



ADDIS ABABA UNIVERSITY

DEPARTMENT OF MANAGEMENT

(QUALITY MANAGEMENT AND ORGANIZATIONAL
EXCELLENCE STREAM)

DIGITAL TRANSFORMATION AND ORGANIZATIONAL PERFORMANCE:
THE MEDIATING ROLE OF INNOVATION IN THE CONTEXT OF HIBRET
BANK

By: Fasika Anley Sewunet

Jan, 2025

Addis Ababa, Ethiopia

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A THISIS SUBMITTED TO ADDIS ABABA UNIVERSITY, COLLEGE OF BUSINESS
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JAN, 2025

Addis Ababa, Ethiopia

Statement of Declaration

This thesis entitled '*DIGITAL TRANSFORMATION AND ORGANIZATIONAL PERFORMANCE: THE MEDIATING ROLE OF INNOVATION IN THE CONTEXT OF HIBRET BANK*' is done under the supervision of Habtamu E (PhD and I, the undersigned, affirm that it is my original work. The researcher furthermore confirms that no part or the entire thesis has been submitted to any other higher learning institution for the purpose of getting a degree.

Fasika Anley Sewunet

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Date Jan, 2025G.C

Statement of Dedication

This is to certify that Fasika Anley Sewunet proposal prepared in Addis Ababa University, department of management, (quality management and organizational excellence stream) in Partial Fulfilments of the Requirements for the Degree of Master of Art in quality management and organizational excellence with university regulations and meets accepted standards in terms of origin.

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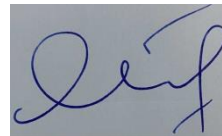
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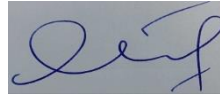
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Acronyms and Abbreviations

AI	-----	Artificial Intelligence
2G	-----	Second Generation
4G	-----	fourth-generation wireless
5G	-----	Fifth Generation
HB	-----	Hibert Bank
NBE	-----	National Bank of Ethiopia
DT	-----	Digital Transformation
DTC	-----	Digital Transformation Committee
DTPO	-----	Digital Transformation Program Office
DTS	-----	Digital Transformation Strategy
ICT	-----	information technology communication
ITU	-----	Information Technology Unit
EDTS	-----	emerging and disruptive technologies
MIT	-----	Massachusetts Institute of Technology
SPSS	-----	Statistical Package for Social Sciences

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Abstract

The aim of this research is to examine the digital transformation and organizational performance: the mediating role of innovation in the context of Hibret bank. Explanatory research design and mixed research approach were employed. By systematic sampling techniques a total of 275 participant were become a part of a study. Questionnaire, interview and focus group discussion were used as a data collection tool. To analyse the collected data, SPSS version 26 was used. The finding revealed that Hibret Bank leverages a combination of core banking systems, Oracle FLEXCUBE, mobile and internet banking platforms, ATM/POS networks, and agent banking systems, and cybersecurity measures to drive its digital transformation efforts. These systems not only enhance the efficiency of banking operations but also improve customer service, accessibility, and security. The main challenges of digital transformation are integrating new technologies with existing systems, Lack of a clear digital strategy, Resistance to change from employees, insufficient budget for digital transformation initiatives, and Lack of skilled personnel. From inferential analysis, all independent factors have a positive correlation with, organizational performance. Organizational performance is significantly connected to the linear combination of the parameters. Innovation as mediating variable has half of explanatory Power. Based on the finding, the bank should develop a compressive and clear digital strategy that integrates the services of each department and branch as well as customer demands.

Key words digital transformation, Operational efficiency, decision making, innovation cooperatives, Organizational performance

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In today's rapidly evolving business landscape, organizations are facing immense pressure to adapt and thrive. Technological advancements are disrupting traditional industries at an unprecedented pace, and digital transformation has become the cornerstone of organizational survival and success (Akkaya, 2023).

To serve its clients, the financial sector has traditionally relied significantly on high-cost infrastructure channels (branches, ATMs, POS machines). This paradigm has shifted with the advent of agent and mobile banking channels, as well as the emergence of more economical platforms like M-POS, allowing financial institutions to expand their infrastructure with lower-cost delivery methods. The emergence of new delivery models is transforming the economics of banking to reach those with low income, adding to the financial inclusion agenda for financial institutions. The number of traditional (ATM, POS) and non-traditional (agents) access points to financial services is rapidly expanding in Ethiopia. By using bank agent networks and micro financial institutions, Ethiopia has expanded its reach of access points outside of large urban regions; yet, there is still room for development. Despite the expansion, urban regions still have a significant concentration of branches, ATMs, and POS machines. Furthermore, consumers frequently report problems with ATMs and POS equipment, lowering overall demand for digital channels. Increased access to Cash-In, Cash-Out (CICO) infrastructure in urban and rural areas will be critical to growing digital payment usage. In metropolitan regions, ATM expansion will play a major part in the CICO infrastructure, with an increase in agent networks supporting it; in rural areas, the agent network will be the dominant CICO infrastructure. This takes into account and is based on the socioeconomic standards of the clients as well as the required business case for each infrastructure model (NBE, 2024).

Debit cards and automated teller machines (ATM) are widely used in Ethiopian banks, while credit cards have yet to be issued. The majority of Ethiopians lack credit cards, and internet

access is slow, expensive, and unreliable. Ethiopia's connection to Secom's underground/sea fiber optic cable via Djibouti, however, has recently improved internet performance.

International banking networks are connected to ATMs. International ATM cardholders can withdraw money from any ATM machine operated by Ethiopia's 18 commercial banks. ET Switch S.C., a commercial bank-owned corporation, was founded to promote bank-to-bank connectivity. The program is used by approximately 10 million ATM card holders across the country, according to ET Switch S.C. sources (Ethiopia-Country Commercial Guide, 2024).

Ethiopian banks have begun to use mobile, internet, and card banking services to conduct primary internet transactions. These innovations came with the introduction of centralized, online real-time electronic banking solutions, which resulted in a rise in clients. The mechanism for delivering digital financial services still has a long way to go. Foreign companies are currently providing technical services for the country's numerous financial inclusion efforts. Ethiopia has now developed and tabled a proclamation to allow, regulate, and monitor e-commerce operations in the country (Ethiopia-Country Commercial Guide, 2024).

Hibret Bank, as a prominent financial institution, stands at the forefront of Ethiopia's banking sector. In an era marked by rapid technological advancements and changing consumer behaviours, the banking industry is undergoing a significant digital transformation. As a result of the Bank's competitive edge in technology, Hibret Bank has a strong relationship with Oracle, running Oracle Database, Oracle middleware, and Oracle FLEXCUBE since 2008. As the bank focused on the decade ahead, its long-term success with Oracle made it an easy choice to extend the relationship by deploying a new version of Oracle FLEXCUBE as well as Oracle Banking Digital Experience. Hibret Bank's journey towards digitalization presents a compelling case study to explore the impact of digital transformation on organizational performance, with a specific focus on the mediating role of innovation.

Solomon (2016) discusses the interlink ages of the variables in clear manner. Digital transformation directly affects organizational performance by improving processes, reducing costs, and enhancing decision-making and collaboration. However, this direct impact is mediated by innovation. Digital transformation helps improve operational efficiency by automating

repetitive processes, speeding up transactions, and enabling better resource management. These improvements contribute directly to the bank's overall organizational performance. Digital transformation facilitates collaboration by introducing tools and technologies that break down barriers to communication and information sharing. Improved collaboration leads to better decision-making and problem-solving, which can enhance organizational performance. Digital transformation empowers decision-makers with more data and insights, which in turn improves the quality of decision-making (Verhoef & Bennouna, 2021).

Improvement in decision-making can lead to better organizational performance by aligning business strategies with current trends and customer needs. Digital transformation can lead to innovation in products, services, and processes. This, in turn, enhances operational efficiency, collaboration, and decision-making, all of which improve organizational performance. Innovation plays a crucial role in enabling the full potential of digital transformation. Without the innovative application of new digital technologies, improvements in efficiency or collaboration may be limited, and performance may not improve to its fullest extent (Bennouna, 2021)..

As Ethiopia continues to modernize its banking sector, understanding the intersection of digital transformation, innovation, and performance becomes essential for both academic inquiry and practical application. While there is substantial research on digital transformation in global banking systems, studies focusing on Ethiopian banks, particularly Hibret Bank, are limited. This study will fill this gap by examining how digital transformation, mediated by innovation, can improve the performance of Hibret Bank. Additionally, the findings will provide insights into how other banks in Ethiopia and similar developing economies can harness digital transformation for sustained growth and competitive advantage. This research is timely, as Ethiopia's banking sector is undergoing significant technological advancements, and the findings could guide future investment decisions, digital strategy formulation, and organizational change efforts within the bank and across the broader Ethiopian banking landscape.

1.2 Statements of the Problem

In recent years, digital transformation has emerged as a critical driver of organizational performance across various sectors. For banks, this transformation involves adopting advanced technologies to enhance customer experience, streamline operations, and innovate products and

services. This proposal aims to investigate the effect of digital transformation on organizational performance specifically within Hibret Bank, focusing on the mediating role of innovation.

Research by Kumar et al. (2020) indicates a positive correlation between digital transformation and organizational performance, emphasizing enhanced customer engagement and operational efficiency. However, studies like those by Awa et al. (2019) suggest that these benefits may vary based on the organizational context.

According to research by Garcia-Morales et al. (2018), innovation serves as a critical mediator between digital transformation and performance, enabling organizations to adapt and thrive. Yet, limited empirical evidence specifically addresses how this mediation occurs in the banking sector (Akkaya & Tabak, 2023).

In today's rapidly evolving business landscape, organizations are under immense pressure to adapt and innovate. Digital transformation (DT) has emerged as a critical strategy for achieving this goal. DT encompasses the integration of digital technologies across all aspects of an organization, fundamentally changing how it operates and delivers value (Lucas et al., 2014). While the potential benefits of DT are widely acknowledged, the precise impact on organizational performance remains a complex and debated topic. Proponents argue that DT is crucial for organizational survival and success, promising a range of benefits including improved efficiency, enhanced customer engagement, and increased innovation (MIT Sloan Management Review, 2017).

The banking sector in Ethiopia has been undergoing significant transformation in recent years, driven primarily by advancements in digital technologies. As banks adopt digital tools, mobile banking, and other technological innovations, they are able to improve operational efficiency, enhance customer service, and streamline internal processes. Hibret Bank, one of the key players in the Ethiopian banking landscape, has taken steps to embrace digital transformation, aiming to remain competitive in a rapidly evolving financial environment. However, despite these initiatives, the full impact of digital transformation on the bank's organizational performance remains unclear, especially in terms of how innovation acts as a mediating factor in this relationship (NBE, 2024)

While digital transformation is a well-explored topic globally, the role of innovation as a mediator in the link between digital transformation and organizational performance has received limited attention, especially in the context of Ethiopian banks. Most studies focus on the direct effects of digital transformation on performance, overlooking the underlying mechanisms that drive these changes. In the case of Hibret Bank, it is unclear how innovation through new products, services, or business processes helps to bridge the gap between digital transformation efforts and tangible improvements in organizational performance. This gap is critical because, without a clear understanding of how innovation mediates this relationship, it becomes difficult for the bank to fully harness the potential benefits of digital transformation (Rediet,2022)Digital transformation is increasingly recognized as a vital factor for enhancing organizational performance, particularly in the banking sector. Hibret Bank, like many financial institutions, faces challenges in adapting to rapid technological changes while maintaining competitive advantage. Despite the potential benefits of digital initiatives, there is limited empirical evidence on how these transformations specifically affect performance outcomes within the bank. Furthermore, the role of innovation as a mediating factor remains underexplored.

As far researcher's knowledge concerned, while digital transformation is widely studied in various sectors, there is a scarcity of research focusing specifically on the banking industry in Ethiopia, particularly concerning Hibret Bank. Existing studies often overlook the unique challenges and opportunities faced by banks in emerging markets. Many studies address the direct impact of digital transformation on organizational performance but fail to adequately examine how innovation mediates this relationship. This gap highlights the need for a deeper understanding of how innovation processes influence performance outcomes in a banking context (Fisseha, 2015 Guo, 2020 Girma, 2016, Girma, 2019 & Gardachew, 2010).

There is a lack of empirical studies that quantitatively measure the effects of digital transformation on organizational performance metrics in Hibret Bank. Most research is qualitative, limiting the ability to generalize findings or provide actionable recommendations. The rapidly evolving nature of digital technologies necessitates on-going research. Existing literature may not reflect the latest trends and practices, which could influence organizational performance in real-time. Few studies consider the impact of organizational culture and structure on the effectiveness of digital transformation initiatives, particularly how these elements interact

with innovation in the banking sector. Therefore, this study address the effect of digital transformation on banks performance based on selected dimension of the digital transformation such as operational efficiency, cooperativeness and decision making as a variable.

1.3 Research Question

The research has the following research questions

- ❖ What are the key barriers and challenges affecting the implementation of digital transformation and innovation at Hibret Bank?
- ❖ What is the relationship between digital transformation and organizational performance at Hibret Bank?
- ❖ Does innovation mediate the relationship between digital transformation and organizational performance at Hibret Bank?
- ❖ What is the effect of digital transformation on operational efficiency, collaboration, and decision-making at Hibret Bank?
- ❖ How do operational efficiency, collaboration, and decision-making influence the overall organizational performance of Hibret Bank?

1.4 Objectives of the study

1.4.1 General Objective:

The aim of this study is digital transformation and organizational performance: the mediating role of innovation in the context of Hibret Bank.

1.4.2 Specific Objectives

The specific objectives are the following

- ❖ To identify the barriers and challenges hindering the implementation of digital transformation and innovation at Hibret Bank.
- ❖ To examine the relationship between digital transformation and organizational performance at Hibret Bank.
- ❖ To analyse the mediating role of innovation in the relationship between digital transformation and organizational performance at Hibret Bank.

- ❖ To assess the effect of digital transformation on operational efficiency, collaboration, and decision-making at Hibret Bank.
- ❖ To evaluate how operational efficiency, collaboration, and decision-making affect the overall organizational performance of Hibret Bank.
- ❖ To identify the barriers and challenges hindering the implementation of digital transformation and innovation at Hibret Bank.

1.5 Scope of the Study

This study investigates the effect of digital transformation on organizational performance in the case of Hibret bank with the mediating role of innovation. The study is delimited in three ways, thematically, geographically and time wise. This study is only focused only the Digital Transformation aspect of the Bank. The researches defined and explore the specific aspects of digital transformation implemented within head office level. In addition, the study is only delimited to Head Office level: furthermore, methodologically explanatory research design by mixed approach was conducted.

1.6 Significance of the study

This study has lots of contribution for different stakeholders.

By analysing the effectiveness of digital transformation initiatives and their implications for organizational performance, this study will provide actionable recommendations for Hibret Bank to enhance its digital strategy and competitive positioning in the banking industry. This research contributes to the theoretical understanding of the complex interplay between digital transformation, innovation, and organizational performance in the context of the banking sector. By integrating insights from multiple theoretical perspectives, it offers a holistic framework for analysing the dynamics of digitalization within financial institutions. The findings of this study may have broader implications for policymakers and regulatory authorities in Ethiopia's banking sector. By identifying best practices and challenges in digital transformation, policymakers can develop policies that foster innovation-driven growth and ensure the resilience and sustainability of the banking industry in the face of technological disruption.

1.7 Limitations of the Study

The study focuses exclusively on Hibret Bank, limiting the applicability of findings to other banks or financial institutions in different regions. The number of respondents might not fully represent the entire workforce of Hibret Bank, which may affect the generalizability of the results. The research captures data within a specific time frame, which may not reflect the long-term effects of digital transformation and innovation on organizational performance. The fast-paced nature of digital technology advancements may make some findings quickly outdated. Abstract concepts like digital transformation, innovation, and organizational performance are complex to quantify accurately, potentially affecting the validity of the study. Relying primarily on surveys or questionnaires may result in biased responses or limited insights compared to more in-depth qualitative approaches. Employees' subjective views about digital transformation and innovation could introduce biases into the data. External influences such as regulatory changes, market competition, and economic conditions may impact the relationship between digital transformation and organizational performance but are beyond the scope of this study.

1.8 Organization of the study

The study comprises five chapters. The first chapter presents introduction of the study whereby background of the study, statement of problem, objectives of the study, research questions, significance of the study, and definition of terms, scope and delimitation of the study were included. The second chapter devoted to reviewing related literatures followed by the third chapter that discusses the methodology used to undertake the study. In chapter four and five, the data analysis & discussion of results and conclusions & recommendations presented sequentially.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

In this chapter covers the overall theoretical and empirical reviews. more specifically, the caovers1the concept of digital transformation, the theories of digital transformation , dynamic capabilities theory, technology-organization-environment (toe) framework, resource-based view, diffusion of innovation (DOI) theory, absorptive capacity theory, dimensions of digital transformation, operational efficiency, decision making, collaboration, collaboration is the process , organizational performance, digital innovation, digital transformation in banking sector , automated teller machines (ATM), point of sale (POS), internet banking mobile banking, mobile wallet (mw),virtual banking (ITM), credit/debit cards, digital transformation in Hibret bank and empirical review

2.1 Introduction

According to Lucas et al., (2020) explanation Digital transformation is rapidly reshaping how organizations operate and deliver value. This chapter explores the existing body of knowledge on the effect of digital transformation on organizational performance. It examines how digital technologies are impacting various aspects of organizational functioning, including efficiency, innovation, and customer satisfaction Digital transformation is reshaping the banking landscape in Ethiopia, driven by the need to enhance service delivery, improve operational efficiency, and meet growing customer expectations.

The National Bank of Ethiopia (NBE) has encouraged digital banking initiatives, providing a regulatory framework that supports innovation and technology adoption. With increasing smartphone penetration and internet access, customers are demanding more convenient and efficient banking services, prompting banks to adopt digital solutions. The rise of fintech companies and mobile money services is pushing traditional banks to innovate and enhance their digital offerings to remain competitive (Vial, G., 2019).

Many Ethiopian banks have launched mobile banking applications, allowing customers to conduct transactions, check balances, and pay bills from their smartphones. Online banking platforms have been developed to provide customers with access to banking services via web

browsers, facilitating transactions and account management. Banks are leveraging agent networks to extend their reach in rural and underserved areas, allowing customers to access banking services without needing a physical branch(Wamba,, & Dąbrowski, 2020).

The introduction of digital payment systems, such as mobile wallets and payment apps, is transforming how customers make purchases and transfer money. Banks are utilizing data analytics to gain insights into customer behaviour, enhance risk management, and tailor products and services to meet specific needs. Digital transformation in Ethiopian banks is crucial for enhancing customer experience, improving operational efficiency, and fostering financial inclusion. While there are challenges to overcome, the on-going efforts in adopting digital technologies hold significant promise for the future of banking in Ethiopia, positioning the sector to better serve its customers and compete in an evolving landscape (Dąbrowski, 2020).

2.1.1The Concept of Digital Transformation

Digital transformation is all about using digital technology to make new things for the market, improve how the business runs, or even change the entire business model. It's not just about creating these new features, but also about how the business is different because of them. The transformation of digital technology has emerged as a primary factor behind both economic and societal transformation (Barrett, Davidson & Vargo, 2015).

The last ten years, fast advancements in technology like smartphones, social media, cloud storage, data analysis, and connecting devices to the internet have allowed for entirely new ways to combine digital and physical stuff. This has led to the creation of completely new products and services (Yoo, Henfridsson & Lyytinen, 2010; Barrett, Davidson & Vargo, 2015).

In order to develop innovative combinations of things, we first need to convert analog information into digital form, a process called digitization. Digital transformation is the bigger picture; it encompasses all the cool new possibilities that come with using digital tools, like creating new products, online platforms, and ways for businesses to connect with customers (Nambisan et al., 2017).

The digital age has brought a wave of innovation that is fundamentally reshaping how businesses operate and compete. At the heart of this transformation lies the concept of digital transformation. It's not just about implementing new technologies; it's a holistic approach that redefines how organizations create and deliver value in a digital world. Digital transformation isn't just about the latest gadgets and software. It's a comprehensive shift in how businesses operate, fundamentally changing how they create value for customers. This transformation hinges on integrating digital technologies across all facets of the organization, from internal processes to customer interactions. But it's more than just technological; it's a cultural transformation that requires a willingness to challenge the status quo, embrace experimentation, and learn from setbacks(Murillo-Luna, J. L. (2020)

It's important to distinguish digital transformation from digitization. Digitization refers to the process of converting analog information into a digital format. This could involve tasks like scanning paper documents or creating digital versions of existing processes. While digitization is a crucial first step, it doesn't go far enough. Digital transformation builds upon digitization by utilizing the power of digital technologies to create entirely new ways of working(Wrike, 2023).

It's important to distinguish between digital transformation and digitization. Digitization refers to the process of converting analog information into a digital format. This could involve tasks like scanning paper documents or creating digital versions of existing processes. While digitization is a crucial first step, it's merely the foundation for something much bigger. Digitization involves the conversion of something to a digital form (Schwertner, 2017).

At a basic level, digitization refers to converting physical or analog documents into an electronic or digital format. It organizes information to enhance acquisition, recording, retrieval, dissemination, and storage. In most cases, digitization helps to lay the foundation for more complex and sophisticated approaches to transform the organization. As a result of digitization, organizations generally become more efficient (Lucas et al., 2014).

Digital transformation goes beyond simply converting existing processes. It's about leveraging the power of digital technologies to create entirely new ways of working. This could involve anything from automating tasks with artificial intelligence (AI) to developing innovative new

products and services through data analytics. The goal is to fundamentally change how the organization functions and interacts with its customers (Rawan, 2023).

According to Kutnjak et al. (2019) explanation digital transformation employs technology to create new business models, processes, software, and systems that lead to increased profitability, competitive advantage, and efficiency. Businesses achieve this digital transformation by transforming their processes and business models, empowering workforce efficiency and innovation, and personalizing customer experiences. He also emphasized that digital transformation is a complex and demanding process that requires the commitment of the entire company to use resources human, technological, physical, organizational, and financial with digitalization involving the implementation of digital tools throughout the organization, focusing primarily on people and business processes, based on changes to the business model

The digital landscape is constantly evolving, and customer expectations are changing rapidly. Businesses that fail to embrace digital transformation risk falling behind their competitors. By leveraging digital technologies, organizations can Digital transformation offers a powerful trifecta of benefits for businesses. Firstly, it enhances customer experience by enabling personalized interactions. This is achieved through digital tools that tailor communication and offerings to individual needs, leading to a more seamless and engaging journey for customers (The Enterprisers Project, 2024).

Secondly, automation and streamlined processes driven by digital transformation significantly reduce operational costs and improve overall efficiency. This frees up resources and allows businesses to focus on other strategic initiatives. Finally, digital transformation fosters a culture of experimentation, which in turn drives innovation. This empowers businesses to develop new products and services that meet the ever-evolving needs of their customers, ensuring they stay competitive in the marketplace (Whatfix, 2024).

2.2 The Theories of Digital Transformation

2.2.1 Dynamic Capabilities Theory

Dynamic Capabilities Theory is an important theoretical framework in strategic management that focuses on a firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. The theory was introduced by David Teece and his colleagues in the late 1990s and has become influential in understanding how firms can achieve sustained competitive advantage through their capacity to innovate and adapt to environmental changes (Al-Somali, 2020).

Dynamic capabilities refer to a firm's ability to sense opportunities and threats, seize opportunities, and transform its resources and capabilities to align with changing market conditions. Unlike static resources (e.g., physical assets), dynamic capabilities are flexible and evolve over time. The theory identifies three core processes that are central to dynamic capabilities. This includes market research, competitive intelligence, and R&D efforts. Once opportunities or threats are identified, the firm needs to make decisions and take action to capture these opportunities (e.g., new product development, market entry strategies, or strategic partnerships) (Ghobaky, 2020).

The firm must continuously reconfigure its resource base (e.g., through acquisitions, new processes, or organizational changes) to maintain its competitive edge and respond to shifts in the external environment. Dynamic capabilities are often path-dependent, meaning that a firm has capabilities and its historical experiences shape its ability to adapt and respond to new opportunities. Over time, firms build routines, knowledge, and assets that can either enable or constrain future capabilities (Kamal, 2020).

The theory emphasizes that firms with superior dynamic capabilities can achieve sustained competitive advantage, not just by acquiring resources but by effectively deploying and reconfiguring them in response to changing market conditions. This gives firms the ability to outperform rivals, especially in dynamic industries. Dynamic capabilities often facilitate innovation, as firms use their sensing and seizing capabilities to create new products, services,

and business models. Innovation is a key outcome of a firm's dynamic capabilities because it enables firms to develop new solutions that address evolving market needs (Mitchell (1990).

2.2.2 Technology-Organization-Environment (TOE) Framework

The Technology-Organization-Environment (TOE) Framework is a widely used theoretical model for studying the factors that influence the adoption and implementation of technology within organizations. It was introduced by DePietro, Wiarda, and Fleischer in 1990 and is particularly relevant for understanding how organizations adopt and adapt to new technologies, including digital transformation. This framework considers three main contexts technology, organization, and environment as key drivers that affect a firm's decision to implement and leverage technological innovations (Tornatzky, Louis G., and Fleischer, Mitchell, 1990).

2.2.2.1 Resource-Based View (RBV)

The Resource-Based View (RBV) is a foundational theory in strategic management that emphasizes the importance of internal resources and capabilities as the primary drivers of an organization's competitive advantage and performance. According to the RBV, firms achieve and sustain competitive advantage not simply through external factors like market positioning or industry dynamics, but by utilizing their unique, valuable, and hard-to-imitate resources and capabilities. This makes RBV especially relevant when studying how organizations leverage internal assets in their digital transformation journey (Jay, 1991)

2.2.2.2 Diffusion of Innovation (DOI) Theory

The Diffusion of Innovation (DOI) Theory, developed by Everett M. Rogers in 1962, is a sociological theory that seeks to explain how, why, and at what rate new ideas and technologies spread within a society or organization. DOI theory is widely used to study the adoption of technological innovations, as it identifies the factors influencing how innovations are communicated over time among the members of a social system. This makes it highly relevant to research on digital transformation and innovation adoption in organizations, such as Hibret Bank (Everett, 1962)

2.2.2.4 Absorptive Capacity Theory

Absorptive Capacity (AC) is a concept that explains a firm's ability to recognize, assimilate, and apply new knowledge or information from its external environment. The theory was developed by Cohen and Levinthal in 1990, and it has become a cornerstone in innovation and organizational learning research. Absorptive capacity is crucial for organizations undergoing digital transformation, as it determines how well a firm can recognize valuable external knowledge, integrate it with existing knowledge, and apply it to enhance its performance. The Absorptive Capacity Theory has significant implications for firms, such as Hibret Bank, which must continuously adapt to technological changes and innovations. A bank's ability to adopt, integrate, and leverage digital innovations such as mobile banking, AI-driven services, cloud computing, and big data analytics depends heavily on its absorptive capacity (Wesley M. Cohen and Daniel A. Levinthal (1990)).

2.2 Dimensions of Digital Transformation

2.2.1 Operational efficiency

Operational efficiency is the ability of an organization to reduce waste in time, effort and materials as much as possible, while still producing a high-quality service or product. It is a critical goal of digital transformation in the banking sector. It involves optimizing processes to reduce costs, enhance service delivery, and improve overall productivity. Here's how digital transformation contributes to operational efficiency in banks (Wamba et al., 2020).

The Key Components of Operational Efficiency are Process Automation which Automating repetitive tasks such as data entry, transaction processing, and compliance checks significantly reduces human error and accelerates operations. Digital tools facilitate better workflow management, allowing banks to optimize resource allocation and enhance collaboration among departments (Wrike, 2023).

Digital transformation enables banks to consolidate customer data into a single platform, providing better access and analysis capabilities. Leveraging big data analytics helps banks make informed decisions, identify trends, and enhance operational strategies. Digital platforms allow customers to engage with banks through various channels (web, mobile, social media),

improving responsiveness and satisfaction. Implementing AI-driven chatbots for customer inquiries can provide immediate support, freeing up human resources for more complex tasks. By automating processes and improving efficiency, banks can reduce operational costs associated with staffing, paper, and physical infrastructure. Digital transformation allows banks to offer services remotely, minimizing the need for physical branches and associated costs. Digital tools enable banks to generate real-time reports on financial performance, risk exposure, and customer activity, leading to quicker and more informed decision-making. Enhanced data analysis capabilities allow banks to respond swiftly to market changes and customer needs. Digital systems can automatically monitor compliance with regulations, reducing the risk of human error and ensuring timely reporting. Digital transactions create clear and comprehensive records, simplifying audits and regulatory reviews (Akkaya, 2023).

The main Challenges of Achieving Operational Efficiency are Legacy related challenges. Many banks struggle with outdated technology that is not compatible with new digital solutions, hindering integration and efficiency. Resistance from employees accustomed to traditional processes can slow down the adoption of new digital practices. Increased reliance on digital systems raises concerns about security, which can lead to operational disruptions if breaches occur. Ensuring that staff possess the necessary digital skills is crucial for maximizing the benefits of new technologies (Bennouna, 2021).

Digital transformation significantly enhances operational efficiency in banks by automating processes, improving data management, and reducing costs. By addressing challenges and fostering a culture of innovation, banks can optimize their operations, ultimately leading to better service delivery and increased competitiveness in the market (Carthy, 2020).

4.2.2 Decision making

Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions. It is a critical component of digital transformation in banks, as it influences the direction and effectiveness of strategic initiatives. The integration of digital technologies enhances decision-making processes, enabling banks to respond more effectively to market dynamics and customer needs (Devin, 2012).

According to (Shanmugam, 2017) the key aspects of decision making in digital transformation are data-driven insights. Banks leverage advanced analytics to interpret vast amounts of data, providing insights that inform strategic decisions. This enables more accurate forecasting and risk assessment. Digital tools facilitate real-time access to data, allowing decision-makers to react swiftly to changes in the market or customer behavior (Shanmugam, 2017).

Digital platforms enable better communication and collaboration across departments, ensuring that diverse perspectives inform decision-making processes. Implementing agile methodologies fosters quicker decision-making and adaptability, as teams can respond to feedback and changing conditions more effectively. Data analytics allows banks to understand customer preferences, leading to more informed decisions about product offerings and service enhancements. Digital transformation facilitates the collection of customer feedback through various channels, which can be used to refine services and strategies (Sebastian et al., 2017)

Barki (2020) explained that banks can use predictive models to assess potential risks and outcomes, allowing for more proactive decision-making in areas such as credit risk and fraud detection. Digital tools enable banks to simulate different scenarios, helping leaders evaluate potential impacts of decisions before implementation. Digital technologies allow for quicker development and testing of new products and services, enabling faster decision-making regarding market entry or modifications. The ability to analyze trends and customer behavior in real-time allows banks to pivot strategies quickly based on emerging opportunities or threats.

Janiesch (2020) asserted that AI and Machine Learning, these technologies can automate certain decision-making processes, such as loan approvals and risk assessments, improving efficiency and consistency. Implementing automated systems for routine decisions can free up human resources for more complex strategic planning.

Barki (2020) remarked that the key Challenges in decision making during digital transformation are data quality and integrity practices. Inaccurate or incomplete data can lead to poor decision-making. Ensuring data quality is essential for effective analysis. Employees may be hesitant to embrace data-driven decision-making, preferring traditional methods based on intuition or past experience. Decision-makers must possess the skills to analyze and interpret data effectively.

Ongoing training is necessary to bridge this gap. Increased reliance on digital data raises concerns about privacy and security, which can impact decision-making processes and trust.

Digital transformation significantly enhances decision-making capabilities in banks by leveraging data, improving collaboration, and fostering agility. By embracing these changes, banks can make more informed, timely, and customer-centric decisions, ultimately leading to better strategic outcomes and competitive advantages (Janiesch, 2020).

4.2.3 Collaboration

According to Kissflow (2023) explanation collaboration is the process of two or more people, entities or organizations working together to complete a task or achieve a goal. Collaboration plays a crucial role in the successful digital transformation of banks, enabling them to leverage diverse skills, knowledge, and technologies to innovate and improve services. Here's an overview of how collaboration facilitates this transformation:

The key aspects of collaboration in digital transformation are cross-functional teams. By forming teams that include members from different departments (e.g., IT, marketing, operations), banks can harness a wide range of expertise to drive digital initiatives. Collaborative frameworks, such as Agile, promote iterative development and rapid feedback, allowing teams to adapt quickly to changing requirements and customer needs (Lucas, 2020).

Innovation through Collaboration: Banks increasingly collaborate with fintech companies to access new technologies and innovative solutions, enhancing their service offerings (e.g., mobile payments, peer-to-peer lending). Partnering with fintechs allows banks to share resources and knowledge, reducing the time and cost associated with developing new services. Collaborative approaches facilitate direct communication with customers, enabling banks to gather feedback on products and services, which informs further development and refinement (MIT, 2017)

Engaging customers in the design process of digital services ensures that offerings align with customer expectations and preferences. **Digital Collaboration Platforms:** Tools like Slack, Microsoft Teams, and project management software enhance internal communication and collaboration, breaking down silos within the organization. These platforms allow for the easy

sharing of information, best practices, and lessons learned, fostering a culture of continuous improvement (Moeller, 2022).

Encouraging teamwork in training initiatives helps employees develop digital skills collectively, enhancing overall capability and fostering a shared understanding of digital transformation goals. Pairing less experienced employees with digital-savvy colleagues promotes knowledge transfer and collaboration across different levels of the organization. Collaborating with technology vendors ensures that banks can access the latest innovations and solutions tailored to their specific needs. Partnerships can provide the necessary support for integrating new technologies into existing systems, facilitating smoother transitions (Moeller, 2022)

Traditional banking cultures may resist collaboration, preferring established hierarchical structures over team-based approaches. Poor communication between departments can hinder collaboration efforts, leading to misunderstandings and inefficiencies. Effective collaboration requires time and resources, which can be a challenge in fast-paced banking environments. Employees may be hesitant to adapt to new collaborative tools and processes, necessitating a focus on change management strategies (Moeller, 2022).

Collaboration is essential for the success of digital transformation in banks, as it fosters innovation, improves service delivery, and enhances overall agility. By overcoming challenges and promoting a collaborative culture, banks can more effectively leverage digital technologies to meet customer demands and stay competitive in the evolving financial landscape (Nagy .,2020).

2.3 Organizational Performance

Wamba (2019) explained organizational performance in banks refers to how effectively a bank meets its strategic goals and objectives, which can include financial stability, customer satisfaction, operational efficiency, and regulatory compliance. This performance is crucial for maintaining competitiveness and achieving long-term success.

The key indicators of organizational performance are financial performance. Metrics such as return on assets (ROA) and return on equity (ROE) indicate how well a bank generates profit relative to its assets and shareholders' equity. Cost-to-Income Ratio is also another parameter.

This ratio measures operating efficiency, comparing operating costs to income, with lower ratios indicating better performance (Clegg, 2020)..

Konsynski (2013) explained the other parameter is Net Promoter Score (NPS). This metric gauges customer loyalty and satisfaction by measuring the likelihood of customers recommending the bank to others. High retention rates indicate strong customer relationships and satisfaction with services. The other parameter is the Process Efficiency. Metrics such as transaction times and error rates help assess the efficiency of banking operations, with shorter times and lower errors indicating better performance. The extent to which customers utilize digital services can reflect operational effectiveness and alignment with customer preferences. Adherence to regulatory standards is essential for performance, as non-compliance can lead to penalties and damage reputation. Regular audits and their outcomes provide insights into compliance and operational effectiveness.

Bharadwaj (2013) explained engaged employees contribute positively to organizational performance; thus, measuring employee satisfaction is crucial. Low turnover rates often indicate a healthy organizational culture and effective human resource practices. Organizational performance in banks is multifaceted, encompassing financial results, customer satisfaction, operational efficiency, and compliance. By focusing on these areas and addressing challenges, banks can enhance their performance, ensuring long-term sustainability and competitiveness in the financial sector.

2.4 Digital innovation

The world of digital innovation is a revolution, changes over time. Digital innovation Mentions to the application of digital technology to figure out a solution for Present business Difficulties. Businesses usually prefer new techniques to solve old challenges. Thus, it is an important essential in achieving business objectives and goals. It gives rise to the potential of produce and service innovation which is usually a challenge in business organizations. According to Hauser et al. (2006), one of the crucial causes on the organizations is innovation beside that it is a wide topic many specialists cover it from different perspectives Like product and service development and organizational behaviour (Hauser, Tellis, & Griffin, 2006). Therefore, an organization should be in apposition to manage digital tools and service innovation. They should be able to appreciate digital transformation through promoting innovation, agility, and vision of the

company for it to experience true digital success. However, some organizations regard innovation as being expensive and with no functionality which leads to their fallback. Therefore, the organization should see innovation as part of a business profit input. Innovation should never contradict brand positioning thus innovation office should deal with consumer needs, business needs and, operation of the company (Ferreira, Fernandes, & Ferreira, 2019).

2.5 Digital Transformation in Banking Sector

2.5.1. Automated Teller Machines (ATM)

ATM has been around for quite some time now. ATMs are convenient since they are open 24 hours a day, seven days a week, so clients do not have to wait until bank hours to get their money. An automated teller machine (ATM) is an electronic computerized telecommunications device that allows customers of a financial institution to access their bank accounts, order or make cash withdrawals (or cash advances using a credit card), and check account balances without the need for a human bank teller. First, as compared to other e-channels, ATMs are the most well-known and accepted. Bishnoi, S. (2013) ATMs play a major role in enhancing the firm's competitive position; since they were first introduced to lower bank costs and increase efficiency (Hussien et al., 2014).

Banks have been positioning ATMs to increase their accessibility. As clients value their time, they would appreciate a reliable ATM that would help them save their time in conducting routine banking activities at their convenience to withdraw and deposit money. ATMs added another benefits regarding their location, because many shopping places, Malls, Hotels, Supermarkets and market places include a point nearby or inside their location to give customers the opportunity to have access to their money for shopping. Unlike cash it has also a secured feature in case of misplaced or stolen. If the person who gets the ATM card doesn't know the pin security code, your money cannot be accessed (Deloitte, 2022).

2.5.2. Point of Sale (POS)

A real or virtual location where commercial transactions take place is called point of sale. A customer can buy things and pay for them using POS. The transactions could take place at a cash register in a retail store or through virtual shopping on Booking.com or Ebay.com. Commercial banks set up point-of-sale systems to allow merchants to take payments using local and international VISA, MasterCard, Union Pay, and American Express cards from all over the

world. POS terminals have steadily gained a reputation for being at the heart of business operations, particularly for merchants. Unlike the early POS terminals, which were only used to accept card payments, more modern POS terminals have been upgraded to include additional payment methods of contactless payments like mobile wallets. This technological advancement led to e-POS, which accepts a limited number of digital payments without the presence of card swiping (Nambisan, B., 2021)

2.5.3. Internet Banking (IB)

Financial institutions provide service through internet banking which can be accessed via web browsers and mobile apps, Customers can use mobile apps to access banking services from anywhere with an internet connection. The service can be served to both individual customers and corporate businesses based on the customers need and capacity of the company. Customers may be more satisfied with Internet Banking than with a manual banking system, which requires more time and costs (Hasan, 2015). It provides several advantages to banks, including cost reduction, market differentiation, streamlining of work processes, improve consumer banking service, increased sales, increased reach, increased loyalty and opportunity to attract new customers. It is a self-service model which can be offered anytime and anywhere accessing to a broad range of banking products and services.

2.5.4. Mobile Banking (MB)

Mobile banking refers to the use of electronic mobile devices such as cell phones and PDAs to access banking services and facilities. The use of a mobile phone or another mobile device to conduct financial transactions tied to a customer account is known as mobile banking (m-banking) Saleem & Rashid, (2011). In his study on the association between mobile banking and commercial bank financial performance in Kenya (Kingoo, 2011).

Mobile Banking enables financial transactions to be carried out on mobile devices such as smartphones and tablets. This service is provided by financial institutions, particularly banks. Unlike the internet banking, it makes use of software, commonly referred to as an app that is offered by the financial institution. Mobile banking has revolutionized the way people in underdeveloped countries transfer money, and it is now set to offer more complex banking services that might have a substantial impact on people's lives(Tabak, 2023).)

(Mabwai, F. 2016) explained mobile banking allows users to monitor account balances, make electronic bill payments, receive short notifications on their phones telling them of instant transactions in their bank accounts, and make cash transfers between one customer's and another's accounts, depending on the institution.

2.5.5. Mobile Wallet (MW)

Mobile wallets allow users to use the funds in the wallet to make payments for transactions with multiple merchants, as long as there is an existing contract between the merchant and the mobile wallet company. It allows users to withdraw the funds into a bank account and in cash(Wamba, 2019).

2.5.6. Virtual Banking (ITM)

The hybrid experience of utilizing an Automated Teller Machine (ATM) and engaging with a live teller is created via virtual banking conducted through the use of an Interactive Teller Machine (ITM). ITMs, sometimes known as virtual teller machines, are automated machines that handle currency, receive checks, scan identity, and produce receipts. They also give the transaction a human touch by using digital communication capabilities to communicate with a distant, live person within the bank. ITMs provide voice communication (through a speaker or a private handset), video conferencing, and chat, similar to how Skype works on a PC(Clegg, 2020).

2.5.7. Credit/Debit Cards

With a certain amount of digit card numbers, expiration dates, and magnetic strips, credit and debit cards look remarkably identical. Both can make purchasing in stores or online simple and convenient. Debit cards are used to make purchases by withdrawing monies from a customer's bank account. Credit cards allow customers to borrow money from the card issuer for purchases or cash withdrawals up to a certain limit. Credit cards are issued by financial entities, most commonly banks, and allow cardholders to borrow funds that must be repaid with interest. When it comes to fraud protection, credit cards outperform debit cards (Cussen, 2021).

2.7 Empirical Review

Giudice, M. D., Campanella, F & Dezi, L (2016) made a study to determine the impact of e-banking products on banks' profitability. 3692 banks located in 28 European countries used as a sample and classification analysis method adopted to determine the impact of independent

variables over the dependent variable of ROE. The researchers concluded that high return on equity (ROE) for banks is achieved by offering retail and corporate internet services and home banking services to customers.

A study made by Kimani, N. (2015) on mobile banking and operational efficiency of Kenyan commercial banks. The researcher conducted a census survey of the 43 Kenyan commercial banks. For the period 2011 to 2014, the study analysed secondary data on the number of registered mobile banking clients, the quantity of money moved through mobile banking, bank earnings, and operational costs. Data has been analysed using Pearson correlation analysis deployed between dependent and independent variables. The result of the study shows that Mobile banking positively and significantly impacts the operational efficiency of commercial banks in Kenya and the research recommended policy makers to constantly look at adopting mobile banking technologies.

Mbama, C (2018) surveyed on UK bank customer's perceptions of digital banking. The study applied independent variables of Customer experience, loyalty, satisfaction and dependent variable of financial performance. Structural Equation Modelling, ANOVA and Multivariate Factor Analysis used to determine customer experience in digital banking are service quality, perceived value, employee-client engagement, perceived risk and usability. The study revealed a significant connection among customer loyalty, experience and satisfaction which enhances financial performance.

Vekya, J. M. (2017) studied on the impact of ATM transactions, Point of sale (POS) transactions on profitability of commercial banks (ROE), the study adopted a descriptive design. A census survey was undertaken on population which consists of 43 Kenyan commercial banks in operations as at 2014. SPSS was used to analyse secondary data obtained from various Kenya's central bank publications. The study revealed that a rise in ATM and POS transactions leads to a rise in bank profitability (ROE).

Morufu, O. (2016) studied e-payment adoption and profitability of banks in Nigeria. Internet Banking Transactions has been used as independent variable and ROA as a dependent variable. The study used secondary data for the period 2005 to 2012 and applied Panel Regression. From

the study the researcher concluded that Internet banking transaction was found to have a negative effect on banks' profitability.

Another study made by Mulwa, F. N. (2017) on variables ROA, Online bank transactions, online transaction fees, online customer deposits. Descriptive design was used. Data were collected through questionnaires on 40 commercial banks in Kenya. Pearson correlation coefficient and inferential test multiple regression analysis was used for analysis. The study concluded that online banking transaction significantly and positively predicts ROA and which resulted in an increase in ROA.

Agboola et al. (2019) use the purposive technique and simple random sample to study how digitalization improves the performance of commercial banks in Nigeria. They chose 370 non-managerial staff from a commercial bank. The main data collection instrument was a self-structured questionnaire, which was processed using SPSS version 25. According to the findings, there was a minor significant and positive association between digitization and commercial bank performance ($r = 0.114^*$; $p.05$). In addition, there is a significant positive link between product innovation and commercial bank performance in Nigeria ($r = 0.186$; $p 0.001$). According to the findings, if digitization processes are properly implemented, they will have a considerable positive impact on commercial bank performance in Nigeria.

According to Boateng and Nagarju (2020), Ghana's banking system has adopted and introduced numerous channels of electronic banking during the last two decades with the primary goal of improving efficiency, convenience, and financial inclusion.

Boateng and Nagarju studied on the impact of digital banking on the profitability Ghanaian deposit. Secondary source data from annual report of the central bank of Ghana has employed. Data is analysed using the Partial Least Square (PLS) regression model. Result from the PLS revealed that out of the six independent variables only two variables are significantly impact on the profitability of the bank. Positive relation with the profitability of the bank has been seen with regard to the independent variables of cheque code line clearing; Ghana automated clearing house, Ghana interbank settlement and GH-Link. And unexpected result has been exhibited on mobile money and E-zwich negatively related with the dependent variable of profitability of the

banks. This is due to double charge policy on mobile money which resulted in customer dissatisfaction and shortage of E-zwich machines.

In Kenya, Ogare (2013) researched the impact of e-banking on commercial banks' financial performance. The study sought to see if there is a link between the dependent variable, such as profit after tax, and the independent variables, such as the number of ATMs, debit and credit cards issued to customers, point of sale terminals, and mobile banking usage levels. The analysis relied on secondary data gathered from commercial banks' annual reports and the Kenyan Central Bank. Descriptive and inferential statistical analysis used to analyse the data. According to the study's findings, e-banking has a considerable and positive impact on the profitability of commercial banks in Kenya's banking industry. As a result, e-banking and bank performance have a positive association. The impact of bank innovations on bank profitability was statistically significant, indicating that the aggregate effect of bank innovations in this study was statistically significant in explaining the commercial banks profit in Kenya.

Mawutor(2014) conducted research on the influence of electronic banking on a bank's profitability in Ghana. It also investigates how ATM and internet banking has impacted on Agricultural Development banking services and profitability. Structured questionnaires were used to collect data from selected branches of the bank's customers. SPSS has been deployed to analyse the data and it was discovered that the net profit margin of the bank in the year 2011 and 2013 has increased. Therefore, the study concludes that E-banking has a positive impact on the profitability of the Agricultural Development bank.

A study by Taiwo (2017) on the role of e-banking on organizational performance tried to determine the impact of operational efficiency of banks: bank revenue and base, customer loyalty. The study used Primary data obtained by administering questionnaires to the staff of four purposively selected commercial banks in Nigeria. The data was analyzed using Statistical Package for Social Sciences (SPSS). According to the research, banks' operational efficiency improves as a result of e-banking adoption, as seen by increased revenue and capital bases and increased client loyalty.

Referring on the above researches which were made in the context of the African commercial banking industries where a cashless policy has been declared and practiced since 2012. In

addition, most of the banks have introduced various channels of electronic banking since the past two decades ago. On the other hand, the current researcher is proposing to make a similar study on the Ethiopian society where the National Digital

Payment Strategy is only a new release, in 2021, and the practice and adoption of digital financial services by the public is at its infant stages. The current Ethiopian commercial banks are not yet fully digitalized; so that digital banking is more or less a choice to the customer.

2.7.1 Related Empirical Studies in Ethiopia

Girma (2016) used secondary data to conduct a research ICT impact on the performance of the Ethiopian banking industry from 2010 to 2014. The data is analysed in a panel environment. The researchers used a purposive selection strategy to choose six samples from Ethiopia's 18 commercial banks. The study used ROA as dependent variable and six independent variables (ICT investment, ATM, POS, INFLATION, BRANCH and GDP) and deployed co-integration regression analysis to affirm the result and impact of ROA analysed using ordinary least square technique. According to the regression results, ICT, ATMs, and POS have no statistically significant impact on commercial banks' return on assets. Based on the study's findings and conclusions, the researcher advised Ethiopian commercial banks to enhance their return on assets by improving their ICT.

Dawit (2017) made a study to identify the relationship between IT investment and profitability of commercial banks in Ethiopia. In order to achieve this, Dawit used a multivariate regression model using ROA as a dependent variable for measuring financial performance whereas he used six independent explanatory variables, three of which are IT related (Hardware, Software and IT Service). The researcher has concluded that there is a negative significant relation between IT investment and financial performance.

Kassa (2017) found that E-banking services have a favourable impact on the profitability of CBE by minimizing transaction processing mistakes, saving time, lowering the risk of losing cashes, and enhancing the bank's operational reliability. While the study finds that attracting new clients to the bank, reducing the firm's human resource requirements, and improving customer loyalty to the bank are all of lesser value. Electronic banking and its five components (i.e., automated teller machines, bank cards, online banking, telephone banking, and point of sale) have a favourable link with bank profitability, according to the empirical investigation.

Solomon (2016) looked at the impact of e-banking on return on assets, one of the most important indicators of profitability, in his study on the Roles of E-banking on Financial Commercial Banks in Ethiopia. Secondary data from 10 commercial banks operating in Ethiopia was selected using a purposeful sampling strategy for the years 2013 to 2015. Solomon used the E-view 8 application to perform a Random effect panel least square regression with ROA as the dependent variable, and six independent explanatory variables and other control variables, including the value or price of an ATM transaction, the value or price of a POS transaction, a debit card, the number of automated teller machine terminals, the number of point of sale terminals, and the market share. The researcher came to the conclusion that having more ATMs, POS, and market share had a positive impact on commercial banks' financial performance, with many banking institutions stating that having more market share allowed them to achieve greater scale in their operations, which improved their profitability. Finally, the study concluded that, in order to improve return on assets, commercial banks should focus more on raising knowledge about e-banking services and providing fast support to consumers.

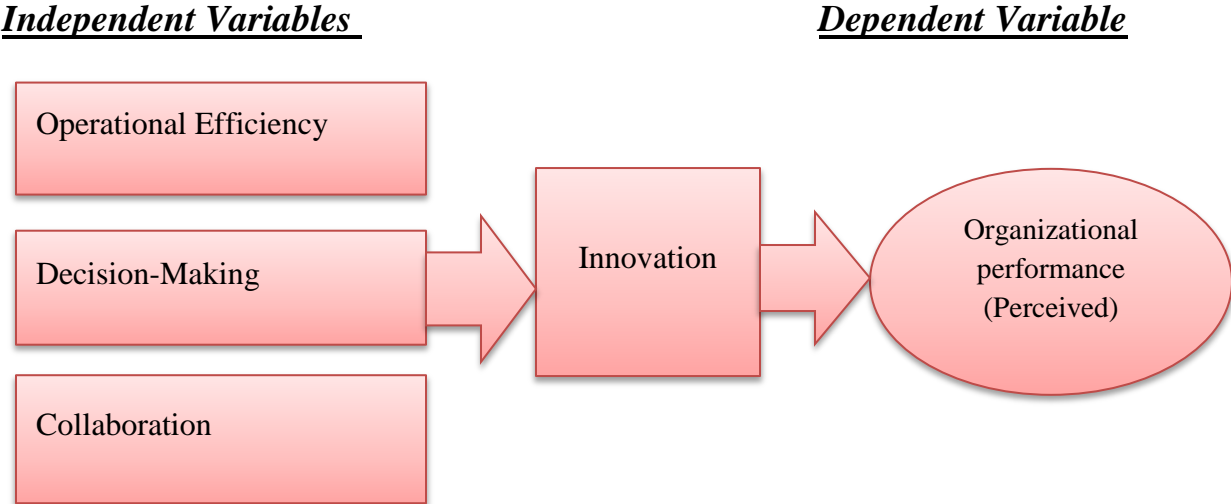
Girma, E. (2019) conducted a research on the role of e-banking on the financial performance of commercial banks in Ethiopia on secondary data collected from ten commercial banks in Ethiopia for the year covering 2015 to 2018. Number of ATM terminals, number of debit cards, number of mobile banking users, value of ATM transactions, value of mobile banking transactions, bank size and inflation rate were independent variables used for the study with ROE as a dependent variable to study the banks performance on the role of bank specific variables. STATA 13 was used to analyse the data and the result shows that number of mobile banking users and value of ATM transactions had positive and significant roles on bank's profitability measured by return on equity. Whereas, bank size had negative and significant role while inflation had a positive significant role from macroeconomic variable on bank's profitability

2.8 Conceptual Framework

Akkaya et al., (2023), Kamal et al., (2020) collaboration, Decision-Making, and Operational Efficiency are independent variables that play crucial roles in the success of digital transformation initiatives. Collaboration within the organization, especially in cross-functional teams, enhances decision-making by promoting the exchange of ideas, expertise, and diverse perspectives. For Hibret Bank, collaboration between departments like IT, operations, marketing, and customer service ensures that decisions about digital tools, customer-facing platforms, and new technologies are well-aligned with both internal capabilities and customer needs. Enhanced collaboration supports faster adoption of digital technologies. As the bank's employees from different departments work together, they collectively address challenges and capitalize on opportunities in the digital transformation journey (Akter, S., & Wamba, S. F. (2019). When teams collaborate effectively, resources are optimized, processes are streamlined, and operational efficiency increases. In the context of Hibret Bank's digital transformation, collaboration between different departments ensures that digital tools are integrated into existing processes in a way that eliminates redundancies, reduces delays, and improves overall performance. Effective decision-making leads to better strategies for optimizing processes, identifying inefficiencies, and improving the overall workflow. In Hibret Bank, decision-making becomes more efficient as the bank embraces digital tools that streamline processes, facilitate data-driven decisions, and reduce human error. When employees collaborate across departments, they are more likely to generate innovative ideas and identify new opportunities. For Hibret Bank, effective collaboration could lead to the development of new products or services (e.g., innovative digital banking solutions like mobile wallets or instant loans). Collaboration fuels creativity and allows for the integration of new technologies, which are essential for driving innovation (Clegg,(2020), Kamal, (2020) explained that the innovations generated through collaboration lead to enhanced customer experiences, new products, and more efficient services. These drives improved organizational performance by increasing customer satisfaction and reducing operational costs. Effective decision-making is crucial for fostering innovation. Leaders at Hibret Bank must be able to make informed decisions based on market trends, customer needs, and technological advancements. The bank's ability to embrace and support innovation depends on decision-

makers' willingness to adopt and invest in new technologies. Innovation leads to operational efficiencies by introducing new technologies and processes that automate or streamline existing workflows. The overall interlink is presented in the following diagram.

Figure 2.1 Conceptual Framework



Source: Developed for the Study2024

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Introduction

This section outlines the research methodology for the effect of digital transformation on organizational performance in the Case of Hibret Bank with the mediating role of innovation at head office level.

3.2 Research Design

Research design refers to the blueprint or framework that guides a research study. It outlines how the research will be conducted, how data will be collected, analysed, and interpreted, and how the research questions or hypotheses will be tested. The research design is a critical step in the research process because it determines the overall approach and methodology for answering the research questions and achieving the research objectives (Kothari, 2024).

The study employed explanatory research design since the research objective has cause an effect nature. Explanatory research design is a type of research methodology that aims to explore causal relationships between variables. It goes beyond mere description or observation by seeking to identify the reasons or explanations behind a phenomenon. This design is particularly useful when researchers want to understand the underlying mechanisms, factors, or relationships that contribute to certain outcomes or behaviours.

3.3 Research Approach

A research approach refers to the overall strategy or philosophy that guides a research study in terms of how data will be collected, analysed, and interpreted. It determines the type of data to be collected (qualitative, quantitative, or both) and the methods for addressing the research questions or hypotheses. The research approach serves as a framework that influences the choice of research design, data collection techniques, and analysis methods. Essentially, the research approach reflects the researcher's orientation toward understanding the phenomenon being studied, and how they plan to uncover knowledge about it (Kothiari, 2024).

The research tried to investigate the effect of leadership style on employee performance in the case of Hibert Bank's c. To address such objectives the study employed mixed research approach more of qualitative. Mixed research approach gives the study more concise because the quantitative information was supported by the qualitative explanation (Kothari, 2004).

3.3 Population, sample size determination and Sampling Design

3.3.1 Target Population

In any research, data is the cornerstone upon which the study is built. For your research on digital transformation, organizational performance, and the mediating role of innovation at Hibret Bank, selecting the appropriate types and sources of data is crucial for ensuring the validity and reliability of your findings. The data collected from the relationships between the independent variables (collaboration, decision-making, operational efficiency), the mediating variable (innovation), and the dependent variable (organizational performance).

All employees of Hibert bank at head office level become the population of the study. The number of population is 876. A list of departments re included in the following table.

The sample size of the respondents was settled by using sample determination formula developed by Yemane (1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size,

N is the population size, and

e is the level of precision or sampling error = (0.05)

$$n = \frac{N}{1 + N(e)^2} = \frac{876}{1 + 876(0.05)^2} = 275$$

This sample size is distributed to the departments in the bank. The bank has Procurement, property marketing Finance, credit, card banking, online banking, HR, deposit mobilization,

Agent banking, Digital banking, IBD, Engineering, Legal, MIS, IFB, Project management Risk, Audit, Treasury and contact centre. Based on the n/N proportion the sample was distributed as follows. $273/876=0.313926$.

3.3.2 Sampling Techniques

Since the sample of the research is 275. Regarding the selection techniques systematic sampling was conducted. Systematic sampling is a type of probability sampling method in which sample members from a larger population are selected according to a random starting point but with a fixed, periodic interval.

3.4. Type and Source of Data

In any research, data is the cornerstone upon which the study is built. For your research on digital transformation, organizational performance, and the mediating role of innovation at Hibret Bank, selecting the appropriate types and sources of data is crucial for ensuring the validity and reliability of your findings. The data collected helps to test the relationships between the independent variables (collaboration, decision-making, operational efficiency), the mediating variable (innovation), and the dependent variable (organizational performance).

For accomplishing the research work and research objectives both primary and secondary data have been collected.

3.4.1. Primary Source of Data

In this study Interviews will be conduct structured or semi-structured interviews with bank staff and management to understand operational issues. Questionnaires will be Distribute Likert scale-based or open-ended questions to customers and employees. In addition to this Observations, directly observe banking operations and customer interactions at branches. the primary data has been collected from those employees of Hibert Bank through questionnaire.

3.4.2. Secondary Source of Data

In addition to the primary data secondary data, policy directives, journals were used.

3.5. Data Collection Instruments

To accomplish the research objective both primary and secondary data have been collected. In order to obtain reliable and sufficient information structured questionnaires will be used as a data

collection instrument. All the necessary data for this study collected from the respondents through self-administered questionnaire and document analysis.

3.5.1. Questionnaire

The researcher will employ the questionnaire that will be developed in the 5 likert scale (namely agree, strongly agree, neutral, strongly disagree and disagree). Under the closed ended questionnaire, the respondents can only answer from a given alternative which limit them from further explanation of their feeling regarding to the title of the study, even if it is easier and quicker for the research to analyses it. That is why the researcher develops the 5 likert scale questionnaire (Kothari, 2024). The questioner is modified from George, 2024, Erik, 2014, Lutz, 2019, Susanne, 2020, Ruth, 2020; Nir, 2021). Five questions were taken and modified from this research.

3.5.2. Interview

The researcher also used a face-to-face interview with the human resource managers and employees who have dedication the performance of employees with semi structured interview format. The semi- structured interview method of data collection gives an opportunity to clarify any issues rose by the respondents and to know more than what is written.

3.6 Document Analysis

The researcher employed document analysis to extract relevant and supportive Secondary data from the revenue office report, policy directives and journal articles.

3.7. Data Analysis Techniques

Data from questionnaires was summarized, edited, coded, tabulated and analysed. Editing was done to improve the quality of data for coding. The data collected using the structured questionnaire was coded and analysed using Statistical Package for Social Sciences (SPSS) 26 version software. The researcher also used both qualitative and quantitative data analysis techniques. Finally, the data was processed and analysed. To analyse the data descriptive statistics (frequency, percentage, mean and standard deviation) method will be made based on the results of the tables and figures. Inferential analysis and bivariate correlation. Structural Equation Modelling (SEM) used to analysis the mediating effect.

3.8. Validity and Reliability of Research Instruments

The reliability of the data was calculated and estimated using Cronbach's alpha reliability coefficient. When it comes to questionnaire validity, the researcher discussed with speaks with the advisor.

Table 3.1 Reliability Test

Reliability Statistics	
Cronbach's Alpha	N of Items
.950	25

Source: own survey result,2025

This study's Cronbach's alpha reliability result is .950. Using Kothari C. R.'s rule of thumb, alpha values were classified as excellent (0.93–0.94), strong (0.91–0.93), reliable (0.84–0.90), robust (0.81), fairly high (0.76–0.95), high (0.73–0.95), good (0.71–0.91), relatively high (0.70–0.77), slightly low (0.68), reasonable (0.67–0.87), adequate (0.64–0.85), moderate (0.61–0.65) (0.11). As a result, the study's Cronbach's alpha score is in the strong group. As a result, the researcher approves the surveys' validity and reliability.

3.9 Model specification

To examine the effect of digital transformation on organizational performance in the case of Hibret bank with the mediating role of innovation the following SEM model is developed.

Digital Transformation (DT) → Innovation (I) → Organizational Performance (OP).this is designed to explain the direct effect of Digital Transformation (DT) on Organizational Performance (OP).

Indirect path (a * b): The indirect effect through Innovation (I), where Digital Transformation (DT) influences Innovation (I) (path a), and Innovation (I) influences Organizational Performance (OP) (path b). $i=\gamma_1(dt) +\epsilon_1$

$$Op=\gamma_2(i) +\beta_1(dt) +\epsilon_2$$

$$Op=\gamma_2(i) +\gamma_3(dt) +\epsilon_3$$

y_1, y_2 are **path coefficients**.

e_1 , and e_2 are error terms

Table 3.2 Variable Description

No	Type of variable	Data type
1	Organizational performance (DV)	5-point likert scale
2	Operational efficiency (IV)	5-point likert scale
3	Decision making (IV)	5-point likert scale
4	Collaboration (IV)	5-point likert scale
5	Innovation (IV)	5-point likert scale

Source: Survey, Result,2025

3.6.2 Categorization of Likert scale

Regarding the categorization of the likert scale there is lots of controversy on where to start and where to end but, I prefer to use the Ruiz (2002) categorization because most social studies accept and applied it. The categorization is forwarded as follows in the following table.

Table 3.3 Categorization of the Likert Scale Data

No	Type of variable	Data type
1	1.00 – 2.59	Low
3	2.6 – 3.5	Medium
4	3.6 – 5:00	High

Source: Ruiz (2002)

3.7 Ethical Considerations

During data collection, respondents were be informed as to why the data is collected. They were informed about the objectives and methods of the study. The privacy of respondent was be kept safe. Moreover, respondents expected to provide their response voluntarily. Finally, any work of scholar would acknowledge at reference part.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

4.1 Introduction

Digital transformation has a profound effect on banks performance across various dimensions. Examining the effect of digital transformation on organizational performance in the context of Hibret bank is an intriguing topic.

The data analysis and interpretation process was critical for any research once the data was obtained by the collection techniques. As a result, the data acquired from the participants is presented and analysed in this chapter. The findings about digital transformation and organizational performance: the mediating role of innovation in the context of Hibret bank was studied, as well as necessary statistical analysis to answer the study issues.

The questionnaire was distributed to 275 respondents, and 260 of them were collected back and the response rate is 94.5%. In addition to the questionnaire three were focus group discussions and interview with the higher experts of e banking department was conducted. The statistical analysis is done via version 26.0. This chapter covered demographics of respondents, descriptive analysis, and inferential analysis such as data diagnosis, correlation, and regression.

4.2 Characteristics of Respondents

Regarding demographic characteristics of respondent's gender, age, educational level, were discussed as follows

Table 4.1 Demographic Characteristics

No		Frequency	%age
Sex	Male	139	53
	Female	121	47
Age	18-25	30	12
	26-30	85	33
	31-40	90	35
	41-50	52	20

	51 & over	3	1
Education	Certificate	12	5
	Diploma	23	9
	Degree	167	64
	MA/MSc degree	58	22

Source: Own Survey, 2025

As indicated in the above table, the study included a sex distribution of respondents in order to answer the questionnaires presented. The table depicts how male and female respondents responded to the questionnaires that were distributed. Males made up 53% of the total responses, while females made up 47%. This means that the proportions of responses were balanced when it came to sex in Hibrte bank.

The age of the respondents was taken into account as a demographic element in this study. In Hibret bank, the study explains the effect of digital transformation on organizational performance. When we look at the age groups of respondents, we find that those under the age of 25 make up 30 respondents, those between the ages of 26 and 30 make up 85 respondents, those between the ages of 31 and 40 make up 90 respondents, and those beyond 41 make up 55 respondents. This means that all age groups in the workforce of the bank were represented.

When it came to educational qualifications, the majority of respondents (64%) had a bachelor's degree, while 22% had a master's or second bachelor's degree. From this, it can be deduced that 86 percent of respondents were aware of the study's findings, which focused on digital transformation and its impact on organizational success. In addition, the researcher concluded that the concept of digital transformation and its impact was simply grasped by the participants.

Generally, the information gathered from the respondents can be trusted to undertake meaningful analysis because the bulk of the employees worked for more than three years. The presence of senior personnel gives the researcher confidence that the results are accurate.

4.2 Descriptive Analysis

The acquired data was coded and analysed using SPSS in this part. The frequency and percentage of respondents who agreed with the questions asked. The digital transformation initiatives and their main areas of digital transformation efforts were analysed as follows.

In order to categorize the mean value as low, medium and high, the following table is used

Table 4.2 Level Categorization of Mean Value

No	Rang of mean	Level
1	1.00-2.59	Low
2	2.6-3.5	Medium
3	3.6-5.00	High

Source: Ruiz (2002)

4.2.1 Digital Transformation Initiatives in Hibrte bank

Digital transformation in Ethiopian banks, including Hibret Bank, is primarily focused on enhancing customer convenience, promoting financial inclusion, and modernizing operations through technology. Given Ethiopia's relatively young digital economy, the country is witnessing a wave of adoption of mobile banking, cashless payment systems, and financial technology services. These initiatives are expected to continue evolving, especially as the infrastructure and regulatory environment for digital banking and fintech services improve.

In Hibret bank the major digital activities are Mobile and Internet Banking Services. Hibret Bank offers mobile banking and internet banking services, enabling customers to access their accounts, perform transactions, and manage their finances anytime and anywhere, providing convenience and accessibility. In addition to this, Hibret Bank places significant emphasis on protecting its customers from cyber threats. They provide guidance on securing websites and mobile devices, protecting against hacking, phishing attacks, and malware. The bank encourages customers to use strong passwords and enable MFA to add an extra layer of security to online accounts. The bank provides resources and tips to educate customers on how to secure their devices, avoid phishing scams, use secure networks, and protect personal information when performing online banking transactions. Hibret Bank is promoting cashless payment options through its mobile app and online services, offering users the ability to make payments, transfers, and manage their finances digitally without relying on physical cash. Here under the variables of the study were analysed as follows.

4.3 Collaboration

Collaboration and Digital Transformation at Hibret Bank focus on improving financial services, enhancing customer experience, and integrating modern technological solutions. While specific details on Hibret Bank's collaboration efforts is not fully available, the following table highlight the general trends and potential areas of collaboration and digital transformation the bank.

Table 4.3 Mean and Standard Deviation of Collaboration

	N		Mean	Std. Deviation
	Valid	Missing		
The cooperation between different departments in the bank enhances the digital transformation process.	270	0	4.3259	0.65475
Collaborative efforts among employees contribute to improved digital tools and systems in the bank	270	0	3.7667	0.92528
Effective cooperation within teams positively influences the implementation of new digital technologies in the bank.	270	0	3.9185	1.03867
Inter-departmental cooperation leads to better decision-making in the bank's digital transformation.	270	0	3.9259	0.98788
The bank's culture encourages cooperation and knowledge sharing to support digital transformation	270	0	4.2148	0.95540
Grand mean			4.0304	0.91239

Source: Own Survey, 2025

The grand mean of collaboration in Hibrt bank is 4.0 with standard deviation 0.9. This high means indicate that the cooperation between different departments in the bank enhances the digital transformation process, Collaborative efforts among employees contribute to improved digital tools and systems in the bank and Effective cooperation within teams positively influences the implementation of new digital technologies in the bank.

In addition to this, Inter-departmental cooperation leads to better decision-making in the bank's digital transformation and the bank's culture encourages cooperation and knowledge sharing to support digital transformation.

But in the contrary to this in the open-ended participants also point out that third-party providers, fintech companies, telecom providers, and other digital platforms, are not flexible and cooperative which create challenges or limitations in the progress of a bank. Hibret Bank, like many banks, still relies on legacy core banking systems that are not easily compatible with modern digital technologies. When collaborating with fintech firms or mobile money platforms, the older systems create integration challenges for the bank. Collaboration with external entities, especially in areas like mobile money, financial services, and data analytics, requires robust data sharing mechanisms but Hibret Bank do not have sufficiently advanced data privacy policies and cybersecurity protocols in place for secure third-party integrations. In addition to this, the regulatory environment in Ethiopia is still evolving, and Hibret Bank face challenges in aligning with rapidly changing compliance requirements when collaborating with external partners. Regulatory approval processes for new digital products and services is slow or complex. Hibret Bank does not have fully developed digital literacy initiatives to ensure that its customers can effectively use and benefit from new digital banking tools and services. Digital adoption requires more than just offering new services; customers need to understand how to use them safely and effectively. Internal collaboration between departments at Hibret Bank (such as IT, marketing, legal, operations) may not be as fluid as necessary to support digital transformation and external partnerships. This lack of internal coordination can delay decision-making and impede progress.

But in the contrary to the above in the interview the interviewed replied as follows,

Cooperation among departments plays a critical role in facilitating digital transformation at Hibret Bank. Digital transformation is a complex process that involves not just the adoption of new technologies but also a shift in organizational culture, processes, and customer engagement strategies. For this transformation to succeed, effective collaboration and alignment across different departments within the bank are essential. The role of cooperation among departments is fundamental to the success of digital transformation at Hibret Bank. Each department brings valuable perspectives and expertise that, when aligned and coordinated effectively, ensure that digital initiatives are successful, scalable, and sustainable. Whether it's aligning strategic goals, improving customer experience, ensuring compliance, or fostering

innovation, the synergy between departments is essential for transforming the bank into a more agile, customer-centric, and digitally-advanced institution.

A study done by Zhifei(2023) remarked that Digital transformation allows banks to transition from isolated legacy systems to more integrated digital ecosystems, using technologies like APIs, cloud computing, and blockchain. These tools enable collaboration with fintech firms and other partners, facilitating data sharing and the development of new financial services (Author, Year).

In addition, Zhifei (2023) remarked that Banks increasingly collaborate with fintechs to leverage innovative products such as digital wallets and peer-to-peer lending. Digital platforms enable this partnership by offering banks agility and innovation while maintaining the security and compliance standards that traditional banking systems require. Digital transformation improves internal operations, promoting cross-departmental cooperation in banks. This leads to cost savings, faster decision-making, and more efficient service delivery. Additionally, banks can collaborate with other institutions to share resources and infrastructure, such as joint cross-border payment systems.

4.3.2 Operational Efficiency

Operational Efficiency refers to the ability of an organization to deliver its products or services in the most cost-effective manner while maintaining quality. In the context of banks, operational efficiency involves streamlining processes, reducing costs, improving service delivery, and enhancing customer satisfaction. It often relies on leveraging technology, automating manual processes, and optimizing internal operations. Here under is the practise of operation efficiency in Hibrt bank in the form of mean and standard deviation.

Table 4.4 Mean and Standard Deviation of Operational Efficiency

	N		Mean	Std. Deviation
	Valid	Missing		
Digital transformation has led to significant improvements in operational efficiency in the bank	270	0	3.7148	1.05436
The use of digital tools and technologies has streamlined daily operations in the bank.	270	0	3.5593	0.97277
Digital transformation has helped reduce operational costs and improve resource management	270	0	3.6889	1.10737
Automation of processes through digital tools has significantly improved the bank's operational efficiency.	270	0	3.9444	0.95662
Digital solutions have made internal processes faster and more reliable in the bank	270	0	3.8481	0.98459
grand mean			3.7511	1.01514

Source: Own Survey, 2025

The mean score of this operational efficiency in Hibret bank is 3.7 with standard deviation 1.0. This high mean indicated that digital transformation has led to significant improvements in operational efficiency in the bank, The use of digital tools and technologies has streamlined daily operations in the bank, digital transformation has helped reduce operational costs and improve resource management, Automation of processes through digital tools has significantly improved the bank's operational efficiency., Digital solutions have made internal processes faster and more reliable in the bank.

In line with the above, in the open ended participates revealed that Hibret bank is still rely on legacy systems that are out dated, inflexible, and not designed to integrate with modern digital tools. These systems often create bottlenecks and inefficiencies, making it difficult to adopt new

technologies. In addition to this, data is stored across various departments and systems, leading to data silos that prevent seamless data sharing and collaboration between teams. Digital transformation requires a workforce with expertise in areas such as AI, machine learning, cloud computing, and data analytics but in Hibrite banks there is a skills gap in these areas. As the bank adopt more digital technologies, the attack surface for cyber threats increases. Ensuring robust cybersecurity measures is critical to protecting sensitive customer and financial data. Furthermore, Hibrt bank offer services across multiple channels (online, mobile, in-branch) but struggle to provide a seamless omni-channel experience. Inconsistent customer experiences across channels hinders operational efficiency. Digital transformation requires significant cultural change within an organization. Employee resistance to adopting new technologies and processes is a major roadblock to achieving operational efficiency.

In the interview the interviewed revealed that

While digital transformation offers enormous potential for improving operational efficiency in Hibret bank, addressing the above gaps is essential to ensure success. By overcoming barriers such as legacy systems, skill shortages, cybersecurity risks, and regulatory compliance, banks can fully harness the power of digital technologies to streamline processes, improve customer experiences, and stay competitive in a rapidly evolving financial landscape.

A study done by Kebede and Zewdu (2020) asserted Bank has been expanding its digital banking services to offer customers a range of online platforms, including mobile banking apps and internet banking. These platforms allow customers to manage their accounts, make transfers, check balances, and pay bills remotely. By offering online and mobile banking, the bank reduces the need for physical branch visits, thereby minimizing queues and long wait times. This leads to improved customer satisfaction and a more efficient use of branch resources. Employees can focus on more complex tasks while routine transactions are handled digitally. Bank has integrated automated transaction systems for services such as fund transfers, loan processing, and deposit handling. This process significantly reduces human intervention and manual errors. Automated systems speed up transaction processing, reduce the risk of errors, and enhance service delivery speed. This increases productivity and allows staff to focus on customer relationship management or higher-value tasks.

4.3.3 Decision-Making

Digital transformation plays a crucial role in improving decision-making processes in banks, including Hibret Bank in Ethiopia. By integrating advanced technologies such as data analytics, artificial intelligence (AI), and automation, Hibret Bank can make more data-driven, efficient, and accurate decisions across various functions, from customer service to risk management. Here under the mean and standard deviation of decision making Hibrte bank

Table 4.5 Mean and Standard Deviation of decision making

Source: Survey Result, 2025

	N		Mean	Std. Deviation
	Valid	Missing		
Digital transformation has enhanced decision-making capabilities in the bank	270	0	3.8593	0.97297
Access to real-time data and analytics has improved decision-making in the bank	270	0	3.7963	1.10052
Digital tools support management in making better strategic decisions.	270	0	3.9037	1.15604
The bank's leadership is better equipped to make informed decisions because of digital technologies.	270	0	3.7741	1.08250
Digital transformation has helped reduce decision-making time in the bank.	270	0	3.7148	1.05436
GRAND MEAN			3.8096	1.07328

Source: Own Survey, 2025

The mean score of decision making is 3.8 and standard deviation 1.0. This high mean indicted that Digital transformation has enhanced decision-making capabilities in the bank and access to real-time data and analytics has improved decision-making in the bank. In addition to this, digital tools support management in making better strategic decisions, and the bank's leadership is

better equipped to make informed decisions because of digital technologies even, Digital transformation has helped reduce decision-making time in the bank.

In the open ended participatory revealed that by integrating digital customer relationship management (CRM) systems, Hibret Bank track customer preferences, behaviour, and feedback more effectively. These systems provide decision-makers with real-time insights into customer satisfaction and demand trends. Decision-makers at Hibret Bank use these insights to personalize services, improve product offerings, and design targeted marketing campaigns. This leads to more customer-focused decisions and a better overall customer experience but main challenges were still exist. Such as or data-driven decision-making to be effective, the bank needs high-quality, accurate, and integrated data from various sources (e.g., transaction data, customer behaviour, financial metrics). However, Hibret Bank is struggle with data silos, inconsistent data formats, or incomplete data. In addition to this, Digital transformation often requires specialized knowledge in fields such as data analytics, artificial intelligence, and cybersecurity but Hibret Bank face a shortage of employees with the necessary skills to leverage these technologies effectively. Employees, especially those accustomed to traditional methods of decision-making, often resist adopting new digital tools and technologies. Furthermore, cultural resistance within the bank create a barrier to successful digital transformation. With digital transformation, Hibret Bank will need to handle a large volume of sensitive data, including customer financial information. This introduces cybersecurity risks, such as data breaches, hacking, and fraud. The pace of technological change is accelerating. Despite digital efforts, Hibret Bank face challenges with customer adoption of digital services, especially among less tech-savvy customers. Although digital transformation offers significant advantages for decision-making at Hibret Bank, such as improved data insights, faster decision cycles, and enhanced customer service, it also presents several challenges. These challenges include issues with data quality, cybersecurity, employee resistance, integration with legacy systems, and regulatory compliance. Overcoming these obstacles will require strategic planning, investment in skills development, and a careful approach to technology adoption to ensure that digital transformation is effectively leveraged for decision-making.

In line with the above remarked, a study done by Fisseha (2015) remarked that digital transformation refers to the adoption of digital technologies to fundamentally change how

businesses operate, deliver value to customers, and interact with stakeholders. In the context of banking, digital transformation includes the integration of advanced technologies like artificial intelligence (AI), big data analytics, cloud computing, and automation into banking operations. The goal is to enhance operational efficiency, improve customer experiences, and enable data-driven decision-making. Decision-making in banks is critical for effective operations, ensuring compliance, managing risks, and creating customer value. Digital transformation significantly influences the way decisions are made within financial institutions.

4.3.4 Innovation

In today’s fast-paced financial environment, banks are increasingly turning to innovation and digital transformation to enhance customer experiences, improve operational efficiency, manage risks, and stay competitive. The integration of digital technologies not only reshapes the way banks operate internally but also allows them to offer new services, develop more personalized customer interactions, and adapt to an ever-evolving market. Here under is the practise of innovation in Hibert bank.

Table 4.6 Mean and Standard Deviation of Innovation in Hibrt bank

	N		Mean	Std. Deviation
	Valid	Missing		
Innovation is a key driver of the bank’s digital transformation efforts.	270	0	3.6889	1.10737
The bank continuously adopts new technologies and innovations to stay competitive in the market.	270	0	3.9444	0.95662
Innovation within the bank plays a critical role in improving customer service and satisfaction	270	0	3.8481	0.98459
The bank encourages employees to come up with innovative solutions to improve operational processes.	270	0	3.7481	1.05759
Innovation in digital products and services enhances the bank’s competitive advantage in the	270	0	3.8593	0.97297

market

grand mean

3.8178

1.01583

Source: Own Survey, 2025

The mean score of Innovation is 3.8 with standard deviation is 1.0. This high means indicate that Innovation is a key driver of the bank's digital transformation efforts and the bank continuously adopts new technologies and innovations to stay competitive in the market. In addition, Innovation within the bank plays a critical role in improving customer service and satisfaction and the bank encourages employees to come up with innovative solutions to improve operational processes. Furthermore, Innovation in digital products and services enhances the bank's competitive advantage in the market.

But in the open ended participates revealed that, Hibrte Bank is increasingly offering digital banking services such as mobile banking, online banking, and digital wallets. These platforms allow customers to access banking services anytime and anywhere, making banking more convenient and accessible but Digital transformation requires significant upfront investment in technology, infrastructure, training, and cybersecurity. Small and medium-sized banks like Hibrtet struggle to bear the costs of digital adoption. While large banks can absorb the costs of transformation, smaller institutions like Hibrte face challenges in financing the transition without sacrificing other priorities. Digital transformation in banking requires a workforce that is skilled in data science, artificial intelligence (AI), cloud computing, cybersecurity, and other emerging technologies but in Hibert there is often a talent gap in the financial sector, where traditional banking employees do not have the technical skills required for managing digital systems. As banks adopt multiple digital channels (mobile apps, websites, ATMs, etc.), ensuring smooth integration and consistent customer experiences across these platforms becomes a challenge.

Besides, lack of integration between channels lead to disjointed customer journeys, where customers face difficulties in switching between digital platforms and physical branches. While digital transformation offers significant opportunities for banks, the challenges and gaps identified above must be addressed strategically to ensure successful implementation.

In line with above explanation in the interviewed the interviewed revealed that.

To successfully solve the challenges and gaps in digital transformation in banks, a strategic and comprehensive approach is required. By investing in technology, empowering employees, ensuring regulatory compliance, and maintaining customer trust, banks can successfully navigate digital transformation. The solutions outlined above will help bridge the gaps in legacy systems, cybersecurity, regulatory compliance, customer adoption, and other critical areas, ensuring a smoother and more successful transition to a digital future.

A study done by Girma, E. (2019) explained the digital transformation is the integration of digital technologies into all areas of a business, fundamentally changing how operations are conducted, how value is delivered to customers, and how companies compete in the marketplace. When implemented correctly, digital transformation becomes a catalyst for innovation within organizations, enabling them to develop new products, services, and business models, as well as optimize internal processes. In the context of the banking industry, digital transformation is reshaping how banks engage with customers, manage operations, and leverage emerging technologies to stay competitive. Below, we explore how digital transformation facilitates innovation and its various roles in fostering a culture of continuous improvement and growth in the banking sector.

4.3.4 The Mediating Role of Innovation

In the interview the research asked qualitatively how innovation mediates or enhances digital transformation in Hibrete bank. The summarized version of their response was presented as follows.

Innovation is often considered a key driver in the success of digital transformation within organizations. In the context of banks, the adoption of digital technologies, such as mobile banking, artificial intelligence (AI), and blockchain, lead to improved organizational performance through innovation. The mediating role of innovation refers to the idea that innovation help explain how digital transformation affects organizational performance, acting as a bridge between digital transformation and improved business outcomes. For Hibret Bank (or any bank undergoing digital transformation), innovation is a crucial mediator. To achieve sustainable organizational performance, the bank must: Foster an innovation culture that encourages the development of new products and services. Leverage digital technologies to

create innovative solutions that address customer needs and operational inefficiencies. Measure the impact of these innovations on key performance indicators like customer satisfaction, profitability, and cost efficiency.

4.4 Inferential analysis

Inferential analysis is a statistical method used to make generalizations or inferences about a population based on a sample of data. In the context of this study Digital Transformation and Organizational Performance: The Mediating Role of Innovation in Hibret Bank inferential analysis will help assess the relationships between the independent variable (digital transformation), the mediator (innovation), and the dependent variable (organizational performance).

4.4.1 Diagnosis of Research Assumptions

Kothari (2004) point out that inferential analysis is a type of analysis in which inferences about a population are made using a random sample of data from that population. When it is either practical or possible to examine each individual in a population, inferential statistics are useful.

4.4.2 Assumptions of Regression

The basic assumptions about the original data must be made before doing a regression analysis. In order to understand the links between dependent and explanatory variables, this is a must. Five major assumptions must be verified and shown to be reasonably met. The following fundamental least square assumptions were tested and described in this study.

4.3.2 Skewness and Kurtosis of the Data

Skewness is a metric for symmetry, or more specifically, the lack of it. If a distribution, or data collection, looks the same to the left and right of the centre point, it is said to be symmetric.

Kurtosis is a measure of how heavy-tailed or light-tailed the data are in comparison to a normal distribution. Data sets having a high kurtosis are more likely to contain heavy tails, or outliers. Light tails or lacks of outliers are common in data sets with low kurtosis. The most extreme instance would be a uniform distribution. 2004 (Kothari)

Table 4.7 Skewness and Kurtosis

Statistics					
	collaborati	operational	decision	innovati	organizational

		on	efficiency	making	on	performance
N	Valid	270	270	270	270	270
	Missing	0	0	0	0	0
Skewness		-.994	-.448	-.492	-.818	-.891
Std. Error of Skewness		.148	.148	.148	.148	.148
Kurtosis		1.551	-.505	-.468	.802	.678
Std. Error of Kurtosis		.295	.295	.295	.295	.295

Source: Own Survey, 2025

Acceptable values are those that fall between the ranges of +1.96 and -1.96. Skewed data is defined as data that is skewed beyond these boundaries (Hair, 2010), while Bryne (2010) suggested that data is deemed normal if Skewness is between -2 and +2 and Kurtosis is between -7 and +7. The researcher's data is usually distributed, according to the rule of thumb.

4.3.3 Testing Normality of the data

The normality test is a statistical procedure for determining whether a sample or set of data fits into a standard normal distribution. A normalcy test can be done graphically or mathematically.

Normality tests are used to examine whether a data collection is well-modelled by a normal distribution and to calculate the probability that a random variable underlying the data set is normally distributed. The tests are a type of model selection, and they can be interpreted in a variety of ways, depending on how one views probability:

Variables with normal distributions are assumed in multiple regressions (Darlington, 1968). This means that errors are regularly distributed, and a plot of the residual values will resemble a normal curve (Keith, 2006). The P-P plot for the model, as well as the above histogram of the standardized residuals, can be used to test this assumption. The residuals are distributed closer to normal the closer the dots are to the diagonal line.

Table 4.8 Normality Test

Tests of Normality						
Kolmogorov-Smirnov ^a			Shapiro-Wil		k	
Statistic	df	Sig.	Statistic	df	Sig.	

organizational performance	.148	326	.000	.931	326	.000
a. Lilliefors Significance Correction						

Source: Own Survey, 2025

The data distribution appears normal in the above figure, and the dots in the P-P plots are also relatively near to the normal line. Both the Kolmogorov-Smirnova and Shapiro-Wilk test are $P < 0.05$ this is significant. The results of both examinations indicate that the residuals are spread normally.

4.4.4 Multicollinearity Test

Multicollinearity is characterized by a high level of inter-correlation or inter-associations between the independent variables. As a result, it's a sort of data disturbance, and if it's there, statistical inferences drawn from the data may be suspect. When there are strong correlations between two or more predictor variables, multicollinearity occurs. To put it another way, one predictor variable can predict the other. This results in redundant data (Kothari, 2004) Multicollinearity is a problem with strong relationships between explanatory variables, and it is not suitable for ordinary list square regression analysis.

Table 4.9 Multicollinearity Test

		Coefficients ^a	
Model		Collinearity Statistics	
		Tolerance	VIF
1	Collaboration	.566	1.767
	Operational Efficiency	.141	7.071
	Decision Making	.203	4.936
	Innovation	.184	5.424
a. Dependent Variable: organizational performance			

Source: Own Survey, 2025

The variance-inflation factor (VIF) has also been examined, with lesser values indicating that multicollinearity is not an issue. All VIFs with a score of less than ten were accepted in this investigation (Hair, 2010).

In addition, tolerance statistics in regression analysis aid in the detection of co-linearity issues. The tolerance value ranges from 0 to 1, with values closer to 1 indicating that there is no

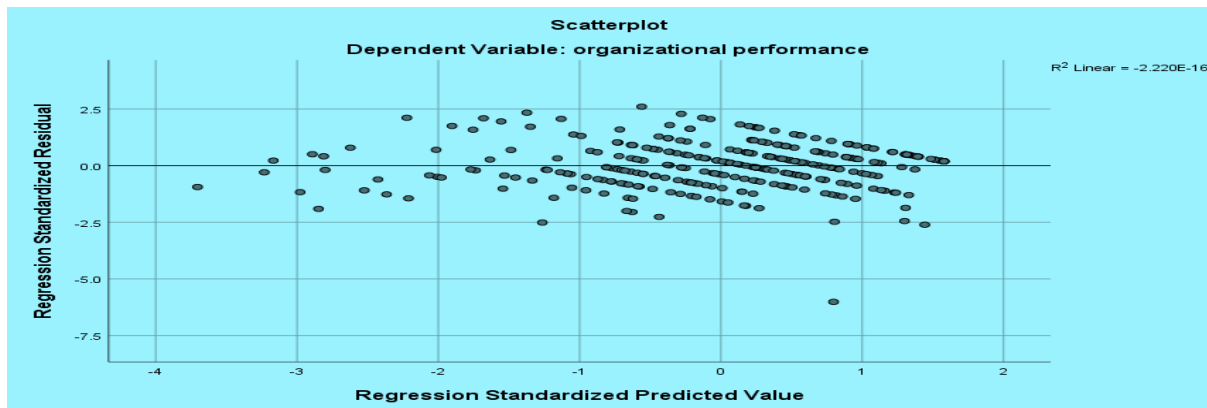
concern with multicollinearity (Keith, 2006). Because all tolerances in this investigation are more than 0.1, the amount of variance in that construct is not explained by other factors. The results of both tests showed that there is no concern with multicollinearity.

4.4.5 Homoscedasticity Test

The variance around the regression line is the same for all values of the predictor variable, which is known as homoscedasticity (X). This assumption is violated in the plot. The spots on the X-axis with lower values are all extremely close to the regression line. There is a lot more uncertainty around the regression line for the higher values on the X-axis.

This assumption necessitates an even distribution of residual terms or error term homogeneity across the data. Visual examination of a plot of the standardized residuals by the regression standardized predicted value can be used to verify for homoscedasticity (Osborn & Waters, 2002). The problem is not damaging to analysis if the erroneous words are scattered randomly with no discernible pattern. The following Figures below shows that the standardized residuals in this research are distributed evenly indicating heteroscedasticity are not a serious problem for this data.

Figure 4.1 Data Distribution of Dependent Variable



Source: Own Survey, 2025

4.4.6 Autocorrelation Test

The degree of similarity between a particular time series and a lagged version of itself over subsequent time intervals is represented mathematically by autocorrelation. It's the same as computing the correlation between two time series, only autocorrelation uses the same time

series twice: once in its original form and again with one or more time periods added (Kothari 2004).

Table 4.10 Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.839 ^a	.704	.700	.31696	1.127
a. Predictors: (Constant), innovation, collaboration, decision making, operational efficiency					
b. Dependent Variable: organizational performance					

Source: Own Survey, 2025

The notion that errors are independent of one another, meaning that subjects are responding independently, is known as autocorrelation or error independence (Stevens, 2009). To see if our residuals are independent, we can utilize the Durbin-Watson statistic (or uncorrelated). This number might range from 0 to 4. For this assumption to be met, the DW value needs to be close to 2. Values below 1 and above 3 are problematic and causes for concern.

4.7. Correlation Analysis

The "interdependency" of the variables was tested using correlation analysis. The direction and intensity of the association between the variables were determined in this section. To determine the links between cooperatives, operational efficiency, innovativeness, decision making and organizational performance, the Pearson's Product Movement Correlation Coefficient was used.

Correlation analysis is a valuable tool for identifying and exploiting relationships (associations) between data. The coefficient (r) has a value ranging from -1 to +1. The value of the coefficient of correlation (r) reflects the relationship's strength and direction. There is a fully negative correlation between the variables if $r = -1$. There is no association between the variables if $r = 0$, and there is a fully positive relationship if $r = 1$. Different authors have given slightly different interpretations for r values between + and 0 or between 0 and -1.

The following decision rule from Bartz (1999) was used to describe the strength of relationship between the variables in this investigation.

Table 4.10 Correlation Coefficient

Measure of Association	Descriptive Adjectives
>0.00 to 0.20; <-0.00 to -0.20	Very weak or very low
>0.20 to 0.40; <-0.20 to -0.40	Weak or low
>0.40 to 0.60; <-0.40 to -0.60	Moderate
0.60 to 0.80; <-0.60 to -0.80	Strong or High
0.80 to 1.0; <-0.80 to -1.0	Very high or Very Strong

Source: Bartz (1999)

Table 4.11 Correlation Result

	Correlations			
	1	2	3	4
1.collaborati on	1			
2. operational efficiency	.525**	1		
3. decision making	.651**	.860**	1	
4. organization al performance	.420**	.811**	.789**	1

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

Source: Own Survey, 2025

The association between the dependent variable organizational performance and the independent variables, cooperatives, operational efficiency and decision making, was shown in the table above.

All independent factors, as shown, have a positive correlation with the dependent variable, organizational performance, with a significant level of 0.01.

For the level of correlation between independent variables and the dependent variable for Operational efficiency($r=.811^{**}$), decision making($r=.789^{**}$) and cooperatives($r=.420^{**}$). All independent variables have a positive significant relationship with organizational performance, cooperatives, innovativeness and decision making have a strong relationship with organizational performance.

4.5 Regression Analysis Results

The researcher utilized multiple regression analysis in this part to understand the link between the dependent and independent variables. Furthermore, regression analysis aids the researcher in comprehending how the typical value of the dependent variable changes when one or more independent factors are changed while the other independent variables remain constant.

Table 4.12 Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836 ^a	.700	.696	.31884
a. Predictors: (Constant), decision making, collaboration, operational efficiency				

Source: Own Survey, 2025

Organizational performance is treated as a dependent variable, while cooperatives, operational efficiency, innovativeness, decision making, as independent factors. Organizational performance is significantly connected to the linear combination of those parameters ($R^2=.700$). This suggests that 70 percent of the variance in the dependent variable; Organizational performance is explained by the independent variables, cooperatives, operational efficiency and decision making

Although other factors that are not included in this study may account for the remaining 30% of the change, the R-squared and Adjusted R-squared values found in this study are adequate to indicate that the fitted regression line is quite close to all of the data points taken together (has

more explanatory power). For such data, R-Squared larger than 30% is still large enough to draw reliable conclusions.

Table 4.13 ANOVAa

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62.958	3	20.986	206.436	.000 ^b
	Residual	27.041	266	.102		
	Total	89.999	269			
a. Dependent Variable: organizational performance						
b. Predictors: (Constant), decision making, collaboration, operational efficiency						

Source: Own Survey, 2025

The significance test results for R and R2 can be found in the ANOVA (Analysis of Variance) table. As a result, at 0.01 the F value of 200.436 is significant (P value that a correspondent to F statistic is significant). Thus, cooperatives, operational efficiency, decision making significantly explain the variance in organizational performance in in selected bureaus in Addis Ababa city administration.

Table 4.14 Regression Coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.912	.155		12.335	.000
	Collaboration	.141	.048	.132	2.969	.003
	operational efficiency	.391	.052	.493	7.454	.000
	decision making	.322	.053	.451	6.083	.000
a. Dependent Variable: organizational performance						

Source: Own Survey, 2025

Standardized Beta coefficient and unstandardized Beta coefficient values are used to estimate the relative importance of each independent variable and to build the linear regression equation, respectively, in the Beta coefficient table.

Cooperatives, operational efficiency and decision making were found to be significant predictors of organizational performance in Hibret Bank based on the standardized beta coefficient values.

The dependent variable was organizational performance, while the independent variables were Cooperatives, operational efficiency and decision making took the form of:

$$OP = \beta_0 + \beta_1 Oe + \beta_2 Dm + \beta_3 Co + \epsilon_i$$
$$OP = 1.912 + .49.3Oe + .45.1 Dm + .13Co + \epsilon_i$$

The implication of the above formula can be stated as, setting all other predictor variables to zero,

- For every unit increase in the value of operational efficiency in Hibret bank, the value of organizational performance will increase by 49.3%.
- For every unit increase in the value of decision making in in Hibret bank the value of organizational performance will increase by 45.1%.
- For every unit increase in the value of cooperatives in in Hibret bank the value of organizational performance will increase by 13%.

In line with my finding, the following researchers also assert my claim. Chen, Mocker, & Preston (2010): They discuss how digital technologies improve decision making and operational efficiency, resonating with my findings. Their research also emphasizes the role of organizational strategy in leveraging digital transformation effectively. Gatignon and Xuereb (1997) explore the relationship between innovation and organizational performance, supporting the notion that digital transformation fosters innovation which, in turn, enhances performance. Their research aligns with my finding that innovativeness is a key factor in explaining performance.

4.6.1 Mediating Analysis

Table 4.14 Mediating Tables

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836 ^a	.700	.696	.31884
a. Predictors: (Constant), decision making, collaboration, operational efficiency				

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710 ^a	.504	.502	.40826
a. Predictors: (Constant), innovation				

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839 ^a	.704	.700	.31696
a. Predictors: (Constant), decision making, collaboration, innovation, operational efficiency				

The above tables' shows the model summary of the mediating role of innovation and digital transformation in Hibret bank. Innovation alone has 50% of explanatory power but with combination of other independent variables (decision making, collaboration, and operational efficiency) it does not create a significant impact on digital transformation.

Innovation Alone Has 50% of Explanatory Power. This refers to the percentage of the variation in the dependent variable (e.g., digital transformation or organizational performance) that is explained by the independent variable (innovation) alone. When we say Innovation has 50% of explanatory power, this means that innovation alone explain 50% of the variation in the outcome of interest (such as digital transformation or performance).

Interpretation: Innovation in Hibret Bank (e.g., innovative digital banking products) is significantly influencing the transformation of the organization. It shows that innovation is a powerful driver in improving how digital transformation is perceived and implemented within the bank. Half of the changes in digital transformation at the bank can be attributed to the level of innovation alone.

The Combination of Other Independent Variables (Decision Making, Collaboration, and Operational Efficiency) also Create a Significant Impact on Digital Transformation Decision Making: The process of making choices and resolving issues within the bank's digital transformation strategy. The level of cooperation and communication across departments or teams in the bank to drive digital initiatives. The effectiveness, with which the bank utilizes its resources, processes, and technology to achieve its objectives, like reducing costs or improving service delivery.

The statement suggests that when innovation is combined with these three other variables—decision making, collaboration, and operational efficiency it does not have a significant impact on digital transformation in Hibret Bank.

Innovation seems to have a strong influence on the digital transformation process at Hibret Bank. If innovation alone is responsible for 50% of the explanatory power, it could suggest that innovation (such as adopting new technologies, services, or products) is the primary driver of change within the bank.

In contrast, decision making, collaboration, and operational efficiency might not be as directly influential in driving the digital transformation process. While these are certainly important, they may not be as critical or influential as innovation when it comes to driving digital transformation in Hibret Bank at this stage.

There could be issues of multicollinearity (when independent variables are highly correlated with each other), which might be affecting the ability to assess the unique impact of decision making, collaboration, and operational efficiency. If these variables are highly correlated, it may make it difficult for SPSS to detect the individual effects of each variable on digital transformation.

In summary, the model summary suggests that innovation has a strong explanatory power on digital transformation at Hibret Bank, while decision making, collaboration, and operational efficiency do not seem to significantly impact the digital transformation process. This could be due to various factors, such as the dominance of innovation in driving digital change, gaps in collaboration, inefficiencies in decision-making, or already optimized operations.

CHAPTER FIVE

5. SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION

5.1 Summery of Finding

Here under the summery of research is organized here under. The findings about digital transformation and organizational performance: the mediating role of innovation in the context of Hibret bank. The questionnaire was distributed to 275 respondents, and 260 them were collected back. Interview with the higher experts of Hibert Bank was conducted. The finding is summarized based on themes of the section. Demographic analysis, descriptive analysis and inferential analysis were presented as follows.

Regarding demographic analysis, Males made up 53% of the total responses, while females made up 47%. When we look at the age groups of respondents, we find that those under the age of 25 make up 30 respondents, those between the ages of 26 and 30 make up 85 respondents, those between the ages of 31 and 40 make up 90 respondents, and those beyond 41 make up 55 respondents. Lastly, experience, the majority of respondents (64%) had a bachelor's degree, while 22% had a master's or second bachelor's degree.

The grand mean of collaboration in Hibrt bank is 4.0 with standard deviation 0.9. This high means indicate that the cooperation between different departments in the bank enhances the digital transformation process, Collaborative efforts among employees contribute to improved digital tools and systems in the bank and effective cooperation within teams positively influences the implementation of new digital technologies in the bank.

The mean score of this operational efficiency in Hibret bank is 3.7 with standard deviation 1.0. This high mean indicated that digital transformation has led to significant improvements in operational efficiency in the bank, The use of digital tools and technologies has streamlined daily operations in the bank, digital transformation has helped reduce operational costs and improve resource management, Automation of processes through digital tools has significantly improved the bank's operational efficiency., Digital solutions have made internal processes faster and more reliable in the bank.

The mean score of decision making is 3.8 and standard deviation 1.0. This high mean indicted that Digital transformation has enhanced decision-making capabilities in the bank and access to

real-time data and analytics has improved decision-making in the bank. In addition to this, digital tools support management in making better strategic decisions, and the bank's leadership is better equipped to make informed decisions because of digital technologies even, Digital transformation has helped reduce decision-making time in the bank.

The mean score of Innovation is 3.8 with standard deviation is 1.0. This high means indicate that Innovation is a key driver of the bank's digital transformation efforts and the bank continuously adopts new technologies and innovations to stay competitive in the market. In addition, Innovation within the bank plays a critical role in improving customer service and satisfaction and the bank encourages employees to come up with innovative solutions to improve operational processes. Furthermore, Innovation in digital products and services enhances the bank's competitive advantage in the market

Innovation is often considered a key driver in the success of digital transformation within organizations. In the context of banks, the adoption of digital technologies, such as mobile banking, artificial intelligence (AI), and blockchain, lead to improved organizational performance through innovation. The mediating role of innovation refers to the idea that innovation help explain how digital transformation affects organizational performance, acting as a bridge between digital transformation and improved business outcomes. For Hibret Bank (or any bank undergoing digital transformation), innovation is a crucial mediator.

All independent factors, as shown, have a positive correlation with the dependent variable, organizational performance, with a significant level of 0.01. For the level of correlation between independent variables and the dependent variable for Operational efficiency($r=.811^{**}$), decision making($r=.789^{**}$) and cooperatives($r=.420^{**}$). All independent variables have a positive significant relationship with organizational performance, cooperatives, innovativeness and decision making have a strong relationship with organizational performance.

Organizational performance is treated as a dependent variable, while cooperatives, operational efficiency, innovativeness, decision making, as independent factors. Organizational performance is significantly connected to the linear combination of those parameters ($R^2=.700$). This suggests that 70 percent of the variance in the dependent variable; Organizational performance is

explained by the independent variables, cooperatives, operational efficiency and decision making.

Innovation Alone Has 50% of Explanatory Power. This refers to the percentage of the variation in the dependent variable (e.g., digital transformation or organizational performance) that is explained by the independent variable (innovation) alone. When we say Innovation has 50% of explanatory power, this means that innovation alone explain 50% of the variation in the outcome of interest (such as digital transformation or performance).

5.2 Conclusion

The study on Digital Transformation and Organizational Performance: The Mediating Role of Innovation in the Context of Hibret Bank highlights the transformative impact of digital technologies on organizational processes, efficiency, and competitive advantage. The findings demonstrate that digital transformation is not merely about adopting new technologies but also fostering a culture of continuous innovation. Innovation plays a crucial mediating role by translating technological advancements into meaningful improvements in performance.

However, successful digital transformation requires strategic alignment, leadership commitment, and a focus on employee engagement. Organizations that effectively leverage digital tools while fostering a culture of innovation are better positioned to achieve sustained performance gains. For Hibret Bank, embracing evolving technologies and strengthening innovation capabilities will be essential to maintaining a competitive edge in the rapidly changing financial sector.

5.3 Recommendation

Based on the finding of the research the following recommendation were forwarded

- The bank should encourage a Culture of Innovation. Given that innovation is acting as a mediator in the relationship between digital transformation and organizational performance, it's crucial to foster a strong culture of innovation within the bank. Hibret Bank should encourage employees at all levels to generate new ideas, experiment with technology, and implement creative solutions that support the bank's digital goals.
- The bank should focus on Advanced Technologies to Drive Innovation OR Invest in Cutting-Edge Technologies. To ensure that innovation becomes a central part of digital transformation, Hibret Bank must leverage the latest technologies such as artificial

intelligence, cloud computing, and big data analytics. These technologies can help optimize processes, improve customer experience, and introduce new digital banking services.

- **The Bank Should Align Digital Transformation with Organizational Goals.** Align Digital Transformation with Performance Metrics: It's crucial for Hibret Bank to align its digital transformation strategy with its overall organizational performance goals. This alignment will ensure that digital initiatives are not only innovative but also contribute to long-term goals such as increasing profitability, improving customer satisfaction, or reducing costs.
- **The bank should Use Innovation to Enhance Decision-Making Processes.** The role of innovation in improving decision-making processes is crucial for digital transformation. By leveraging innovation and emerging technologies Hibret Bank can make more informed, data-driven decisions that improve organizational performance.
- **The bank should Foster a Collaborative Environment for Innovation.** The ability of innovation to mediate digital transformation can be significantly enhanced by fostering better collaboration among departments. Cross-functional teams that work together on digital initiatives are more likely to generate impactful solutions that drive organizational performance.
- **The bank should Enhance Digital Skills across the Organization.** Upskill Employees for Digital Transformation: To leverage innovation effectively, Hibret Bank should focus on digital skills development for employees. Ensuring that staffs have the necessary technical skills and understanding of digital tools is crucial to the success of both digital transformation and innovation.
- **The bank should focus on Innovations that Enhance Customer Experience.** Innovation should be customer-centric, driving improvements in user experience and customer satisfaction. Digital transformation efforts should be focused on developing solutions that meet customer expectations, such as seamless digital banking platforms, personalized services, and faster response times.
- **The bank should focus on Continuously Measure and Adjust Digital Transformation Initiatives.** Hibret Bank should monitor and evaluate the impact of digital transformation and innovation on organizational performance regularly. This will allow the bank to make data-driven adjustments to its strategies and ensure continuous improvement.

5.4 Future Research Direction

Future studies could compare digital transformation, innovation, and organizational performance across multiple banks to provide broader insights and identify best practices. Conducting longitudinal research to track the impact of digital transformation over time would help understand its long-term effects on organizational performance and innovation. Investigating the role of external factors, such as economic conditions, market competition, and regulatory changes, in shaping digital transformation outcomes can provide more comprehensive findings.

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APPENDEX



ADDIS ABABA UNIVERSITY
DEPARTMENT OF MANAGEMENT
(QUALITY MANAGEMENT AND ORGANIZATIONAL
EXCELLENCE STREAM)

Dear Respondents!

The purpose of the questionnaire is to collect data for research on Digital Transformation and Organizational Performance: The Mediating Role Of Innovation In The Context Of Hibret Bank. The research is designed to identify THE EFFECT OF Digital Transformation and Organizational Performance. The research outcomes are important for master thesis in Addis Ababa university. Your genuine and honest response is very important for the success of the research and the researcher would like to thank you for your cooperation in advance.

Note: for any clarification or question please don't hesitate to contact the researcher through the following address. Name Fasika Anley Sewunet, mobile phone +251 93 584 8902

General Instruction:

Part III: Specific Questions about the “Digital Transformation and Organizational Performance: The Mediating Role of Innovation in the Context of Hibret Bank.

Note: Please indicate your level of agreement with the following statements regarding the digital transformation process at Hibret Bank. Use the following scale:

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

NO	Items of Questions	1	2	3	4	5
	Collaboration)					
1	The cooperation between different departments in the bank enhances the digital transformation process.					
2	Collaborative efforts among employees contribute to improved digital tools and systems in the bank					
3	Effective cooperation within teams positively influences the implementation of new digital technologies in the bank.					
4	Inter-departmental cooperation leads to better decision-making in the bank’s digital transformation.					
5	The bank’s culture encourages cooperation and knowledge sharing to support digital transformation					
	Operational Efficiency					
1	Digital transformation has led to significant improvements in operational efficiency in the bank					
2	The use of digital tools and technologies has streamlined daily operations in the bank.					
3	Digital transformation has helped reduce operational costs and improve resource management					
4	Automation of processes through digital tools has significantly improved the bank’s operational efficiency.					

5	Digital solutions have made internal processes faster and more reliable in the bank					
	Decision-Making					
1	Digital transformation has enhanced decision-making capabilities in the bank					
2	Access to real-time data and analytics has improved decision-making in the bank					
3	Digital tools support management in making better strategic decisions.					
4	The bank's leadership is better equipped to make informed decisions because of digital technologies.					
5	Digital transformation has helped reduce decision-making time in the bank.					
	Innovation					
1	Innovation is a key driver of the bank's digital transformation efforts.					
2	The bank continuously adopts new technologies and innovations to stay competitive in the market.					
3	Innovation within the bank plays a critical role in improving customer service and satisfaction					
4	The bank encourages employees to come up with innovative solutions to improve operational processes.					
5	Innovation in digital products and services enhances the bank's competitive advantage in the market					
	Organizational Performance (Dependent Variable)					
1	Digital transformation has significantly improved the overall performance of the bank					
2	The bank's financial performance has improved due to the adoption of digital technologies.					
3	Digital transformation has increased the bank's ability					

	to attract and retain customers.					
4	The bank's market share has increased as a result of its digital transformation efforts					
5	The bank's productivity has improved due to better utilization of digital technologies.					

Part Three: Open Ended Questions

- How would you describe the role of cooperation among departments in facilitating digital transformation at Hibret Bank?

- How has digital transformation contributed to improving the operational efficiency of Hibret Bank? Please provide specific examples.

- In your view, how does operational efficiency influence the overall success of digital transformation at Hibret Bank?

- How has digital transformation affected decision-making processes at Hibret Bank?

- Are there any areas where you feel decision-making could be further improved by leveraging digital technologies?

- In your experience, how important is innovation in driving the digital transformation efforts at Hibret Bank?

- How do you think the bank encourages and supports innovation among its employees?

- How do you think the combination of cooperation, operational efficiency, and decision-making supports the success of digital transformation at Hibret Bank?



ADDIS ABABA UNIVERSITY
DEPARTMENT OF MANAGEMENT
(QUALITY MANAGEMENT AND ORGANIZATIONAL
EXCELLENCE STREAM)

Key Informant Interview Guide Line

Section I: General Information

- Place _____
- Key informant interview Identification number _____
- The Researcher signature _____
- Name of supervisor _____

Semi Structured Questions

- How would you describe the level of cooperation between different departments at Hibret Bank in implementing digital transformation initiatives?
- How do you think inter-departmental cooperation affects the success of digital transformation efforts at Hibret Bank?
- In your opinion, how has digital transformation improved operational efficiency at Hibret Bank?
- What specific operational challenges were addressed through the implementation of digital solutions at Hibret Bank?
- How has digital transformation influenced decision-making processes at Hibret Bank?

- How do you see decision-making evolving at Hibret Bank as more digital technologies are adopted?
- What role do you think innovation plays in improving both operational efficiency and decision-making within the bank?
- ?
- How do you think the bank's cooperation between departments, operational efficiency, and decision-making processes have collectively contributed to the success of its digital transformation efforts?
- Is there anything else you would like to share about how digital transformation is shaping the future of Hibret Bank?