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الجامعة الإسلامية العالمية ماليزيا
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The External Environment as Driving To Organizational Change Under Internal Environment's Adaptation:

"Empirical Evidence From Commercial Banks' adoption of Islamic Financial Transactions In Libya"

In Collaboration with:



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Presentation Outline

- **The Issue Under Study and Search Gap**
 - **Literary review to define the Conceptual Framework of the study**
 - **Hypothesized Modelling**
 - **Adopted Methodology**
 - **Results and Discussions of Hypothesized Modelling**
 - **Conclusion and Horizons for future research**
- 

The Issue Under Study

In the context of religious beliefs and ethics, in many countries, commercial banks and financial institutions have adopted Islamic financial transactions

the aim from beyond adoption

To reinforce an Islamic identity

To reinforce a radical change from an economy interest-based to an economy that transacts profit and loss sharing -based

In the same vein, the religious beliefs were the motivation of change in Libyan.

By 2013, the Libyan government issued law No 1

•to prohibit interest-based financial transactions in all public and commercial transactions in the Libyan economy, this will be applied by 2015

After that, it had issued law No 7 of the year 2015,

•About modifying Law No 1, and it will be implemented on the legal persons by the year 2020.

However

•2021year came and no changes have observed to transform its banking sector to deal with Islamic financial transactions.

Search Gap

In same regard, the promoting Islamic values and norms, investigating commercial banks' adoption of Islamic financial transactions only was to examine the external environment from the side of behaviour of bank's users either clients or employees, such as

W. Ali, Muthaly, and Dada 2018; Q. Ali, Yaacob, and Haji Mahal 2018; Aziz and Afaq 2018; Al Balushi, Locke, and Boulanouar 2019; Bananuka, Kaawaase, et al. 2019; Bananuka, Kasera, et al. 2019; Bodibe, Chiliya, and Chikandiwa 2016; Butt et al. 2018; Ezeh and Nkamnebe 2018; Hilmiyah, Possumah, and Appiah 2018; Johar and Suhartanto 2019; Juma et al. 2020;

Kaabachi and Obeid 2016; Mahdzan, Zainudin, and Au 2017; SATTAR, HAMZA, and MOGHAR 2019; Sulaiman 2016). **However,**

Search Gap

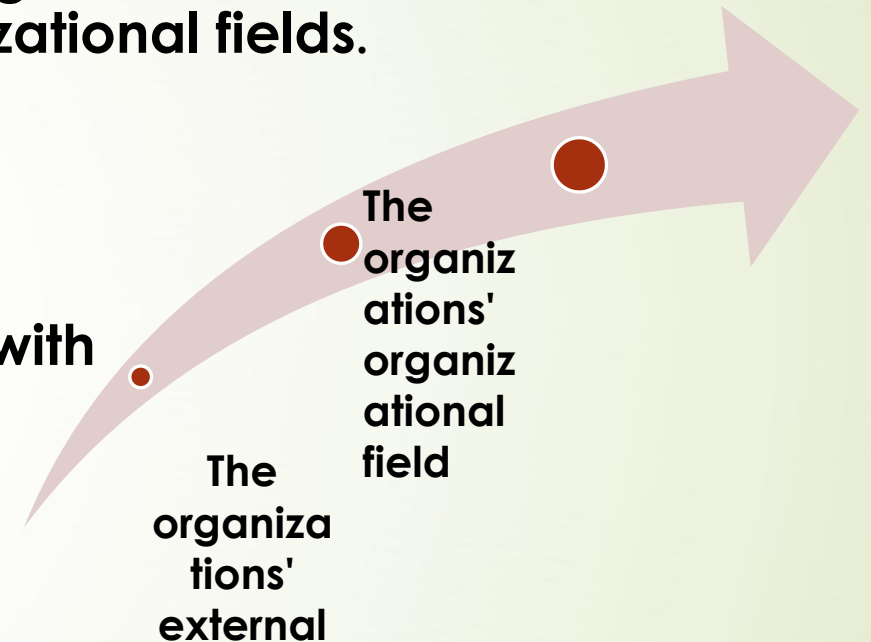
Theoretically, the available studies did not provide a conceptual framework that justifies the external environment as driving commercial banks to organizational change and adopt Islamic financial transactions.

This search is first that has conducted on the Libyan commercial banks for investigating in that

Conceptual Framework of the study

institutionalization

- ▶ In the context of neo-institutional thought, the organizations' external environment openly determines the organizational behaviour of organizations through their organizational fields.
- ▶ The organizational field delineates organizational entities that have commensal and symbiotic ties with organizations
- ▶ In general, these ties lead to institutionalization which involved social processes, obligations, or actualities to take on a rule-like status in social thought and action as driving to adopt organizational innovations accompanying adaptation.



Adoption of Managerial Innovation For Organizational Change

- In the context of institutionalization, when generating organizational innovations accompanying adaptation, an organization's adoption of these innovations will boost the spread them across other organizations in organization's organizational field.

**Generating
innovations**

**Responding to
changes in
external
environment**

**Spreading
innovations**

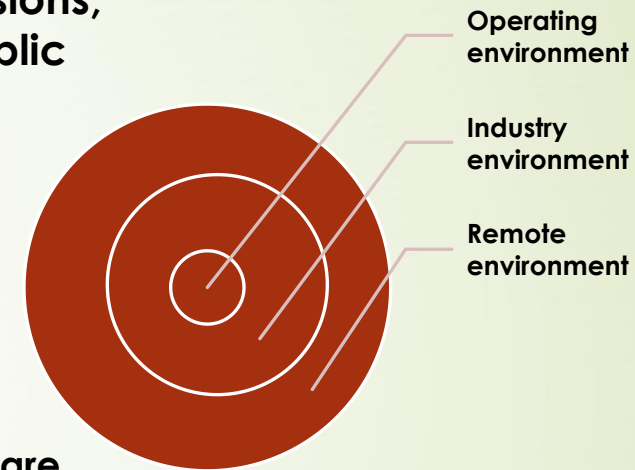
**Adapting
internal
environment**

**Based on above,
the adoption term is
as organization's
adoption of
managerial**

The External Environment As a Driver of Organizational Change

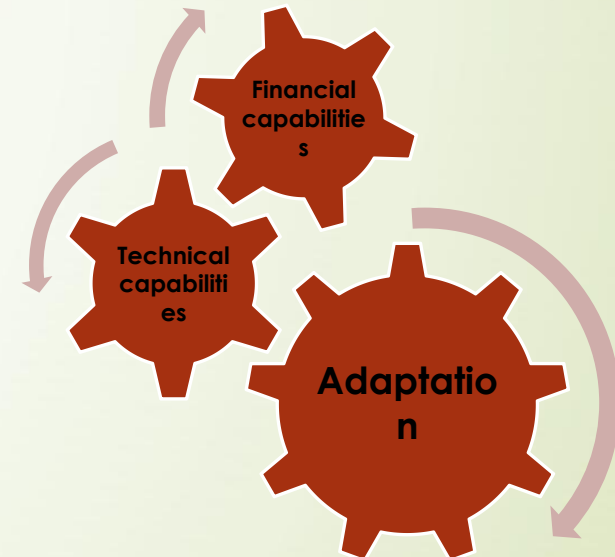
In management thought, apart from the terminology used, the organizations' external environment classified from closest to farthest from their internal environment Namely

- In this regard, entities that surround an organization impact on making its decisions; namely customers; employees; shareholders; government; the media; and public opinion, etc.
- Overall these entities represent stakeholders that affect organization's activity
- Thusly, the range of an organization's aims will be identified according to changes in its external environment, whenever it is closer to the organization the more clear its effect is.
- The external environment provides social support for the organization. Thence Stakeholders are original pressure sources on an organization's decisions and a key determinant of its strategies.
- This corresponds with adopting Islamic financial transactions, due to adopt them will achieve a balance between economic and social return.
- In fact this view has confirmed by a Islamic financial literature which reviewed perspective of various stakeholder about the philosophy and objectives of Islamic banking. In general, searchers argued that the banks must create real value in society, and also, seeking to fulfil all stakeholder's wellbeing, by adopting Islamic financial transactions.



The Adaptation of The Internal Environment of Commercial Banks

- Technically, Islamic financial transactions are defined as a binding sale contracts to carrying out an agreement between two or more parties, for achieving a balance between the rights of individuals.
- Broadly, there is agreement among Sharia scholars that all commerce or business transactions are legitimate as long as they do not transgress beyond the bounds of shariah; Namely Prohibition of Gharar, Maisir, and Riba
- In this regard, authors argue that in contexts of Sharia requirements, **the self-peculiarities of Islamic financial transactions** will govern commercial banks' capability to adapt their internal environment when adopting them as a funding method.
- Thus redesigning organizational structure is mainly depended on prevailing circumstances of organization with considering its goals, strategies, workforce, technology, and environment.
 - **According to AAOIFI Sharia standard number (6) the adoption of Islamic financial transactions will be accompanied by structural changes in commercial banks 'internal environment, such as**
 - By their organizational restructures to establish Islamic banking management because it is ground to permanently examine transactions,
 - By reformatting contracts of their financial transactions to be complied with Shariah standards.
 - Opening investment accounts in the central bank to avoid dealing with interest.
 - By preparing their technical capabilities to rehabilitate all their employees concerning concepts of principles and rules of Islamic banking,
 - further establishing training programs specializing in the field of Islamic financial accounting and risk management.



Hypothesized Modelling

In the context of the discussions above, the authors has designed a model as shown in Figure 1 below:

Hypothesis H1: The change of commercial banks' internal environment is related to their external environment as driving organizational changes.

Hypothesis H2: Libyan commercial banks' adoption of Islamic financial transactions is related to adapting their internal environment.

Hypothesis H3: The commercial banks' adoption of Islamic financial transactions is related to achieving an economic and social value of stakeholders.

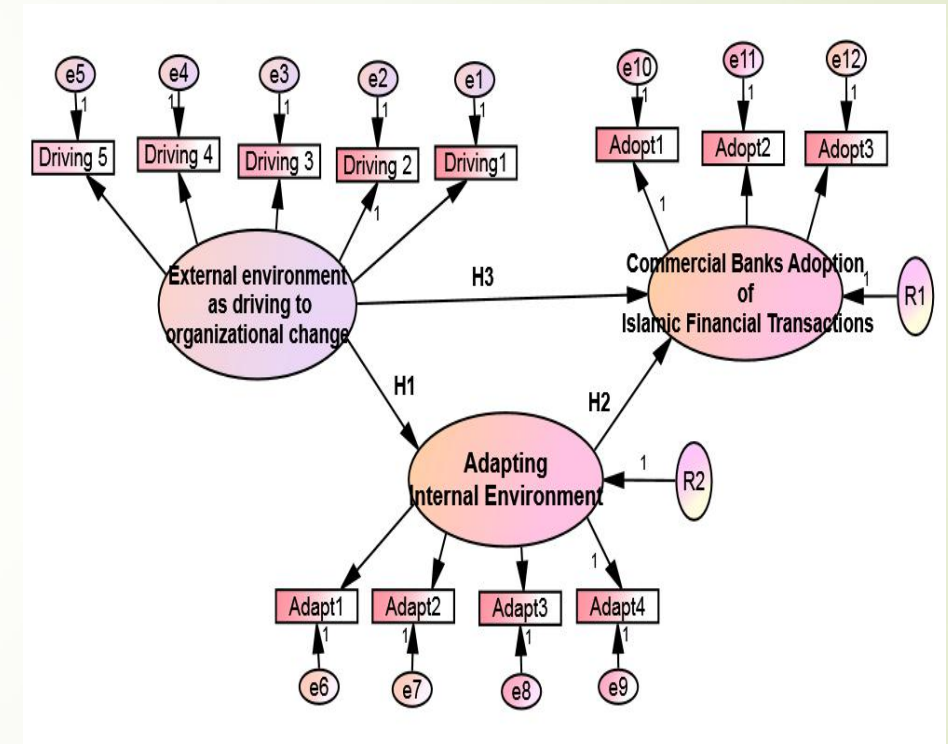


Figure 1 hypothesized model to examine the external environment as a driver for organizational change and adopting Islamic financial transactions in commercial banks.

Adopted Methodology

- **Adopted Methodology:** The quantitative method by using Structure Equation Modelling (SEM) for testing the hypotheses and hypothesized relationships among observed variables quantitatively.
- **Technologies Used:** It has used the Structure Equation Modelling (SEM), by using the two-step approach to emphasize the results of the measurement model and (SEM) overall structural models. So that, AMOS software (version 23.0), along with SPSS software (23.0) have been used to detect missing, normality, reliability data, and randomness of sample.
- **The study population** has been represented Libyan commercial banks, the total number of employees in the Libyan banking system about 19,183 employees. So the study sample has been fittingly 377, according to the table; which seted up by Krejcie and Morgan.
- **However,** Since the authors have decided employing structure equation modelling (SEM), **504 questionnaires survey respondents** collected. By using the SPSS software version 23 to invalid questionnaires excluded. To be the number of completed and **valid questionnaires was 332 from a sample size of 14 banks,**
- **The sample unit** was represented by managers, directors of departments, and personnel to answer the questionnaire

Table 1: The Measurements of The Conceptual Construct of Variables Employed in The Study

Construct of Variable	Coding	Measurement	Mean	Std	Skewness	Kurtosis	Cronbach's α
The external environment as driving organizational changes.	Driving 1	-Religiously, Islamic financial transactions must be adopted in Libyan commercial banks.	4.33	.621	-.824	2.316	.73
	Driving 2	- Islamic financial transactions must be adopted to satisfy clients desires	4.15	.618	-.724	2.167	
	Driving 3	-Islamic financial transactions must be adopted to satisfy the desires of bank personnel.	4.02	.714	-.972	2.309	
	Driving 4	After imposing Law No. 1 of 2013, the prohibition of interest-based financial transactions, Islamic financial transactions must be adopted	4.23	.550	.061	-.251	
	Driving 5	With spreading Islamic banking worldwide, Islamic financial transactions must be adopted in Libyan Commercial Banks.	4.30	.611	-.590	1.599	
The adaptation of their internal environment	Adapt 1	The availability of human resources is qualified to apply Islamic financial transactions.	3.17	1.054	-.600	-.513	.88
	Adapt 2	The availability of human resources is able to evaluate financial transactions from the legitimate side.	3.17	1.040	-.482	-.548	
	Adapt3	The training programs qualify personnel of the bank to be knowledgeable accountants to the legitimate side.	3.21	1.147	-.547	-.580	
	Adapt4	Financial statements of the bank disclose its Islamic financial transactions.	3.15	1.058	-.566	-.630	
The commercial Banks' adoption of Islamic financial transactions	Adopt1	By 2021, the bank can adopt Islamic financial transactions	2.43	1.118	.201	-.849	.70
	Adopt 2	The bank's technical and financial capabilities can enable it to fully transform into Islamic banking by 2021.	2.87	1.108	-.029	-.838	
	Adopt 3	Periodical financial reports disclose Islamic financial transactions on the bank's website	2.58	1.122	-.195	-1.12	
	Adopt 4	Bank can adopt MURABAH formulas	.65	.477	-.649	-1.59	
	Adopt 5	Bank can adopt ISTISNA formulas	.27	.464	1.507	2.410	
	Adopt 6	Bank can adopt IJARA formulas	.24	.426	1.236	-.474	
	Adopt 7	Bank can adopt SALAM formulas	.21	.411	1.402	-.034	
	Adopt 8	Bank can adopt MUDARABAH formulas	.23	.517	4.854	45.69	
	Adopt 9	Bank can adopt MUSHARAH formulas	.32	.466	.794	-1.38	
	Adopt 10	Bank can adopt QARD HASSAN formulas	.33	.470	.735	-1.47	
	Adopt 11	Bank can adopt Sharia-compliant services	.36	.670	6.699	82.28	
	Adopt 12	Bank cannot currently adopt Islamic financial formulas	.11	.311	2.530	4.428	
	Demographic Data	bank position	Contributing banks in the search	3.49	2.96	1.61	
age		Respondents' current position	3.21	.851	-.750	-.387	
education		Respondents' age	1.99	.855	.332	.865	
area		Respondents' educational level	2.64	.725	-.347	-.036	
qualify		Respondents' specialization area	4.86	2.14	-.217	-1.08	
Expe-bank		Respondents' Islamic professional qualification	1.37	.744	1.98	2.965	
Expe-ISM		Respondents' banking experience	.238	1.04	.114	-1.16	
		Respondents' Islamic banking experience	2.10	.441	.134	-.855	
The Cranach's Alpha Test of the conceptual construct of variables employed in hypothesized modelling.						Cronbα = .81	
Random test of sample , according to respondents' specialization area (z) = <i>-.677</i> , by mean						Sig = .499	

Results of (CFA) ESTIMATIONS

Table 3 :Fit Indicators Evaluating (CFA) Estimates

Measure	Estimated Indices	Threshold of fit indices / Interpreting
CMIN/DF chi-square	2.44	Acceptable (5 ≤ value ≤ 3) Excellent
CFI	.95	Acceptable (.90 ≤ value ≤ 1) Excellent
TLI	.93	Acceptable (.90 ≤ value ≤ 1) Excellent
RMR	.041	Acceptable (0.08 ≤ value ≤ .1) Excellent
SRMR	.000	Acceptable (.10 ≤ value ≤ .20) Excellent
RMSEA	.06	Acceptable (0.08 ≤ value ≤ .1) Excellent
P Close	.000	Acceptable (0.05 > p ≥ .000) Excellent
References	(Collier 2020; Hu and Bentler 1999; Joseph F. Hair et al. 2010)	

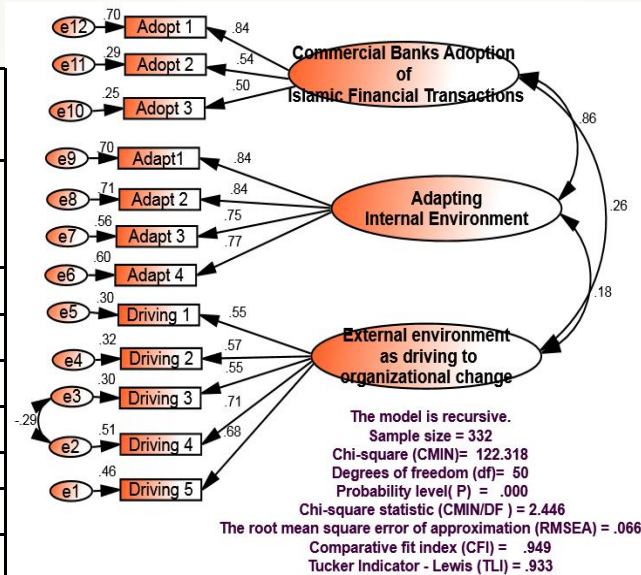


Table 2: Estimation of CFA Regression

			Estimate	S.E.	C.R.	P
Adapt3	<-	F2	.982	.064	15.366	***
Adapt2	<-	F2	1.000			
Driving 1	<-	F1	.867	.109	7.929	***
Driving 4	<-	F1	1.000			
Driving 5	<-	F1	1.056	.117	9.032	***
Driving 2	<-	F1	.890	.110	8.110	***
Adopt 1	<-	F3	1.674	.199	8.411	***
Driving3	<-	F1	.997	.139	7.161	***
Adopt3	<-	F3	1.000			
Adapt4	<-	F2	.934	.058	16.059	***
Adopt 2	<-	F3	1.085	.158	8.411	***
Adapt1	<-	F2	1.005	.056	17.865	***

F1(External environment as driving to organizational change) F2(Adapting Internal Environment), F3(Commercial Banks' adoption of Islamic Financial Transactions)

- Overall, in Figure 2 and Tabel3 the results of the CFA model for the estimations of maximum likelihood (ML) were satisfactory comparing with threshold of fit indices
- likewise, in Table3,the value of C.R show that the correlation between observed and latent variables was significantly and positively, where it was more than (1.96). And P value was less than (.01).And also, correlating(e2)with (e3) was significantly and negatively.

Table 4: Estimation of CFA Covariance

			Estimate	S.E.	C.R.	P	Label
F2	>	F3	.418	.061	6.904	***	H1 supported
F2	>	F1	.062	.023	2.668	.008	H2 supported
F1	>	F3	.056	.017	3.254	.001	H3 supported
e2	>	e3	-.066	.018	-3.62	***	

F1(Adapting Internal Environment), F2(Commercial Banks' adoption of Islamic Financial Transactions) F3(External environment as driving to organizational change)

Results of OVERALL STRUCTURAL EQUATION MODELLING ESTIMATIONS

Table 5 Fit Indicators Evaluating (SEM) Estimates

Measure	Estimate	Threshold of fit indices / Interpreting
CMIN/DF chi-square	2.64	Acceptable (5 ≤ value ≤ 3) Excellent
CFI	.95	Acceptable (.90 ≤ value ≤ 1) Excellent
TLI	.93	Acceptable (.90 ≤ value ≤ 1) Excellent
RMR	.038	Acceptable (0.085 value ≥ .1) Excellent
SRMR	.000	Acceptable (.105 value ≥ .20) Excellent
RMSEA	.07	Acceptable (0.085 value ≥ .1) Excellent
P Close	.000	Acceptable (0.05 > p ≥ .000) Excellent
Reference	(Collier 2020; Hu and Bentler 1999; Joseph F. Hair et al. 2010)	

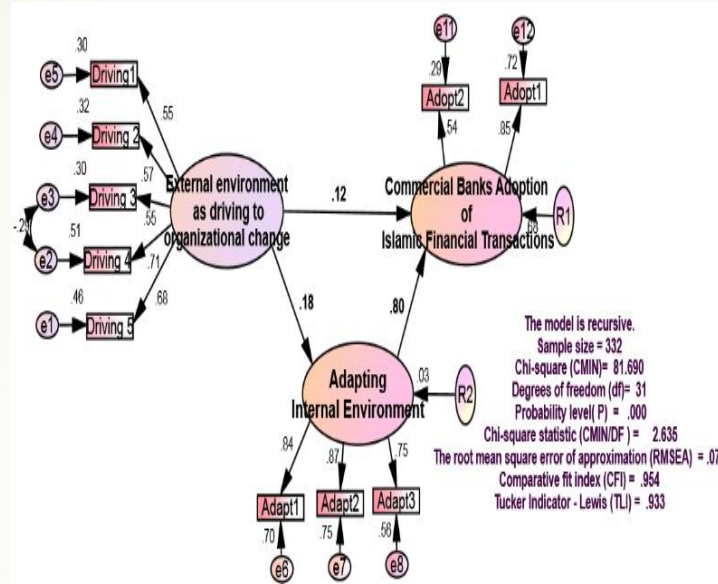


Figure 3: Overall Structural Equation Modelling (SEM)

Table 6 Estimating Overall Structural Equation

Conceptual Construct	Estimate	S.E.	C.R.	P	Label
F2 <- F1	.459	.175	2.629	.009	H1 supported
F3 <- F2	.832	.062	13.350	***	H2 supported
F3 <- F1	.313	.150	2.083	.037	H3 supported
e2 <- e3	-.066	.018	-3.584	***	
Driving 2 <- F1	1.000				(AVE) = .61
Driving 3 <- F1	1.117	.165	6.785	***	Cronbach'∞ = .73
Driving 4 <- F1	1.123	.139	8.109	***	
Driving 5 <- F1	1.189	.140	8.492	***	
Driving 1 <- F1	.977	.131	7.452	***	
Adapt 2 <- F2	1.000				
Adapt 1 <- F2	.980	.056	17.449	***	Cronbach'∞ = .85
Adapt 3 <- F2	.951	.063	15.171	***	
Adopt 2 <- F3	.643	.077	8.338		(AVE) = .70
Adopt 1 <- F3	1.000				Cronbach'∞ = .63

F1 (Adapting Internal Environment), F2 (Commercial Banks' adoption of Islamic Financial Transactions), F3 (External environment as driving to organizational change)

Table 7 Estimating Extracted Variance of CFA

Latent variables	Adopt	Adapt	Driving
Adopt	.70		
Adapt	0.67	.82	
Driving	0.03	0.07	.61

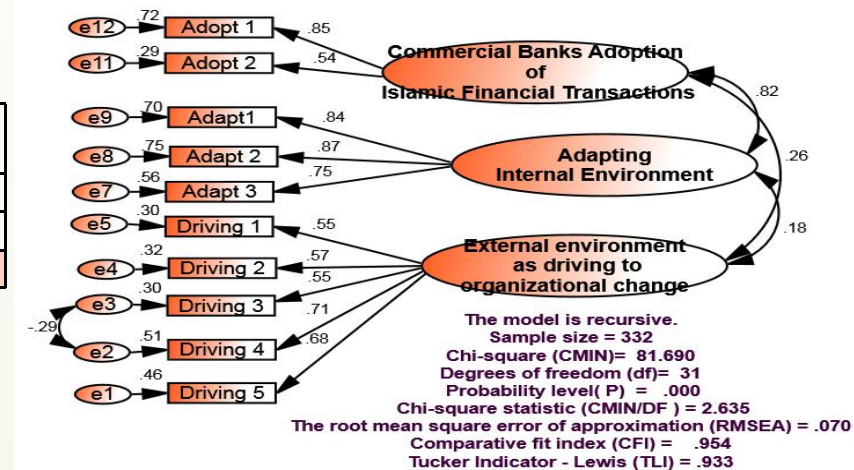


Figure 4 Measurement Model CFA

In line with the results of the CFA estimates, the SEM results were satisfactory comparing with threshold of fit indices and the value of CR of correlation between observed and latent variables was significantly and positively, as shown in Figure 2 and Tables 5 and 6.

However, there was the correlation was equal (.86), between the constructs of the dependent variable (Libyan commercial banks' adoption of financial transactions) and the intermediate variable (the adaptation of the commercial banks' internal environment). Therefore, the overall structural model (SEM) has been used to detect the direction of the relationship and the variance between the variables. Because the measurement model (CFA) treats all unobserved variables as exogenous or independent variables.

Discussion

In the context of hypothesized modelling, statistically, the results of (SEM) have supported hypotheses of the study, namely (H1),(H2),and(H3); Where, the correlation between latent variables was significantly and positively, as shown in Table 6 the value of C.R was more than (1.96) and P value was of (009) H1 ,(***)H2,and(.037)H3 which was less than (.05).

Thusly, modelling reflects that the Libyan commercial banks' external environment as driving organizational changes explained 18 % and 12% ,While Libyan commercial banks' internal environments explained 80% from the change into their adoption of Islamic financial transactions.

This result was consistent with respondents 'answer; Namely their answers on question that Libyan commercial banks can adopt Islamic financial formulas currently. They showed that their overall agree was MURABAHAH =(65%), ISTISNA =(25%), IJARA =(23.8%), SALAM =(22%), MUDARABAH =(22%), MUSHARAHA =(32%),QARD HASSAN =(33%), Sharia-compliant services=(33%).

And in the same vein, the respondents 'answers on question that the Libyan commercial bank's technical and financial capabilities can enable it to fully transform into Islamic banking by 2021, about 225 respondents were disagree.

Thence, the current technical capability of Libyan commercial banks enables them from adopting MURABAHAH formula more than other formulas.

Finally, the result of this study is correspond with results of recent studies which have conducted on Libyan commercial banks, reflects there are obstacles facing the Libyan commercial banks when their adoption of Islamic financial transactions, with imposing Law No. 1 of 2013, as shown in Table 8.

Table 8: Studies' results That Examined Challenges and Problems Facing Libyan Commercial Banks.

Author	Purpose	Finding
(Massoud and Mohammed 2020)	Examining the practices of the Shari'ah supervisory body in the Libyan Islamic banks.	The results showed that there was a need to develop a practical model for the Shari'ah supervisory body with developing the Shari'ah supervisory methodology that is consistent with the nature of Islamic banks in Libya.
(Elkrghli 2020)	Examining the link between E-marketing and profitability of Wahda Bank as one of the Libyan banks in Benghazi City	The weakness of technological and knowledge infrastructure
(Al-Qasim and Shaala 2021)	Investigating obstacles that prevent applying Islamic financing forms to achieve sustainable development in Libya	The constraints that stand in the way of applying Islamic banking are the legal and administrative environment. The judiciary in which banks operate.
(Mahjoub et al. 2020)	examining commitment of the Libyan commercial banks (Jomhouria , sahara ,national commercial and wahda) to the central bank of Libya circular number (3) 2005 , regarding liberalizing the prices of banking services	After amending the 2005 law and issuing 2013 law, which the prohibition of interest-based financial transactions, Libyan commercial banks have raised the prices of banking services. Besides, there was also weakness in the quality of banking services, from a view of banks' clients under study.

Conclusion and Horizons of Future Search

The results revealed there was the causal effect of an independent variable (external environment as a driving to organizational change) on a dependent variable (commercial banks' adoption of Islamic financial transactions) that is transmitted by a mediator variable (adapting their internal environments).

Thusly, this study emerges a research gap that opens up new horizons to examine Libyan commercial banks' capability to adapt their internal environment as an obstacle to adopting Islamic financial transactions.

Ultimately, academically, future research should not focus on only the desire of stakeholders as driving commercial banks' change to adopt Islamic financial transactions, but they need to examine commercial banks' capability adapting their internal environment to do that.

وَمَا تَوْفِيقِي إِلَّا بِاللَّهِ

My success is only by Allah

QUR'AN[11.88]

Thank you for your
attention , questions , comments and suggestions