page.....	vi
Dedication	vii
Acknowledgements.....	viii
List of Tables	xv
List of Figures	xix
CHAPTER ONE: INTRODUCTION	1
1.1 Background.....	1
1.1.1 An Overview of Libya	2
1.1.1.1 Location and Country Characteristic	2
1.1.1.2 Economic Structure	3
1.1.1.3 Banking System Structure	4
1.1.2 Background on Converting Libyan Commercial Banks to Islamic Banks and Employees' Readiness for Change	6
1.2 Problem Statement.....	10
1.3 Research Objectives.....	15
1.4 Research Questions.....	16
1.5 Significance of the Study.....	16
1.6 Scope of the Research.....	17
1.7 Definition of Key Terms.....	18
1.8 Organisation of the Study.....	20
CHAPTER TWO: LITERATURE REVIEW	22
2.1 Introduction.....	22
2.2 The Concept of Conversion	23
2.3 Global Experiences in Converting to Islamic Banks.....	24
2.4 Converting Conventional Banks to Islamic Banks in Libya	31
2.4.1 Challenges of Conversion Process in Libya.....	32
2.4.1.1 The Macro-level Challenges.....	33
2.4.1.1.1 Political Challenge	33
2.4.1.1.2 Regulatory Challenge	34
2.4.1.2 The Micro-Level Challenges of Converting to Islamic Banking.....	37
2.4.1.2.1 Organisational Barriers of Converting to Islamic Banking	38
2.4.1.2.2 Employees' Behaviour Barriers to the Process of Converting to Islamic Banking	40
2.5 Summary.....	57

CHAPTER THREE: THEORETICAL FRAMEWORK AND HYPOTHESES

DEVELOPMENT	58
3.1 Introduction.....	58
3.2 Organisational Change Theories.....	58
3.2.1 Types of Organisational Change Initiatives.....	60
3.2.2 The Rational of Applying Change Theories in this Study	64
3.3 Personal Values Theory.....	65
3.4 Dependent and Independent Variables and Hypotheses Development	71
3.4.1 The Concept of Employees' Readiness for Change (The Dependent Variable).....	72
3.4.2 Overview of Influential Determinants of Employees' Readiness for Change.....	76
3.4.3 Review of the Study Independent Variables and Hypotheses Development.....	91
3.4.3.1 Climate of Change Dimensions and Employees' Readiness for Change.....	91
3.4.3.2 Process of Change Dimensions and Employees' Readiness for Change.....	119
3.4.3.3 Openness to Change	132
3.5 Research Framework	142
3.6 Summary.....	145

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction.....	146
4.2 Research Design	146
4.3 The Rational of Using Quantitative Research	147
4.4 Research Method	147
4.4.1 Population	149
4.4.2 Sampling Design.....	151
4.4.3 Sampling Frame	152
4.4.4 Sample Size.....	153
4.4.5 Description of Study Population and Sample	155
4.4.6 Research Instruments	156
4.4.6.1 The Organisational Change Questionnaire – Climate of Change, Processes, and Readiness (OCQ-C, P, R).....	157
4.4.6.2 Personal Values Instrument (Openness to Change Scale). 162	
4.5 Designing the Questionnaire & Procedure of the Pilot Study	169
4.5.1 Exploratory Interviews.....	169
4.5.2 Questionnaire Administration (Protocol).....	173
4.5.2.1 The Four Validation Steps of the Questionnaire's Items .. 175	
4.5.2.1.1 Adapting the Validated Version of the Selected Research Instruments	175
4.5.2.1.2 Questionnaire Translation Process	177
4.5.2.1.3 The Pilot Study.....	179
4.5.2.1.4 Final Draft of the Questionnaire Design with Content Validity (Questionnaire Pre-Test)	181
4.5.3 Demographic Data Processing	185
4.6 Method of Analysis.....	185
4.6.1 Data Entry	185

4.6.2 Data Screening	186
4.6.1.1 Missing Data.....	186
4.6.2 Reliability Tests	189
4.6.3 Validity Tests	189
4.6.3.1 Construct Validity.....	190
4.6.3.1.1 Convergent Validity	190
4.6.3.1.2 Discriminant Validity	190
4.6.4 Techniques of Data Analysis	191
4.6.4.1 Justification of Using Structural Equation Modelling (SEM)	191
4.6.5 Exploratory Factor Analysis (EFA)	192
4.6.6 Confirmatory Factor Analysis (CFA)	192
4.6.7 Model Evaluation (Goodness-of-Fit Index).....	193
4.6.8 Distinguish between First and Second-order Levels of Analysis ..	197
4.7 Summary.....	197

CHAPTER FIVE: DATA ANALYSIS AND RESULTS..... 199

5.1 Introduction.....	199
5.2 The Response Rate of Final Draft	199
5.3 Data Screening.....	202
5.3.1 Responses Handling	203
5.3.1.1 Eliminated and Retained Responses.....	203
5.3.1.2 Misunderstood Items	205
5.3.1.3 Reversed Items	206
5.3.2 Missing Data Screening	207
5.3.3 Outlier Detection	210
5.3.4 Univariate and Multivariate Normality	210
5.3.5 Linearity and Homoscedasticity.....	213
5.4 Test of Multicollinearity	215
5.5 Correlation Matrix Results	216
5.6 Descriptive Analysis of Respondents' Demographic	218
5.7 Exploratory Factor Analysis (EFA).....	229
5.7.1 KMO and Bartlett's Test.....	229
5.7.2 EFA for Employees' Readiness to Convert to Islamic Banking....	230
5.7.3 EFA for Climate of Change Factors.....	233
5.7.4 EFA for Process of Change Factors	234
5.7.5 Summary of EFA Results	236
5.7.5.1 The Excluded Items	236
5.7.5.2 Combination of Factors	238
5.7.5.3 Summary of Factors Loading	240
5.8 The Questionnaire Reliability.....	242
5.9 Descriptive Statistics for Variables	243
5.10 Confirmatory Factor Analysis (CFA).....	244
5.10.1 Model Evaluation.....	244
5.10.2 Examining the Assumptions of Multivariate Analyses.....	246
5.10.3 Results of CFA.....	246
5.10.3.1 Climate of Change	246
5.10.3.2 Process of Change	248
5.10.3.3 Readiness of Change	249

5.10.3.3.1	Result of CFA of Employees' Readiness to Convert to Islamic Banking As a Multidimensional Construct	249
5.10.3.3.2	Openness to Change	251
5.11	The Measurement Model	252
5.11.1	Validity and Composite Reliability of the Constructs	256
5.11.1.1	Construct Validity	256
5.11.1.1.1	Convergent Validity	256
5.11.1.1.2	Discriminant Validity	256
5.11.1.2	Composite Reliability	257
5.11.1.3	Results of Validity and Composite Reliability	257
5.11.1.4	Model Misspecification	265
5.12	Structural Model and Hypotheses Testing Results	266
5.12.1	Introduction	266
5.12.1.1	The Three Excluded Factors	267
5.12.1.2	Exclusion of Reversed Items	269
5.12.2	The Study Hypotheses	269
5.12.2.1	Hypotheses Testing Results	270
5.12.2.1.1	Primary Hypotheses (Second order)	270
5.12.2.1.2	Sup-Hypotheses Testing Results (First-order level)	274
5.12.3	Evaluation of the Models (First and Second-order Levels)	279
5.12.3.1	The Goodness-of-Fit Indicators (GFI)	279
5.12.3.2	The Multiple Square Correlation (R-square)	280
5.12.3.3	Result of the Comparison	280
5.12.4	Testing the Moderation Effect of Openness to Change on the Relationship Between Employees' Involvement in the Conversion Process and Employee's Readiness to Convert to Islamic banking	281
5.12.4.1	Procedures for Testing the Moderator	282
5.12.4.2	Results of the Moderation Test	284
5.12.5	Testing the Moderation Effect of Nature of Change (I.e. Imposed vs Voluntary Change) on the Relationship Between Openness to Change and Employees' Readiness to Convert to Islamic Banking	286
5.12.5.1	Procedures	287
5.12.5.2	Results of the Moderation Test	289
5.13	Summary	292
CHAPTER SIX: DISCUSSION AND CONCLUSION		295
6.1	Introduction	295
6.2	Discussion of the Research Objectives	295
6.2.1	Objective One: To Examine the Effect of Climate of Change Through its Dimensions, Namely General Support by Supervisions, Trust in Leadership, Participatory Management on Employees' Readiness to Convert to Islamic Banking Among Commercial Libyan Banks	296
6.2.1.1	Summary of the Findings	296
6.2.1.2	Discussion	297

6.2.1.2.1	Climate of Change and Employees' Readiness to Convert to Islamic Banking.....	297
6.2.1.2.2	General Support by Supervision and Employees' Readiness to Convert to Islamic Banking	301
6.2.1.2.3	Trust in Leadership and Employees' Readiness to Convert to Islamic Banking.....	303
6.2.1.2.4	Participatory Management and Employees' Readiness to Convert to Islamic Banking	307
6.2.2	Objective Two: To Examine the Direct Effect of Process of Change – and its Dimensions – Involvement in the Conversion Process, Attitude of Top Management Toward the Conversion Process on Employees' Readiness to Convert to Islamic Banking Among Libyan Commercial Banks	309
6.2.2.1	Summary of the Findings	310
6.2.2.2	Discussion.....	310
6.2.2.2.1	Process of Change and Employees' Readiness to Convert to Islamic Banking.....	310
6.2.2.2.2	Involvement in the Change Process with Employees' Readiness to Convert to Islamic Banking	311
6.2.2.2.3	Attitude of Top Management Toward the Conversion Process and Employees' Readiness to Convert to Islamic Banking.....	315
6.2.3	Objective Three: To Examine the Direct effect of Personal Values (Openness to Change) on Employees' Readiness to Convert to Islamic Banking Among Libyan Commercial Banks.....	320
6.2.3.1	Summary of the Findings	321
6.2.3.2	Discussion.....	321
6.2.4	Objective Four: To Investigate the Moderating Effect of Openness to Change on the Relationship Between Employees' Involvement in the Conversion Process and Employees' Readiness to Convert to Islamic Banking Among Libyan Commercial Banks.....	322
6.2.4.1	Summary of the Findings	323
6.2.4.2	Discussion.....	323
6.2.5	Objective Five: To Investigate the Moderating Effect of Nature of Change on the Relationship Between Openness to Change and Employees' Readiness to Convert to Islamic Banking Among Commercial Libyan Banks	326
6.2.5.1	Summary of the Findings	326
6.2.5.2	Discussion.....	326
6.3	Summary of the Study.....	334
6.4	Contributions of the study	336
6.4.1	Theoretical Contribution	336
6.4.2	Methodological Contribution	337
6.5	Recommendations & Practical Implications of the Study.....	339
6.5.1	Recommendations for the Authorities	339
6.5.2	Practical Implications of the Study at Bank-Level	340
6.6	Limitations and Future Research Directions	343
6.7	Conclusion.....	346

REFERENCES.....	349
APPENDIX 1.....	364
APPENDIX 2.....	376



LIST OF TABLES

Table 2.1	Summary of the Studies on Converting Conventional Banks to Islamic Banks	50
Table 3.1	Definitions of the Higher-Order Values, the Ten Fundamental Values and More Narrowly Defined Values	68
Table 3.2	Summary of Studies that Use Readiness for Change as Dependent Variable	81
Table 3.3	Summary of Studies that Use Support by Supervisors	96
Table 3.4	Summary of Studies that Use Trust in Leadership	102
Table 3.5	Summary of Studies that Use Participatory Management	108
Table 3.6	Summary of Studies that Use Cohesion	114
Table 3.7	Summary of Studies that Use Politicking	117
Table 3.8	Summary of Studies that Use Communication (Involvement in the change process)	124
Table 3.9	Summary of Studies that Use Attitude of Top Management Toward Change	131
Table 3.10	Summary of Studies That Use Openness to Change and Nature of Change (Imposed and Voluntary) as an Independent or Moderator Variable	135
Table 3.11	A Brief Description of the Variables and Dimensions Included in the Study	139
Table 4.1	List of the Nine Commercial Banks Introducing Islamic Banking, Size of Islamic Financing in Credit Portfolio and Market Share as of 30/6/2016 (CBL)	150
Table 4.2	Sample Frame of this Study	153
Table 4.3	Commercial Libyan Banks	156
Table 4.4	Summary of Some Studies that Use COQ-CPR Scale	160
Table 4.5	Summary of Studies that Use Portrait Values Questionnaire (PVQ)	163
Table 4.6	The Features of the Exploratory Interviews That Were Conducted by the Researcher	171
Table 4.7	Questionnaire Items and Validation Steps	173

Table 4.8	The Scales Items' Sources	174
Table 4.9	Phases of the Translation and Panel Process of The Questionnaire's Items	179
Table 4.10	The Respondent Rate of Pilot Study	180
Table 4.11	Reliability of Pilot Test Variables	181
Table 4.12	Items Added to the Scale from the Previous Version	182
Table 4.13	Items Added to The Scale from Other Questionnaires	183
Table 4.14	Content Validity of the Questionnaire Conducted by Panel Judges	184
Table 4.15	The Basics of Goodness-Of-Fit	194
Table 4.16	Characteristics of Different Fit Indices Demonstrating Goodness-Of-Fit Across Different Model Situations Across A Different Model Situation	195
Table 4.17	Cut-off Criteria of Model-fit-Evaluation Used in this Study	196
Table 5.1	Summary of Data Collection and Response Rate	201
Table 5.2	Distribution of Respondents Across the Banks	202
Table 5.3	The Eliminated Responses from The Primary Data	205
Table 5.4	Misunderstood Items	206
Table 5.5	Items Translated Incorrectly	206
Table 5.6	Reversed Items	207
Table 5.7	Summary of Data Handling	207
Table 5.8	Missing Values	208
Table 5.9	Missing Values Replacement	209
Table 5.10	Multivariate Outliers Result	210
Table 5.11	Multivariant Normality Test	212
Table 5.12	Univariant Normality Test	212
Table 5.13	Tolerance and VIF Values	216
Table 5.14	Correlations Matrix	217
Table 5.15	Respondents' Gender	218
Table 5.16	Respondents' Age	219
Table 5.17	Respondents' Bank Type	220

Table 5.18	Respondents' Bank Name	221
Table 5.19	Respondents' Qualification Level	222
Table 5.20	Respondents' Occupation	223
Table 5.21	Respondents Working in Conversion Committees	224
Table 5.22	Respondents' Specialisation	225
Table 5.23	Respondents' Banking Expertise	226
Table 5.24	Respondent's Islamic Banking Expertise	227
Table 5.25	Respondents' Professional Certificate	228
Table 5.26	KMO and Bartlett's Test	230
Table 5.27	EFA Results of the Dependent Variables (Employees' Readiness to Convert to Islamic Banking) As a Multi-Construct	232
Table 5.28	The Explained Variance of Extracted Factors of the Dependent Variables (Employees' Readiness to Convert to Islamic Banking) As a Multi-Construct	232
Table 5.29	EFA Results of the Climate of Change Factors	233
Table 5.30	The Explained Variance of Extracted Factors of the Climate of Change	234
Table 5.31	EFA Results of Process of Change Factors	235
Table 5.32	The Explained Variance of Extracted Factors of Process Change	235
Table 5.33	Summary of Excluded Items by Exploratory Factor Analysis (EFA)	237
Table 5.34	Description of Items Combined with Another Construct and their Correlation Scores in Exploratory Factor Analysis (EFA)	239
Table 5.35	Summary of Relocated Items After EFA	240
Table 5.36	Factor Loading of All Study Items	241
Table 5.37	Reliability Test for Final Draft Variables	242
Table 5.38	Descriptive Statistics for all Constructs	243
Table 5.39	Details of the Final CFA Results of The Climate of Change Factors	248
Table 5.40	Details of CFA Results of Process of Change Factors	249
Table 5.41	Details of CFA Results of Readiness to Convert to Islamic Banking as a Multidimensional Construct	250
Table 5.42	Details of Final CFA of Openness to Change Items	252

Table 5.43	First Results of Validity and Composite Reliability of the Study Model	258
Table 5.44	Composite Reliability Improvements	260
Table 5.45	Convergent Validity Improvements of the Factors	261
Table 5.46	Validity and Reliability of the Final Set of Items	263
Table 5.47	Summary of the Validated Study Factors	264
Table 5.48	The Excluded Factors from the Original Adopted Scale	268
Table 5.49	Model Fit Measures for the Primary Model (Second-Order)	272
Table 5.50	Results of the Primary Hypotheses (second-order level)	274
Table 5.51	Model Fit Indicators of The First-Order Model	276
Table 5.52	The Results of the Sup-hypotheses (first-order)	278
Table 5.53	Summary of the Comparison Between Mod1 and Mod2	281
Table 5.54	Results of the Moderation Effect of Openness to Change on the Relationship Between Employees' Involvement in the Change Process and Employees' Readiness to Convert to Islamic Banking	286
Table 5.55	Respondents' Bank Name	289
Table 5.56	Result of Moderation Effect of Nature of Change on the Relationship Between Openness to Change and Employees' Readiness to Convert to Islamic Banking	292
Table 5.57	First and Second Orders and Moderation Hypotheses Results of the Structural Model	293
Table 6.1	The Changes in the Results of the Relationship Between Involvement of Employees in the Conversion Process and Employees' Readiness to Convert to Islamic Banking by Including the Moderator (Openness to Change)	325
Table 6.2	The Changes in the Results of the Relationship Between Openness to Change and Employees' Readiness to Convert to Islamic Banking by Including the Moderator (Nature of Change)	328
Table 6.3	Summary of the Study Findings	334

LIST OF FIGURES

Figure 1.1	Structure of the Libyan Banking System	5
Figure 3.1	Theoretical Model of Relations Among Ten Motivational Types of Values	67
Figure 3.2	Plot of Interaction Effect for Openness Values	69
Figure 3.3	Theoretical Framework	141
Figure 3.4	Research Framework	144
Figure 4.1	Structure of Methodology	148
Figure 5.1	Missing Value Patterns	209
Figure 5.2	Multivariate Normality of the Study	211
Figure 5.3	Linearity Assumption for Employees' Readiness for Converting Process To Islamic Banking	214
Figure 5.4	Homoscedasticity Assumption for Employees' Readiness for Converting Process to Islamic Banking	215
Figure 5.5	Respondents Gender	218
Figure 5.6	Respondents' Age	219
Figure 5.7	Respondents' Bank Type	220
Figure 5.8	Respondents' Bank Name	221
Figure 5.9	Respondents' Qualification Level	222
Figure 5.10	Respondents' Occupation	223
Figure 5.11	Respondents Working in Conversion Committees	224
Figure 5.12	Respondents' Specialisation	225
Figure 5.13	Respondents' Banking Expertise	226
Figure 5.14	Islamic Banking Expertise	227
Figure 5.15	Respondents' Professional Certificate	228
Figure 5.16	CFA for Climate of Change Factors	247
Figure 5.17	CFA Results of The Modified Climate of Change Factors	247
Figure 5.18	CFA results of Process of Change Factors	248

Figure 5.19 CFA Results of Readiness to Convert to Islamic Banking As A Multi-Dimensional Construct	250
Figure 5.20 CFA of Openness to Change Before Items' Adjustments	251
Figure 5.21 Modified Openness to Change	252
Figure 5.22 The First Measurement Model for All the Study Constructs	254
Figure 5.23 The Modified Measurement Model after Modification	255
Figure 5.24 The Modified Version of the Full-fledge Measurement Model	262
Figure 5.25 The Structural Model and Testing the Primary Hypotheses	271
Figure 5.26 Structural Model with Standardised Estimated (First-order variables)	275
Figure 5.27 Moderation Effect of Openness to Change on the Relationship Between Employees' Involvement in the Change Process and Employees' Readiness to Convert to Islamic Banking	286
Figure 5.28 Moderation Effect of Nature of Change on the Relationship Between Openness to Change and Employees' Readiness to Convert to Islamic Banking (Voluntary Change Model)	290
Figure 5.29 Moderation Effect of Nature of Change on the Relationship Between Openness to Change and Employees' Readiness to Convert to Islamic Banking (Imposed Change Model)	291
Figure 5.30 Hypotheses Results with Standardised Estimates	294

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Currently, there is a significant increase in the demand for Islamic banking products and services globally. Globally, banks compete to introduce Islamic products in their respective jurisdictions. Outside of establishing a full-fledged Islamic bank, introducing Islamic products takes various forms because some banks open windows or subsidiaries while others prefer to open separate branches to offer Islamic products. However, the ideal model is to convert to an Islamic bank from a conventional bank according to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) (Yaquby, 2005).

In recent decades, converting conventional banks to Islamic banks has become a popular approach including in Libya. For instance, Libya, where almost the entire population is Muslim, the government has striven to convert the entire banking system to an Islamic system including the country's regulatory bodies. Nevertheless, this process continues to face several obstacles that hinder the conversion process.

Apart from Libya's case, many efforts in the context of converting to Islamic banking reported the progress in the change process of an institution rather than analysing employees' readiness for change, e.g., Al-Atyat (2007), Abdalla, Aziz, and Johari (2015a & 2015b), Abdalla, Ridhwan, and 3 (2015), Abdalla, Ridhwan, Johari, and Musbah (2015), Ahmed and Hussainey (2015), Butt et al. (2011), Hassan and Bashir, n.d.; Rafay and Sadiq (2015), Saaid, Shafii, and Shahimi (2016). This is despite growing consensus among change scientists that a critical factor in determining the success of any organisational change involves employees' acceptance of it (e.g.,

Armenakis & Bedeian, 1999; Bouckenoghe et al., 2008; Holt & Vardaman, 2013; Bartunek et al., 2006; Oreg & Berson, 2011). Before discussing the process of converting to Islamic banking in Libya, there is a need to highlight Libya's geographical location, economy, and banking system structure.

1.1.1 An Overview of Libya

As a populated Muslim country, Libyan people, in general, expect that the government should adopt the Islamic philosophy of economics which is based upon justice, equity and the prohibition of usurious transactions that involve gambling and excessive speculation (Gath, 2009). This expectation was emphasised by studies that report that the majority of Libyans are willing to deal with Islamic solutions to economic and financial activity (Humaira & Iswusi, 2010; Kumati, 2008).

1.1.1.1 Location and Country Characteristic

Libya is a developing Arab country located in North Africa. It has an area of 1.8 million square kilometres and a population of 6,411,776. The majority of the population are Muslim (Libyan General Information Authority, 2013¹). Libya has an attractive geographical location which is surrounded by African countries such as Egypt from the east and Sudan from the south-east, Chad and Niger from the south and Tunisia and Algeri from the west. Among these countries, Egypt, Sudan and recently Tunisia and Algeri are already practising Islamic methods of finance. This geographical location makes the country commercially and economically viable, given the trade link between these countries. Libya is now seeking to adopt a free-market system to encourage investment, especially after the Arab revolution in 2011. This means opening the door

¹ This is the latest statistic collected by the General Information Authority.

for Islamic banks worldwide, especially from neighbouring countries to establish new branches in Libya (Gait, 2009).

1.1.1.2 Economic Structure

Briefly speaking, the Libyan economy, like most other Arab countries, is dominated by the oil sector. According to the last annual report issued by Central Bank of Libya, the oil industry accounts for more than 60% of GDP which represents approximately two-thirds (Central Bank of Libya, 2014a). Moreover, the oil sector contributes around 96% of government revenue, and hence it covers almost all its trade and foreign exchange earnings. The service sector contributes most of the remaining third of GDP (CBL, 2020).

The contribution of agriculture has remained negligible despite government efforts through its development plans (73-75) (76-80) (81-85) (86-90) (91-95) and (2001-2005) to promote this sector and achieve self-sufficiency in food production. Thus, diversifying income sources and reducing dependence on the oil industry. However, to date, Libya has failed to reach that target (Muktad, 2011; Research Statistics Department CBL, 2017).

Historically, the heavy dependence on the oil industry in addition to socialist policies affected the economy of the country adversely. The policies virtually made all services under state-ownership including the banking sector. With this, the Central Bank exerts full control over the banking sector with an ownership stake in a significant number of the state-owned banks, making up to 85% of Libya's banking assets (Dempsey, 2013). This ownership also created several issues such as independence issues between CBL and banks, introducing low-quality products and services and nurturing a dependency between commercial banks and CBL during the implementation

of the conversion process, such that each party is accusing the other of the failure of the conversion process.²

1.1.1.3 Banking System Structure

The Libyan banking system is dominated by the Central Bank of Libya (CBL) which is the nation's monetary authority. Seventeen commercial banks are operating under the monetary authority, with the ownership varied between state, private and mixed ownership. As depicted below, Jomhoryia, National Commercial Bank, Al-Wahda Al-Sahara, North Africa and Al-Waha Banks are state-owned with a small percentage from the private sector. Two banks are owned equally by Qatar and the UAE, whereas the remainder are private or partially private-owned. There are four specialised banks, namely the Agriculture Bank, Saving and Real Estate Investment Bank, Development Bank and Rural Bank (Research Statistics Department CBL, 2016). The state-owned banks, especially the former four, are driving the market and possess some 85% of the banking assets (Research Statistics Department CBL, 2016). Another four specialised banks are operating under the national government. The Central Bank of Libya (CBL) is the monetary authority in the country and regulates the Libyan financial system. The bank has complete control over the banking sector with an empowering stake in a significant number of state-owned banks (Dempsey, 2013).

Although Libya is not entirely practising Islamic banking and finance, the CBL, in 2009, issued a guideline numbered A.R.N.M. No. 9 of 2009 which allowed the banks to introduce what was called the alternative products (i.e., Islamic banking products) and Jomhouria Bank was the pioneer in this regard (Ajaj, 2019). To date, these Islamic

² Fathi Aquab is the consultant of the CBL's governor for Islamic banking affairs. He explained that in an interview conducted in 2016 with him by the researcher on issues relating to conversion to Islamic banking in Libya.