

FACTORS AFFECTING CHANGE READINESS - A CASE OF COMMERCIAL BANKS IN ETHIOPIA

Yohannes Workaferahu Elifneh
Robel Beyene Fantaye¹

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ABSTRACT

This study attempted to determine the factors affecting employees' readiness for change in the context of private commercial banks in a developing country context (Ethiopia). The researchers examined factors that affect employee's readiness for change. A survey questionnaire and purposive sampling was used to collect 302 completely filled questionnaires. These responses are then considered for both descriptive and explanatory analysis. Employees at two major Ethiopian commercial banks were included in the study.

The study found out that psychological capital, change attitude, work and supervisor relationships, management support, communication, and perception of change result affect change readiness significantly. The results of the study are based on how the participants perceive changes they experienced in the past. This limitation can be an opportunity for future research and comparative case studies.

The presented result shed light regarding the effect of Individual, Organizational, and change related factors on change readiness in commercial banks; the research's outcome provides useful input for commercial banks, policy makers and change managers in the study setting concerning the factors affecting change readiness. This study contributes to the current body of knowledge in the area of change readiness and the factors affecting it. It also addresses the under-explored financial sector in developing economies and examines the factors of change readiness from the perspectives of individuals, organizations, and change processes.



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1. INTRODUCTION

Organizational change has been extensively studied in management literature as it is considered a crucial aspect of organizational survival (Lamprinakos, 2017; van de Ven & Poole 1995; Piderit, 2000; Vakola, 2013). In today's corporate world, change is more frequent and unpredictable than ever before (McKay et al., 2013; Ahmad et al., 2017). The banking industry in Ethiopia is undergoing significant turbulence due to factors like

changes in government regulations (Hagos & Asfaw, 2014), political instability and economic fluctuations (Shumetie & Watabaji, 2019), intense competition and new players entering the market including foreign banks (Berhane, 2019) and possible accession to the WTO, which all demonstrate the volatile nature of the sector. These factors highlight the need for banks to be adaptable and undergo organizational change to survive and thrive (Ahmad et al., 2017; McKay et al., 2013).

In order to effectively adapt to the demands of the business environment, companies proactively or

¹ Corresponding author: Robel Beyene Fantaye
Email: robel.be.77@gmail.com

reactively carry out change initiatives (Worley & Lawler, 2010). However, despite the rigorous management of these processes, it is concerning that nearly 70-75% of change initiative fail and this situation has not improved over the years (Anand & Barsoux, 2017; Beer & Nohria, 2000). The cost of these failures is significant, including direct and indirect costs that impact a company's competitiveness (Lockwood, 2022). Therefore, it is vital to investigate the causes of these failures and identify factors that contribute to successful change initiatives. One such factor, according to literature, is the readiness to change.

Organizational readiness is defined by Weiner et al. (2009) as "the extent to which organizational members are psychologically and behaviorally prepared to implement organizational change". When employees have high readiness, they are more likely to initiate change, work harder, persist longer, and be more cooperative, resulting in more effective implementation of the change (Armenakis et al., 1993; Weiner et al., 2009).

In this regard, this research paper, by taking two of the leading private commercial banks in Ethiopia, Bank of Abyssinia and Awash Bank as a case study, attempted to empirically examine the phenomenon of change readiness of employees in commercial banks in Ethiopia.

Problem Statement

Due to the current volatile economic climate, adapting to changing circumstances is crucial for banks to survive and thrive (Ahmad et al., 2017; McKay et al., 2013). Change management offers a structured approach to guide organizations from their current state to a more beneficial future state. This structured approach should begin by assessing the readiness of both employees and the organization as a whole.

Research suggests that employee readiness for change is a critical factor impacting the success of change initiatives (Armenakis et al., 1993; Bouckennooghe et al., 2009; Shea et al., 2014). To ensure successful implementation, organizations must assess employee readiness and identify the factors influencing it (Bouckennooghe et al., 2009; Vakola, 2013). Simply relying on traditional management practices, even with thorough planning, can be risky. Therefore, developing a tailored change management strategy that considers employee readiness is essential (Gherson & Gratton, 2022).

Limited research exists on change readiness within the Ethiopian financial sector. Additionally, no studies, to the researcher's knowledge, have examined this issue from the combined perspectives of individuals, organizations, and change initiatives. This highlights the need for a more focused investigation of the Ethiopian banking sector, considering all three perspectives (individual, organizational, and change initiative) to effectively understand change readiness. This study aims to address this gap by employing a simple framework to assess change readiness and identify its underlying factors from these three distinct viewpoints.

2. LITERATURE REVIEW

2.1 Change readiness

Change readiness is employees mental attitude that allows an organization to embrace change and reduce resistance (Armenakis et al., 1993). When individual readiness is high, change can be straightforward, but if readiness is low, it will most likely lead to resistance. Both ways, it will affect success of organizational change initiative (Piderit, 2000; Bouckennooghe et al., 2009).

2.2 Factors affecting change readiness

2.2.1 Individual factors affecting Change readiness.

Individual factors in this study refers to employees' competence, change attitudes, and psychological capital (Figure 1). Competence refers to the knowledge, skills, and positive attitude required to effectively navigate change (Baartman & Bruijn, 2011). Competent employees are more likely to view change as an opportunity for growth and adapt their skills accordingly (Rebeka & Indradevi, 2015).

Change attitudes encompass an employee's inherent adaptability and openness to new ideas (Dunican, 2015; Erosa & Garcia, 2015). This includes tolerance for ambiguity, behavioral flexibility, and a willingness to embrace new experiences. Individuals with positive change attitudes are less likely to resist change and more likely to actively participate in change initiatives.

Psychological capital is an individual's positive mental state comprised of hope, self-efficacy, resilience, and optimism (Jackson, 2018). These qualities empower employees to maintain a positive outlook and persevere through challenging situations, such as change initiatives. Based on the above analysis the following research hypotheses are proposed.

H1: Individual factors have a positive effect on change readiness

H1.1: Employee competence has a positive effect on change readiness

H1.2: Employee change attitude has a positive effect on change readiness

H1.3: Employee psychological capital has a positive effect on change readiness

2.2.2 Organizational factors affecting change readiness

Employee readiness for change is also influenced by various organizational characteristics. These factors create an environment that fosters openness and facilitates adaptation (Figure 1):

Positive Work Climate: Supportive relationships with colleagues and supervisors, characterized by trust, open communication, and a sense of community, contribute significantly to change readiness (Bouckennooghe et al., 2009; Winardi & Prianto, 2016;).

Organizational Change Culture: Organizations with a culture that embraces change are more likely to have employees who are adaptable and willing to embrace new ideas (Diamanti et al., 2007). This culture is

characterized by autonomy, flexibility, and a willingness to learn from past experiences.

Positive Supervisor Relationships: Trustworthy and supportive supervisors who foster open communication channels are crucial for change readiness. Employees who trust their supervisors are more likely to feel valued and supported during times of change.

Organizational Fairness: Employees who perceive their organization as fair in terms of rewards, punishments, and procedures are more likely to be open to change initiatives (Nojani et al., 2012). Fairness fosters trust and a sense of security, making employees more receptive to new ideas. Based on the above literature analysis the following research hypotheses are proposed.

H2: Organizational factors have a positive effect on change readiness

H2.1: Positive work climate has a positive effect on change readiness

H2.2: Organizational change culture has a positive effect on change readiness

H2.3: Positive supervisor relationship has a positive effect on change readiness

H2.4: Organizational fairness has a positive effect on change readiness

H2.5: Organizational benefit system has a positive effect on change readiness

2.2.3 Change Specific factors affecting change readiness

Beyond individual and organizational characteristics, employee readiness for change is also significantly influenced by the change initiative itself. When employees are actively involved in decision-making

processes (Rafferty et al., 2013; Wanberg & Banas, 2000), experience visible management support throughout the change (Novitskaya & Rajput, 2014), and receive clear, consistent communication about the change's goals and potential impact (Malek & Yazdanifard, 2012; Wanberg & Banas, 2000), they are more likely to feel empowered, trusting, and optimistic about the change. Conversely, a lack of participation, weak management buy-in, or unclear communication can breed anxiety, skepticism, and resistance (Dent & Goldberg, 1999; McKay et al., 2013; Rafferty et al., 2013). Finally, employees who perceive the change as beneficial to themselves and the organization are more likely to embrace it, while those who fear negative personal consequences may resist (Dent & Goldberg, 1999). In conclusion, for a change initiative to be successful, it's crucial to consider not only the individual and organizational context, but also the specific design and communication of the change itself (Figure 1).

Based on the above analysis the following research hypotheses are proposed.

H3: Change-related factors have a positive effect on change readiness

H3.1: Change participation has a positive effect on change readiness

H3.2: Management support for the change has a positive effect on change readiness

H3.3: Effective change communication has a positive effect on change readiness

H3.4: Positive perception of change result has a positive effect on change readiness.

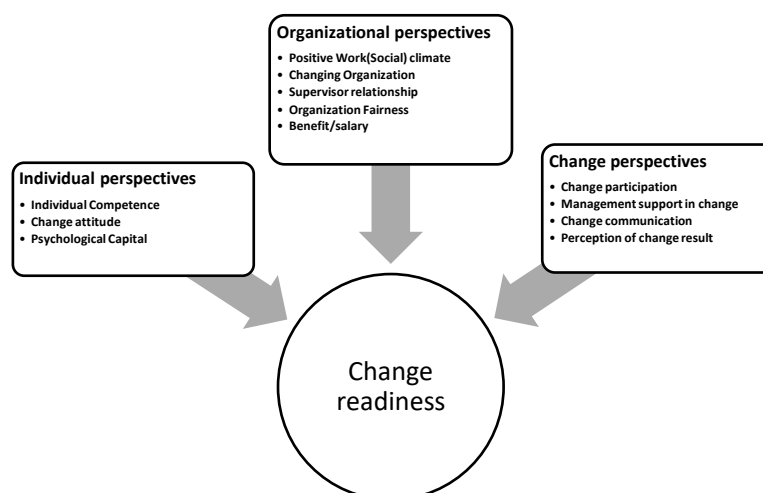


Figure 1. Conceptual model of factors that affect Employee's change readiness based on the review of related literature

3. METHODOLOGY

This study employed a quantitative research method with a descriptive and explanatory design to assess employee change readiness and its relationship with personal, organizational, and change-related factors. A cross-

sectional approach was used, collecting data at a single point in time to understand past experiences and beliefs regarding change (retrospectively). The researchers utilized Yamane (1967) formula to select a sample of 396 employees from two prominent Ethiopian commercial banks: Awash Bank and Bank of Abyssinia (total

population: 34,960). Purposive sampling was used to target head office employees who have a higher likelihood of participating in and experiencing changes first-hand (Anaekwe, 2002). Out of the 396 employees sampled, 302 completed the online or self-administered surveys, resulting in a satisfactory response rate of 76.5%.

The survey instrument was developed based on previous research (Ahmad et al., 2017; Barber, 2010; Bouckennooghe et al., 2009; Dunican, 2015; Hallgrímsson, 2008; Jackson, 2018; Shah, 2009; Vakola, 2013) to measure personal, organizational, and change-related factors influencing change readiness in Ethiopian commercial banks. A Likert scale (1-5) was used to gauge agreement and disagreement.

3.1 Reliability Testing

Reliability of measurement is tested through Cronbach's alpha

Table 1. Reliability Statistics

Reliability Statistics (Individual Constructs)		
VARIABLES	Cronbach's Alpha	No of Items
Competence	0.672	4
Change Attitude	0.501	4
Psychological Capital	0.852	4
Work Climate	0.770	4
Changing Organization	0.532	5
Supervisor Relation	0.808	4
Fairness	0.734	4
Benefit	0.641	4
Change Participation	0.718	4
Management Support	0.837	4
Change Communication	0.741	3
Change Perception	0.575	4
Change Readiness	0.673	6

Reliability Statistics (Overall)

Cronbach's Alpha	N of Items
.916	54

Source: Own Survey, SPSS output

The result of the test for the 54-item instrument measuring factors affecting employee readiness has a high level of internal consistency with a reliability score of $\alpha = 0.916$. Further, the variable's Cronbach's alpha score generally falls in the acceptable ranges from 0.641 to 0.852 with few exceptions (Change Attitude, Changing Organization and Change Perception) (Table 1). But, considering the small number of items to measure the constructs, multidimensionality of the measures (for example change attitude measures different concepts like tolerance for ambiguity, Behavioral flexibility, and openness to new ideas), the diverse

backgrounds of the sample and behavioral nature of the concepts measured, the researchers believes that the coefficient scores are acceptable. Moreover, the survey was initially pilot tested on selected employees at bank of Abyssinia to check for clarity and fine-tune the research questions and to enhance the validity of the instrument.

4. DISCUSSION AND ANALYSIS

Out of the 392 survey questionnaires distributed, only 302 completed survey were collected (Table 2). Accordingly the demographic data shows from the total respondents, male employees represent 67.9% of the sample; most of respondents (39.4%) were between the age group 33-40; 57.95% of the employees have Master's degrees; over 60% of employees have over seven years of job experience.

Table 2. Demographic data of respondents

Variables	Category	Count	%age
Gender of Respondents	Male	205	67.9%
	Female	97	32.1%
	Total	302	100.0%
Age of Respondents	20 - 26	52	17.2%
	27 - 32	91	30.1%
	33 - 40	119	39.4%
	41 - 50	38	12.6%
	Above 50	2	0.7%
	Total	302	100.0%
Level of Education	BA/BSC	127	42.05%
	MA/MSc	175	57.95%
	Total	302	100.0%
Total Years of experience	< 3 Years	36	11.9%
	3 - 6 Years	82	27.2%
	7 - 10 Years	61	20.2%
	> 10 Years	123	40.7%
	Total	302	100.0%
Employment Position	Junior	44	14.6%
	Officer	123	40.7%
	Senior	102	33.8%
	Manager	33	10.9%
	Total	302	100.0%
Employer Bank	Awash Bank	147	48.7%
	Bank of Abyssinia	155	51.3%
	Total	302	100.0%

Source: Survey data

4.1 Descriptive Statistics of the Variables

This part of the study explains the Mean values and variation of the variables that were used. The dependent

variable studied is the employees change readiness, while the other independent variables include individual factors such as competence and attitude, as well as organizational factors such as work climate and supervisor relationships. There are also specific factors related to changes in benefits, such as participation and management support.

Table 3. Descriptive Statistics of the Variables

Descriptive Statistics			
Variables	N	Mean	Std. Deviation
Competence	302	3.86	0.72191
Change Attitude	302	3.41	0.62449
Psychological Capital	302	4.18	0.63471
Work Climate	302	3.96	0.63135
Changing Organization	302	3.48	0.50173
Supervisor Relation	302	3.75	0.63483
Fairness	302	3.20	0.66829
Benefit	302	3.66	0.60515
Change Participation	302	3.34	0.58895
Management Support	302	3.49	0.62859
Change Communication	302	3.25	0.61084
Change Perception	302	3.27	0.56772
Change Readiness	302	3.87	0.56263

Source: Survey data

We can see from the above table 3 that regarding Individual factors of change readiness, variable Competence, Change attitude and Psychological Capital have a mean score of 3.86, 3.41 and 4.18 (Table 3). This shows that Individuals have moderately conducive characters for change but call for improvement.

Regarding organizational factors, variables Work Climate, Supervisor Relation and benefit/salary have fairly higher mean values of 3.96, 3.75 and 3.66 the others have slightly lower values with mean value of 3.2, 3.48 for Fairness and Changing Organization. Change specific factors of change readiness has a relatively lower score with a mean score ranging from 3.25 to 3.49 which is indicates that the employees perception regarding change environment is moderately positive but with a gap. Further the dependent variable, change readiness

also has a mean of 3.87. The overall result shows there is so much to do with regard to change readiness.

4.2 Correlation analysis

The first relationship observed in the correlation analysis was between Change Readiness with Competence in which the Pearson correlation coefficient was .157 and P-value of 0.00 which reflects a weak but a statistically significant positive relationship (Table 4).

Table 4. Summary of Inter-variable Correlation coefficients

Pearson Correlation		
	Change Readiness	Sig. (2-tailed)
Competence	.157**	0.006
Change Attitude	.425**	0.000
Psychological Capital	.360**	0.000
Work Climate	.506**	0.000
Changing Organization	.338**	0.000
Supervisor Relation	.554**	0.000
Fairness	.470**	0.000
Benefit	.195**	0.001
Change Participation	.489**	0.000
Management Support	.595**	0.000
Change Communication	.510**	0.000
Change Perception	.482**	0.000

** . Correlation is significant at the 0.01 level (2-tailed)

Source: Survey data

The strongest of the observed relationship are between Management Support and change readiness with correlation coefficient of 0.595 and p-value of 0.00 this is a direct or positive relationship. Overall all relationships are positive and statistically significant at 0.01 level.

4.3 Regression Analysis

A regression analysis to view the nature and extent of directional relationship between the dependent and independent variables was carried out. Accordingly, Table 5 shows the regression results.

A regression analysis to view the nature and extent of directional relationship between the dependent and independent variables was carried out. Accordingly, Table 5 shows the regression results.

Table 5. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.749 ^a	0.562	0.543	0.38017
a. Predictors: (Constant), Change Perception, Benefit, Psychological Capital, Competence, Changing Organization, Change Attitude, Supervisor Relation, Change Communication, Work Climate, Change Participation, Fairness, Management Support				

Source: Survey data

The model fit shows R Square value of 0.562 which indicated that 56.2% of the variance in Change Readiness

is accounted by the predictors i.e. variables in Individual, organizational, and change specific factors.

The adjusted R-square value is 0.543 (54.3%) which has a similar interpretation.

Table 6. ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.513	12	4.459	30.855	.000 ^b
	Residual	41.769	289	0.145		
	Total	95.282	301			

a. Dependent Variable: Change Readiness

b. Predictors: (Constant), Change Perception, Benefit, Psychological Capital, Competence, Changing Organization, Change Attitude, Supervisor Relation, Change Communication, Work Climate, Change Participation, Fairness, Management Support

Source: Survey data

ANOVA analysis as shown above further proved this with 95% of confidence level, we have a significant $P < 0.000$ and F-value of 30.855 (Table 6). Hence this gives sufficient evidence to say the model is statistically significant. This shows that variables in Individual,

organizational, and change specific factors have statistically significant effect on employees' change readiness.

4.4 The Regression Coefficients

Table 7. The Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.162	0.252		0.644	0.520
	Competence	-0.005	0.032	-0.006	-0.143	0.886
	Change Attitude	0.137	0.040	0.152	3.393	0.001
	Psychological Capital	0.093	0.039	0.105	2.367	0.019
	Work Climate	0.158	0.046	0.177	3.396	0.001
	Changing Organization	-0.001	0.052	-0.001	-0.020	0.984
	Supervisor Relation	0.153	0.046	0.172	3.293	0.001
	Fairness	-0.028	0.046	-0.034	-0.622	0.534
	Benefit	0.027	0.038	0.029	0.699	0.485
	Change Participation	-0.026	0.052	-0.028	-0.507	0.613
	Management Support	0.209	0.050	0.233	4.210	0.000
	Change Communication	0.108	0.048	0.117	2.259	0.025
	Change Perception	0.207	0.048	0.209	4.307	0.000

a. Dependent Variable: Change Readiness

Source: Survey, SPSS output

As shown on the above table 7, there is a positive linear relationship between the independent and the dependent variables except Competence, Changing Organization, Fairness and Change Participation which have a negative but insignificant relationship. The p-value < 0.05 and the t statistics shows the level of statistical significance of the effect of respective independent variables on the dependent variable. Among the individual factors Change Attitude, and Psychological Capital (β value of 0.137 and 0.093) have statistically significant positive on

change readiness. Similarly, among organizational factors Work Climate and Supervisor Relation (β value of 0.158 and 0.153) have statistically significant positive effect on change readiness. Finally, Management Support, Change Communication and Change Perception (β value of 0.209, 0.108 and 0.207) are the change specific factors that have statistically significant positive effect on change readiness.

The following table 8 shows summary of the result of hypothesis test

Table 8. Hypotheses Testing and Result.

Independent Variables	Regression test result	Decision
Competence	$\beta = -0.005, t = -0.143, p = 0.886$ i.e., >0.05	h1.1 = Not Accepted
Change Attitude	$\beta = 0.137, t = 3.393, p = 0.001$ i.e., <0.05	h1.2 = Accepted
Psychological Capital	$\beta = 0.093, t = 2.367, p = 0.019$ i.e., <0.05	h1.3 = Accepted
Work Climate	$\beta = 0.158, t = 3.396, p = 0.001$ i.e., <0.05	h2.1 = Accepted
Changing Organization	$\beta = -0.001, t = 0.020, p = 0.984$ i.e., >0.05	h2.2 = Not Accepted
Supervisor Relation	$\beta = 0.153, t = 3.293, p = 0.001$ i.e., <0.05	h2.3 = Accepted
Fairness	$\beta = -0.028, t = -0.622, p = 0.534$ i.e., >0.05	h2.4 = Not Accepted
Benefit	$\beta = 0.027, t = 0.699, p = 0.485$ i.e., >0.05	h2.5 = Not Accepted
Change Participation	$\beta = -0.026, t = -0.507, p = 0.613$ i.e., >0.05	h3.1 = Not Accepted
Management Support	$\beta = 0.209, t = 4.210, p = 0.000$ i.e., <0.05	h3.2 = Accepted
Change Communication	$\beta = 0.108, t = 2.259, p = 0.025$ i.e., <0.05	h3.3 = Accepted
Change Perception	$\beta = 0.207, t = 4.307, p = 0.000$ i.e., <0.05	h3.4 = Accepted

Source: Survey data, own analysis

5. MAJOR FINDINGS AND OUTCOMES

The research explores factors affecting change readiness from three distinct perspective, individual, organizational, and change related factors. The regression analysis indicates that on individual level, Change Attitude, composed of Tolerance for Ambiguity, Flexibility, and Openness, strongly affect change readiness. This finding aligns with Erosa and García (2015), who concluded that tolerance of ambiguity, openness to new experiences, and emotional strength are supportive behaviors for change (Duncan, 2015;). Psychological Capital, which measures hope and optimism, also significantly impacts change readiness, similar with Jackson (2018) and Duncan (2015). Jackson (2018) research concluded that psychological capital dimensions such as self-efficacy, hope, and resilience have significant relationships with readiness for organizational change.

Among organizational factors, positive work climate and strong employee supervisor relationships were found to improve change readiness. Research by Winardi and Prianto (2016) and Shah (2009) concluded A positive work climate increases readiness as noted by Barber (2010) Supervisor support and trust also enhance change readiness.

Regarding change-related factors, the regression analysis shows that Management Support, Change Communication, and Change Perception are strong predictors of employee readiness to change (Malek & Yazdanifard, 2012; Von Treuer et al., 2018; Workeneh & Abebe, 2019) (Table 8). The data analysis shows that when individuals perceive top-level management involvement and support, they are highly likely to accept and be ready for change (Novitskaya & Rajput, 2014; Von Treuer et al., 2018). Taylor and Wright (2003) concluded that senior management commitment and

support play a key role in the effectiveness of change and change readiness. Effective Change Communication is also crucial for change readiness (Malek & Yazdanifard, 2012; McKay et al., 2013) employees Positive Change Perception which reflects the benefits of change to employees, also has positive impact on change readiness (Jackson, 2018).

6. CONCLUSION

This study examined factors influencing employee change readiness in Ethiopian banks. The findings reveal a need to enhance overall change readiness for successful change implementation.

At the individual level, change attitude and psychological capital emerged as significant determinants. This highlights the importance of employees' openness to change and their belief in their ability to cope with change.

Positive work climate and strong supervisor relations were identified as crucial organizational-level factors. These findings emphasize the value of fostering a collaborative and supportive work environment for change readiness and change success.

Finally Clear and timely communication of information related to change, management's support for the change and employees perception of what the consequence of the change result might be for them are found to be essential change specific predictors of change readiness.

This research assessed employee change readiness in two major Ethiopian banks. It utilized a retrospective approach, examining employee perceptions based on past experiences. Future research could explore change readiness within specific organizational initiatives, conduct comparative analyses across demographics, or delve deeper into specific factors influencing readiness.

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Yohannes Workaferahu Elifneh
Addis Ababa University,
Department of Management
Ethiopia.
yohannes.workeferahu@aau.edu.et
ORCID 0000-0001-8759-0450

Robel Beyene Fantaye
Addis Ababa University,
Department of Management
Ethiopia
Robel.be.77@gmail.com
ORCID 0009-0002-6829-8854
