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MBA PROGRAM



An Assessment of Transformational Leadership:

A Case Study on Ethiopian Airlines



A Project Report prepared in partial fulfillment of the requirements
for Masters Degree in Business Administration.



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**Addis Ababa University
School of Graduate Studies
MBA Program**

**Project work on
An Assessment of Transformational Leadership
A Case Study on Ethiopian Airlines**

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List of Acronyms

IBM	International Business Machines Corporation
GM	General Motors Corporation
AT & T	American Telephone and Telegraph
MLQ	Multifactor Leadership Questionnaire
BCG	Boston Consulting Group
CCL	Center for Creative Leadership

Abstract

The purpose of the study was to assess the degree of transformational leadership practiced by Ethiopian Airline's, with emphasis at top and middle level management. Subordinates' perception of their superiors leadership qualities are used to explore the state of transformational leadership practice.

Questionnaires were distributed to 64 Managers, 24 Directors, and 6 Vice Presidents of Ethiopian Airlines. The responses were analyzed using SPSS under four categories based on the four qualities of transformational leadership: Idealized Influence, Inspirational Motivation, Intellectual Stimulation and Individualized consideration.

The research found out that transformational leadership qualities are not well developed in Ethiopian Airlines.

CHAPTER ONE

PROJECT OVERVIEW

1.1 Background of the Study

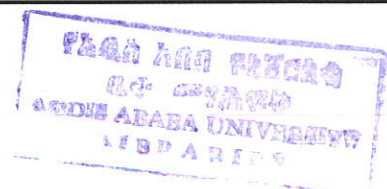
Organizations face, to a varying degree, the impact of globalization and intense global competition, rapid proliferation of information and communication technology, unprecedented rate of change in technology, cultural transformation, and political and economic integration. Technological change has made a big stride and has had an immense impact on organizational strategy, structure and work itself. In essence, technology brought the world closer together and shifted the pressure of work from physical labor to emotional and psychological stress (Kehl, 1989). The globalization of markets has increased the competitive pressure on organizations. Moreover, the media has empowered customers in terms of choice and demand for innovation. The threat from organizations in low cost, low regulation countries has ultimately changed the outlook of organizations in industrialized economies (Berger, 1996).

These changes have enormous pressure on organizational leadership. Rarely have business leaders faced such a complex and challenging set of economic pressures, political uncertainties and societal expectations. Regardless of their industry sector, country of origin, or corporate ownership structure, they are under growing pressure to demonstrate outstanding performance not only in terms of competitiveness and market growth, but also in their corporate governance and their corporate citizenship (Nelson, 2002). In a competitive and quickly changing business environment, effective leadership becomes one of the most critical requirements (Bass, 1985). A study by

Center for creative leadership's (CCL) entitled "Changing Nature of Leadership", verifies the increase in complexity and difficulty that leaders are facing. In general, the volatility of the external environment is used to characterize an ever-changing and uncertain external environment, which influences how organizations restructure themselves to cope up with changes or to anticipate them. Acar & Braun, (2006) noted that globalization, deregulation, e-commerce, and rapid technological change are forcing companies to reevaluate the way they operate.

Owing to the crucial role of leadership in this period of dynamism, connectivity and turmoil, social science researchers have devoted significant effort to the study of organizational leadership. Leadership is described as being one of social science's most examined phenomena (Cianciolo, & Sternberg, 2004). It has probably been written about, formally researched, and informally discussed more than any other single topic (Luthans, 2002). As evidenced by Bass's review of leadership, more than 7,500 studies on leadership have been conducted (Jennings, 1960; Hollander, 1978; Bass, 1990). What worked in the past may not work today, and the quest for a new type of leadership that fits this time of massive transformation was the major reason behind the development of various leadership theories.

As the prevailing theory failed to address the challenges of the times, new theories are developed. Accordingly, traditional leadership theories such as trait theories behavioral approach and contingency approaches could not appropriately respond to the challenges of the 1980s and the subsequent years. This has made the need for new



types of organizational leadership inevitable. Influenced by the rapid changes in the business environment, change oriented models such as Transformational, Charismatic and Visionary leadership models attracted the interests of managers and scholars alike (E. Regina, W. Cathleen, P. Rajnandini; 1999).

This study focuses on transformational leadership theory, considered as one of the most comprehensive leadership theories (Burns, 1987). A brief overview about Transformational leadership model is presented in the next section.

1.2 Transformational Leadership - What is it all about?

Transformational leadership refers to a leadership type in which leaders possess charisma and provide intellectual stimulation, individualized consideration, and inspirational motivation to followers (Avolio, 1994). Transformational leadership is one of the most recent approaches to conceptualizing leadership and has drawn considerable attention and researchers. Transformational leadership is a comprehensive and integrated leadership capacities required of individuals, groups, or organizations to produce transformation as evidenced by step-functional performance (Stephen Hacker and Tammy Roberts, 2003). The transformation could be personal, relational or enterprise wide. Building transformational capability is believed to enable organizations manage the challenges of turbulence in the modern world. Transformational leadership involves the provision of compelling and clear vision, the mobilizing of employee commitment through personal identification and involvement;

and the institutionalization of organizational change. Transformational leadership results in achievement of higher levels of performance (Bass, 1990)

Numerous studies have indicated that transformational leadership can lead to substantial organizational rewards: Some of the research findings include:

- Significantly increase organizational performance
- Is positively correlated to leader effectiveness ratings, leader and followers satisfaction, follower efforts, support for innovation, and overall organizational performance (Gaspar, 1992)
- It is positively associated with employee commitment to the organization, trust in the leader, and positive organizational citizenship behavior (Podsakof et al., 1990)
- Generates higher commitment to the organization from their employees

1.3 Statement of the Problem

Change has become one of the most defining characteristics of the contemporary business world. Traditional approaches to organization management and leadership seemed overwhelmed by the nature and rate of change in the business environment. As a result of this, multinational companies such as AT & T, IBM and GM ventured in to transformation (Stonner and Freeman, 1992). The importance of leadership to the change management process is underscored by the fact that change, by definition, requires creating a new system and then institutionalizing the new approaches (Kotter, 1995).

In consideration of the global competition and challenges the Airline industry is facing, the study tries to assess the level of transformation taking place in Ethiopian Airlines focusing on the leadership style at top and middle levels. Generally, the research attempts to answer:

1. What level of transformational leadership factors are manifested in the corporate leadership of Ethiopian Airlines?
2. Is there a correlation between transformational leadership and individual performance in the case of Ethiopian Airlines?
3. Is Ethiopian ready to overcome the increasing challenges and maintain its pride as an African success story?

1.4 Objective of the Study

The reason for selecting Ethiopian Airlines as a case organization has two dimensions. Firstly, the sphere of operation and competition that Ethiopian Airlines is working in is global and highly affected by international events more than any other company in Ethiopia. Furthermore, the world's Airline industry is in a state of turmoil especially in the last decade. This has its impact on the operation of the national flag carrier. The study will investigate the degree to which the Airline has made preparations to overcome the increasing challenges of the industry in view of transforming its leadership. Secondly, Ethiopian Airlines has about 4,700 staff working in Ethiopia and it has about 50 international and 30 Domestic stations. It has been fundamental in supporting other economic sectors such as tourism (www.ethiopianairlines.com/network).

Ethiopian Airlines has a tremendous contribution in changing the image of the country which otherwise was known with drought, poverty and underdevelopment. Therefore, the success or failure of the Airline is not just about financial performance. This study attempts to contribute towards the company's success by highlighting the need for change-oriented leadership models to cope up with change.

Specific Objectives include to

1. Assess the status of leadership style of the company in view of transformational leadership qualities
2. Evaluate the correlation between the perceived leadership style and employee performance
3. Recommend possible solutions towards the development of transformational leadership qualities at a wider level.



1.5 Significance of the study

The airline industry is in a state of chaos, depicting the true picture of the challenges of business organizations in our times. Rising fuel prices, intense competition gearing more towards price war, continuous deregulation, increasing security costs etc. are affecting the global airline industry. Many small airlines in developing countries have gone bankrupt unable to overcome increasing cost and competition from bigger airlines that are capitalizing on deregulation. The impact is not limited to the developing world. Two of America's biggest airlines, Delta and Northwest, filed for bankruptcy in 2005. By the end of 2005, the world's airlines lost a cumulative \$43 billion since 2001. The largest US airlines, and to a lesser extent, airlines through out

the world, are facing a huge financial crisis. Strategic alliances, outsourcing non-core services, changes to revenue and cost structures and job cuts have been used as a way out to the troubled industry. Both internal and external restructurings have been applied.

Despite making profits, the trends in the financial performance of Ethiopian Airlines also indicates the difficulty facing the airline industry. As part of a major move, it is in negotiation process to enter in to strategic alliance with Lufthansa to overcome the challenges that characterize the industry. Until this study is finalized, there was no breakthrough in the strategic alliance process.

The study focuses on one of the most important internal functions of organizations, which is leadership. By analyzing the level of transformational leadership attributes displayed by middle and top level managers, the study tries to propose internal reform which may help to equip the organization for existing and potential industry wide challenges. Findings of the study could be used as an important input for further studies. Furthermore, Ethiopian Airlines could see its leadership status as measured by transformational leadership qualities which can be used in reforming itself.

1.6 Scope of Study

Leadership has multidimensional impact in organizations and various researches have contradicting findings due to the research methods they follow and environmental and cultural contexts in which the research is undertaken. This study doesn't attempt to evaluate and verify these findings and potential impacts of cultural differences on the

application of the model and its subsequent impact. The effect of transformational leadership qualities is assessed only in relation to individual job performance as measured by the performance evaluation results from company's records. Furthermore, the study covers assessment of only the top and middle level management of the organization under study.

1.7 Limitations of the Study

Whether in public organizations, private businesses, non-governmental organizations or the military, leadership is an important element. On the contrary, there is no institution that offers leadership training in Ethiopia, except the recently established International Leadership Institute, a private undertaking that works in partnership with the Azusa Pacific University in the United States. There is a grave shortage in reference materials and research works in transformational leadership. The situation is worse when it comes to studies and materials specific to the Ethiopian context.

Another severe problem in the process of data collection was refusal by Ethiopian Airlines management to formally permit the distribution of the questionnaires. Efforts made for several weeks to convince authorities of the Airline at the highest level failed because of some ridiculous reasons such as lack of time to fill the questionnaire, sensitivity of the contents of the questionnaire if its results are made public etc. Above all, the precious time it took to contact the members of top management and get unconvincing response was unbelievable. Considering its size, domain of operation, its reputation and big name, the perception at the start of the study was that Ethiopian

Airlines would be transparent and helpful for academic undertakings. Surprisingly, actual situation shows that Ethiopian Airlines is just the same as or even worse than the inefficient public service organizations.

To see if there really is a positive correlation between employees' job performance and transformational leadership qualities of each employee's immediate supervisor, was one aspect of the study's objective. However, employee performance appraisal records could not be accessed.

1.8 Methodology and Data Source

To assess the level of transformational leadership qualities possessed by middle and top management of Ethiopian Airlines, questionnaires were distributed to a random sample of employees. The questionnaire is adapted from Multifactor Leadership questionnaire; commonly called MLQ, developed by Bass & Avolio (1990). It was distributed to Managers, Directors and Vice Presidents to get their perception of their leaders. That means, respondents evaluated their superior's based on a five point weight of the transformational leadership qualities. A total of 94 questionnaires were distributed to a sample population of 190, out of which sample were taken randomly from a strata of job positions. The perceived leadership profile was analyzed using SPSS 13.0 in terms of the four qualities of transformational leadership; Idealized Influence, Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration (Avolio, 1990). This study made use of secondary data sources such as relevant books in leadership and related areas, annual reports of Ethiopian Airlines, relevant internal documents, prior studies, and online resources.

1.9 Organization of the Paper

The study is organized in to four chapters. The first chapter focuses on background of the study and the methodologies followed. Review of related literature is presented in the second chapter. In the third chapter, findings and analysis of the study is presented. Conclusions from the study and subsequent recommendations are presented in chapter four.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Leadership Theories

As it stands, the world is characterized by changing economic and political conditions, global competition, new technology, increasingly complex world markets, scarcity of natural resources and dynamic and volatile business environment. How well organizations adapt to new conditions will determine who will survive and who will thrive.

Environmental dynamism and the changing nature of work have led to the quest for effective leadership. Different perspectives on leadership emerged through the years accordingly. A brief review of the major leadership theories is presented in the following sections.

2.1.1 Trait Approach

The scientific study of leadership began with a focus on the traits of effective leaders. The basic premise behind trait theory was that effective leaders are born, thus the name sometimes applied to early versions of this idea, the “Great Man” theory. Trait theory of leadership focused and evolved around a central idea that tried to study and isolate the personal qualities and characteristics that differentiate leaders from non-leaders. It is based on the underlying assumption that leadership is inborn, which means that one is either born as a leader or as a follower. Traits such as intelligence, knowledge, dominance, initiation, achievement, responsibility, participation, self-

confidence, energy, emotional maturity, stress tolerance, pragmatism, result-orientation, ambition, honesty, and integrity were studied and labeled as characteristics of effective leaders (Stogdill, 1974).

Leader trait researches examined the physical, mental, and social characteristics of individuals. In general, these studies simply looked for significant associations between individual traits and measures of leadership effectiveness. Physical traits such as height, mental traits such as intelligence, and social traits such as personality attributes were all subjects of empirical research.

The major problem with the trait approach lies in the fact that almost as many traits as studies undertaken were identified. After several years of studies, it became apparent that no consistent traits could be identified. Although some traits were found in a considerable number of studies, the results were generally inconclusive (Bolden, R., and et.al, 2003).

Measurement theory at the time was not highly sophisticated. Moreover, little was known about the psychometric properties of the measures used to operationalize traits. As a result, different studies were likely to use different measures to assess the same construct, which made it very difficult to replicate findings

Early trait research was largely theoretical, offering no explanations for the proposed relationship between individual characteristics and leadership.

Finally, it did not consider the impact of situational variables that might moderate the relationship between leader traits and measures of leader effectiveness. As a result of the lack of consistent findings linking individual traits to leadership effectiveness, empirical studies of leader traits were largely abandoned in the 1950s.

2.1.2 Behavioral Approach

Partially as a result of the disenchantment with the trait approach to leadership, the focus of leadership research shifted away from the leader traits to the leader behaviours. In contrast to trait theories, behavioral theories argue that leadership can be taught, and leaders can be made rather than born. In this approach, leadership was explored as a style. Instead of focusing on the individual traits that the leader should enhance, the research questions here were directed towards the nature of managerial work and a classification of the different functions, practices, roles, and behaviors of the leader. This was based on the fact that in contrast to personality, behavior can be learned and altered through practice, which, in turn, resulted in an interest in training leaders, and investigation as to whether one kind of behavior was more efficient than others (Bass, 1990). Rather than concentrating on what leaders are, as the trait approach urged, the behavioral approach forced looking at what leaders do. The general question underlying this approach was: what is being done by leaders that differentiate them from non-leaders (Greenberg, 2003). According to Robbins (2003), the main difference between trait and behavioral approaches in terms of application lies in their underlying assumptions. If trait theories were valid, then leaders are born

rather than made. On the other hand, if there were specific behaviors inherent to leaders, then these behaviors could be isolated, defined, and taught.

Behavioral leadership studies conducted at the Ohio State University and the University of Michigan in the late 1940s and 1950s sparked a number of other studies. The two dominant behaviors identified in these and related studies were the degree of attention leaders give to employees and the task, though different terms were used to address the same concept.

Empirical research has not demonstrated consistent relationship between task-oriented or person-oriented leader behaviors and leader effectiveness. Furthermore, behavioral research did not consider situational influences that might moderate the relationship between leader behaviors and leader effectiveness.

2.1.3 The Contingency Approach

The contingency approach which is sometimes referred to as the situational approach, gained prominence in the 1960s and 1970s as a consequence of the lacking ability of earlier approaches to explain the different aspects of leader behavior (Luthans, 2002). According to situational theory, organizational or work group context affects the extent to which leader traits and behaviors will be effective.

Effective leader should adjust his/her style in a manner consistent with critical aspects of the organizational context, such as the nature of the task, and attributes of employees carrying out the work (Buchanan and Huczynski, 1997). Contingency

approach to leadership emerged in response to the question about the best way to lead, and dealt with the interaction between the leader's traits and behaviors on the one hand, and the situation in which the leader exists on the other. The basic assumption of this approach is that the effects of one variable on leadership are contingent on other variables.

This concept was a major insight at the time, because it opened the door for the possibility that leadership could be different in every situation (Pierce and Newstrom, 1995).

Social psychologists searched possible situational variables that affect leadership roles, skills, behavior, and followers' performance and satisfaction. Numerous situational variables were identified, but no theory pulled it all together (Luthans, 2002). This led to the emergence of different situation based leadership models such as Fiedler's contingency model, Hersey and Blanchard's situational theory, leader-member exchange theory of George Grean, the path-goal theory of Robert House, leader-participation model, decision making model of Vroom and Yetton (Bryman, 1996)

2.1.4 Charismatic Leadership Model

While there are differences among the different leadership theories, all share the view that outstanding leaders have the ability to make a substantial emotional impact on their subordinates (Yukl, 2001). Charismatic leaders go beyond a simple performance reward transaction by elevating their subordinates' self image and self

confidence, by arousing subordinates' emotional attachment to the leader. They create strong employee commitment to the organization's goals by connecting them intellectually and emotionally to employees' personal goals.

Charismatic leaders are believed to perform some specific behaviors such as articulation of future vision, building credibility and commitment to the vision, creating emotional challenges and encouragement for followers. Charismatic leaders communicate idealized goal and vision they want the organization to accomplish. Such vision projects a set of values and beliefs that resonate with followers. It invites and persuades followers to move beyond their self interest and to focus on the broader and more meaningful organizational interest.

Charismatic leaders are also credible because they convince their subordinates of their own strong motivation, enthusiasm and commitment. Their actions and decisions are consistent with and support the advocated vision (House, 1992). Charismatic leaders model how to show the appropriate behaviours that are important to accomplish the vision and they engage in behaviours that are innovative, and often unconventional (Bass, 1985). They also are risk takers, sacrificing themselves to achieve their vision (Conger and Kanungo, 1998).

2.1.5 Transactional Leadership model

Transactional leadership is based on bureaucratic authority, focuses on task completion, and relies on rewards and punishments (Tracey and Hinkin, 1998). Transactional leadership is hypothesized to occur when there is a simple exchange of

one thing for another. According to Burns (1978), transactional leadership occurs when one person takes the initiative in making contact with others for the purpose of an exchange of valued things. In this relationship the leader and the led exchange needs and services in order to accomplish independent objectives (Barker, 1990)

Transactional leaders are considered to be those who focus on the motivation of followers through rewards or discipline, clarifying for their followers the kinds of rewards that should be expected for various behaviors. They actively monitor deviance from standards, mistakes, and errors, or they may passively wait for followers to do something wrong (Bass, 1985; Bass and Avolio, 1995).

Transactional leaders address the current needs of subordinates by focusing attention on exchanges (reward for performance, mutual support and bilateral exchanges). Bass (1985) describes a transactional leader as one who prefers a leader-member exchange relationship, whereby the leader fulfils the needs of the followers in exchange for their performance in meeting basic expectations. This means that a transactional leader has a preference for risk avoidance and is able to build confidence in subordinates to allow them to achieve goals (Yammarino et al., 1993). Transactional leadership ensures that employees perform according to expectations.

Exhibiting transactional leadership meant that followers agreed with or complied with the leader in exchange for praise, rewards, and resources or the avoidance of disciplinary action. Rewards and recognition were provided based on followers' successful accomplishment of their roles and assignments (Podsakoff, Todor, & Skov,

1982). Transactional contingent reward leadership clarifies expectations and offers recognition when goals are achieved. Bass (1985) argued that transactional contingent reward leadership builds the foundation for relationships between leaders and followers in terms of specifying expectations, clarifying responsibilities, negotiating contracts, and providing recognition and rewards for achieving expected performance. The leader specifies the standards for compliance, as well as what constitutes ineffective performance, and may punish followers for being out of compliance with those standards. This style of leadership implies closely monitoring for any unfavorable deviation from expected behaviors and taking corrective action as quickly as possible when they occur.

2.1.6 Transformational Leadership

While transactional leadership attempts to attain a certain level of performance through contingent reward, transformational leadership attempts performance beyond the target through mutual stimulation and elevation (Burns, 1978). Transformational leadership was first introduced by Burns (1978) who described it as the process through which leaders effect a radical change in the behavior of followers.

Transformational leaders increase the confidence of individuals or groups, arouse awareness and interest in the group or organization, and attempt to move the concerns of subordinates to achievement and growth rather than existence (Bass, 1985). They also seek new ways of working, new opportunities, and prefer effectiveness to efficiency (Lowe et al., 1996). They guide their subordinates towards

performance beyond established standards and goals - emphasizing employee empowerment rather than dependence (Hartog et al., 1997).

Transformational leadership behaviors go beyond transactional leadership and motivate followers to identify with the leader's vision and sacrifice their self-interest (Bass, 1985). Bass' (1985) conceptualization of transformational leadership includes charisma or idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. Descriptive research by Tichy and Devanna (1990) shows that transformational leaders engage in a process, which includes a sequence of phases: recognizing the need for change, creating a new vision, and then institutionalizing the change. A review of the literature on change oriented leadership, which also includes charismatic and visionary leadership (House, 1995), indicates that the majority of the approaches share the common perspective that by articulating a vision, fostering the acceptance of group goals, and providing individualized support, effective leaders change the basic values, beliefs, and attitudes of followers so that they are willing to perform beyond the minimum levels specified by the organization' (Podsakoff et al., 1996).

2.1.7 Servant Leadership

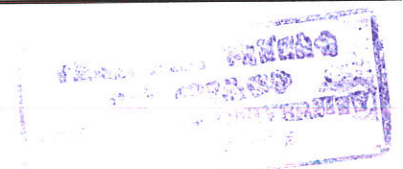
Robert K. Greenleaf (1904-1990) is credited for initiating the servant leadership concept among modern organizational theorists (Spears, 1996). In Greenleaf's (1977) opinion, leadership must primarily meet the needs of others. The focus of servant leadership is on others such as subordinates, customers and community rather than

upon self and on understanding of the role of the leader as a servant (Greenleaf, 1977). Self-interest should not motivate servant leadership; rather, it should ascend to a higher level of motivation (Pollard, 1996). The servant leader's primary objective is to serve and meet the needs of others, which optimally should be the prime motivation for leadership (Russell and Stone, 2002). Servant leaders develop people, helping them to strive and flourish (McMinn, 2001). They provide vision, gain credibility and trust from followers, and influence others (Farling et al., 1999).

Russell and Stone (2002) established a practical model for servant leadership and identified functional and accompanying attributes of servants. The attributes identified by Russell and Stone provide a reasonable basis for comparing servant leadership with transformational leadership.

Transformational and servant leadership models have similarities. Both leadership frame works incorporate influence, vision, trust, respect, credibility, risk-sharing or delegation, and integrity. Both models emphasize the importance of appreciating and valuing people, listening, mentoring or teaching, and empowering followers. In fact, the theories are probably most similar in their emphasis upon individualized consideration and appreciation of followers.

Nevertheless, transformational leadership and servant leadership do have points of variation. There is much greater emphasis upon service to followers in the servant leadership paradigm. Furthermore, while both transformational leaders and servant leaders are influential, servant leaders gain influence from servant-hood itself (Russell



and Stone, 2002). In so doing, they allow extraordinary freedom for followers to exercise their own abilities. They also place a much higher degree of trust in their followers than would be the case in any leadership style that required the leader to be somewhat directive.

2.2 Leadership and its Challenges

Organizations are increasingly being required to face complex challenges stemming from globalization, global competition, technological change, cultural diversity, economic and political integration, changing nature of work and societal expectation. To express the exponential rate of change in today's world, Enriquez (2000) said, "While generations before us had decades to prepare for shift in thought, technological advances and cultural transformations, today we are lucky to be given 24 hours". Complex challenges defy existing solutions, resources, approaches, theories, work methods; they question fundamental assumptions and models. By their nature, complex challenges require new knowledge, resources, and perspectives found outside current organizational capacity. As such, these challenges create new demands for leadership. The huge research work and the development of various leadership theories and models is a reaction to these unprecedented challenges on organizational leadership from all dimensions.

Thus, leadership, like all other aspects of organizations, has experienced fundamental transformation in order to react, to learn, and to approach work in innovative ways to combat complex challenges. According to a research by Center for Creative Leadership

(CCL), future leadership skills will place increased emphasis on building relationships, collaboration, and change management (www.ccl.com). Leadership moves from more traditional, individual leadership approaches to more innovative and collaborative. Chris Speechley, (2005) identified three major complications that demand the transformation of organizational leadership: technological change, globalization and leading at distance.

2.3 Environmental Challenges Facing Organizations

Organizational behavior can be a product of the forces outside of an organization as it is a product of the organization itself (Dietz et al., 2003). This has led to the inclusion of environmental antecedents in the study of organizational behavior (Pfeffer and Salancik, 1978). The construct of volatility of the external environment is used to characterize an ever-changing and uncertain external environment. The volatility of the external environment influences how organizations restructure themselves to cope with changes or to anticipate them. Fulmer, Gibbs, and Goldsmith (2000) noted that globalization, deregulation, e-commerce, and rapid technological change are forcing companies to reevaluate the way they operate. This is particularly important in today's competitive environment where external constituencies pressure companies for financial performance and social responsibility. Bennis and O'Toole (2000) have identified hyper-competition, Internet era volatility, turbulence and mergers as influential environmental factors pressurizing executives. Increased international competition and technological change have served to break stable bureaucracies,

replacing them with more ad hoc arrangements such as contracting and alliances (Pearce et al., 2000). Changes in societies, markets, and technology around the world are forcing companies to clarify their values, develop new strategies, and learn new ways of operation (Heifetz and Laurie, 1998).

The changing expectations of shareholders, customers and the general public are additional sources of influence on organizational behavior from the environment. Such changes call for new models in organizational structures, management practices, and leadership.

Volatility and complexity may make the environment less predictable and may influence the type of leadership emerging within the organization. In a volatile environment, new management styles that enable intangibles to be developed and dynamic capabilities to be practiced are clearly critical (Teece, 1998). Organizations cannot initiate such strategic re-alignment without the presence of a transformational leader. Gibbons (1992) considered environmental complexity and scarcity as external factors influencing the form of the required transformational leadership.

2.4 Transformational Leadership Concept: Inception and Development

While in the past, leadership models and researches focused upon leader characteristics and behaviors (Keegan and Den Hartog, 2004), such approaches have been displaced by a more dynamic view of social change where leaders are not expected to know every answer and bear full responsibility for problem-solving

(Heifetz, 2004). Such views modify our perceptions of modern leaders from authoritarian decision-makers to instrumental facilitators.

The concept of transformational leadership has altered our notions and understanding of leadership and its effects on individuals, teams and organizations. Transformational leadership was first introduced by Burns (1978) who described it as the process through which leaders effect a radical change in the behavior of followers. Transformational leaders increase the confidence of individuals or groups, arouse awareness and interest in the group or organization, and attempt to move the concerns of subordinates to achievement and growth rather than existence (Bass, 1985). Indeed, research into transformational leadership shows that this leadership style converts followers into leaders and results in motivational and moral elevation of both followers and leaders (Burns, 1978; Pawar, 2003).

The appeal of transformational leadership lies in the ability of the leader to inspire followers to transcend their own interests and work towards the benefit of all (Nadler and Tushman, 1990). For this reason, Bass (1990) suggests that transformational leadership is closer to the prototype of leadership that people have in mind when they describe their ideal leader. He identified four characteristics of the transformational leader: “Inspirational Motivation”, where leaders enthuse followers, build confidence and empower them to face difficult challenges; “Intellectual Stimulation”, which encourages challenging of norms and assumptions as well as divergent thinking and development of innovative strategies; “Individual Consideration”, which identifies and

caters for the developmental needs of followers through coaching, mentoring and growth opportunities and “Idealized Influence”, which encompasses the ethical and moral standing of leaders and engenders both trust and loyalty between leaders and followers.

Likewise, Schriesheim (2006) argue that transformational leadership is associated with higher levels of subordinate motivation, effort, satisfaction and performance.

2.5 Transformational Leadership and Change

The pace of change confronting organizations of all forms from all dimensions has aggravated the need for more adaptive, flexible leadership. Adaptive leaders work more effectively in rapidly changing environments by helping to make sense of the challenges confronted by both leaders and followers and then appropriately responding to those challenges. Adaptive leaders work with their followers to generate creative solutions for complex problems, while also developing them to handle a broader range of leadership responsibilities (Bennis, 2001). It is this type of leadership that Bass (Bass, 1985) labeled as transformational.

Transformational, charismatic, and visionary leaders can successfully change the status quo in their organizations by displaying the appropriate behaviors at the appropriate stage in the transformation process. When there is a realization that the old ways no longer work, such leaders may undertake the task of developing an appealing vision of the future that can provide both a strategic and a motivational focus, a clear statement of the purpose of the organization and a source of inspiration

and commitment. Consistent with Ford and Ford (1994), this view holds that leaders create change by providing a vision that is attractive to followers rather than creating dissatisfaction with the status quo. When leaders fail to do so, the survival of the organization they are leading is dimmed to fail. In recent years the heads of IBM, GM, American Express, Westinghouse, Eli Lilly, Allied Signal, Kodak and Tenneco all lost their job because they failed to lead their firms through a successful transformation necessary for the new environment and the challenges it has brought (Luthans, 2002).

A transformational leader would be a good facilitator of the transformation process by promoting the creation of a culture that encourages team-decision making and behavioral control (Manz and Sims, 1990). The leader's individualized consideration would also play a role in neutralizing the inevitable resistance that is bound to accompany the transformational process. Furthermore, the leader must work at getting large numbers of people in the organization involved in the transformation process. Throughout the process, the leader should set high performance expectations and reward behaviors that are directed toward fulfillment of the vision. It is also important that the leader models the behaviors that are required to institutionalize the change and sets the standards for the rest of the organization to emulate. As Kotter (1995) argues, change sticks only when it becomes the way we do things around here", when it seeps into the bloodstream of the corporate body. The transformational leader can play a critical role in communicating how the changes have led to better performance and ensuring that the next generation of top management personifies the new approach (Kotter, 1995).

In terms of institutional and organizational change, Eisenbach et al. (1999) argue that transformational leaders can bring about large scale organizational transformation through creating an organizational system or organizational culture that is neither too rigid nor too chaotic. Tierney (1999) found that the quality of work relations that employees experience through transformational leadership can create a positive psychological climate for organizational change.

The successful management of change requires transformational leaders to display appropriate behaviors and accomplish certain tasks. Tichy and Devanna (1990) argued that transformational leaders bring about change through a three-stage process: recognizing the need for change; creating a new vision and institutionalizing change. Transformational change is regarded as a frame-breaking process which results in radical changes to the organization/society (Zhu et al., 2005). Two types of organizational change are apparent accordingly:

- (1) Developmental and motivational changes in followers; and
- (2) Institutional and organizational change (Pawar, 2003).

Through employing developmental processes, transformational leaders empower followers helping them become more autonomous and competent individuals who reach self-actualization and higher levels of morality in the pursuit of valued outcomes (Burns, 1978).

2.6 Transformational Leadership Impacts

Transformational leadership is associated with characteristics such as high performance, group cohesion, and higher level of employee satisfaction, efficient communication, creativity and innovation. While some of the studies are conducted in different organizational cultural settings, commanding considerable support, others need further study.

Research findings have consistently highlighted the positive influence of transformational leadership on organizational outcomes. For example, transformational leadership was found to result in lower employee turnover, increased organizational citizenship behavior (Pillai, Schriessheim & Williams 1999) and lead to stronger organizational commitment (Podsakoff et al. 1996).

Achieving higher levels of individual performance is widely researched in the transformational leadership literature (Avolio and Yammarino, 2002; Bass, 1985, 1990) and the findings indicate that transformational leadership has promoted performance beyond expectations. DeGroot et al. (2000), in their meta-analysis of leadership and performance noted “results show an effect size at the group level of analysis that is double in magnitude relative to the effect size at the individual level”.

Hater and Bass (1988) conducted comprehensive studies relating transformational leadership to objective performance criteria and found that transformational leaders had outperformed transactional leaders. Meta-analyses conducted by Lowe, Kroeck,

and Sivasubramaniam (1996) have confirmed the positive relationship between transformational leadership and performance. Moreover, Cooke (2000) studied the effects of transformational leadership on motivation and productivity. The study revealed a significant positive relationship between the two variables.

A study by Athena Xenikou and Maria Simosi (2006) on transformational leadership and business unit performance concluded that transformational leadership stimulates goal setting, task accomplishment, and an achievement orientation. More specifically, transformational leadership might create group expectations for higher performance.

Kahai et al (2000) demonstrated that transformational leaders are likely to increase group performance in that they are instrumental in overcoming social loafing among group members. Additionally, Balthazard et al. (2002) reported that face-to-face teams were more likely to demonstrate higher levels of shared (transformational) leadership than virtual teams.

Keller's (1995) study revealed that transformational leadership, initiating structure, and consideration for people were each significantly associated with higher project quality. House and Shamir (1993) pointed out that transformational leaders selectively aroused the motives of followers, something which yielded: enhancement of the intrinsic values of goal accomplishment; follower intrinsic satisfaction from participation in the leader's mission; increase in commitment to the leader's vision; and additional engagement by the follower.

Correlation analysis between the dimensions of service quality and the dimension of transformational and transactional leadership on six UAE hospitals revealed that transformational leadership is positively associated with all dimensions of service quality, Naceur, et.al (2005). This supports other studies on the impact of transformational leadership on performance (Yammarino et al., 1993).

Another study on service companies done by Geyer and Steyrer (1998) evaluated the impact of transformational leadership practices of managers heading Austrian branch banks on long-versus short term performance. The study reported a strong and positive relationship between transformational leadership and long term performance, attributed to the leaders' ability to creating inspired, committed and cohesive culture in their banks.

Carless, Mann, and Wearing (1995) reported that follower ratings of transformational leadership predicted the financial performance of Australian banks, and that leadership style was mediated in terms of its relationship to performance through the level of group cohesion associated with each bank unit.

Ratings of transformational leadership were positively correlated with supervisory evaluations of managerial performance (Hater & Bass, 1988), recommendations for promotion (Waldman, Bass, & Yammarino, 1990), research and development project team innovations (Keller, 1992), and percentage of financial goals achieved in strategic business units (Howell & Avolio, 1993).

2.7 The Qualities of Transformational Leadership

The optimal profile is characterized by the presence of certain qualities of transformational leadership. They are the leaders' qualities contained in appropriate transformational abilities of leaders and in certain attributes which are assumptions for the use of leaders' skills and for successful performance of leader jobs. The components of transformational leadership have been identified in a variety of ways, including through the use of factor analyses, observations, interviews, and descriptions of a follower's ideal leader. Using the Multifactor Leadership Questionnaire (MLQ-Form 5X; Avolio & Bass, (2002), Avolio, Bass, and Jung (1999) and Antonakis (2001) identified the distinct components of transformational leadership. The four components of what Avolio et al (1991) referred to as a higher order construct of transformational leadership are the following:

- (1) Idealized influence (or charismatic influence).
- (2) Inspirational motivation.
- (3) Intellectual stimulation.
- (4) Individualized consideration.

The following discussion summarizes these areas and identifies the characteristics that accompany each of them.

2.7.1 Idealized influence

Idealized influence is the charismatic element of transformational leadership in which leaders become role models who are admired, respected, and emulated by followers (Avolio and Bass, 2002; Bass, 1998; Bass and Avolio, 1994). Consequently, followers demonstrate a high degree of trust in such leaders (Bass, 1990b; Jung and Avolio, 2000). Idealized influence in leadership also involves integrity in the form of ethical and moral conduct (Tracey and Hinkin, 1998).

The development of a shared vision is an integral component of the idealized, transformational leader's role (Jung and Avolio, 2000). It helps others to look at the futuristic state, while inspiring acceptance through the alignment of personal values and interests to the collective interests of the group's purposes (Avolio and Bass, 2002; Bass, 1990b, 1998; Jung and Avolio, 2000). Transformational leaders are also willing to take and share risks with followers (Avolio and Bass, 2002; Bass, 1998).

2.7.2 Inspirational Motivation

Transformational leaders inspire and motivate others by “providing meaning and challenge to their followers’ work” (Avolio and Bass, 2002, p. 2). The spirit of the team is “aroused” while “enthusiasm and optimism are displayed” (Bass, 1998, p. 5). The transformational leader builds relationships with followers through interactive communication, which forms a cultural bond between the two participants and leads to a shifting of values by both parties toward common ground. The leader inspires followers to see the attractive future state, while communicating expectations and

demonstrating a commitment to goals and a shared vision. Idealized influence and inspirational motivation are usually combined to form charismatic-inspirational leadership (Bass, 1998). Transformational leader articulates the vision in a clear and appealing manner, explains how to attain the vision, acts confidently and optimistically, expresses confidence in the followers, emphasizes values with symbolic actions, leads by example, and empowers followers to achieve the vision.

2.7.3 Intellectual Stimulation

Transformational leaders stimulate their followers' efforts to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways (Avolio and Bass, 2002). Followers' mistakes are not publicly criticized and creativity is openly encouraged. Transformational leaders solicit their followers' ideas and creative solutions to problems, thereby including followers in problem solving. The intellectually stimulating leader encourages followers to try new approaches but emphasizes rationality (Bass, 1990).

2.7.4 Individualized Consideration

The transformational leader disburses personal attention to followers based on the individual follower's needs for achievement and growth (Avolio and Bass, 2002). To do this, the leader acts as a mentor or coach, developing followers in a supportive climate to higher levels of potential (Bass, 1998). The considerate leader recognizes and demonstrates acceptance of the followers' individual differences in terms of needs and desires. By doing this, the transformational leader fosters two-way communication through effective listening. The leader develops followers by

delegating tasks and then unobtrusively monitoring those tasks - checking to see if additional support or direction is needed. The net effect of individualized consideration and other transformational leadership behaviors is empowerment of followers (McFillen, 1996).

2.8 Development of the Multifactor Leadership Questionnaire (MLQ)

Bass and his colleagues identified components of transformational leadership which are further measured with the Multifactor Leadership Questionnaire (MLQ). Numerous other studies have been conducted to analyze frequencies of behaviors of leaders observed by subordinates in business, agencies, and the military. The following four components of transformational leadership were developed:

- (1) Idealized influence (or charismatic influence).
- (2) Inspirational motivation.
- (3) Intellectual stimulation.
- (4) Individualized consideration

The state-of-the-art paradigm within leadership is the theory of transformational - transactional leadership proposed by Burns (Burns, 1978) and further developed Bass and Avolio (Bass & Avolio, 2000). Over the last two decades, the Multifactor leadership Questionnaire (MLQ) has been developed and validated (Avolio & Bass, 2004). It is now the standard instrument for assessing a range of transformational, transactional and non-leadership scales.

CHAPTER THREE

DATA ANALYSIS AND FINDINGS

Findings of the study are presented in two separate parts. The first part deals with findings from secondary sources. The establishment of Ethiopian Airlines as one of Africa's pioneers in the aviation industry is briefly summarized. The Airline's nine years financial performance is also included to see how it managed to make profit in a period of industrial crises. Furthermore, industry wide challenges to the Air Transport sector is made emphasizing existing and potential challenges that Ethiopian Airlines has.

The second part deals with analysis of data gathered through questionnaire from randomly selected employees of Ethiopian Airlines. The analysis is classified in to four sections based on the major qualities of transformational leadership explained in chapter 2 of this study.

3.1 COMPANY BACKGROUND

3.1.1 Establishment of Ethiopian Airlines

Air transport technology was introduced to Ethiopia only twenty five years after the first attempt made in the year 1903 by the Wright Brothers to fly in the air and not long after human beings were able to cross the Atlantic Ocean with an airplane. After seventeen years of the arrival of the first aircraft in Ethiopia, the national carrier was established in 1946 with the objective of providing air transport service both within Ethiopia and on continental level. Ethiopia is believed to be one of the first nations in

Africa to adopt the air transport technology. Accordingly, the country was one of the founding members of the International Civil Aviation Organization (ICAO) by the year 1944.

Several influencing factors are mentioned for the introduction of Air transport within such a short period after the emergence of the technology. The large size of the country and population distribution coupled with the rugged terrain of the topography made air transport fitting and important (Lovink, 1997). Surface transport was nearly non-existent.

Within a 6-years period after commencement it was able to link 21 cities and towns to the capital, Addis Ababa. In subsequent years the demand for air travel passengers grew fast and the Airline expanded its reach to 42 destinations in late 1960's and early 1970's. In addition to the growing number of passengers, the Airline was also engaged in cargo services to transport agricultural products such as sacks of coffee beans and pepper, small containers of butter and honey, hides and livestock (Price, 1996).

The humble beginning expanded rapidly in the international frontier. The Airline commenced international operation with Addis-Cairo flight on April 8, 1947 using Douglas DC-3 propeller-driven aircraft and Addis-Nairobi on the same year. Currently, it links the country to 50 cities in four continents; 28 of them in Africa, 13 in Asia, 7 in Europe and 2 in the Americas. Starting from Africa, it stretched its wings to Europe, Asia and North America.

Ethiopian Airlines has a strong reputation in Africa where many countries don't have national carriers. Only a few countries in Sub-Saharan Africa have flag carriers that are relatively healthy in economic terms (Kenya, South Africa, Ethiopia and Mauritius). Moreover, its long known slogan "Bringing Africa Together" which started as a social project and part of Pan-African spirit has been powerfully pushing to a strong presence in the African market in the face of significant losses (Richard, 2004). The airline has a good safety record and is one of the few profitable African airlines. It also provides training and maintenance services to more than a dozen other African and Middle Eastern airlines.

International airports are located at Addis Ababa and Dire Dawa. In the last ten years, the Government has built airports in Bahardar, Gonder, Mekele, Axum, Lalibela and Arba Minch. These have the capacity to accommodate jet planes and an average of 200 terminal passengers. The new passenger terminal at the Addis Ababa Bole International Airport became functional in 2003, boosting the Airlines ambition to create a new passenger super hub in East Africa.

3.1.2 Management Development

In the years following its formation, Ethiopian Airlines received considerable managerial assistance from Trans World Airlines (TWA) of The United States. A large number of expatriate skilled work force controlled the management, while baggage handling and lower level service oriented tasks were left for the local staff. Though owning a flag carrier at that time was a source of pride by itself, the idea of

Ethiopianization was at the heart of the then imperial government. The first significant step in realizing this vision came in 1957, when Capitan Alemayehu Abebe become the first Ethiopian commercial aircraft commander after years of rigorous training (Alemayehu, 2005). The Airline continued to build its capacity by recruiting and training Ethiopians to handle more important operations. Accordingly, the number of Ethiopian personnel grew from 46% in 1947 to 77% in 1953, even though it took longer to replace foreign technicians.

The work of replacing the largely-foreign staff with Ethiopians recorded another milestone in 1962 when Ethiopian technicians proved to be capable of maintaining critical activities. The first Ethiopian general manager, Colonel Semret Medhane was appointed in 1971. This was followed by further reduction of expatriate staff from 90 to just 20 in four years under an Ethiopian leadership. In a time of colonial rule in most parts of Africa, Ethiopian Airlines was moving against the tide to prove that Africans are capable of flying modern jets and manage an Airline. The Airline continued to place a premium on human resource development. Its Multinational Aviation Training Center has strong reputation for its pilots and technicians. The training center has trained nationals from over 46 countries, most of them in Africa and Middle East.

Currently, the Airline has an organizational structure with Board of directors at the top, a CEO, four Executive Vice presidents and eleven vice presidents as shown in annex B. As of end of March, Ethiopian has a total of 4,700 employees. Also shown in

annex B is the mission and vision of the company.

3.2 CHALLENGES FACING ETHIOPIAN AIRLINES

3.2.1 High Oil Prices

Several factors contributed to the increase in the prices of oil in the world market. The boom in world economy since 2003 in general and high economic growth in China, India and other developing countries has put pressure on the price of oil following the dramatic surge in demand (Aircraft Commerce, 2006). The second major factor for the increase in the price of oil is the underdevelopment of oilfields and producing capacity over the past two decades, and rising oil production costs. Oil is traded as futures or options rather than as commodity and is dominated by speculation, which has a further pressure on price hike. Disruption of supply in Iraq and Nigeria is also another factor for the soaring oil prices. The following graph depicts oil price trend in international Markets.

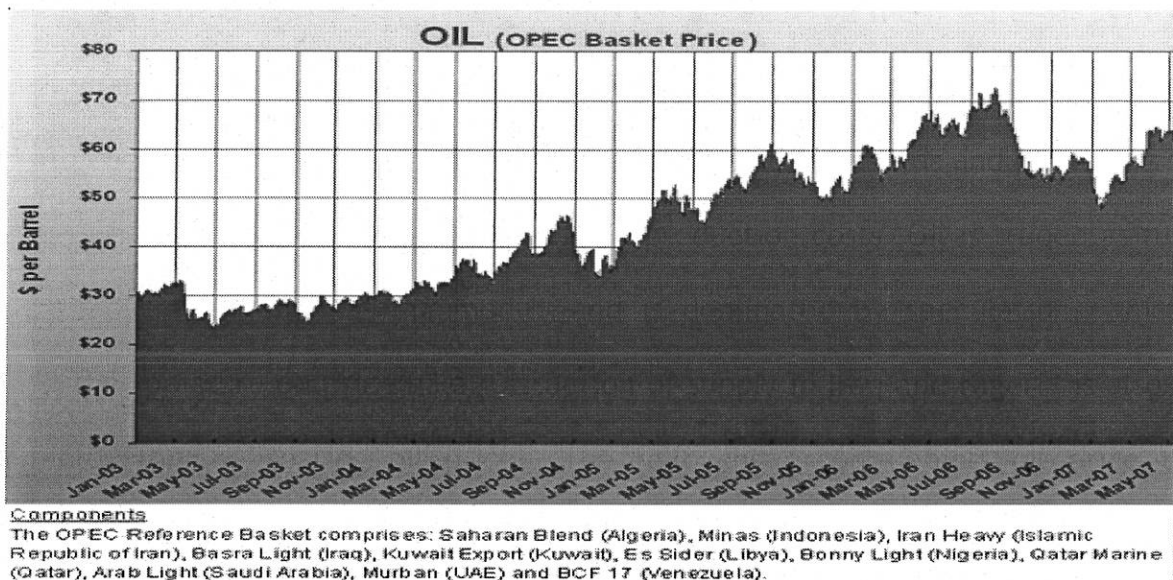


Figure 3.1: Oil Price Trend

Source: OPEC

The share of fuel in Airline operating expenses has been increasing rapidly since the year 2001. The global Airline industry's fuel cost increased by a net \$21 billion in the year 2006 from the previous year (IATA, 2006). The industry's fuel bill is expected to increase by another \$8 billion in 2007 (IATA, 2007), constituting 26% of operating expenses. IATA expects a 2.5% fuel cost saving per year at industry level due to increase in fuel efficient Aircrafts, however, no improvement is forecast in world fuel prices in the coming few years.

Fuel cost constituted 32.30% of operating expense at Ethiopian Airlines for the 2004/2005 fiscal year, making it the largest single component in operating expenses category (annual report, 2004/05).

As one of the mechanisms to minimize operating expenses related to fuel, Ethiopian has ordered 10 of the fuel saving Boeing 787s due for delivery in 2008. The 787s use 20% less fuel than other aircraft of a similar size, with 30% less maintenance cost (Ericson, 2006) which contributes to the Airline's cost competitiveness.

3.2.2 The Rise of Middle Eastern Airlines and Intense Competition

The increase in the price of oil is fueling the economies of Middle Eastern countries where the world's largest oil reserve is located. In addition to access to cheap fuel, Gulf States are making massive investment in Air transport. The governments in this region often fund their airlines by buying new equipment and helping them to gear up

for future challenges. In a period of less than two decades, the region has created world class airlines that are still growing at unprecedented rate.

Middle Eastern airlines recorded a 19.7% increase in passenger traffic in Q1, 2007 compared with the previous year, according to the Air Transport Association data, cited by Reuters. Overall international air passenger traffic rose 7%. Regional freight demand increased by 14.6% due to more routes and an increased volume in perishable goods (www.Routers.com).

Ethiopian Airlines has been flying to the Middle East since it commenced international flight. It has been a link between Africa and the Middle East. Situations are changing as many of Middle Eastern Airlines are increasing their presence in Africa-Middle East route. The Airline is now loosing its African market to the newly emerging Airlines in the region. Emirates Airlines, for example has 15 destinations in Africa including its daily flight to Addis. In addition, Qatar Airways' African network currently covers Casablanca, Algiers, Tunis, Cairo, Alexandria, Luxor, Khartoum, Tripoli, Cape Town, Johannesburg and Nairobi (www.travelindustrydeals.com).

Furthermore, Middle Eastern Airlines are expected to dominate the aviation business with in Africa as well as between Africa and the Middle East, Asia and Europe. This has been considered unattractive in the past and has been dominated by Ethiopian Airlines. Katrina Manson (2006) in his investigation in to the future of African Airlines, concluded "African Airlines will have an interesting problem to face " implying the growing competition from Emirates Airlines in Africa and recommends speedy attempt

at cooperation, partnering and co-share, before it could put breaks on the development of African Airlines.

Middle Eastern Airlines such as Emirates, Gulf Air and Qatar Airlines are making rapid inroads into the African market (Ryan 2004). Lack of sufficient surface transport on the one hand and better economic growth in many African Countries in recent years on the other has increased the demand for Air Transport service. Demand for Air Transport has been higher in Africa than the industry average (Nick 2006). As a result of this, many Airlines are making their way to the continent.

According to a study conducted by the BCG Middle Eastern carriers have been the fastest-growing long-haul airlines in recent years. They are making headlines for the largest procurements of aircrafts, responsible for a quarter of all global long-haul aircraft orders over the next decade. They also enjoy significant cost, capacity, and ownership advantages over their competitors. The rise of Middle Eastern carriers is a real and credible competitive threat in the long-haul travels (BCG).

Currently four Middle Eastern Airlines, Emirates, Saudia, Yemenia and Etihad fly to Addis Ababa. Emirates Airlines is aggressively expanding its service with a daily flight to Dubai. Emirates Airlines is expected to become the world's largest long-haul carrier by 2012 according to BCG's study. Qatar Airways is another giant from the Middle East that has become one of the best five Airlines in the world despite its recent emergence. It refrained from commencing flight to Addis because it couldn't get

green light from Ethiopian Civil Aviation Authority for a daily flight between Addis Ababa and Abu Dhabi.

In addition, European carriers are trying to penetrate the African domestic market by creating their own hubs and competing with local companies. British Airways, for example, has signed a series of franchise contracts with local companies in South Africa, Kenya and Zambia. Air France took control of Air Ivoire for the same purpose. Air Luxor, a privately held Portuguese airline, has developed a strategy to operate in Portuguese-speaking countries in a joint venture regime with local airlines (in Mozambique, Sao Tome, Bissau, and Cap Verde), (www.ilo.org).

African Airlines, under the umbrella of African Airlines Association (AFRAA) have expressed concern over the dominance of European carriers and poaching of pilots and traffic controls (www.allafrica.com).

3.2.3 High Employee Turn over

The impact of fast growth in the Airline industry in the Middle East, China and India has another dimension in relation to destabilizing the manpower. The huge growth in the aviation sector in these countries has led to shortage of pilots. According to a study by Boeing, China alone needs 5,000 pilots to fly more than 2,400 new passenger and freight aircrafts and India will need 5,000 pilots in just 3-4 years. Middle Eastern Airlines demand 4,800 extra pilots to fly more than 600 additional aircrafts expected in the next 20 years. Emirates Airlines has 1,200 pilots from more than 60 countries and is looking to double this number in the coming 4 years

(www.AviationSchollsonline.com). Moreover, Boeing Company estimates the global appetite for new pilots at 17,000 a year through 2024. Four out of five pilots at Qatar Airways are foreign, while Etihad Airways, a new airline based in Abu Dhabi, uses Malaysia as its number one source of pilots. As worldwide shortage of commercial pilots is heading to a crises level, Middle Eastern Airlines are attracting qualified pilots all over the world by offering better salaries and benefits. This has become one of the major threats for Airlines in North America, Europe and Asia. More than 70 Philippine Airlines pilots have quit from 2003-2006 for better paying jobs elsewhere.

The pride of Ethiopian Airlines over its reliable pilots' training center is under serious challenge. Its experienced pilots are targeted by the rapidly expanding Gulf state Airlines. The wide gap in salaries and benefits are irresistibly tempting, causing a serious concern for Ethiopian Airlines. Its huge investment in training seems to bear less fruit and its pride built on self sufficiency and Pan African spirit could vanish with its employees.

As a short term solution, Ethiopian Airlines pilots sign a commitment not to leave until there is some one to replace them. It has also significantly increased the salaries and benefits of its pilots in a view to maintain them. The increasing demand for pilots may lead to significant potential threat to the Airline's position in the industry.

3.2.4 Emergence of Low-Cost Airlines

The Airline industry's primary strategic challenge is product/service differentiation (Daniel 2000). This has shifted the battle front to low-cost and consequently low price

competition. Fares continued to rise and oil prices continued to rise. This is the reason for an aggregate loss of \$3.2 billion in a quarter registered by 11 US passenger Airlines (Loren and Perry 2005). On the contrary, three carriers, America West, JetBlue and Southwest, all low-cost, were profitable on a net basis the same period.

Low-cost airlines are making increasing inroads into the market share of major carriers and in the process are rewriting the rules of commercial aviation. They have attracted many new passengers who would otherwise not have flown. Many African airlines fear the arrival of low-cost rivals because of their own inability to reduce operational costs, partly due to the average age of their fleets and the high costs of maintenance (ILO, 2006). Furthermore, African travelers are more price sensitive as compared to service quality, in-flight services and on-schedule flights. Some of the low-cost airlines currently operating in Africa include Kalula, Civair, 1Time (South Africa), Flamingo (Kenya) and Atlas Blue (RAM - Morocco).

The future of the Air transport industry requires cost reduction and efficiency to remain competent in an industry that is undergoing massive turbulence. Ethiopian Airlines has made some move in this respect by ordering ten Boeing 787s that have proven fuel efficiency.

3.2.5 Conflict and Drought in the Horn of Africa

The Horn of Africa is characterized by recurrent drought, instability, devastating poverty and underdevelopment. Erratic rainfall has made life miserable for millions of

people whose livelihood is founded on traditional rain fed agriculture. The region is also one of the most politically unstable. The collapsed state structure in Somalia, the unresolved border dispute between Ethiopia and Eritrea and the conflict in the Sudan are just some of the topics making headlines. The socio-economic situation in the sub-region is deplorable, to say the least. Most of the member countries are among the poorest nations in Africa.

Tourism is a major source of revenue for some countries such as Kenya, Uganda and Tanzania. The link between Air transport and tourism is strong and two-way. The socio-political and security situations have a direct impact on tourism and hence on Air transport.

Unless considerable efforts are made to create sustainable economic development, security and peace in the East African Region, it would severely damage its tourism and the Air transport business.

3.3 FINANCIAL PERFORMANCE OF ETHIOPIAN AIRLINES

The Airline industry has been plagued by depressed financial performance and bankruptcy especially after the 2001 terrorist attack in the US. Even though the trend indicates recovery in the last five years, the impact can easily be seen from the negative net income figures as the following table indicates.

Table 3.1 - Financial Performance of the Airline Industry

Currency: US\$(Millions)

Year	Operating Revenues	Operating Expenses	Operating Results	Operating Income before Tax	ETA's Net Income in Birr(000)
1996	282,500	270,200	12300	5,300	168,870
1997	291,000	274,700	16,300	8,550	43726
1998	295,500	279,600	15,900	8,200	94676
1999	305,500	293,200	12,300	8,500	(47,590)
2000	328,500	317,800	10,700	3,700	(155,934)
2001	307,500	319,300	-11,800	-13,000	68,852
2002	306,000	310,900	-4,900	-11,300	137,106
2003	321,800	323,300	-1,500	-7,560	135,532
2004	378,800	375,500	3,300	-5,570	269,265
2005	413,300	409,000	4,300	-3,200	377,339

Source: Annual Review of Civil aviation, 2005, ICAO Journal, Vol. 61, No. 5, 2006 and Annual Report of Ethiopian Airlines, 2001-2006.

Ethiopian Airlines has continued profitably in one of the industry's turbulent years. The financial loss it has sustained in the year 1999 and 2000 is attributed the boarder conflict between Ethiopia and Eritrea.

3.4 PRIMARY DATA ANALYSIS

A total of 94 questionnaires were distributed to Managers, Directors and Vice presidents of Ethiopian Airlines selected randomly, of which 59 questionnaires were collected. This number is about 62.7% of the total questionnaires distributed. It wasn't possible to distribute to the Executive Vice Presidents as they were not willing to reply to any questionnaires for reasons stated in chapter one of this study.

Gender wise distribution of sample respondents indicates male respondents are significantly higher, constituting 87% and the remaining 13% are female. This big variation is due to the small number of women holding managerial positions in Ethiopian Airlines. The minimum number of years respondents have been working in the Airline is 4 while the maximum is 37. Sample population and responses are summarized under the table below.

Table-3.2- Summary of Questionnaire Distribution and Collection

Position	Population	Samples Taken	Questionnaires Collected	Response Rate
Managers	127	64	36	56.25%
Directors	48	24	20	83.3%
Vice Presidents	11	6	3	50%
Total	190	94	59	62.7%

Source: Questionnaire

3.4.1 TRANSFORMATIONAL LEADERSHIP IN ETHIOPIAN AIRLINES

To cope up with the global as well as industry challenges, Ethiopian Airlines has just launched a new management system, the Balanced Score Card. The process is monitored by the change management unit. In this part of the study, assessment is made on the Airline’s transformational leadership status based on questionnaires adopted from the multifactor leadership questionnaire. The questionnaire has two parts (see Annex A). The first part requests the respondent some general information such as job position, name of department, the department or position he/she is reporting to, number of years at current position, age, sex and total number experience in the Airline.

In the second part of the questionnaire, respondents were asked to rate their superior's profile of transformational leadership using a five point rating. Findings are organized in to four major parts based on the four qualities of transformational leadership and analyzed both at organizational and management levels.

3.4.2 Idealized Influence

Idealized influence, as explained in detail in chapter two of this study, the leader acts as a role model having an empowering attitude, commitment and self confidence. From the questionnaire, those that are used to measure idealized influence are analyzed separately as follows.

Table 3.3- Summary of responses for questions used to measure idealized influence

Questions	N	Min	Max	Mean	Std. Deviation
Empowers people	53	1	4	2.74	.711
Gets people involved in decisions	55	1	4	3.22	.786
Creates in others a sense of ownership	55	1	4	3.18	.884
Uses the word "We" instead of "I"	55	1	4	3.25	.886
Builds team spirit	55	1	5	3.05	.911
Strengthens people by giving power	54	1	4	2.89	.861
Doesn't lose balance in the face of calamities	55	1	4	2.95	.803
Has sense of self- determination/self confidence	55	1	4	3.05	.848
Keeps his /her level of energy up high	54	1	5	3.20	.898
Model of persistence and perseverance	53	1	5	3.00	.941
Talks about principles or values behind decisions	55	1	4	3.20	.890
Stands up for his /her beliefs taking risks	54	1	5	2.72	.960

Source: Questionnaire

N= Valid Responses, Min= Minimum and Max= Maximum

The mean score for the factors used to measure idealized influence ranges from a minimum of 2.72 corresponding risk taking tendency of leaders to a maximum of 3.25

encouraging a “we” attitude than “I”. The result is indicative of the high risk aversive nature of leaders as perceived by their subordinates. That means, leaders are not willing to sacrifice their own interest, for the good of the organization. In general, however, the responses are not very much deviated from the mean as can be seen from the standard deviations column. The mean of means is 3 implying that idealized influence is observed only ‘sometimes’ by Ethiopian Airlines leaders as perceived by their subordinates. Analysis of responses under each question is discussed in detail in the following paragraphs.

With respect to empowering subordinates, out of the 32 Managers that responded to this question, 12 said they noted empowering attribute once in a while and 15 of them responded only ‘sometimes’. The perception of managers and directors towards their immediate supervisors regarding empowerment indicates high frequency for ‘Sometimes’, with 15 and 10 out of 32 and 18 managers and directors respectively. Summary of the responses are shown in table 3.4 below.

Table 3.4- Summary of Respondents’ perception of their superiors’ empowering ability

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Empowers people	NOT AT ALL	1	0	0	1
	ONCE IN A WHILE	12	6	1	19
	SOMETIMES	15	10	1	26
	FAIRLY OFTEN	4	2	1	7
Total		32	18	3	53

Source: Questionnaire

One specific aspect of empowerment is subordinates’ participation in decisions that matter to the organization and their life. In this regard, the overall perception of

respondents indicates that 45% responded ‘sometimes’ while a significant percentage of 40% said it happens ‘fairly often’. The responses to these two similar consecutive questions seem to be inconsistent as it indicates more participative decision making than empowerment. The responses are homogeneous across the levels of management. Summary of responses are shown in the following table.

Table 3.5- Respondents’ perception of their superior’s tendency to involve people in decision making

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Gets people involved in decisions	NOT AT ALL	1	1	0	2
	ONCE IN A WHILE	5	1	0	6
	SOMETIMES	17	6	2	25
	FAIRLY OFTEN	11	10	1	22
Total		34	18	3	55

Source: Questionnaire

Creating a sense of ownership in the minds of the followers is another source of influence for the transformational leader. Assessment of this factor indicates that Directors, Vice Presidents and Executive Vice Presidents are perceived by their subordinates as creating a sense of ownership in Ethiopian Airlines. Responses summarized in the table below shows that more than 82% of managers perceive that directors create a sense of ownership of the company in their subordinates at least sometimes. The same measure for Executive Vice presidents is slightly higher.

Table 3.6: Informants perception of their superior's ability to create a sense of ownership in followers

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Creates in others a sense of ownership	NOT AT ALL	2	2	0	4
	ONCE IN A WHILE	4	0	1	5
	SOMETIMES	15	8	0	23
	FAIRLY OFTEN	13	8	2	23
Total		34	18	3	55

Source: Questionnaire

Transformational leaders encourage the development of team spirit in their organizations. Organizations are transforming themselves from individual orientation to team orientation to cope up with the challenges they are facing in today's dynamic competitive environment. Accordingly, respondents were asked to evaluate their superiors in their role in encouraging team spirit.

Analysis of the perception of subordinates about their superiors in developing team spirit and fostering collaboration on common goals indicates that such efforts are rare. The majority, 45.5% responded only 'sometimes' their subordinates engage in team spirit building and 38% said their superiors engage in fostering collaboration on common goals. The overall perceptual rating once again indicates that Directors, Vice Presidents and Executive Vice Presidents don't attempt to develop team spirit and collaboration in areas of common company goals.

Transformational leaders find a way to channel constructively their sincere enthusiasm while at the same time holding to the rules that there are no easy answers to the

complex and dynamic problems facing organizations. They are not overwhelmed by the calamities in the environment.

Respondents were asked to rate their superiors reaction to calamities. Twenty three out of fifty five respondents indicated that their superiors ‘sometimes’ don’t lose balance while fifteen responded ‘fairly often’ that their superiors stand firm in the face of calamities. The following table indicates the summary.

Table 3.7- Respondents perception of their superior’s reaction to calamities

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Doesn't lose balance in the face of calamities	NOT AT ALL	1	0	0	1
	ONCE IN A WHILE	9	7	0	16
	SOMETIMES	18	3	2	23
	FAIRLY OFTEN	6	8	1	15
Total		34	18	3	55

Source: Questionnaire

Transformational leaders are rated high in the confidence they have in themselves and in what they do. Self confidence is also one of the most commonly talked about attribute for leadership effectiveness. Attempt has been made to assess if this attribute is observed in Ethiopian Airlines. Of the total 55 respondents, an equal number of 24 responded ‘once in a while’ and ‘sometimes’, leaving one respondent saying ‘not at all’ and the remaining 6 saying ‘fairly often’.

Transformational leaders have extraordinary level of commitment and self-sacrifice for the attainment of company mission and vision. It is this willingness to forgo one’s own interest and seek organizational vision which creates a sense of respect for the

leader and his/her purpose. In this respect, the perceptions of respondents are summarized under table below.

Table 3.8- Respondents perception of their superior’s risk taking tendency

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Stands up for his /her beliefs taking risks	NOT AT ALL	4	0	2	6
	ONCE IN A WHILE	5	9	1	15
	SOMETIMES	15	7	0	22
	FAIRLY OFTEN	8	2	0	10
	FREQUENTLY	1	0	0	1
Total		33	18	3	54

Source: Questionnaire

As can easily be seen from the above table, 15 of the 54 respondents said that their supervisors take risks once in a while. Twenty two responded only ‘sometimes’. Comparison across management levels indicates that directors are better in taking risk than both Vice presidents and Executive Vice presidents. Risk averse behavior is more prevalent at the Executive Vice President level as all the three responses indicate.

3.4. 3. Inspirational Motivation

The ability to inspire others to serve the organization is a mark of true transformational leader. Inspiration is the capacity to mobilize, activate, motivate, stimulate, and cause others for a passionate vision, to participate in a change of their own priorities. It encourages people to keep moving.

Respondents were asked to rate their superiors in terms of their sense of direction or the tendency to look forward to see the level of inspirational motivation that leaders have on their followers in Ethiopian Airlines. Responses are summarized under table below.

Table 3.9: Respondents’ evaluation of their superior’s sense of direction

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Is forward looking/sense of direction	NOT AT ALL	11	2	1	14
	ONCE IN A WHILE	13	9	2	24
	SOMETIMES	7	7	0	14
	FAIRLY OFTEN	1	1	0	2
Total		32	19	3	54

Source: Questionnaire

Respondents which said ‘not at all’ and ‘once in a while’ account for about 70 % of the total responses. Fourteen said ‘sometimes’ and the remaining four responded ‘fairly often’. Overall responses indicate that leaders lack sense of direction.

Directors are rated very low as indicated in the table. 75% of respondents that rated directors indicated that sense of direction is not observed at all or only ‘once in a while’, 7 responded ‘sometimes’ and one said ‘fairly often’. Vice Presidents and Executive Vice Presidents are also rated low by their respective subordinates on their sense of direction and forward looking attitude.

One criterion by which inspirational leadership quality is evaluated is the ability of the leader to explain the company’s mission, vision and objectives using graphic concepts.

forty two point eight six percent
approximately
thirty three

This helps to create the necessary inspirational power through understanding. Respondents were asked if they have noted such behavior in their superiors.

Responses are summarized in the table below. Out of the total 32 managers that responded to this question, 11 of them (34.4%) said their immediate superiors have not used graphic concepts at all to describe the company's mission, vision and objectives. An equal number of managers responded that their supervisors used graphic concepts 'once in a while'.

Table 3.10- Summary of respondents' assessment of their superiors on the basis of use of graphic concepts

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Uses graphic concepts to describe	NOT AT ALL	11	1	2	14
	ONCE IN A WHILE	11	11	0	22
	SOMETIMES	8	7	0	15
	FAIRLY OFTEN	2	0	2	2
Total		32	19	2	53

Source: Questionnaire

Vice presidents also scored low on this account. Out of the 19 respondents, 7 said they 'sometimes' see vice presidents use graphic concepts, while 11 of them said they noted only 'once in a while'.

Transformational leaders possess the guiding vision of the company. They are interested in what is going to happen than what is happening. It is this insight that gives the transformational leader the potential to overcome challenges. Respondents were asked to rate their superior for visionary attributes which is summarized under table below.

Table 3.11- Respondents' perception of their superiors on being visionary

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Has visions/dreams of what can be	NOT AT ALL	5	1	0	6
	ONCE IN A WHILE	11	1	0	12
	SOMETIMES	15	3	2	20
	FAIRLY OFTEN	2	12	1	15
	FREQUENTLY	0	2	0	2
Total		33	19	3	55

Source: Questionnaire

Respondents were asked if their superiors are visionary or have dreams of the future, a total of 33 managers responded. Accordingly, 5 of them said 'not at all', 11 said 'once in a while', 15 said 'sometimes' and 2 said 'fairly often'. Responses of Directors to the same question shown in the above table shows that 12 (63%) responded 'fairly often' and 3 said 'sometimes'. Vice presidents are rated as being better visionary as compared to Directors. Three Executive Vice Presidents were also rated by their subordinates, 2 said 'sometimes' and 1 responded 'fairly often'.

The success of leaders in inspiring their followers towards the company's vision depends to a greater extent on the ability to see a clear image of the future. A question asking the opinion of respondents if their superiors have a clear image of the future has been presented in the table below.

Table 3.12- Respondents' perception of their superiors on the basis of having a clear image of the future

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Has a clear image of the future	NOT AT ALL	5	0	0	5
	ONCE IN A WHILE	13	0	0	13
	SOMETIMES	13	1	0	14
	FAIRLY OFTEN	2	14	3	19
	FREQUENTLY	0	4	0	4
Total		33	19	3	55

Source: Questionnaire

Company wide response indicates that out of the 55 respondents to the question, 19 of them responded 'fairly often', 14 said 'sometimes' and 13 responded 'once in a while'. On the two extreme sides, 5 said 'not at all' and 4 said 'Frequently'.

Hierarchical analysis indicates that 5 managers responded that their superiors have no image of the future. Thirteen responded 'once in a while' and an equal number said they 'sometimes' see their superiors having a clear picture of the future. In general, directors are rated lower in terms of having a clear image of the future. On the other hand, 14 out of the 19 directors that rated Vice Presidents said they fairly often see their superiors as having a clear image of the future and 4 of them said they see it frequently. Furthermore, three Vice Presidents said EVPs fairly often have a clear image of the future.

Transformational leaders not only formulate and articulate company visions, missions and objectives; they are enthusiastic about their vision. Accordingly, respondents

were asked if their superiors are enthusiastic about their vision of the organization they are leading. Responses are summarized under the table below.

Table 3.13- Respondents' perception of their superior's expression of enthusiasm for his/her vision

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Expresses enthusiasm for his/her vision	NOT AT ALL	11	0	0	11
	ONCE IN A WHILE	13	2	0	15
	SOMETIMES	6	1	0	7
	FAIRLY OFTEN	2	13	2	17
	FREQUENTLY	1	3	1	5
Total		33	19	3	55

Source: Questionnaire

The majority of 17 respondents said their superiors 'fairly often' express enthusiasm for their vision. Fifteen others responded 'once in a while', whereas, eleven responded 'not at all'. An interesting result in this response is that 13 of the 17 who responded 'fairly often' are directors evaluating vice presidents. As one moves up the hierarchy, more enthusiasm for vision is noted by respondents. On the other hand, 11 managers responded that they don't see any enthusiasm for vision by directors and 13 said they see only once in a while.

For the followers to commit themselves to the fulfillment of the organization's mission, the transformational leader should focus on the underlying purpose. Looking at a leader who consistently strives for the attainment of the purposes he/she formulated is an additional source of inspiration for followers. Hence, respondents were asked if their superior maintains focus and constancy of purpose. A total of 55 respondents responded to the question as summarized on the table below.

Table 3.14- Respondents' assessment of their superiors' ability to maintain focus and consistency on purpose

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Maintains focus and consistency of purpose	NOT AT ALL	9	0	0	9
	ONCE IN A WHILE	11	1	0	12
	SOMETIMES	10	6	1	17
	FAIRLY OFTEN	3	12	2	17
Total		33	19	3	55

Source: Questionnaire

An equal number of 17 respondents each responded 'sometimes' and fairly often' respectively out of the 55 total respondents. Nine respondents who are managers replied that they don't see consistency of purpose in their superiors, while twelve responded 'once in a while'

The hierarchical view once again has a similar pattern to the previous question in the inspirational motivation. Out of the total 19 that evaluated vice presidents on accounts of constancy of purpose, 12 responded that they see constancy of purpose fairly often in their superiors, while 6 said they 'sometimes' see this behavior.

The responses of managers on the other hand indicate that very few superiors fairly often maintain constancy of purpose. Out of the 30 managers that responded to this question, 9 said their superiors don't maintain focus and constancy of purpose, while a majority of 11 said they observed this attribute only 'once in a while'. Another 10 respondents said that they 'sometimes' see focus and constancy of purpose.

Communication skill is critical for leadership success. In the process of selling his/her vision to followers, leaders require understanding their audience and clearly articulating company vision and mission. Respondents were asked to rate their superiors on the basis of knowledge of their audience during communication. Responses are summarized under table below.

Table 3.15- Respondent's assessment of their superior's ability to identify his/her audience in communication

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Knows his/her audience when speaking to	NOT AT ALL	2	0	0	2
	ONCE IN A WHILE	4	3	0	7
	SOMETIMES	13	4	3	20
	FAIRLY OFTEN	13	11	0	24
	FREQUENTLY	1	1	0	2
Total		33	19	3	55

Source: Questionnaire

Out of 55 respondents to this specific question, 24 responded 'fairly often' and 20 said 'sometimes'. These two responses constitute 80% of all responses. An equal number of 13 managers which constitute a combined 79% in the same management level responded 'sometimes' and 'fairly often'. The perceived audience knowledge at vice president level is dominated by 'fairly often' accounting about 58% of respondent in the same category.

Formulating the company's vision, communicating it effectively will not guarantee its realization. The transformational leader should consistently move in the vision and behave accordingly. Ethiopian Airlines has a vision it has been pursuing for decades

despite the low rating of the leaders for being visionary. Ratings for behaving consistently with vision are summarized under the table below.

Table 3.16- Summary of respondent’s perception about their superior’s ability to set example by behaving consistently with vision

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Sets example by behaving consistently with vision	NOT AT ALL	4	0	0	4
	ONCE IN A WHILE	17	1	0	18
	SOMETIMES	10	3	0	13
	FAIRLY OFTEN	0	12	2	14
	FREQUENTLY	1	3	1	5
Total		32	19	3	54

Source: Questionnaire

3.4. 4. Intellectual Stimulation

Intellectual stimulation as one of the four higher order constructs in transformational leadership deals with creativity and innovative ways to problem solving. Transformational leaders encourage their followers to challenge the usual ways of working methods and problem solving mechanisms.

The level of intellectual stimulation at Ethiopian Airlines is analyzed based on six related questions. Responses are summarized under the following table.

Table 3.17- *Summary of responses for questions used to measure intellectual stimulation of leaders*

	N	Min	Max	Mean	Std. Deviation
Recognizes and supports new ideas	55	1	4	1.89	.809
Believes that real learning and growth take place when people explore and in the process also make mistakes	54	1	4	2.00	.847
Is quite open and receptive to new ideas	54	1	3	1.91	.734
Uses examples that others relate to	53	1	4	2.04	.784
Explains why she/ he is doing what she/ he is doing	54	1	3	1.87	.702
Takes time needed to explain thinking	55	1	5	1.71	.875

Source: Questionnaire

The mean score ranges from a minimum of 1.71 to 2.00 on a five point weight. Analysis of the responses to each question is presented below.

The first question asked were if their immediate superior recognizes and supports new ideas. Out of the total 55 respondents 20 said 'not at all' and 22 responded 'once in a while'. These two responses account for over 75% of total responses. Twelve respondents said 'sometimes'. Responses are summarized in the following table.

Table 3.18: *Respondents' perception of their superiors' tendency to recognize and support new ideas*

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Recognizes and supports new ideas	NOT AT ALL	11	8	1	20
	ONCE IN A WHILE	13	9	0	22
	SOMETIMES	7	3	2	12
	FAIRLY OFTEN	1	0	0	1
Total		32	20	3	55

Source: Questionnaire

Hierarchical analysis of responses shows that 11 managers responded 'not at all' and 13 said 'once in a while', which indicate new ideas are not welcomed. A similar

pattern is noted at higher levels. Both Vice Presidents and Executive Vice Presidents are rated low in their support and recognition for new ideas.

The low level of motivation towards new ideas is reflected in the learning process which is characterized by absence of active learning through experimentation and exploration. Respondents were asked if their supervisors believe in learning through exploration where people can make mistakes in the process. About 80% of respondents replied that they either have not seen this behavior at all or it is only ‘once in a while’. Responses at different levels indicate homogeneity in this regard. Results are summarized below.

Table 3.19: Respondents’ perception of their superiors’ belief in learning by exploration

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Believes that real learning and growth take place when people explore and in the process also make mistakes	NOT AT ALL	9	6	0	15
	ONCE IN A WHILE	18	9	1	28
	SOMETIMES	3	3	1	7
	FAIRLY OFTEN	1	2	1	4
Total		31	20	3	54

Source: Questionnaire

Respondents were asked if their superiors are open and receptive to new ideas. The responses confirm the low level of entertaining new ideas and problem solving techniques as identified above. About 78% responded that their superiors are either not receptive to new idea at all or only ‘once in a while’.

Teaching is one of the critical attributes required of the transformational leader. Without teaching, fulfillment of transformational aims rests upon occasional chances. Accordingly, respondents were asked to rate their supervisor’s ability to apply relevant examples that followers can easily relate to. Results are summarized under table below.

Table 3.20- Summary of respondents’ assessment of their superiors’ ability to use examples that others can relate to.

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Uses examples that others can relate to	NOT AT ALL	10	4	0	14
	ONCE IN A WHILE	10	11	3	24
	SOMETIMES	9	5	0	14
	FAIRLY OFTEN	1	0	0	1
Total		30	20	3	53

Source: Questionnaire

As can be seen from the above table, use of examples that others relate to is limited, as 14 out of 53 responded ‘not at all’ and 24 said ‘once in a while’.

Further questions were raised to respondents to rate their superiors in taking time to explain what and why he/she is doing, with the objective of assessing leaders’ effort to create understanding with their followers. From the responses summarized under table 3.22 below, leaders look reluctant to explain things to their followers, a clear sign of lack of teaching attribute.

Table 3.21- Summary of respondents' assessment of their superiors' tendency to take time and explain things to subordinates

Question	Response	Reporting to			Total
		DIRECTOR	EVP	EVP	
Explains why she/ he is doing what she/ he is doing	NOT AT ALL	11	4	2	17
	ONCE IN A WHILE	13	13	1	27
	SOMETIMES	7	3	0	10
Total		31	20	3	54
Takes time needed to explain thinking	NOT AT ALL	18	3	0	25
	ONCE IN A WHILE	12	10	3	25
	SOMETIMES	2	1	0	3
	FREQUENTLY	0	2	0	2
Total		32	20	3	55

Source: Questionnaire

3.4.5 Individual Consideration

Transformational leaders develop powerful influence over their followers through personalized attention to the needs of their followers. Leaders use supportive and mentoring approach to develop their followers in to higher levels of potential.

Six questions are used to measure the prevalence of individual consideration in the Ethiopian Airlines leadership. Over all responses indicate a mean ranging from a minimum of 2.05 to a maximum of 3.09. The statistics of the six questions under analysis are summarized below.

Table 3.22- Summary of responses for questions used to measure individualized consideration of leaders

	N	Min	Max	Mean	Std. Deviation	Variance
Has care and concern for individuals' work as well as his personal problems	54	1	5	3.09	1.377	1.897
Genuinely cares about others	54	1	5	2.61	1.106	1.223
Encourages personal development of group members	55	1	4	2.05	.870	.756
Treats organizational members like his brothers	52	1	5	3.19	1.011	1.021
Values and appreciates individual work	55	1	5	2.56	.977	.954
Publicizes people's successes	54	1	5	2.33	1.046	1.094
Valid N (list wise)	50					

Source: Questionnaire

Further analysis in to each factor is also made and presented as follows.

The care and concern for followers underscored by an ideal transformational leader surpasses the job related aspects and reaches in to the social and family dimensions of the lives of followers. This has a tremendous influence on the job performance of the employees. To see in to this aspect in the Ethiopian Airlines context, respondents were asked to rate the care and concern they get from their superiors both in the work area and their personal problems.

Out of the 54 respondents to this specific question, 20 responded 'fairly often', followed by 13 respondents who said they get care and concern once in a while. Those who responded 'not at all' and 'frequently' are 9 and 8 respectively. The mean score for all respondents is 3.09, which corresponds to 'sometimes'. Responses are summarized under table below.

Table 3.23- Respondents' assessment of their superiors' propensity to care and concern for individual's work and personal problems

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Has care and concern for individuals' work as well as his personal problems	NOT AT ALL	0	7	2	9
	ONCE IN A WHILE	1	11	1	13
	SOMETIMES	4	0	0	4
	FAIRLT OFTEN	18	2	0	20
	FREQUENTLY	8	0	0	8
Total		31	20	3	54

Source: Questionnaire

A close look at the response pattern hierarchically indicates that care and concern for subordinates is higher in the middle management than top. Out of the 31 managers, 18 (58%) said that they 'fairly often' get care and concern from their superiors, while only 2 out of 20 directors gave a similar response of 'fairly often' in evaluating the superiors (Vice presidents). Furthermore, 8 managers said they get care and concern frequently from their superior.

At the Vice President and Executive Vice President level, care and concern for subordinates seems to diminish as can be seen from table 3.23. Out of the 20 respondents that have vice presidents as their superiors, 7 responded 'not at all' and 11 said 'once in a while'. The EVP level has a similar meaning with 2 respondents saying 'not at all' and 1 'once in a while'. The social and occupational bond seems to become lose as one move up the hierarchy.

Care and concern should be genuine and persistent if it has to bring a positive influence in the mind of the followers. The leader's integrity will be challenged if the

concerns and cares are not maintained under all circumstances. Respondents were asked if the care and concern they are getting is genuine. Results are summarized below.

Table 3.24- Respondent's assessment of the genuineness of their superiors' care and concern for others

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Genuinely cares about others	NOT AT ALL	3	4	3	10
	ONCE IN A WHILE	8	7	0	15
	SOMETIMES	11	6	0	17
	FAIRLY OFTEN	7	3	0	10
	FREQUENTLY	2	0	0	2
Total		31	20	3	54

Source: Questionnaire

The majority of 10 respondents said the cares and concerns are not genuine and 15 said they see genuineness 'once in a while'. The majority 15 said they only 'sometimes' see genuineness in the care and concern.

Another important attribute with which transformational leaders are credited is their ability to produce leaders through encouraging personal development of their followers and group members at work area. Responses of 55 employees on their perception of the amount of encouragement their superiors give to their subordinates are summarized under table below.

Table 3.25- Summary of Respondents' assessment of their superiors' encouragement of personal development

Question	Response	Reporting to			Total
		DIRECTOR	VP	EVP	
Encourages personal development of group members	NOT AT ALL	7	7	1	15
	ONCE IN A WHILE	15	10	1	26
	SOMETIMES	7	2	1	10
	FAIRLY OFTEN	3	1	0	4
Total		32	20	3	55

47.6%
33.1%
5.7%

Source: Questionnaire

Close to 50% of the respondents said 'once in a while' and nearly one-third responded 'not at all'. These two respondents make up about 75 % of total respondents. Those who said 'sometimes' and fairly often are 10 and 4 respectively. Taken as a whole, encouraging followers for personal development is not the culture of Ethiopian Airlines. In fact the mean score of all respondents is the lowest among all the questions for individual consideration.

Despite the lack of genuineness in the care and concern for followers and low level of commitment towards the development of subordinates, the majority of respondents indicated that their superiors' treatment of organizational members is brotherly. More than 40% noted their superiors treat others like their brothers and a significant number of 30% respondents said 'sometimes'. Details of the responses are shown below.

Table 3.26-Summary of respondents’ assessment of their superiors’ brotherly treatment of members of the organization

Question	Response	Reporting to			Total
		DIRECTOR	EVP	VP	
Treats organizational members like his brothers	NOT AT ALL	2	1	1	4
	ONCE IN A WHILE	7	0	1	8
	SOMETIMES	10	6	0	16
	FAIRLY OFTEN	12	9	1	22
	FREQUENTLY	0	2	0	2
Total		31	18	3	52

Source: Questionnaire

Recognition and appreciation of once contribution is the primary reward that a person wants to get in his/her job. This would increase the momentum to go forward in the organizations quest for attaining predetermined targets. One of the most powerful attributes transformational leaders have is the ability to appreciate and value the contribution of others no matter what. In this perspective respondents were asked to rate their superiors based on whether they appreciate individual job performance. Their response is presented in the following table.

Table 3.27 Respondents’ assessment of their superiors’ value and appreciation of individual work

		Reporting to			Total
		DIRECTOR	VP	EVP	
Values and appreciates individual work	NOT AT ALL	4	1	1	6
	ONCE IN A WHILE	10	11	2	23
	SOMETIMES	11	6	0	17
	FAIRLY OFTEN	5	2	0	7
	FREQUENTLY	2	0	0	2
Total		32	20	3	55

Source: Primary Data Collected

Respondents’ reply concentrated on ‘once in a while’

Over all, responses inclined towards the ‘not at all’ side. ‘Not at all’ and ‘once in a while’ constitute more than half of the responses, followed by a third of respondents saying ‘sometimes’. Hierarchical view indicates homogeneity of responses implying low level of appreciation dominating Ethiopian Airlines’ working environment.

Recognition of individual contribution and publicizing success is a motivating factor for future improvement and performance beyond expectations. Responses in this respect are summarized as follows.

Table 3.28- Summary of Respondents assessment of their superiors’ tendency to publicize people’s success

		Reporting to			Total
		DRECTOR	VP	EVP	
Publicizes people's successes	NOT AT ALL	5	5	0	10
	ONCE IN A WHILE	16	8	2	26
	SOMETIMES	6	5	0	11
	FAIRLY OFTEN	1	2	1	4
	FREQUENTLY	3	0	0	3
Total		31	20	3	54

Source: Questionnaire

The result indicates that Ethiopian Airlines is not used to appreciating success at all levels, confirming the low rating in almost all of the variables related to individual consideration.

CHAPTER 4

CONCLUSION AND RECOMMENDATION

4.1 CONCLUSION

The global Airlines industry has experienced unprecedented challenge since 2001, leading many airlines to bankruptcy. The industry is in a process of reinventing itself through various global options such as marketing alliance, equity alliance, mergers, cost cutting and many forms of restructuring.

Being a global player in the industry, Ethiopian Airlines faced industry wide challenges such as the increase in fuel costs, the increasing demand for pilots and technicians. The increasing intensity of global competition that has engulfed the industry after deregulation is squeezing Airlines in poor countries with limited access to infrastructure and financial resource. Airlines are also in rush to mergers posing a serious threat to smaller Airlines.

Apart from industry wide challenges, Ethiopian Airlines has also organizational and regional challenges which are both actual and potential. In this regard, Ethiopian Airlines is under intense competitive pressure from the fast growing Middle Eastern Airlines. The African Air Transport, which was once dominated by Ethiopian, is now attracting more and more carriers from Europe and the Middle East. Even though low-cost airlines are still not dominant in Africa as it is the case in Europe, North America and Asia, the current trend indicates a steady increase.

Regional socio-economic factors are not favorable for a surge in the demand for air transport. In addition to the staggering economies of countries in East Africa, political instability is one of the defining characteristics. And thus the high degree of sensitivity of air transport to security directly affects the business.

The study tried to assess Ethiopian Airline's leadership capability to overcome the increasing competitive and other environmental forces and continue to maintain its position in the industry.

Specifically, the study tried to identify if the Airlines leadership has elements of change oriented leadership qualities in view of the dynamics in the air transport industry. Transformational leadership model is a recent development in response to environmental dynamism. Many research outputs indicate the tremendous contribution of transformational leadership in areas such as employee satisfaction; cost reduction, increasing service quality, and reducing employee turn over. The most important contribution of the model is its role in making successful change in a dynamic business environment. This model is used to evaluate the ability of the Ethiopian Airlines leadership.

Analysis of data collected from three management position using standard transformational leadership questionnaire resulted in the following findings:

1. The variables used to gage the level of idealized influence leaders are generating include employee empowerment, through participative decision

making, creating sense of ownership in the organization, team building, self confidence and commitment. Based on the findings these attributes are rated a little above average. Individual means range from 2.72 to 3.25 on the five point scale. Taken as a whole, idealized influence is noted only 'sometimes' in the eyes of the sample respondents. Lack of influence will make bringing the company's employees towards the accomplishment of organizational vision very difficult.

2. Organizational success enormously depends on the extent to which the leaders can see the future and the clarity of the image they have. Furthermore, their ability to inculcate their vision, if any, in to their followers and make vision-focused move creates the inspirational motivation required for the realization of the vision. Data gathered in this regard indicates that there is a clear hierarchical difference in the results. Vice presidents and Executive Vice Presidents are rated high in having a better picture about the future. They are also perceived to have enthusiasm for the company vision and maintain focus and consistency of purpose. On the other hand Directors have low level of sense of purpose and enthusiasm for his/her vision..
3. Creativity and innovation could be a grand strategy of an organization or part of another grand strategy. However, some elements of innovation and creativity are an integral part of organizational strategy, especially for those operating in a changing environment. The results for innovation and creativity related variables at Ethiopian Airlines show that mean scores for the six questions used

for this purpose are the lowest on the scale as compared to all other variables, with a maximum mean score of 2.04. New ideas are not appreciated, indicating the prevalence of highly procedural approaches that can work only in an ideally static environment. The teaching aspect of transformational leadership is also nearly non-existent as the interaction between leaders and followers.

4. Individualized consideration as a measure of transformational leadership scored relatively high rating in care and concern for individuals work and brotherly treatment of members. However, in all other areas such as encouraging personal development, appreciation of individual work, and genuine care, the Airlines is rated relatively low. This implies that emphasis is given to the social aspect of the relationship than job related. In general, however, directors are better in their concern for individual job performance and success, even though its genuineness is questionable. Personal development is low in Ethiopian Airlines and publicizing peoples' success by their leaders is not common.

In view of the transformational leadership qualities and based on the findings of this study, Ethiopian Airlines seems to be far behind.

4.2 RECOMMENDATION

Several research findings have consistently highlighted the positive influence of transformational leadership on organizational outcomes such as increased organizational citizenship, creativity, innovation, employee satisfaction, etc. Transformational leadership is also associated with group cohesion and service quality. The demands being put on an organizations' ability to change in order to stay competitive are claimed to be increasing. This has made transformational leadership a vital tool to cope up with challenges. This, however, doesn't mean that transformational leadership is the only solution for change and overall organizational success.

Following the increasing turbulence in the industry, many airlines are forced to adopt new strategies which include major changes in their grand strategy as well as internal restructuring. Despite its glorious history in African aviation, Ethiopian Airlines must equip itself for the inevitable severe industry situation resulting from soaring fuel costs, the increasing impact of low-cost airlines, the high employee turn over and increasing presence of bigger airlines in Africa.

Ethiopian Airlines should therefore:

- Develop visionary leaders that can see beyond the horizon and make others understand the future.
- Appreciation of new ideas and working methods could help in designing solutions for tomorrow's challenges. Since employees are the primary source of

new idea and solutions for organizational problems, openness to new and creative ideas paves the way for revelation of latent potential of its employees. Especially in times of industry wide challenges, Ethiopian Airlines can't afford to ignore efficient utilization of its human capital to stay in the game. Hence, it should develop a system that rewards new ways of doing things.

- After getting a clear picture of the future, the company can formulate vision and mission statements that are appealing to all employees. There must be formal and informal mechanisms to share the vision of its leaders to the majority of employees so that they will become vision-focused.
- Ethiopian Airlines has well developed in-house training which mainly is formal and general type. The source of real learning remains in the work itself. Employees should be encouraged to learn through exploration and experimentation even if they make mistakes. This will give the leader the opportunity to coach his/her followers.
- To develop future leaders, subordinates should be given the opportunity to exercise their leadership skill through empowerment and self development. To this end, Ethiopian Airlines should evaluate the ability of current leaders in nurturing the leadership qualities of their subordinates.

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Addis Ababa University
School of Graduate Studies
Faculty of Business and Economics
MBA Program

This questionnaire is designed to assess transformational leadership behaviours of middle and top management members of Ethiopian Airlines Enterprise. The objective of the questionnaire is to assess the level of transformational leadership qualities displayed by Directors, Vice Presidents, Executive Vice Presidents, and the CEO as perceived by their respective subordinates. The research output is to fulfill the partial requirement for **Master of Business Administration (MBA)**. The information gathered will be used fully and with due attention to academic purpose only. I therefore would like to assure you that the data collected will not be misused in any way.

Filling out the questionnaire may take no more than 10-15 minutes. I would like to take this opportunity to thank you for giving me your precious time and valuable opinions.

Part I: Demographic details of sample:

Please kindly provide your responses in the space provided.

1. Department you are working.....
2. Your Position in the department
 Manager....Director.....Vice President.....Executive Vice
 President.....
3. Department or position you are reporting to:
 Director.....Vice President.....Executive Vice President.....
4. Number of years you have been working in your current position.....
5. Age.....
6. Sex...Male.....Female.....
7. Total years of working experience at Ethiopian Airlines.....

Part II: Subordinates perception of their immediate supervisors

The table below is a list of transformational leadership qualities. You are kindly requested to evaluate your immediate supervisor based on the list of 35 qualities on a five point weight. Please put '✓' Symbol to indicate your choice.

Key: (1 = Not at all; 2 = Once in a while; 3 = Sometimes; 4 = Fairly often; 5 = Frequently)

S/Nr.	Leadership Components	Weight				
		1	2	3	4	5
8	Empowers people to do what is right					
9	Recognizes and supports new ideas					
10	Gets people involved in decisions					
11	Creates in others a sense of ownership					
12	Uses the word "We" instead of "I".					
13	Believes that real learning and growth take place when people explore and in the process also make mistakes					
14	Is quite open and receptive to new ideas					
15	Has care and concern for individuals' work as well as his personal problems					
16	Builds team spirit					
17	Fosters collaboration on common goals					
18	Strengthens people by giving power away					
19	Genuinely cares about others					
20	Encourages personal development of group members					
21	Is forward looking/sense of direction					
22	Uses graphic concepts to describe					
23	Describes his/ her vision of the future					
24	Envisions an uplifting future					
25	Has visions/dreams of what can be					
26	Treats organizational members like his brothers					
27	Has a clear image of the future					
28	Expresses enthusiasm for his/her vision					
29	Values and appreciates individual work					
30	Doesn't lose balance in the face of calamities					
31	Has sense of self- determination/self confidence					
32	Keeps his /her level of energy up high					
33	Model of persistence and perseverance					
34	Maintains focus and constancy of purpose					
35	Uses examples that others relate to					
36	Explains why she/ he is doing what she/ he is doing					
37	Knows his/her audience when speaking to					
38	Talks about principles or values behind decisions					
39	Takes time needed to explain thinking					
40	Sets example by behaving consistently with vision					
41	Stands up for his /her beliefs taking risks					
42	Publicizes people's successes					

Vision

To be Africa's World Class Airline that ensures satisfaction of its customers and other stakeholders.

Mission Statement

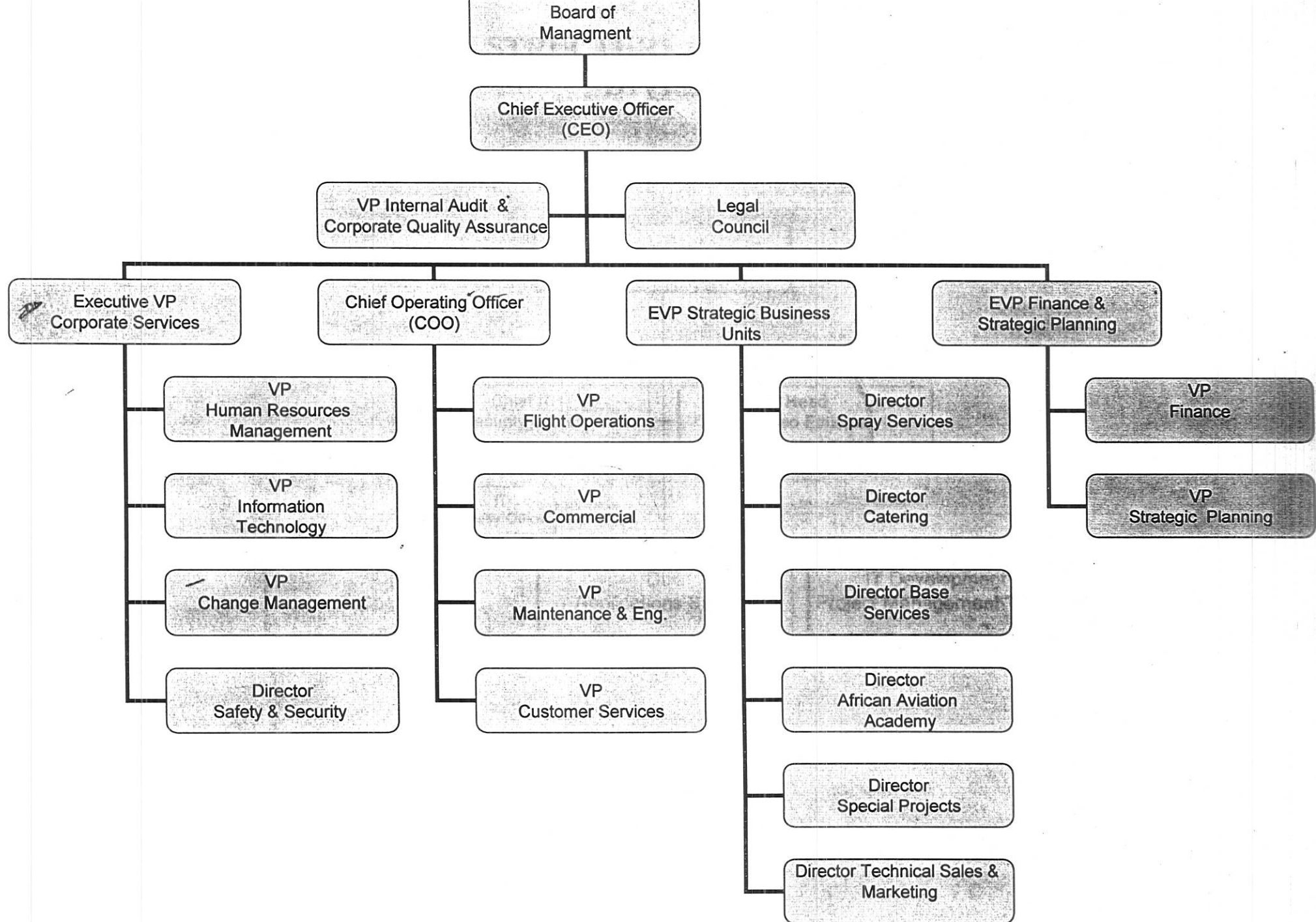
Ethiopian is a business enterprise committed to the basic objective of providing safe, reliable and profitable air transport services for the passenger and cargo as well as other aviation related services.

The airline renews its pledge to further develop its total network with continued emphasis on interconnecting Africa and linking it with the rest of the world.

Ethiopian is committed to the provision of quality service to its customers. In order to ensure this, the airline will strive to maintain a highly trained, motivated and dedicated workforce and enhance its internal capacity in various fields.

Through the use of modern and environmentally friendly technology in all areas, Ethiopian endeavors to play an important role in the well being of the society and equip its employees with a high level of skill through transfer of technology.

The airline will continue to contribute its share towards the development of trade and tourism in Ethiopia through the provision of essential air transport. It will also strive to maintain its role as a major player in the development of aviation in Africa.



Declaration

I hereby declare that the project entitled "An Assessment of Transformational Leadership: A Case Study on Ethiopian Airlines" is my original work and has not been presented (submitted) to any body for any degree or diploma in any university and all the materials used for the project work have been dully acknowledged.

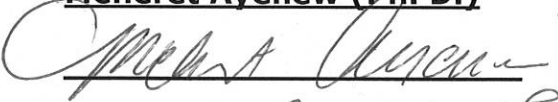
Name Muluken Lemma

Signature _____

Date August 1, 2007

This is to certify that Muluken Lemma has completed his project work entitled "An Assessment of Transformational Leadership: A Case Study on Ethiopian Airlines" under my supervision. In my opinion this study is suitable for submission in partial fulfillment of the requirements for the award of Degree of Masters in Business Administration

Name Meheret Ayenew (Ph. D.)

Signature 

Date 10 Aug. 2007