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**THE IMPACT OF LEADERSHIP STYLES ON EMPLOYEE  
PERFORMANCE: THE CASE OF ETHIOPIAN  
PHARMACEUTICAL MANUFACTURING SH.CO, (EPHARM).**

**By:**

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**A Research Project Submitted to Addis Ababa University School of  
commerce in Partial Fulfillment of the Requirement for the Award  
of Master of Arts in Business Leadership**

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## **Statement of Declaration**

I, Getnet Shigute, hereby declare that this project research titled “The Impact of Leadership Styles on Employee Performance, in the case of Ethiopian Pharmaceutical Manufacturing (EPHARM)” is an original work. I have carried out the present study independently with the guidance and support of the research advisor, Dr. Adane Atara. Any other research or academic sources used here in this study have been duly acknowledged. Moreover, this study has not been submitted for the award of any diploma, degree or any other higher education Program in this or any other institution.

Getnet Shigute

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Declared by

Date

Signature

## **Statement of Certification**

This is to certify that Getnet Shigute has carried out this project research on the topic “The Impact of Leadership Styles on Employee Performance, in the case of Ethiopian Pharmaceutical Manufacturing (EPHARM)”the work is original in nature and is suitable for the awards of Masters in Business Leadership.

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Addis Ababa University School of Commerce  
Department of Business Leadership  
Post Graduate Program  
Board of Examiners Approval Sheet

# The Impact of Leadership Styles on Employee Performance, in the case of Ethiopian Pharmaceutical Manufacturing (EPHARM)

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## ***Abstract***

*A study was conducted with aim of identifying the impact of the three leadership style on employee performance. The target population of this study was those who are permanent full-time employees of EPHARM. The researcher used Survey instrument type of design. Data was generated using standard Multifactor Leadership Questionnaire (MLQ) and the performance of employee measured based on self-rating questionnaire. Stratified random sampling technique was used based on the population size N=427, the final required sample size obtained was 72, which is more than 10% of the total population. Descriptive frequency tables, the statistical tools Spearman's rank-order correlation and Pearson correlation model were used. The result of the study found out that as there is strong positive and statistically significant relationship between transactional leadership style and employee performance. But transformational and laissez-fair leadership styles did not have any significant impact on the employee performance. Based on the result, transactional leadership style is recommended to bring a positive impact on employee performance at EPHARM.*

*Key words; transformational leadership style, transactional leadership style, laissez-fair leadership style and employee performance.*

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# Table of Contents

Abstract.....	iv
Acknowledgments.....	v
Abrevations.....	vii
List of Tables, Figures and Appendices .....	ix

## CHAPTER ONE: INTRODUCTION

1.1	Back ground of the study.....	1
1.2	Back ground of the Factory.....	2
1.3	Statement of the problem.....	3
1.4	Research questions.....	5
1.5	Objectives of the study.....	5
1.5.1	General objective of the study.....	5
1.5.2	Specific objectives of the study.....	5
1.6	Research hypothesis.....	5
1.7	Definition of Terms.....	6
1.7.1	Conceptual definition.....	6
1.7.2	Operational definition.....	6
1.8	Significance of the study.....	7
1.9	Scope of the study.....	7
1.10	Limitation of the study.....	8
1.11	Organization of the paper.....	8

## CHAPTER TWO: LITERATURE REVIEW

2.1	Theoretical review.....	9
2.1.1	Leadership.....	9
2.1.2	Leadership styles.....	10
2.1.2.1	Transformational leadership style.....	10
2.1.2.2	Transactional leadership style.....	12
2.1.2.3	Laissez-faire leadership Style.....	13
2.1.3	Employee performance.....	15
2.1.4	Importance of the leadership-performance relationship.....	16
2.2	Empirical review.....	17
2.3	Conceptual framework.....	20

## CHAPTER THREE: RESEARCH METHODOLOGY

3.1	Introduction.....	21
3.2	Research design/type.....	21
3.3	Research approach.....	22
3.4	Target population.....	22
3.5	Sampling design.....	22
3.6	Sampling frame.....	22
3.7	Sampling technique.....	22
3.8	Sample size.....	23
3.9	Sampling procedure.....	24
3.10	Sources of data.....	24
3.11	Data collection methodology.....	24
3.12	Data collection instrument.....	25
3.13	Data analysis methods.....	25
3.14	Research ethics.....	25

## CHAPTER FOUR: RESULT AND DISCUSSION

4.1	Introduction.....	27
4.2	Descriptive analysis of demographic characteristics.....	27
4.3	Validity and reliability of Likert scales.....	29
4.4	Correlation analysis.....	31
4.5	Discussion.....	34
4.5.1	Impact of transformational leadership style on employee performance in EPHARM.....	34
4.5.2	Impact of transactional leadership style on employee performance in EPHARM.....	34
4.5.3	Impact of laissez-faire leadership style on employee performance in EPHARM.....	35

## CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1	Summary of findings.....	36
5.2	Conclusions.....	37
5.3	Recommendations.....	39
	References.....	41
	Appendices.....	50



## **Abbreviations**

EBY: Ethiopian Budget Year

EPHARM: Ethiopian Pharmaceutical Manufacturing Sh.Co

EPSA: Ethiopian pharmaceutical supply agency

II: Idealized Influence

IM: Inspirational Motivation

IS: Intellectual Stimulations

LF: Laissez-Faire Leadership

LS: Leadership style

MBE: Management by Exception

MLQ: Multifactor Leadership Questionnaire

TF: Transformational Leadership

TS: Transactional Leadership

## List of Tables, Figures and Appendices

### List of Tables

Table 1: Distribution of the total computed sample size to each department .....	23
Table 2: Demographic profile of participants .....	27
Table 3: Summary statistics of level scores for both variables .....	29
Table 4: A descriptive statistics of number of employees tabulated based on their performance.....	30
Table 5: Spearman’s rank correlation between each indicators of the variables .....	31
Table 6: Pearson correlation between scores of each leadership styles and employee performance.....	33

### List of Figures

Figure 1: Conceptual framework.....	20
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### List of Appendices

Appendix A: Introductory letter for the participants.....	50
Appendix B: Demographic questions.....	51
Appendix C: Multifactor Leadership Questionnaire (MLQ).....	51
Appendix D: Performance Questionnaire.....	54

# CHAPTER ONE

## INTRODUCTION

### 1.1 Back ground of the study

Leadership and therefore the different associated styles have an immense impact on how employees perform and grow, to steer positive organizational outcomes. The purpose of this study was to investigate the impact of selected leadership styles on employee performance, as a predictor of group or organizational performance.

For any organization to realize its set objectives and goals there must be a 'high relationship between the (management) leaders and employees. However, for productivity to be reality in a corporation there should be high employee's performance which solely depends on leadership style. To enhance the performance of an employee, workers will depend on a large event of leadership style that is operational within working environment of organizations and this thought according to Osabiya (2015). Bass and Riggio (2006) and Drucker (2007) they considered that a company's success is because of organizational performance, employee job satisfaction and employee affective commitment. According to Bass and Riggio (2006) investigation result recommendations; leaders have to motivate and support their workers, to be competitive, by practicing effective leadership style. Therefore, the leader's use of effective leadership styles is with aim of promoting standards of excellence within the professional development of the members of the organization, La Rue, Childs and Larson, (2004).

The annual pharmaceutical market in Ethiopia is estimated to be worth US\$ 400 to US\$ 500 million and growing at an impressive rate of 25% per annum (EPSA). A 2012 estimate by Frost and Sullivan suggest the Ethiopian pharmaceutical market could witness growth rates of "slightly over 14%" to reach an approximately of just under US\$ 1 billion by 2018. The local industry comprises 25 pharmaceutical and medical supplies manufacturers, with 11 involved directly in the manufacture of pharmaceutical products. Most of the manufactures operate below their capacities and supply only about 20% of the local market. The Ethiopian government has already taken some appropriate measures regarding to developing human resources through relevant education and training; for example Addis Ababa University is starting Master of Science programme in regulatory affair and providing managers and professionals with short-term

training programs in business management, leadership and entrepreneurship, published as abridged version( July 2015) titled as “National Strategy and Plan of action for pharmaceutical manufacturing development in Ethiopia from 2015 to 2025”.

## **1.2 Back ground of the Factory**

The Ethiopian Pharmaceutical Manufacturing Sh. Co. (EPHARM) may be a pioneer within the pharmaceutical manufacturing industry of Ethiopia. The company started production on June 1964 as Ethiopian drug Manufacturing Sc. (EDMSC), after the memorandum of agreement was signed between British company Smith & Nephew Associated companies Limited, SANACO (50% share) and therefore the Imperial Ethiopian Government (IEG). After two years of operation the company reported significant loss and had been closed for nine months. The Government decided to buy the share of the British company and hired General Manager from Hungary. Many new advanced technologies were introduced from European company called MEDIMPEX, Hungary. In spite these bold reform attempts; the company was still not able to curb its loss. Following the international bid for interested investors to participate in a recognized pharmaceutical company, an agreement was signed between the Imperial Government of Ethiopia and TEVA of Israeli, the former holding 51% share.

Finally the organization was re-founded in April 1970 and got his current name called (EPHARM) Ethiopian Pharmaceutical Manufacturing. From 1970 to 1974, with the improved motto “Quality is our Most Important Product” the factory was producing about 130 pharmaceutical products which included tablets, syrups, ointments, inject able and capsules. It started making a profit. EPHARM was nationalized on 2 February 1975 following the favored revolution that resulted within the demise of the imperial regime. The building of IV Fluid and ORS (Oral Rehydration Salt) plant with the aid of UNICEF was one of the fundamental achievements of the time.

After the down fall of the socialist regime, the factory was re-established as an independent public enterprise under the directory of Public Enterprises Supervising Authority on13 February 1994. Then it was recognized as Share Company and has continued its usual duty with increased productivity and higher profitability. In line with the government’s program to privatize public enterprises, MEDTECH Ethiopia, the main customer of EPHARM by then, bought the factory in

September 2014. Since then, it has been working aggressively to transform the factory to a greater level and make it competent than it was ever before. The company has 10 production lines, more than 100 machineries, fully equipped laboratories, and utilities capable of producing different dosage forms in capsule, tablet, vials, sachets (oral powder), syrups, ampoules, large volume infusions, dry powder suspension and ointment. It is now 56 years old. It had been the sole pharmaceutical manufacturer for quite 36 years within the country. The new factory is intended to focus on manufacturing of high-quality, demand-driven, and price competitive medicine so as to increase current manufacturing capacity by 10 folds. EPHARM vision is to be one of Africa's top three pharmaceutical companies by 2025.

### **1.3 Statement of the problem**

Ethiopia is one of the fast growing economies in the world, and it is projected by Ernst and Young (2009) to grow into the third largest economy in sub-Saharan Africa by 2023, with a gross domestic product of US\$ 472 billion. Accordingly, local Ethiopian pharmaceutical manufacturers, like EPHARM, are expected to contribute their share to this gross domestic product. Ethiopian Pharmaceuticals Supply agency (EPSA) is the only governmental organization which procures pharmaceuticals from local and international manufactures. The value of pharmaceuticals procured in 2008 budget year was more than ETB 6.5 billion and this indicates that the procurement of pharmaceuticals has increased by more than 80% from 2003 to 2008 EBY and this data is according to official report of EPSA (2016). The increasing trend for the demand of pharmaceutical product locally could bring big market opportunity for EPHARM as well as other manufacturers sited in Ethiopia. This attractive demand for pharmaceutical products would lead to success if EPHARM uses its full organizational performance, which can be generated from practicing the right leadership style to employees. In addition to this, EPHARM has a vision to be one of top three pharmaceutical manufacturers by 2025 in Africa and this would support the growth of the country's economy like by increasing import substitution and generating hard currency.

However, according to report of Strategy and Plan of action for pharmaceutical manufacturing development in Ethiopia (2015), most of the pharmaceutical manufactures in Ethiopia operate below their capacities and supply only about 20% of the local market demand. Since, EPHARM is also one of the major pharmaceutical manufacturers in Ethiopia and based on the reported

data, it makes sense to assume as EPHARM is performing below its capacity. In addition to this, for instance, in 2007 E.B.Y, more than 85% by value of EPSA procurement were purchased from international competitive organizations EPSA (2016). This also indicates local manufacturers like EPHARM are doing with low organizational performance, which could be due to wrong leadership style practiced in the premises. Pharmaceutical companies face complex issues that grow more challenging by the day. Major revolution in the Healthcare system and innovation technology, government strategy, and client demands are transforming relationships with stakeholders and influencing activities in unforeseen ways. One of the most crucial questions facing the industry, though, is what leadership style companies will need to navigate this complex and changing landscape and how current pharmaceutical leaders can bring a positive impact on employee performance.

In a rapidly changing world of work, a notable leadership challenge is how leadership styles can be used to ensure enhanced employee performance (Schein, 2010). Leadership style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization, which has a direct impact on employee performance. Thus, Glantz (2002) emphasizes the need for a manager to find his leadership style. So to carry out this vision, responsibility and to use this huge market opportunity, EPHARM has to identify and implement effective leadership style which has a positive impact on employee performance is one of the primary requirement. If EPHARM needs to enhance the performance of an employee, employees will depend on a large event of leadership style which is operational within EPHARM's environment.

Generally, in order to enhance the overall performance of EPHARM, it would be critically essential to study the leadership style as a factor which has a positive impact on employee performance. In addition, there might be mismatching of the leadership style practiced by the supervisors on employee and this would result most of the time in retarding employee performance and resulted in low organizational performance. Accordingly, EPHARM has to identify and practice the leadership style which fit to the strategy for enhancing employee performance. The source of the problem for this study was to identify the leadership style exhibited at EPHARM's employee performance and if practiced according to the

recommendations, it would have a more positive impact on employee performance as a predictor of good organizational performance. The above reasons trigger for doing this project research.

## **1.4 Research Questions**

### **Research questions**

The study has answered the following questions;

- (i) What is the impact of transformational leadership style on employee performance in EPHARM?
- (ii) What is the impact of transactional leadership style on employee performance in EPHARM?
- (iii) What is the impact of laissez -faire leadership style on employee performance in EPHARM?

## **1.5 Objectives of the study**

### **1.5.1 General Objective of the study**

The results of the study would indicate which leadership style among transformational, transactional and laissez-faire is more appropriate if EPHARM adopt that would induce employee performance. This in turn would help the organization to deal better with the challenge of competition in the fast growing pharmaceutical business.

### **1.5.2 Specific objectives of the study**

- To assess the impact of relationship between Transformational Leadership Styles and level of Employee performance.
- To assess the impact of relationship between Transactional Leadership Styles and level of Employee performance.
- To assess the impact of relationship between Laissez Faire Leadership Styles and level of Employee performance.

## **1.6 Research hypothesis**

The following hypotheses were tested:

H1: There is a significant relation between Transformational leadership style and Employee performance.

H2: There is a significant relation between Transactional leadership style and Employee performance.

H3: There is a significant relation between Laissez-faire leadership style and Employee performance.

## **1.7 Definition of Terms**

### **1.7.1 Conceptual definition**

**Leadership:** According to Lawal (1993), Leadership is the process of influencing others to work willingly toward an organizational goal with confidence. Leadership is usually defined simply because the process of influencing people to direct their efforts toward achievement of some particular goal or goals. Leadership is the process of interactive influence that occurs when, in a given context, some people accept someone as their leader to achieve common goals, Alberto Silva, (2016)

**Leadership style:** Leadership style is that the way and approach of providing, direction, implementing plans and motivating people as seen by the workers, it includes the whole pattern of explicit and implicit actions of their leaders, Davis (1993).

**Employees;** a private who works part time or full time under a contract or employment, whether oral or written, express or implied and has recognized rights and duties, also called workers.

**Performance:** is the persistence of enthusiasm and application when needed to complete important task requirements, Borman and Motowidlo (1993).

**Employee's performance:** The job related activities expected from worker and the way well those activities are executed, in accordance with the specified standard within the achievement of organizational goals.

### **1.7.2 Operational definition**

**A leader:** Are one or many folks that choose, equips, mentor, and influences few or many employee(s) who have different type of talents, experience and focuses the employee(s) to the company's mission and objectives making the employee(s) to do with voluntarily and emotionally, and physical energy during accomplishing their tasks towards achieving the organization strategy, Bruce E. Winston and Kathleen Patterson, (2006).



**Employee or Worker:** means a person who has an employment relationship with the employer accordance with Article 4 of Ethiopian labor proclamation, Federal NegaritGazeta, (2004).

**Performance:** defined as involvement of practices that change input into output called goods and services, Motowidlo et al., (1997).

### **1.8 Significance of the study**

The study result would be helpful to EPHARM, since it focused on the impact of different types of leadership styles, (Transformational, Transactional and Laissez-faire) on employee performance. The primary importance of this study would be to EPHARM. If it adapts the recommended leadership style from this research result, the company would improve its performance and help the company to achieve its planned mission and strategy. The productivity of organization depends on the performance of employees, which is highly influenced by the type of leadership styles it follows and this study would be helpful in identifying the best leadership style that fit to the organization.

This study would also be important for other organizations as a reference to consider their leadership style and determine which has a positive impact on employee performance. In addition, this research would also be crucial as a reference for manufacturers located in Ethiopia because this kind of researches in Pharmaceutical manufacturing industry and other similar manufacturing sector is limited in number.

The study would also be very important as a reference for other researchers who will study in this topic of area, especially for those who want to do research in pharmaceutical manufacturing sector by widening their scope of study.

### **1.9 Scope of the study**

The scope of this study focused on permanent full-time employees of EPHARM. But this study was excluded board of directors, general manager, audit department, law service, general manager assistance, plant manager, department heads and supervisors. The premise will confirm employees who are spending a significant amount of time in the factory and could be equally affected by some basic processes which can influence their perspectives on performance.

### **1.10 Limitation of the study**

Due to uncomfortable time schedule, data was collected only from day time working hours (Shift 1) employee. Evening (shift 2) and night (shift 3) workers were not included during data collection. All sample size was obtained from shift one workers.

### **1.11 Organization of the paper**

The paper contains five chapters. The first chapter is the introduction part which contains the background of the study and factory, statement of the problem, research questions, research objective, research hypothesis, significance of the study, scope of the research, limitation of the research and organization of the research. The second chapter deals with an overview of the literature on leadership and conceptual framework. The third chapter presents the research methodology used for this research. Chapter four presents the results of data analysis and discussions. Chapter five covers conclusions and recommendations of the paper.

## CHAPTER TWO

### LITERATURE REVIEW

An attempt has been made to review the concepts of leadership and performance in various literatures, so that there is substantial foundation of conceptual background behind this research paper. Extensive research of the available literature helped in identifying the gap which in turn served as the basis of the current project paper.

#### 2.1 Theoretical Review

##### 2.1.1 Leadership

Leadership is one among the world's oldest preoccupations and a universal phenomenon in humans, Bass, (1990). From old time to current time history, leadership has acted as an integral purpose in building groups, societies, and nations. Bass attempted to define the concept of leadership from the classics of Western, Egyptian, Greek, and Chinese literature as early before the 6th century BC. The Old and New Testaments and the classics of Homer, Plato, Aristotle, and Confucius noted the roles of leaders. Leadership may be a quite power where one person has the power to influence or change the values, beliefs, behavior and attitudes of another person, Ganta, and Manukonda, (2014). According to Jackson and Parry (2008), leadership is a process where leaders use their skills and knowledge to lead and bring a group of employees in the desired direction that is relevant to their organization's goals and objectives. Leadership is mostly defined as an ability of inspiring and impressing follower by providing them with the purposes to fight for them, Sichone (2004:1). Leadership is life blood of any organization and its importance cannot be under estimated. Many authors have studied this phenomenon, but there's no conscious definition of what leadership is, no dominant paradigm for studying it, and tiny agreement regarding the simplest strategies for developing and exercising it, Bennis, (2007); Hackman & Wageman, (2007). Ngodo (2008) perceives leadership to be a reciprocal process of social influence, during which leaders and subordinates influence one another so as to realize organizational goals. Northouse (2004), in a leadership theory and practice book defines it as leadership is a process whereby an individual influences a group of individual to achieve a common goal. Rost (1993) also describe leadership as an influence relationship between leaders and followers who need practical changes that express their common objective. Gaffin (2012)

defines leadership as a process that focuses on shaping or influencing people to obtain organizational goals. Leadership is a key for a success of organizations and this is supported by Lussier and Achua (2009). As they described it, the success of individual careers and the fate of organizations are decided by the effectiveness of leader's character. Leadership is taken into account crucial for fulfillment, and a few researchers have argued that it's the foremost critical ingredient, Lussier and Achua, (2009). There are many different definitions of leadership forming from different point of view like Yuki (2010) summarizes that leadership is commonly understood as a process of using influence and motivation to encourage participation in achieving group or organizational success.

### **2.1.2 Leadership styles**

Knowledge of leadership are usually referred to ancient time, however definitions and categorization of leadership begins from the early 20th century, Rost (1991). In the past 50 years, there are as many as 65 different classification systems to define the size of leadership, Northouse (1997). Leadership styles are the approaches to motivate followers. Leadership isn't a "one size fits all" phenomenon so that leadership style should be selected and adapted to fit organizations, situations, groups and individuals; this explanation is according to Rose, Gloria and Nwachukwu (2015). A leadership style is a key in determining the level of employee performance in a company and it can either lead to increased or decreased employee performance according to the view of George and Curen(2016).

#### **2.1.2.1 Transformational leadership style**

Yukl (1989) describe transformational leadership as the way of influencing basic changes in attitudes and thoughts or organizational membership and enhancing commitment for the company's mission and objectives. "Transformational leaders motive others to do more than they originally intended and often even more than they thought possible. They set tougher expectations and typically achieve higher performances." "Transformational leaders do more with colleagues and followers than found out simple exchanges or agreements."

According to Bass (1994), transformational leadership acts as a bridge between leaders and followers to develop clear understanding of follower's interest, values and motivational level. It majorly support follower's succeed their goals doing within the organizational structure; it

appreciate followers to be expressive and adaptive to new and modified practices and changes in the previous existed environment. Leadership that makes valuable and positive change within the followers is transformational leadership. Such a pacesetter focuses on "transforming" others to assist one another, to seem out for every other, to encourage and be harmonious, and to concentrate towards organization as a whole Adnan & Mubarak (2010).

Bass (1990), proposed four behaviors or components of transformational leadership to incorporate charisma, inspirational motivation, intellectual stimulation, and individual consideration.

**Idealized influence:** acting as role-modeling character where the leader instills pride, hope, and respect, and features a gift for seeing what's practically important, and propagate how of mission.

**Inspirational motivation:** nominates the utilization of pictures and symbols that capable the leader to increase the expectations and expectations of their follower regarding the mission and vision.

**Individualized consideration:** bringing experiential learning. And happens when the leader delegate certain task, give coaching, educating and take care of each follower as a private.

**Intellectual stimulation:** cognitive improvement of the follower and happen when the leader initiate followers to think in new manner and giving attention to challenge solving and resulting in use of reasoning before applying action.

Yukl (2007) explained as practical use of transformational leadership style can develop performance, since transformational leadership need to improve knowledge and employees potential. Suharto (2005) suggests that more frequent transformational leadership behaviors implemented would bring significant positive effect to enhance psychological empowerment of subordinates.

Majority of the researchers had associated transformational leadership with employee performance and job satisfaction and argued that transformational leadership can be the best predictor of employee performance Raja & Palanichamy (2011). Transformational culture boosts both the organization and therefore the employee's performance Bass & avolio (1993) without enforcing extra burden, Schlotz (2009).

Leadership styles in different settings have found transformational leaders more influential and promotable than transactional accomplice Rubin et al, (2005); Judge and Bono, (2000). Moreover, additional experiment confirms that transformational administration is unequivocally related with worker's performance , such as, cut down in turnover rates, more hoisted measure of gainfulness, agent satisfaction, creative ability, target accomplishment and disciple flourishing Eisenbei and Boerner, (2013); Garcia- Morales et al, (2008); Keller, (1992).

### **2.1.2.2 Transactional leadership style**

Transactional leadership encourages followers to perform according to the leader's expectation and get rewards and promotion. Ample support is available in the leadership literature according to Avolio, Bass & Jungn(1999), to make transactional leadership more effective, appropriate usage of contingent reward is an important feedback to assemble expectations with followers in term of their performance.

Transactional leaders fulfill employee needs of rewards when targets are met, Bass (1990); Howell & Avolio, (1993); Humphreys, (2002). Pounder (2002) defines this style as the transaction of needs fulfillment from both sides of the organization exchange process that outcome in employee achievement with leader demand but unusual to urge enthusiasm and commitment to task objective. The leader focuses on having internal actors perform its desired goals, Boehnke et al, (2003).

The objective of the transactional leader is to make sure that the trail to goal attainment is clearly understood by the interior actors, to get rid of potent to achieve the predetermined goals, House and Aditya,(1997). Facilitating employee to be experienced with job duty and reminded objectives to understand forecasted amount of performance, Ramayah, & Min, (2009). Janssen & Yperen, (2004) acknowledged that transactional leadership supports the efficiency by enhancing innovative work performance and work Satisfaction. Hence, the study shows that transactional leadership has significant impact on employee performance.

Transactional leadership is a reinforcement technique requiring constant application. There are two major components of transactional leaders

**Contingent Reward:** is when the leader provides rewards if the subordinate performs in accordance with the performance expectations or expends the necessary effort, Densten, (1999).

The contingent reward aspect of transactional leadership should also relate positively to performance in that these leaders clarify expectations and recognize achievements that positively contribute to higher levels of effort and performance, Bass et al, (2003)

**Management-by-exception:** It represents the taking of action by the leader when the follower does not meet the performance expectations, Densten (1999). In the management-by-exception approach, transactional leaders clarify expectations, specify standards for compliance, define what constitutes ineffective performance, and monitor closely to ensure that deviances and errors are corrected promptly, Bass, (2005).

Yulk (2007) asserts that transactional leadership style is one leadership style that emphasizes on transaction between leaders and subordinates. Transactional leadership motivates and influencing subordinates by exchanging reward with a particular performance. In a transaction the subordinate promised to be given rewards when subordinate is able to complete their duties in accordance with agreements. In other words, he encourages subordinates to work. Transactional leadership styles can affect positively or negatively on performance. It consistent with theory of Bass and Avolio (2003) which says that transactional leadership style affect on employee performance.

### **2.1.2.3 Laissez-faire leadership Style**

According to explanation of Marlene (2003), Laissez-faire leadership involves a hand-off, let things-ride approach. It is the non-leadership factor and therefore, referred to as absence of leadership and concerns leaders to renounce responsibility, procrastinate, abstain from giving feedback and do little to help followers satisfy their needs or to influence them otherwise.

The laissez fair leadership style is also known as the “hands off” style. It is one in which the manager provides little or no direction and gives employees as much freedom as possible. All the authority and power is given to the employees and they must determine goals, make decisions and resolve problems on their own. Laissez-Faire -The leader allows the members to make their own decisions, Bartol, (2003). The Leader always ignores doing decisions and late for reacting to urgent tasks, Avolio& Bass (2004).

Kerns (2004) explains the connection of values to company leadership and his research was highly in support of the laissez-faire style in filling the space between the employer and employee where his focus was only on the fact that laissez-faire would make a positive environment through which employees and employers felt like a family despite of their positions.

An avoidant leader may either not intervene in the work affairs of subordinates or may completely avoid responsibilities as a superior and is unlikely to put in effort to build a relationship with them. Laissez-faire style is associated with dissatisfaction, unproductiveness and ineffectiveness, Deluga (1992). The conclusion to be drawn from this is that laissez-faire leaders are not adequately motivated or skilled to be effective leaders.

Avolio and Bass (1991) explained that transactional and transformational leaders can be described as active leaders, acting to prevent problems from occurring in their organizations and acting to solve problems. On the other side, Hartog et al., (1997) distinguished between these active forms of leadership and the “extremely passive laissez-faire leadership”, noting that the laissez-faire leader “is inactive, rather than reactive or proactive”, they added Laissez-faire leaders “avoid decision making and supervisory responsibility”.

Since the theory of laissez-faire leadership implies that laissez-faire leaders are inactive and passive, as opposed to proactive, it is logical to assume that laissez-faire leaders will score high on avoiding and low on collaborating. Thus, the theory of laissez-faire leadership implies a positive relationship between leaders’ scores on laissez-faire leadership and their scores on avoiding and a negative relationship between leaders’ scores on laissez-faire leadership and their scores on collaborating, Hartog et al., (1997).”

**Advantages of laissez-faire leadership style are:** freedom to choose, no burden on the team members, sometimes independent, the group leader hardly requires any preparation time, there is a lot of freedom, own social structures less chance of the leader being unpopular, Hartogetal(1997).

**Disadvantages of laissez-faire leadership style are:** the group attempts to overstep the limit, unsatisfied minorities, tolerance between the group members is destroyed, misuse of rules, team members are no longer taken seriously, no responsibility, weaker members are held back,



resignation, no initiative, no we feeling, the group does not stick to supervision laws, leaders offer little or no guidance to group members and leave decision making up to group members. This style can be effective in the situations where group members are highly qualified in specific area Avolio and Bass (1991).

### **2.1.3 Employee Performance**

The concept and definition of individual performance has received considerable scholarly research attention over the past 15 to 20 years. Researchers agree that performance has to be considered as a multi-dimensional concept. On the most basic level one can distinguish between a process aspect (i.e., behavioral) and an outcome aspect of performance, Borman and Motowidlo (1993) and Roe (1999). The behavioral aspect refers to what people do while at work, the action itself. The outcome aspect in turn refers to the result of the individual's behavior. The word performance we used to pass on the individual aptitude to be inspired, stirring, pioneering and to determinant to achieving the goals on an organization, Walumbwa & Hartnell, (2011).

The job related activities expected of a worker and how well those activities are executed in accordance with the required standard in the achievement of organizational goals. Many stakeholders assess the employee performance of every staff on an annual or quarterly basis in order to support them to recognize suggested areas for development, Kelly (2013).

According to Pattanayak (2005), the performance of an employee is his/her resultant behavior on a task which can be observed and evaluated.

Lewis (1955) developed performance measurement to General Electric (GE) corporate for five decentralizes business divisions. According to the recommendations, business unit performance measured in seven nonfinancial and one financial metric. Accordingly the eight metrics of Lewis includes; Profitability (measured by residual income), Market share, Productivity, Product leadership, Public responsibility, Personnel development, Employee attitudes and Balance between short-range and long-range objectives.

Kaplan and Norton (1992) developed the Balanced Scorecard which links performance measures. This models measure performance from four perspectives, which are customer perspective, internal perspective, learning and development perspective and financial

perspective. The internal measures for the balanced scorecard includes all factors that can affect cycle time, quality, employee skills, and productivity are some of them. To succeed plan on cycle time, quality, productivity, and cost, leaders have to develop measures that are affected by employees' activity. Because of almost all action takes place at the divisional and team or group levels, leaders need to divide overall cycle time, product and quality measures to lower levels of division. Measures connecting leader's decision about key internal processes and competencies to the actions taken by individuals that affect overall organization objectives. This connection leads to the conclusions of employees at lower levels in the company have clear plans for actions, decisions, and developing activities that will contribute to the organization's overall mission. Organization's ability to innovate, improve, develop and learn connected directly to the organization's value.

### **Advantages of Higher Employees Performance**

Following are advantages of higher performance to the individuals, organization, society and nation as a whole:

- (a) The productivity of individual on job increases.
- (b) Employee gets job satisfaction at job.
- (c) Psychological problems of employees come to low level.
- (d) Involvement of employees in their jobs increases.
- (e) A sense of commitment and loyalty among employees develop.
- (f) Employees get higher salaries and incentives on production basis.
- (g) Quality and quantity of the total production increase.
- (h) Sales and market shares of the company in the market improves.
- (i) Profit improves and that leads to progress of the business.
- (j) Good will of the organization goes high.
- (k) All these contribute in the development of national economy and living standard of the society as a whole.

#### **2.1.4 Importance of the leadership-performance relationship**

During the past forty years, the effect of leadership styles on organizational performance has been an interesting issue among scholars and practitioners doing in the area of leadership, Cannella and Rowe, (1995); Giambatista, (2004); Rowe et al., (2005). Hence the most dominant

reason for this interest is the major belief that leadership can put pressure on the performance of organizations Rowe et al., (2005). The style of leadership practiced is considered by some researchers, Awamleh, (1999); Conger, (1999); Dubinsky et al., (1995); Yammarino et al., (1993) to be particularly important in attaining organizational objectives, and in bringing performance among subordinates Barling et al., (1996); Berson et al., (2001); Zacharatos et al., (2000).

It is widely believed that leadership creates the vital link between organizational effectiveness and people's performance at an organizational level Avolio, (1999); Bass, (1998); Judge, et al., (2002); Judge and Piccolo, (2004); Keller, (2006); McGrath and MacMillan, (2000); Purcell et al., (2004); Yukl, (2002).

Leadership therefore, has a significant effect on the performance of workers and organization growth in general; Dixon & Hart (2010) also emphasize this correlation. According to Menz (2010), employee performance is impacted by the leadership style applied and affects the ability of employees in achieving corporate goals and objective.

Numerous empirical studies show a strong positive relationship between employee satisfaction, customer satisfaction, and organizational performance as measured by employee's and customer's self-reports to assess the effects of leadership behavior, e.g. Band, (1988); George, (1990); Johnson, (1996); Schmitt and Allscheid, (1995); Schneider and Bowen, (1985); Schneider *et al.*, (1996); Schneider *et al.*, (1998); Ulrich *et al.*, (1991); Wiley, (1991). As suggested by this wealth of findings, positive changes in employee satisfaction and customer satisfaction lead to positive changes in organizational performance. Therefore, employee satisfaction and customer satisfaction remain useful measures of organizational performance.

## **2.2 Empirical Review**

A research was conducted in USA by Karl and Webber (2016) on leadership best practices and employee performance, the conclusion of the research findings was that when leaders create a work environment where there is employee engagement and participation through leadership best practice, the result is greater employee decision-making ability and in turn a more productive employee with a higher level of performance.

Another article done in Australia with title "The Impact of Transformational Leadership on Employee Sustainable Performance: The Mediating Role of Organizational Citizenship Behavior" by Weiping, Xianbo and Jiongbin (2017), the findings reveal that employee sustainable performance is positively influenced by transformational leadership. In addition, more than half of that influence is mediated by their organizational citizenship behavior. Osabiya (2015) on his study revealed that there is a significant relationship between leadership style and employees' performance in the attainment of organization goals and objectives.

A research was done in Pakistan titled "Impact of Leadership Style (Transformational & Transactional Leadership) On Employee Performance & Mediating Role of Job Satisfaction" Study of Private School (Educator) by Umerparacha et al. (2012) and the result clearly indicates that transactional leadership is highly correlated with employee performance and transformational leadership is correlated with employee performance but less than transactional leadership.

Another study by Rumania (2011) investigated transformational and transactional leadership behavior of managers in India. The result of this research shows that leaders typically show themselves, transformational leadership is highly related to effectiveness. It is important to remember that the transactional – transformational model of leadership is based on a continuum. In this continuum leaders may reward followers when they achieved objectives. Motivation and inspiration of followers leads to work for transcendental goals where rewards are internal. While research has shown that transformational leadership related to organizational effectiveness. But, both approaches are needed. Transactional and transformational styles can represent active, passive forms of leadership. Transactional leadership behavior is needed for effective department management, identifying performance, standards and classification of job expectation. Transformational behavior is providing a vision and to motivate and inspire their followers during era of environmental and professional change.

A study conducted in Singapore by Bizhan, Saeid and Vahid, (2013) titled "the relationship between leadership style and employee performance" showed that transformational leadership impacted on the staff performance and also, a high reliance on transformational leadership and poor in providing rewards and direction can create confusion and ambiguity among the employees. The results obtained from laissez-faire leadership have suggested that laissez-faire

leadership style leading to chaos in the organization and every person, for them self act as a leader. There is no any improvement in the organization and will only lead to a reduction in staff performance, since every successful organization needs a leader that all employees act according to his view. In the organizations, when this kind of leadership style practiced, there will be a number of views and this leads to conflict and tension between workers which naturally leads to a decrease in performance.

Another research conducted in Nigeria by Obiwuru Timothy (2011) title of “effects of leadership style on organizational performance: a survey of selected small scale enterprises in ikosi-ketu council development area of Lagos state, Nigeria” and the result showed that while transactional leadership style had significant positive effect on performance, transformational leadership style had positive but insignificant effect on performance. The study concluded that transactional leadership style was more appropriate in inducing performance in small scale enterprises than transformational leadership style and, therefore, recommended transactional leadership style for the small enterprises.

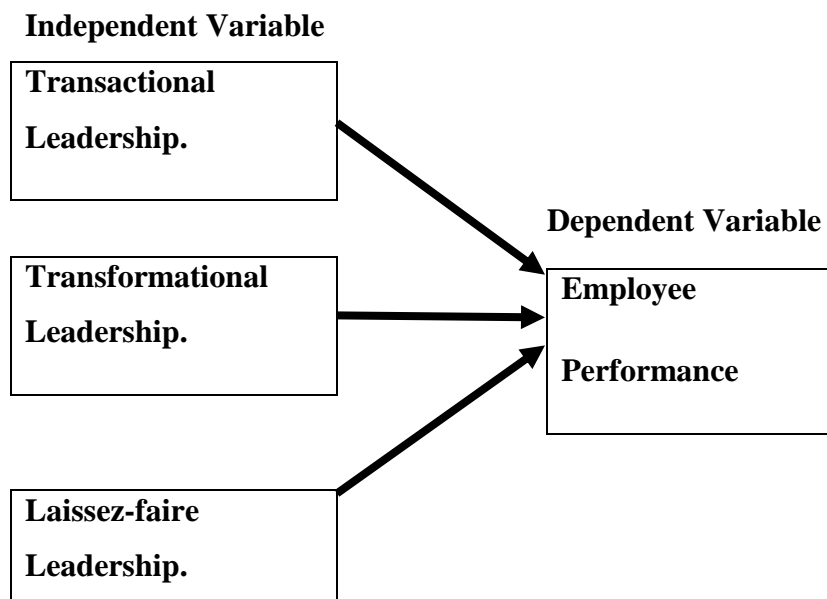
Another study conducted, in Nigeria, Abuja by Ofobruku Sylvester Abomeh (2013) on assessment of leadership style among hospitality business in Abuja, concluded that all leadership style do not all have equal effects on the performance of hospitality business and some have more positive effects than the other, therefore transformational leadership style will be most effective and efficient for hospitality business, it is important to note that transformational leadership has the highest degree of positive influence on hospitality business that can produce success and positive result for the sector.

Another study done in Kenya by Peris & Namusonge (2012) with title of “the effect of leadership styles on organizational performance at state corporations in Kenya” concluded that as there were no significant relationships between laissez-faire style and performance. The descriptive statistics however suggests that this style is prevalently practiced by managers at the sampled organizations. The second leadership style investigated the prevalence of transactional leadership behaviors and their effect on organizational performance. The results indicate Contingent Rewards and Active Management by Exception have a medium positive correlation with organizational performance. On the other hand, transformational leaders encourage

subordinates to put in extra effort and to go beyond what they (subordinates) expected before. Transformational leaders achieve the greatest performance from subordinates since they are able to inspire their subordinates to raise their capabilities for success and develop subordinates' innovative problem solving skills. As expected, relational analysis found that all transformational leadership behaviors have a strong positive correlation with organizational performance.

### 2.3 Conceptual framework

The conceptual framework diagram indicated below developed from the literature which was used to carry out the research.



**Figure 1** Conceptual framework based on from the above theoretical and empirical review

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter cover and explains about research design/type, research approach, sampling design, target population, sampling frame, sampling technique, sample size, sampling procedure, sources of data, data collection methodology, data collection instrument, data analysis methods and research ethics would be discussed.

#### **3.2 Research design/type**

A cross-sectional design was adopted using quantitative methods through a self-administered questionnaire. Data was generated using Multifactor Leadership Questionnaire (MLQ); this was developed by Bass and Avolio (1992). This instrument is by far the most widely used instrument for measuring leadership styles. It comes in several different versions. The version used in this research was the popular MLQ Form 5x-Short. The performance of employee measured based on self-rating questionnaire to their own personal perception to their quality of performance, productivity, extra effort and satisfaction. This instrument was adapted from the model of balanced scorecard used to measure key performance indicator which was developed by Kaplan and David (1992) and the questions were prepared with aim of fitting with the objective of the research. So, questions in the questionnaire were those relating to leadership styles and employees performance measurement.

The independent variables were transformational, transactional and laissez-fair leadership styles character, while the dependent variable was employee performance indicator: aggregate of employee productivity, quality of performance, extra effort and satisfaction to measure employee performance. The study used these variables to evaluate the impact of leadership styles on performance of EPHARM's employees. In the MLQ, each independent variable was given equal weighting. Each research questions had five potential responses, ranging from "strongly disagree" to "strongly agree" and scales range from 1 to 5. The dependent variable which was employee performance indicator variables were rated from "very low" to "very high" and scale range from 1 to 5. The questionnaires were personally distributed to respondents working in EPHARM.

### **3.3 Research Approach**

This specific research is a quantitative type research in which testing objective theories was made by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures. Like qualitative researchers, those who engage in this form of inquiry have assumptions about testing theories deductively, building in protections against bias, controlling for alternative explanations, and being able to generalize and replicate the findings.

### **3.4 Target Population**

The target population of this study was those who are permanent full-time employees of EPHARM working in production department, quality assurance department, administration department, store, marketing and other department. At the time of doing this research, EPHARM had 427 permanent employees working in different departments.

### **3.5 Sampling design**

This study was conducted in EPHARM premises. The sampling design covered those who are permanent full-time employees of EPHARM, which includes production department, quality assurance(QA) department, administration department, store department and marketing and others department . The sampling design was excluded board of directors, general manager, audit department, law service, general manager assistance, plant manager, department heads and supervisors.

### **3.6 Sampling Frame**

The sampling frame for each stratum was based on department, which was compiled from the company's workers name list.

### **3.7 Sampling technique**

Stratified random sampling technique was used, since it was an appropriate methodology for this kind of research purpose, in order to make proportionate and meaningful, comparisons between subgroups in the population Gay (1987). Moreover, Robson (1993) describes that the theory



supports stratified random sampling as an efficient choice because the means of the stratified samples are likely to be closer to the mean of the population overall. Stratified random sample typically reflects the characteristics of the population as a whole.

### 3.8 Sample size

Cochran (1977) developed a formula to calculate a representative sample for proportions as:

$$n_0 = Z^2 pq / e^2$$

where,  $n_0$  is the required sample size,  $Z$  is the selected critical value of desired confidence level,  $p$  is the estimated proportion of an attribute that is present in the population,  $q = 1 - p$  and  $e$  is the level of precision. Using a slightly less than the maximum variability, i.e.,  $p = 0.35$ , and taking 95% confidence level with  $\pm 10\%$  precision, the study sample size becomes:

$$n_0 = (1.96^2 * 0.35 * (1 - 0.35)) / 0.1^2 = 87$$

Cochran (1977) proposed a correction formula to calculate the final sample size which is given below:

$$n = n_0 / (1 + n_0 / N)$$

By using this correction formula and based on the population size  $N=427$ , the final required sample size obtained is 72, which is more than 10% of the total population. This sample size was then distributed to each department based on proportional to their size. The distribution of the sample size across the department is presented in the table below:

**Table 1: Distribution of the total computed sample size to each department based on proportional to their size**

Department	Number of Employee	Proportion	Sample Size
Production	226	0.529	38
Administrator	98	0.230	17
Quality Assurance	33	0.077	6
Store	42	0.098	7
Marketing and Others	28	0.066	5
Total	427	1.000	72

This sample size was then distributed to each department based on proportional to their size as illustrated in Table 1 above.

### **3.9 Sampling procedure**

During the data collection process, utmost care was taken to keep the anonymity of the respondents by the researcher. All participants in the sample were given a questionnaire with the introductory cover letter. Before they decided to participate in the research, they were informed that the survey was anonymous, voluntary and confidential. Moreover, the participants were informed as they can withdraw from the survey at any time. And, the participants were kindly requested to fill out the questionnaires genuinely.

### **3.10 Sources of Data**

#### **Primary source**

The primary source of data for this study was generated using standard Multifactor Leadership Questionnaire (MLQ) and employee self-rating performance measurement questionnaire administered to respondents.

#### **Secondary source**

The company's profile information was obtained from EPHARM'S promotional magazine and total number of workers from employees name list of the company, which was used as a secondary source of data while doing this research. The company's employee name list departmentally was used during Stratified random sampling.

### **3.11 Data Collection methodology**

The data for this study was collected through questionnaires administered to the confirmed (not on probation), permanent full-time employees of EPHARM, which were includes Production department, Administrator, Quality Assurance department, Store and Marketing and other department. The questionnaires were administered to employees in all departments of the company's using Stratified random sampling techniques base on their sample size.

### **3.12 Data collection instrument**

The research instrument that was used for collecting primary data was a questionnaire. Which is the most widely used data collection methods in evaluation research. The questionnaires used for the final data collection was close ended questionnaires. Multifactor Leadership Questionnaire (MLQ) and self-rating performance measuring questionnaire were helped to gather information on leadership style and employee performance respectively. Multifactor Leadership Questionnaires, MLQ (5X-Short Form) was used to determine the dominant leadership style of EPHARM. The MLQ (5X-Short Form) had a proven validity and reliability as a leadership instrument and is very popular among many researchers around the world (Bass 1997). The MLQ (5X-Short Form) used the three leadership styles of Transformational Leadership, Transactional Leadership and Laissez-faire Leadership in this research.

### **3.13 Data analysis methods**

The responses that were observed from each of the items in the instrument, which was used for primary data collection, had been scored and tabulated into a master sheet. After the data collected, data were analyzed by using statistical package of social sciences (SPSS). Each questionnaire was first checked to ensure that all the required fields were properly filled by the respondents. Then, some descriptive frequency tables and the statistical tools Spearman's rank-order correlation and Pearson correlation model were used. The Spearman's rank-order correlation is the nonparametric version of the Pearson product-moment correlation. Spearman's correlation coefficient measures the strength and direction of association between two ranked variables. In addition Pearson product-moment correlation also measures the strength and direction of association of variables.

### **3.14 Research Ethics**

The researcher provided a letter of introduction giving full details of the purpose of study and seeking the full consent of the respondents to participate in the research process, based on an informed choice. The letter of introduction and informed consent assured the participants of their right to withdraw from the study at any given time without giving the reasons for their withdrawal. The collected data was treated with utmost confidentiality with numerical ID

numbers being used instead of participants' names. Approval letter from Addis Ababa University Ethical committee was obtained to conduct this study in EPHARM.

## CHAPTER FOUR

### RESULTS and DISCUSSION

#### 4.1 INTRODUCTION

The purpose of this chapter would be to analyze the data collected from 71 total respondents. According to the total number of sampled population, which were 72, questionnaires were distributed and 71 correctly filled questionnaires returned. This means 98.61% of questionnaires were responded.

#### 4.2 Descriptive analysis of demographic characteristics

**Table 2: Demographic profile of participants (N=71)**

Variables	Categories	Number	Percent
Age	Below 25 years	8	11.27
	25-30 years	22	30.99
	31-35 years	22	30.99
	36-40 years	9	12.68
	41-45 years	3	4.23
	46 and above	7	9.86
Sex	Female	30	42.25
	Male	41	57.75
Education	Certificate	3	4.23
	Diploma	38	53.52
	Bachelor	29	40.85
	Master	1	1.41
Experience	Under 1 year	9	12.68
	Between 1 to 3 years	10	14.08
	Between 3 to 5 years	22	30.99
	Above 5 years	30	42.25

**SEX:** As mentioned on the above Table 2; female respondents represented 42.25% of the sample and male took the remaining 57.75% of the sample. Accordingly male had larger proportion from female in the sample, however the gender information indicates as fair composition of the respondents in terms of sex.

**AGE:** According to Table 2 below, age between 25 to 30 years and 31 to 35 years, each of them counts equally 30.99% of the total participants. Accordingly both age groups cover majority of respondents. This might be due to the pharmaceutical manufacturing sector needs young and educated employee. The next larger age group followed by 36 to 40 years and the one below 25 years, which constitute 12.68 and 11.27% respectively. Age group 46 years and above counts 9.86% of the respondents and age group between 41 and 46 years holds 4.23% of the total respondents.

**EDUCATION:** As pointed on Table 2 below, 53.52% of respondents had got diploma level education and which is the largest proportion of respondents. Bachelor holder counts 40.85% of the total respondents and which is second largest group in education level. Next certificate level education holds third order with 4.23% of the total respondents. Master level of education counts for 1.41% with least number from the total respondents. This education level is low in respondents and this might be due to highest education level holder is positioned in leadership/managerial level and our sampling technique exclude this group of population as it is discussed in previous section.

**EXPERIENCE:** As described on Table 2 below, 42.25% of respondents had above 5 years work experience in EPHARM and this constitute the largest number in terms of stay in the organization. The second larger number in terms of work experience in the company is between 3 to 5 years, which take share of 30.99% from the total respondents. This two class of work experience in the company, 3 to 5 and above 5 years work experience, counts for 73.24% of the total respondents. This constitutes the largest number, both in terms of time staying in the company and holding the largest proportion of total respondents, from the remaining groups. This might be helpful to get the real leadership character of the supervisors through MLQ and their perceived performance. The third larger work experience group is between 1 to 3 years and counts 14.08% of the total respondents. The least work experience group is under 1 year and holds 12.68% of the total respondents.

### 4.3 Validity and Reliability of Likert Scales

A measure used to assess the reliability, or internal consistency, of a set of scale often made before data analysis. Cronbach's alpha is one of the popular and way of measuring the strength of such consistency. It has been frequently used in most literatures to validate the stability of the data collection instrument and accuracy of the collected data. Accordingly the collected data, a Cronbach's alpha value of 0.86 was obtained which is an indication of having strong stability and reliability among the likert scale data of leadership styles. A Cronbach's alpha value for the items of employee performance was also computed separately and found to be 0.78. This value is also suggested as the generated scale was acceptably reliable. Therefore, issue of reliability/internal consistency of a set of scale were not an issue in this data set.

**Table 3: Summary statistics of level scores in the items of each leadership styles and employee performance**

Item	N	Mean	Standard Deviation
<b>Transformational Leadership</b>	71	3.43	0.65
<b>Transactional Leadership</b>	71	3.87	0.83
<b>Laissez-faire Leadership</b>	71	2.83	0.86
<b>Employee Performance</b>	71	3.99	0.72

In order to get average score of each leadership style, participant response has been summarized in the above Table 3. Consequently, the highest mean score of 3.87 was observed in Transactional Leadership. This indicates that majority of the respondent working in EPHARM ranked Transactional Leadership as a commonly practiced leadership style in their premises. They also ranked transformational and Laissez-faire leadership as the least practiced with a score of 3.43 and 2.83 respectively

**Table 4: A descriptive statistics of number of employees tabulated based on their performance**

Performance Items		Rating				
		Very low	low	Average	high	Very high
How do you rate the quality of your performance against the standard/specification of products/services?	Freq.	2	5	9	28	27
	%	2.82	7.04	12.68	39.44	38.03
How do you rate your productivity against the standard/target set?	Freq.	1	1	12	31	26
	%	1.41	1.41	16.9	43.66	36.62
How do you rate the amount of your extra effort that you use to accomplish your daily and new tasks?	Freq.	0	2	11	32	26
	%	0	2.82	15.49	45.07	36.62
How do you rate the amount of your extra effort that you use to accomplish your daily and new tasks?	Freq.	2	6	23	24	16
	%	2.82	8.45	32.39	33.8	22.54

As Table 4 on the below shows, the majority of the employees believed as they had high performance in the industry. Regardless of the leadership style, only few employees were reflected as low performances in the industry across all performance items while about more than three-fourth of the employees were responded as they had high and very high performance.



## 4.4 Correlation analysis

### 4.4.1 Correlation analysis between each indicators of independent and dependent variable using Spearman's rank correlation.

Table 5: Spearman's rank correlation between each indicators of the three leadership style character and employee performance

Leadership style	Indicator Questions	Perf.Q1	Perf.Q2	Perf.Q3	Perf.Q4
<b>Transformational</b>	My supervisor makes others feel good to be around him / her	-0.0255	-0.0589	0.1775	0.1435
	I have complete faith in my supervisor	-0.0632	-0.0872	-0.0020	0.1232
	I am proud to be associated with my supervisor	0.0246	-0.0957	0.0192	0.1145
	My supervisor expresses in a few simple words what we could and should do	0.1734	0.0717	0.1415	0.0819
	My supervisor provides appealing images about what we can do	0.0847	0.1519	0.1805	0.2036
	My supervisor helps me find meaning in my work	0.1846	0.0862	0.0338	0.2119
	My supervisor enables others to think about old problems in new ways	0.2079	0.1396	<b>0.2441</b>	0.1209
	My supervisor provides others with new ways of looking at puzzling things.	-0.0204	0.0519	-0.0561	-0.0806
	My supervisor gets others to rethink ideas that they had never questioned before.	0.0299	-0.0402	0.1738	-0.0661
	My supervisor helps others develop themselves	<b>0.3573</b>	<b>0.3660</b>	0.1983	0.0802
	My supervisor lets others know how he /she thinks we are doing	0.1124	0.0864	0.1919	0.1326
My supervisor gives personal attention to others who seem rejected.	<b>0.2360</b>	0.1280	0.0890	0.0582	
<b>Transactional</b>	My supervisor tells others what to do if they want to be rewarded for their work	<b>0.4403</b>	<b>0.3050</b>	<b>0.2902</b>	0.0845
	My supervisor provides recognition/rewards when others reach their goals.	<b>0.4587</b>	<b>0.3531</b>	<b>0.4317</b>	0.1903
	My supervisor calls attention to what others can get for what they accomplish	<b>0.3921</b>	<b>0.3039</b>	<b>0.4486</b>	0.1887
	My supervisor is always satisfied when others meet agreed-upon standards	<b>0.3622</b>	<b>0.4021</b>	<b>0.3741</b>	<b>0.2364</b>
	As long as things are working, my supervisor do not try to change anything	<b>0.4046</b>	<b>0.3306</b>	<b>0.3295</b>	0.0382
	My supervisor tells us the standards we have to know to carry out our work	<b>0.3832</b>	<b>0.3990</b>	<b>0.4431</b>	0.0802
<b>Laissez-faire</b>	In complex situations my supervisor allows me to work my problems out on my own way	-0.2143	-0.1008	-0.0765	0.0520
	My supervisor stays out of the way as I do my work	-0.0694	-0.1473	0.0261	0.0453
	As a rule, my supervisor allows me to appraise my own work	-0.0991	0.0089	0.0343	0.1602
	My supervisor gives me complete freedom to solve problems on my own.	-0.0120	-0.0556	-0.0955	0.1651
	In most situations I prefer little input from my supervisor.	0.0176	-0.1297	-0.0870	0.0059
	In general my supervisor feels it's best to leave subordinates alone	-0.1321	-0.0989	-0.0244	<b>0.2761</b>

Where Perf.Q1, Perf.Q2, Perf.Q3 and Perf.Q4 on the above table 5 represents for performance indicator questions:

Perf.Q1: How do you rate the quality of your performance against the standard/ specification of products/services?

Perf.Q2: How do you rate your productivity against the standard/target set?

Perf.Q3: How do you rate the amount of your extra effort that you use to accomplish your daily and new tasks?

Perf.Q4: How do you rate your satisfaction level for gaining learning and growth at work place?

As the above Table 5 presented, the Spearman's rank correlation coefficients between each characters of the three leadership styles and indicators of employee performance were found. It provides a measure of how closely two sets of rankings agree with each other. Statistically significant correlations are marked with bold face. According to the result, only few characters of Transformational and Laissez-faire leadership styles had a statistically significant positive correlation with some of the performance indicators. For instance in case of transformational leadership, the employee performance increases when their supervisor enables them to think about old problems in new ways and when supervisors help employees to develop themselves plays a significant role in improving their performance. In the case of Laissez-faire, employee performance increase when their supervisor felt best while leaving subordinates alone. On the other hand, most of the characters of Transactional leadership style had a statistically significant positive correlation with most of employee performance indicators. For example, at the time of their supervisor provides recognition/rewards when others reach their goals, when their supervisor calls attention to what others can get for what they accomplish and when their supervisor tells them the standards they have to know to carry out their work are some of highly correlated characters with their performance.

To easily assess the impact of leadership styles on employee performance, all characters of each leadership style and employee performance indicators were summarized using un-weighted arithmetic mean.

#### **4.4.2 Correlation analysis between independent and dependent variables**

The Pearson correlation coefficient measures the strength and direction of association between two scored variables.

Table 6: Pearson correlation between scores of each leadership styles and employee performance

Leadership Styles	Correlation	P-value
<b>Transformational</b>	0.243	0.051
<b>Transactional</b>	0.587	0.000
<b>Laissez-faire</b>	0.003	0.982

The Pearson correlation coefficient measures the strength and direction of association between two scored variables. As table 6 above shows, transformational leadership style and employee performance has a Pearson correlation value of 0.243 and the P-value is 0.051. Transactional leadership style and employee performance has Pearson correlation value of 0.587 and the P-value is 0.000. Laissez-fair leadership style and employee performance has Pearson correlation value of 0.003with P-value of 0.982.

Based on the above table 6 results, tests for the hypothesis were done:

**H1: There is a significant relation between Transformational leadership style and Employee performance.**

Transformational leadership style and employee performance has Pearson correlation value of 0.243 and the P-value is 0.051 which is greater than the significant value of 0.05, this means the relationship is statistically insignificant. Based on this result, hypothesis H1 is rejected and it can be concluded as there is weak and statistically insignificant relationship between transformational leadership style and employee performance.

**H2: There is a significant relation between Transactional leadership style and Employee performance.**

Transactional leadership style and employee performance has Pearson correlation value of 0.587 and the P-value is 0.000, which is less than the significant value of 0.05, this means the relationship is strong positive and statistically significant. From this result, hypothesis H2 is accepted and it can be concluded as there is strong positive and statistically significant relationship between transactional leadership style and employee performance.

**H3: There is a significant relation between Laissez-faire leadership style and Employee performance.**

Laissez-fair leadership style and employee performance has correlation value of 0.003 and the P-value is 0.982, which is greater than the significant value of 0.05, this means the relationship is very weak and statistically insignificant. From this result, hypothesis H3 is rejected and it can be concluded as there is very weak and statistically insignificant relationship between Laissez-faire leadership style and employee performance.

#### **4.5 Discussion**

The general objective of this study was to assess which leadership style is practiced at EPHARM among transformational, transactional and laissez-faire and to identify their impacts on employee performance. Accordingly the discussion focused on the following research questions:

What is the impact of transformational leadership style on employee performance in EPHARM?

What is the impact of transactional leadership style on employee performance in EPHARM?

What is the impact of laissez -faire leadership style on employee performance in EPHARM?

##### **4.5.1 Impact of transformational leadership style on employee performance in EPHARM**

The above result part indicated, as transformational leadership style and employee performance has a Pearson correlation value of 0.243 and the P-value is 0.051 which is greater than the significant value of 0.05. This means the relationship is weak and statistically insignificant. Therefore, transformational leadership style had no significant impact on employee performance in EPHARM.

##### **4.5.2 Impact of transactional leadership style on employee performance in EPHARM**

From the above result part, this research find out that as transactional leadership style and employee performance had Spearman correlation value of 0.587 and the P-value is 0.000, which is less than the significant value of 0.05. This means the relationship is strong positive and statistically significant. This lead to conclusion of as transactional leadership style had statistically significant impact on employee performance in EPHARM.

It consistent with theory of Bass and Avolio (2003), which says that transactional leadership style affect on employee performance. Janssen & Yperen, (2004) recognize that Transactional

leadership supports the efficiency by delivering creative job performance and job Satisfaction. Hence, the study explains that transactional leadership has huge impact on employee performance. In addition, according to the study of Bass et al (2003), the contingent reward side of transactional leadership has to relate positively to performance, which means this leaders clarify what is their expectations and remember success that positively contribute to higher levels of effort and performance.

A research was done in Pakistan by UmerParacha et al (2012), the result clearly indicated that transactional leadership is highly correlated with employee performance and transformational leadership is correlated with employee performance but less than transactional leadership. Another research conducted in Nigeria by Obiwuru (2011), the result showed that while transactional leadership style had significant positive effect on performance, transformational leadership style had positive but insignificant effect on performance and the researcher concluded that transactional leadership style was more appropriate in enhancing performance than transformational leadership style.

#### **4.5.3 Impact of laissez-faire leadership style on employee performance in EPHARM**

The above result again showed that laissez-fair leadership style and employee performance has correlation value 0.003 and the P-value is 0.982, which is greater than the significant value of 0.05. This means the relationship is statistically insignificant. So, laissez-faire had no impact on employee performance in EPHARM. As Deluga (1992) explained as Laissez-faire style is associated with dissatisfaction, unproductiveness and ineffectiveness and from this study it is possible to say that laissez-faire style had low impact on employee performance. Another study done in Kenya by Peris and Namusonge(2012), concluded that as there were no significant relationships between laissez-faire style and performance and he results also find out Contingent Rewards and Active Management by Exception, which are the basic principles of transactional leadership style, have a medium positive correlation with organizational performance.

## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary of findings**

The target populations of this study was those who are permanent full-time employees of EPHARM, which was includes production department, QA department, administration department, store, marketing and other department. At the time of doing this research, EPHARM has 427 permanent employees working in different departments.

The researcher used a cross-sectional Survey instrument type of design. Data was generated using standard Multifactor Leadership Questionnaire (MLQ); this was developed by Bass and Avolio (1992) and the performance of employee measured based on self rating questionnaire to their own personal perception to their quality of performance, productivity, extra effort and satisfaction. The independent variables were transformational, transactional and laissez-fair leadership styles character, while the dependent variable was employee performance indicator. Stratified random sampling technique was used based on the population size N=427, the final required sample size obtained is 72, which is more than 10% of the total population.

After the data collection, data was analyzed by using statistical package of social sciences (SPSS). Subsets of data values that belong to the same characteristics (i.e., questions associated with one leadership style) were combined using un-weighted arithmetic mean. In addition to some descriptive frequency tables, the statistical tools Spearman's rank-order correlation, Pearson correlation and linear regression model were used. Spearman's correlation coefficient measures the strength and direction of association between two ranked variables. Cronbach's alpha measure used to assess the reliability, or internal consistency, of a set of scale often made before data analysis.

Analysis of Spearman's rank correlation coefficient between each character of the three leadership style and indicators of employee performance was performed. According to the result, only few characters of Transformational and Laissez-faire leadership styles had a statistically significant positive correlation with some of the performance indicators. On the other hand, most

of the characters of Transactional leadership style had a statistically significant positive correlation with most of employee performance indicators.

Pearson's correlation coefficient measures the strength and direction of association between two continuous variables. Accordingly, transformational leadership style and employee performance had a correlation value of 0.243 and the P-value is 0.051. And it can be concluded as there is weak and statistically insignificant relationship between transformational leadership style and employee performance at EPHARM.

Transactional leadership style and employee performance has a Pearson's correlation value of 0.587 and the P-value is 0.000. And it can be concluded as there is strong positive and statistically significant relationship between transactional leadership style and employee performance at EPHARM.

Laissez-fair leadership style and employee performance has a Pearson correlation value of 0.003 with P-value of 0.982. And it can be concluded as there is statistically insignificant relationship between Laissez-faire leadership style and employee performance at EPHARM.

## **5.2 Conclusions**

From the study results it can be concluded that supervisors at EPHARM, who are aimed to achieve high performance from all employees should try and exhibit more of transactional leadership style and less of the remaining leadership styles. This is because of the result that showed significant correlation between impacts of transactional leadership style on employee performance.

The main purpose for developing the proposal and doing this project paper was to identify the leadership style practiced at EPHARM and knowing the leadership's impacts on employee performance. According to the finding of this study based on MLQ, transactional leadership style is practiced. The correlation analysis used to determine the impacts of transactional leadership style on EPHARM's employee performance revealed as there is statistically significant correlation between them.

The problem facing pharmaceutical company like EPHARM is how current pharmaceutical leaders can bring a positive impact on employee performance. Among many factors that could

bring positive impact on employee performance includes leadership style. And transactional leadership style is one of the major that could bring the desired positive employee performance. According to the research finding of this study, transactional leadership style is the dominant in bringing positive impact in employee performance in case of EPHARM. Most of the time organizations in Ethiopia don't have specific style of leadership style that fit to their strategy and which can bring positive impact on employee performance. But Glantz(2002) described leadership style in an organization as one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization, which has a direct impact on employee performance. Accordingly, it is best if EPHARM positioned itself to practice transactional leadership style and see the positive outcome on employee performance.

According to House and Aditya (1997), the objective of the transactional leader is to ensure that the path to goal attainment is clearly understood by the internal actors or employees, to remove potential barrier within the system, and to motivate the employees to achieve the predetermined goals.

My conclusion from the finding and literatures in general is EPHARM has to follow the basic principles of transactional leadership style. According to many scholars transactional leadership is a reinforcement technique requiring constant application. Based on this technique there are two main components of transactional leadership: contingent reward and management-by-exception

Contingent Reward: is when the leader provides rewards if the subordinate performs in accordance with the performance expectations or expends the necessary effort, Densten (1999). The contingent reward aspect of transactional leadership should also relate positively to performance in that these leaders clarify expectations and recognize achievements that positively contribute to higher levels of effort and performance, Bass et al, (2003)

Management-by-exception: It represents the taking of action by the leader when the follower does not meet the performance expectations, Densten, (1999). In the management-by-exception approach as described by Bass (2005), transactional leaders clarify expectations, specify standards for compliance, define what constitutes ineffective performance, and monitor closely to ensure that deviances and errors are corrected promptly.



According to the results, some strategies for improving the practice of supervisor's transactional leadership style and employee performance management system could be suggested. Since, the result indicated that transactional leadership behavior would lead to higher employee performance.

Based on the above two components of transactional leadership style, contingent reward and management by exception, it is easy to conclude as EPHARM will be benefited from this leadership style. Since the major job character of EPHARM's employee is manufacturing and selling of products and this type of job character will result in good performance if managed by transactional leadership style. However, supervisors should clarify expectations and provide goals and standards to be achieved by the employees based on transactional leadership style. This is because transactional leadership style had strong and positive correlations with employee performance measured as productivity, quality and overall performance.

Supervisor's laissez faire and transformational leadership style behavior will decrease employee performance if practiced at EPHARM. So, supervisors should have to avoid these two types of leadership style. These two types of leadership style could not be perfect for manufacturing sectors. As Deluga (1992) explained as Laissez-faire style is associated with dissatisfaction, unproductiveness and ineffectiveness and from this study it is possible to say that laissez-faire style had low impact on employee performance. Since, laissez-faire gives absolute freedom to employees and this kind of gap between the supervisor and employee will lead to low performance. The finding of this study resulted in as transformational leadership did not has significant impact on employee performance of EPHARM and the organization culture of the company has to be considered for low impact of this leadership style.

### **5.3 Recommendations**

The recommendation of the researcher to EPHARM is to use this material as an input during investigation of their leadership style and employee performance. According to this study transactional leadership style has high impact on employee performance when compared to transformational and laissez-faire leadership style. So, I recommend practicing transactional

leadership style at working environment of EPHARM. Supervisors also have to train the basic principles of this style and practice it to achieve high employee and organizational performance. Therefore, as described before, leaders or supervisors should be aware of the importance of transactional leadership style in EPHARM and try to deliberately put it in practice. However, laissez faire leadership style had a negative correlation and transformational leadership had statistically insignificant correlation with employee performance and supervisors in EPHARM have to consider the negative impact before practicing their characters.

My recommendation to board of directors and top management is to consider the significance of leadership style on employee performance and clearly put this agenda in EPHARM's policy direction and strategy. EPHARM's key personnel have to learn from previous or current leadership styles effect on employee performance and take the appropriate corrections to succeed on the competitive working environment.

In addition, this research will also be crucial as a reference for pharmaceutical and other similar manufacturers located in Ethiopia because it is very challenging to get researches done in similar to this topic of study.

The study will also be very important as a reference for other researchers who want to study in this topic of area, especially for those who want to do research by widening their scope of study in pharmaceutical manufacturing. This is to mean that, in the coming times research may be conducted with inclusion of different type of variables such as adding other leadership styles, additional performance indicator variables, role of education level and gender difference of employee as a factor on leadership style and employee performance relationship. Since only one organization participated in this study, future researcher could increase the number of pharmaceutical manufacturers in a single study. In addition, the future researchers should focus on other pharmaceutical organizations which might be located in Addis Ababa or other region of the country.

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## **Appendices.**

### **Appendix A: Introductory letter for the participants**

**Dear Respondent,**

I am **Getnet Shigute**, a Masters Business Leadership student at Addis Ababa University. I am carrying out a study on the **“Impact of leadership style on employee performance, in case of EPHARM”** under the guidance of **Dr. Adane Atara**, Addis Ababa University, Ethiopia. This is required as part of the fulfillment of requirement for the award of Master of Business Leadership. To that end, I request you to kindly respond to a few questions on this questionnaire as sincere and thoughtful as possible. A guide is provided under each part of the questionnaire. The completion of this questionnaire is very important to the overall design of the study and should take you less than 15 minutes to complete.

Your timely completion and return of this questionnaire is highly appreciated and will be counted as a continuation of your kind support to the development of the profession and myself as a member of the same. All the data you provide will be strictly confidential and used for the stated purpose only. Furthermore, your responses will only be presented in aggregate and no single results will be traceable back to individual respondent.

I once again thank you for your participation and if you have any questions or concerns please do not hesitate to contact me directly at **+251913144711/+251929367490** or email at [getnet4roresa@gmail.com](mailto:getnet4roresa@gmail.com)

Sincerely,  
Getnet Shigute

## Appendix B: Demographic questions

1. What is your age?  
Below 25 years ( )    25-30 years ( )    31-35 years ( )    36-40 years ( )  
41-45 years ( )    46 and above ( )
  
2. What is your gender?  
Male ( )    Female ( )
  
3. What is your highest education qualification?  
Under high school ( )    Certificate/diploma ( )  
Higher diploma ( )    Bachelor ( )    Master ( )
  
4. What is your work experience in the company  
Under 1 year ( )    between 1 to 3 years ( )  
Between 3 to 5 years ( )    above 5 years ( )

## Appendix C: Multifactor Leadership Questionnaire (MLQ)

The sets of statements aimed at helping you assess your feelings or perceptions of the leadership style of your immediate supervisor. You are requested to rating yourself against each statement to indicate you level of agreement with what the statement is suggesting, where the following ratings are:

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

<b>TRANSFORMATIONAL LEADERSHIP</b>						
	<b>Idealized Influence (II)</b>	1	2	3	4	5
1	My supervisor makes others feel good to be around him / her					
2	I have complete faith in my supervisor					
3	I am proud to be associated with my supervisor					
<b>Inspirational Motivation (IM)</b>						
1	My supervisor expresses in a few simple words what we could and should do					
2	My supervisor provides appealing images about what we can do					
3	My supervisor helps me find meaning in my work					
<b>Intellectual Simulation (IS)</b>						
1	My supervisor enables others to think about old problems in new ways					
2	My supervisor provides others with new ways of looking at puzzling things.					
3	My supervisor gets others to rethink ideas that they had never questioned before.					
<b>Individual Consideration (IC)</b>						
1	My supervisor helps others develop themselves					
2	My supervisor lets others know how he /she thinks we are doing					
3	My supervisor gives personal attention to others who seem rejected.					
<b>TRANSACTIONAL LEADERSHIP</b>						
<b>Contingent Reward (CR)</b>						
1	My supervisor tells others what to do if they want to be rewarded for their work					
2	My supervisor provides recognition/rewards when others reach their goals.					
3	My supervisor calls attention to what others can get for what they					

	accomplish					
	<b>Management by exception (MBE)</b>					
1	My supervisor is always satisfied when others meet agreed-upon standards					
2	As long as things are working, my supervisor do not try to change anything					
3	My supervisor tells us the standards we have to know to carry out our work					
	<b>LAISSEZ FAIRE LEADERSHIP</b>					
1	In complex situations my supervisor allows me to work my problems out on my own way					
2	My supervisor stays out of the way as I do my work					
3	As a rule, my supervisor allows me to appraise my own work					
4	My supervisor gives me complete freedom to solve problems on my own.					
5	In most situations I prefer little input from my supervisor.					
6	In general my supervisor feels it's best to leave subordinates alone					

Adapted from Avolio and Bass (1992)

## Appendix D: Performance Questionnaire

The sets of statements aimed at helping you assess your own performance. You are requested to rating yourself against each statement to indicate you level of agreement with what the statement is suggesting, where the following ratings are:

1 = very low, 2 = low, 3 = Average, 4 = high, 5 = very high, Please place a tick (✓) or a mark (x) in the box that represents your appropriate measuring of performance.

	<b>EMPLOYEE PERFORMANCE</b>	1	2	3	4	5
1	How do you rate the quality of your performance against the standard/ specification of products/services					
2	How do you rate your productivity against the standard/target set					
3	How do you rate the amount of your extra effort that you use to accomplish your daily and new tasks?					
4	How do you rate your satisfaction level for gaining learning and growth at work place?					

Adopted from Balanced score card by Robert S. Kaplan and David P. Norton, 1992