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An Integrated Approach to Performance Management

Cathay Pacific Airways Tracks Employee Behavior to Improve Performance

– **Chris Howard**, *Principal Analyst* | April 2006

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▶ ## IN THIS CASE STUDY

Cathay Pacific Airways is an international airline servicing over 90 destinations and carrying over 15 million passengers each year. Cathay Pacific is recognized by many prestigious "best of" lists in many categories of the airline industry, including:

- **Asia's Leading Airline, World's Leading Use of In-Flight Technology** (World Travel Awards)

- **Top International Route Airline – 2nd place** (*Conde Nast Traveler magazine*)

- **Airline of the Year 2005** (TTG Travel Awards)

- **Best Frequent Flyer Program** (*Business Traveler magazine*)

- **Airline of the Year 2005** (World's largest passenger poll conducted by U.K. - based Skytrax Research)

But not one to rest on its laurels, Cathay Pacific knows that in order to continue to be successful, it cannot continue to do today what it did yesterday. The company knows that it must look forward and focus on

continuous improvement, and that ideology must be supported at all levels of the organization. The company chose to revisit its employee performance management process because it wasn't sufficiently looking forward; it wasn't improving employee value by encouraging employees to take responsibility; and it wasn't happening at all levels of the organization.

This case study highlights the challenges Cathay Pacific faces and how the company has improved its performance management[1] process to address those challenges.

> Encouraging employees to **take responsibility** was a key objective in redesigning performance management.

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1 For a detailed discussion of performance management processes and systems, please consult *Performance Management 2006: WhatWorks®* **research, available to Bersin & Associates research members or for purchase at** www.bersin.com/perfmgt**.**

TABLE OF CONTENTS

About Cathay Pacific

Cathay Pacific Airways, based in Hong Kong, offers scheduled cargo and passenger services to over 90 destinations throughout the globe.

Cathay Pacific is deeply committed to Hong Kong, where the company was founded in 1946, and continues to make substantial investments to develop Hong Kong's aviation industry and enhance Hong Kong's position as a regional transportation hub. In addition to the company's fleet of aircraft, these investments include catering, aircraft maintenance and ground handling companies, as well as corporate headquarters at Hong Kong International Airport. Cathay Pacific and its subsidiaries and associates employ 26,000 staff in Hong Kong. The company's two major shareholders are both Hong Kong companies listed on the Hong Kong Stock Exchange, as is Cathay Pacific itself.

Cathay Pacific is the major shareholder in AHK Air Hong Kong Limited, an all-cargo carrier that offers scheduled services in the Asia region, and is a shareholder in Hong Kong Dragon Airlines Limited. Cathay Pacific is also a founding member of the oneworld global airline alliance, an organization whose combined network serves over 570 destinations worldwide.

The company's **vision** is to be the most admired airline in the world. To achieve that hallmark as a **service leader**, the company is committed to service enhancements that reflect its unique motto, "Service Straight from the Heart."

The Business Challenge: Driving a Culture of Employee Development

Performance Management System Drove Compliance Not Behavior

For many years, Cathay Pacific conducted what most organizations would consider a routine performance management process— annual reviews conducted at the end of the year that were linked to annual merit pay increases. A so-called legacy system was used to enter performance scores during a defined interval at the end of the year.

The system created a standardized process, but was reinforcing the wrong set of values around performance management. The manager of the Learning & Development Group responsible for managing the performance process indicated that it was difficult to get employees to understand the link between the process and the people themselves. The process achieved compliance from the workforce, but not commitment. With operations in 35 different countries and vastly different styles of management, compliance simply wasn't enough. The company needed to build an environment that encouraged certain management behaviors—behaviors the company was not seeing, but needed.

> The success of the company's previous performance management process was measured by **employee compliance** instead of a commitment to **behavioral change**.

Customer Service Is #1 Priority: Focus on Line Operations

It should come as no surprise that the business success of Cathay Pacific is based on customer retention—for the company, service is absolutely critical. The company has been voted Airline of the Year in the Skytrax passenger poll twice in the past three years. But the company knows that it cannot survive as a premium airline without continually reinventing itself to maintain its status in such a highly competitive industry as the airline industry.

Cathay Pacific has 46 locations in 35 countries, carries over 15 million passengers a year, and has 15,500 total employees—approximately 8,000 are ground staff operations, crews and corporate staff, and

the remaining 7,500 are cabin and cockpit crew. Managing the performance of the aircrew has its own additional challenges, so the new performance strategy focused initially on the ground crew and operations staff. In either case, the influence on employees would be likely to impact customers who interact with those employees.

HR Focused on Self-Service Operations: Yet Clear Need for Further Employee Development Strategy

Just as customers of Cathay Pacific have more control, more choice, and more self-help capabilities, the company's Human Resources department has reengineered most processes to be self-help for employees since 1996. This was the beginning of an organizational culture change at the company—once self-service benefits were in place, self-help tools for career management and career planning, including blended learning opportunities, were made available.

High-Potential Management Development: The primary development action for high-potential managers has always been regularly moving them into new jobs worldwide. Remaining staff members have always needed a more directed development program. To help facilitate this development process, the company deployed the NetDimensions Enterprise Knowledge Platform in 2002 for its Learning Management System (LMS) and started to evaluate options for employee performance management. The manager of Human Resources decided to look at performance management from two perspectives: (1) a business strategy context and (2) a cultural context.

> The primary development action for **high-potential managers** has always been regularly moving them into new jobs worldwide.

Need to Focus on Service Competencies: For over 10 years, Cathay Pacific has been creating a classic service culture—"Service Straight from the Heart." Up until now, passengers have found their experience with Cathay Pacific to be high quality, reliable, and predictable, but lacking a little in the human touch. Without getting that human touch component right, the company would never see significant improvement. The company felt that structuring competencies would only get it to performance—not good enough. The company wanted employees to ask, What am I supposed to do here? The company wanted to make sure that whatever it did

> A key objective was to **empower employees** to make their own decisions.

for performance management could adapt and allow employees to take some control. It wanted to make sure that employees knew that this was not just about doing things right, but doing things better. It wanted to make sure each employee was considered an individual—giving people the courage and imagination, but keeping that behavior in alignment with business objectives. It really wanted to get employees engaged in the business—similar to what Southwest Airlines has done, but on a much more sophisticated level. So, the company put a structure around competencies that allows employees to choose those that they feel are appropriate and work on them with their manager.

> The company needed a performance management approach that would be **engaging** and **empowering** for employees.

The Business Case for Revamping Performance Management

"Dialogue… is the fundamental unit of business and the core of culture. How people talk to each other in organizations absolutely determines what gets done."

Larry Bossidy & Ram Charan in Execution: "The Discipline of Getting Things Done"

This quote has been a guiding principle for the manager of the Learning & Development Group at Cathay Pacific, who has identified two key benefits of executing performance management well:

1. Individual contributions are aligned with business objectives in terms of Key Result Areas (KRAs) and ways of working (competencies); and

2. Individuals are able to act independent of constant supervision to achieve targets.

Cathay Pacific's rationale for a performance management solution focuses on two levels: the business level and the individual level.

Business Level Benefits: From a business perspective, the previous year's standards (cost, quality, time, revenue, capability) are not high enough for the next year's challenges—ever.

> The performance management solution must meet the needs of the business as well as **individual employee objectives**. An enterprise performance management solution is **not just an HR tool**: it is a business tool and employee development solution.

Continuous improvement needs to be encouraged, directed, and supported through standard setting and review at the department/country level all the way through to each employee. An automated tool provides a consistent, transparent method to record and review the agreed-upon standards and progress toward achievement. This continuous improvement drives attainment of the business results—not just individual results.

Individual Level Benefits: At the individual level, the performance management system (PMS) must drive employee engagement, focus, and alignment. People perform best when they:

- Understand and agree with what they are expected to achieve at work;

- Gain specific feedback and agree with others' assessment of their progress based on objectives and relevant information; and

- Are encouraged to take responsibility for their own performance and plan their own development.

The company wants its employees to have control, choice, and self-help; but it also wants to make sure its employees' contributions are aligned with business objectives. That is possible if employees have good, collaborative conversations with their managers.

Performance Management Systems Must Be Employee-Focused: When Cathay Pacific evaluated various employee performance management systems, the company was dissatisfied because so many of them approached it from a top-down approach versus one that allows employees to create their own objectives and job-specific competencies. The company felt it was important that the employee select or change who is the right person to conduct their review—especially in situations where the employee may be working on a project outside their traditional role or reporting structure.

The performance management system needed to ensure that contributions are aligned with **business objectives**.

Cathay Pacific found that **many performance management systems focused on a top-down approach**. They had difficulty finding a system that empowered employees to **create their own objectives** and competencies, and enable managers other than their direct line manager to review their performance.

Cathay Pacific felt very strongly about creating an environment and system that was "needs-based" versus "supply-based"—the company did not want managers and employees enrolling in learning and development activities simply because they were available and had not yet completed certain courses. The company wanted the employees and their goals to drive what was available from a learning perspective, not the other way around.

Solution Implementation

One of the key strategies in any performance management implementation is to clarify, document, and train people on the company's performance management process before selecting or implementing any tool.

For the system, Cathay Pacific chose to roll out a heavily customized version of the PeopleSoft employee review functionality (at that time, PeopleSoft's ePerformance wasn't available; but Cathay Pacific has continued to evaluate PeopleSoft's solution as newer versions become available). The system was implemented for ground crew and operations in 2002, so that it was ready for the 2003 appraisal year.

The company has created four stages of performance management (see Figure 1):

- **Agree Agenda**—Agreeing on the purpose of the interview and creating the "climate"

- **Current Performance Assessment**—Agreeing on the current performance

- **What Would Be Better?**—Establishing what would be better and the results desired

- **Development Plan**—Creating a development plan for improvement

★ **BEST PRACTICE**

Training on the performance management **process** is as important as that for any **system** used to autmomate the process.
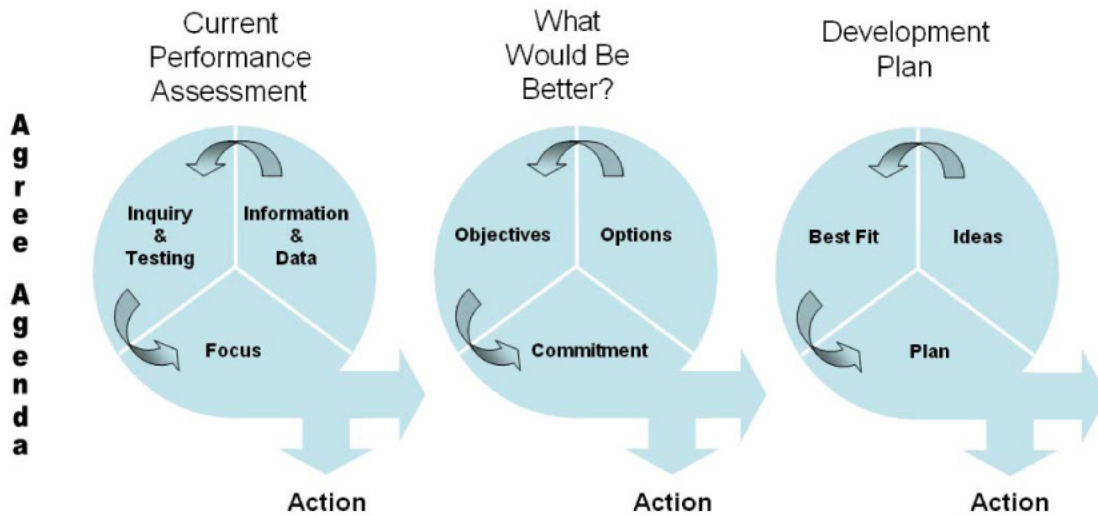
Figure 1: Cathay Pacific's Three Stages of Performance Management
Reproduced with permission from Cathay Pacific Airways

The purpose of this process is to train managers to implement a regular series of discussions on feedback and coaching. Cathay Pacific's performance review process requires midyear assessments and an end-of-year review. The end-of-year review is used to create a score that determines performance-based pay and bonuses.

There are two main components of the actual performance assessments: competencies and Key Result Areas (KRAs).

Competency Assessment and Analysis

Competencies are behaviors and qualities that Cathay Pacific wants to encourage and further develop in its staff. Each employee is expected to focus on a minimum of 6 competencies, up to a maximum of 15, with each competency assessed not only on how well the employee performs, but also how often. Figure 2 provides examples of some Cathay Pacific competencies:

Midyear assessments and the end-of-year review are used to determine **pay and bonuses**, but the ultimate purpose of the performance process is to encourage and train managers to **implement continuous feedback and coaching**.

Figure 2: Competencies in the Performance Management System
Reproduced with permission from Cathay Pacific Airways

The company has paired positive and negative qualities in order to rate observable behavior.

This is done by assessing the behavior in terms of what are called positive qualities and negative exaggerations.

● **Positive Qualities**—In many situations, competencies cannot be defined by a simple definition, because the good performance of a competency actually depends on the situation. When examined in depth, it is found that competencies are a combination of qualities. These qualities are usually complementary and form a pair. They are called positive qualities and when used together, these qualities contribute to the success of achieving goals.

To assess employees' competencies, Cathay Pacific makes sure that managers observe both **positive and negative qualities** to rate observable behavior. For example, positive qualities mean that the employee is **developing or improving**. Negative qualities mean that the employee is **avoiding or controlling**.

- **Negative Exaggerations**—At the same time, it is also possible to exaggerate each of the positive qualities to hinder achievement. In these circumstances, they are called negative exaggerations. It is the combination of the pair of positive qualities and the pair of negative exaggerations that forms the competency.

Each competency has two positive qualities and two negative exaggerations, which are rated based on the frequency of the observed behaviors:

- **Constantly** (4 points for positive quality, -4 points for negative exaggeration)

- **Frequently** (3 points for positive quality, -3 points for negative exaggeration)

- **Occasionally** (2 points for positive quality, -2 points for negative exaggeration)

- **Rarely** (1 point for positive quality, -1 point for negative exaggeration)

- **Never** (0 points)

The goal is to have an evidence-based conversation as the basis for identifying areas that need improvement, or development areas. For every competency, managers rate employees on four criteria, as shown in Figure 3:

(1) How often is the positive quality of improving shown?

(2) How often is the positive quality of developing shown?

(3) How often is the negative exaggeration of controlling shown?

(4) How often is the negative exaggeration of avoiding shown?

This allows people to better understand the behavior. Figure 3 indicates how the positive and negative qualities are captured in the system for one of the competencies in the earlier example.

> Each competency has two positive qualities and two negative exaggerations, which are rated based on the **frequency** of the observed behaviors.

> Positive and negative qualities are rated based on frequency in order to have an **evidence-based conversation**.

Coaching and Development

Helping others to be as effective as possible through focussed support and challenge.

Negative Exaggeration: CONTROLLING
- Orders people what to do and how to improve
- Has made up their mind with little involvement or discussion with the person(s) concerned
- Reluctant to delegate

Positive Quality: IMPROVING
- Shares information about others performance and compares this to standards
- Uses information to establish what is really happening
- Generates commitment to improvement
- Encourages others to accept responsibility

Positive Quality: DEVELOPING
- Helps people work out for themselves what is really happening
- Encourages him/her to look at what is happening in depth
- Helps others decide the results wanted
- Delegates whole tasks and encourages others to take responsibility

Negative Exaggeration: AVOIDING
- Becomes frustrated when observing below-standard performance but does not know how to handle it
- Does not want an argument nor to make relationships worse so decides to do nothing
- Over delegates
- Declines to get involved when they should

Figure 3:
Assessing Competencies in the Performance Management System
Reproduced with permission from Cathay Pacific Airways

The total score for the frequency of the observed behaviors is then translated into the competency ratings:

FREQUENCY OF OBSERVED BEHAVIOR (TOTAL SCORE)	COMPETENCY RATING
6 to 8	5 – A role model
3 to 5	4 – Highly commendable
0 to 2	3 – A commendable achievement
-1 to -4	2 – Development needed
-5 to -8	1 – Significant development needed

Table 1: Competency Rating
Reproduced with permission from Cathay Pacific Airways

Each competency has a weight, which is applied to the rating to get the competency score.

Key Result Areas Assessment and Analysis (Goals)

Key Result Areas (KRAs) are the results to be achieved within a particular period of time—typically for the upcoming year (these are often called "goals"). Managers at Cathay Pacific are encouraged to help employees think creatively, helping them to focus on what results are wanted rather than how to achieve them or the difficulties in achieving them.

Employees are encouraged to form more specific objectives from the overall picture of what is wanted. The company feels that a few key attainable objectives might make employees more enthusiastic, rather than a standard list. Although it is desirable to have objectives that are clear and measurable, it is important to let the employee determine when they are clear enough for them to pursue. Asking for complete clarity when people are still digesting what is possible hinders rather than gains commitment. Giving employees time to think things through can sometimes help them see the opportunities. It is expected that each employee have a minimum of 1 KRA, up to a maximum of 5. Each KRA has a weight, which is applied to the rating to get the KRA score.

> Goals are developed in **collaboration** with the employee to ensure they are understood and perceived as **attainable** by the employee.
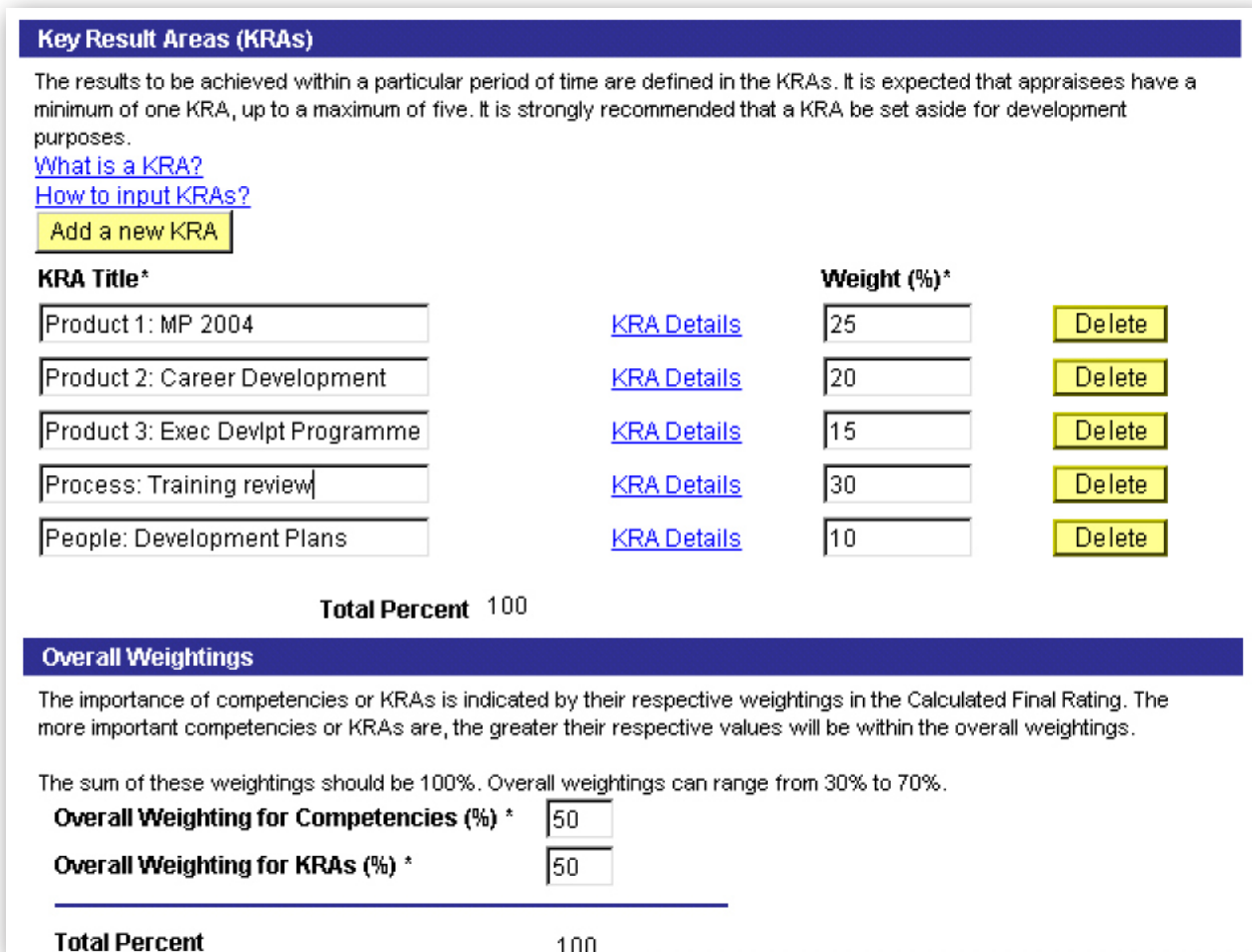
Figure 4: Key Result Areas in the Performance Management System
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Balancing Competencies and Key Result Areas

The manager of the Learning & Development Group at Cathay Pacific indicated that it was important that there be a balance between KRAs and competencies, so each employee chooses a weighting for competencies and a weighting for KRAs, but one cannot be greater than 70%. While it is important for the employee to initiate this process, the manager still has the responsibility to accept and approve the choices, or to reopen the form and the discussion. Figure 5 shows how that weighting takes place.

Summary:	Weight (%):	Self Rating:	DA Rating:
Competencies Weighted Average:	50	4.1	4.4
KRA Weighted Average:	50	3.0	3.0
Calculated Rating:	100	3.6	3.7
Overall Final Rating: 4			

Figure 5: Calculating the Performance Score
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Development Plans

Creating a development plan to achieve improvement at Cathay Pacific starts by managers helping employees generate a sufficient number of ways to achieve their objectives. The ideas should be those of the employee rather than those of the manager, unless the employee specifically asks for input, because this promotes ownership. It is important to set goals based on performance, skills, or knowledge to be acquired versus goals based on outcomes, because goals based on outcomes are extremely vulnerable to failure because of circumstances beyond the control of the employee.

Like many other organizations, Cathay Pacific encourages the use of setting goals that follow the SMART model—that is, goals that are Specific, Measurable, Achievable, Relevant, and Time-bound.

Once the goals of the development plan are identified, the next step is to develop options of how employees can achieve their goals. A well-rounded approach to common activities is encouraged that is available to employees, such as:

● Coaching

● Job Rotation

● Training Courses

● e-Learning

● Reading

● Shadowing

Employee goals should be set based on **performance, skills, or knowledge to be acquired versus outcomes**, to avoid a situation where failure to meet a goal is due to circumstances beyond the control of the

- Projects

- Academic Education

- Mentoring

- Teaching

Employees are encouraged to consider their learning style, life style, commitment, time constraints, and budget when considering these options; but overall, if employees take responsibility for their own success, they will get the maximum satisfaction possible from their work.

In some areas of the organization, employees create a Self-Managed Learning Agreement—a strategic document that is intended to help employees shape their learning experience and actions. The agreement is intended to cover long- and short-term development needs (and spell out a program to meet them), have measures of achievement built in so that payoff to the employee and to the organization can be monitored, and be a living document that is referred to regularly.

In either case, Cathay Pacific has come a long way in getting employees to take responsibility for their own development, and the company continues to evolve into a "needs-based" learning and development environment versus one that is "supply-based."

In some areas of the organization, employees create a **Self-Managed Learning Agreement**—a strategic document that is intended to help employees shape their learning experience and actions.

Learning Management and Performance Management Integration

After deploying a new performance management system, the company discovered that employees increased their usage of the search capability in the LMS.

The manager of the Learning & Development Group indicated that a conscious decision was made to limit the integration between the performance and learning systems. Capabilities that automatically create development plans based on a substandard performance management rating discourage the collaboration that would otherwise take place in creating a development plan; thereby removing the commitment and control on the part of the employee.

This, in turn, resulted in the LMS vendor providing more comprehensive search capabilities. Employees can now discover self-study modules in the LMS that are linked to a set of competencies.

Lessons Learned

Now in the company's third year of this process, the manager of the Learning & Development Group at Cathay Pacific knows that the company must take a step back, which is necessary from time to time, in order to assess the situation and make corrections, as needed. None of the corrections have been significant—mainly minor adjustments, such as improvements to the workflow, in order to simplify the process.

Without question, Cathay Pacific has learned lessons along the way as it relates to the critical dependency this process has on a manager's ability to embrace the intent of the process and encourage the cultural change necessary to be successful. It is extremely important to create an environment and system that is flexible to adapt to the many geographic, cultural, and managerial style differences that an organization as global as Cathay Pacific has.

> The process has required ongoing minor adjustments such as improvements in workflow, performance, and ease of use.

Next Phase: Cabin Crew

Cathay Pacific views employee performance management as an ever-changing, ever-evolving process. The company's culture will continue to encourage responsibility, not compliance and

conformity. There will be significant and radical changes in the company's business in the future, and in order to keep up with those changes, clear goals and commitment to those goals are required.

Also, now that some progress has been made with the ground crew and operations staff, new processes will target the cabin crew. The manager of the Learning & Development Group at Cathay Pacific has spent the last two years experimenting and researching the best possible solution for this virtual employee population. Because a cabin crew employee has a different manager on every flight, the ability to assess continuity of performance is extremely difficult. Representatives of the cabin crew must be actively involved to ensure that whatever process is put in place supports the crew's very different work environment.

The Learning & Development Group expects to next target cabin crew members—an employee population that is **difficult to evaluate since they lack a consistent group of managers and peers**.

This will require a new form of training and change management to reach this highly mobile workforce.

Conclusion

Cathay Pacific is a company that prides itself on customer service and employee competency. As this case study shows, implementation of a performance management system is only a small piece of the development, rollout, training, and change management in the performance management process. How managers evaluate competency and goal attainment is critical to employee satisfaction and engagement. For a successful performance management process to work managers must feel proficient and confident in the process. The performance management system, while important, must support and enhance this process.

Cathay Pacific is faced with the challenge that it must continually reinvent itself, and that calls for engagement at all levels of the organization—it will not happen simply by the senior management team. The best way to do that is to drive a sense of responsibility on the part of every employee and create an environment where real dialogue can occur. Whether that results in a minor adjustment or a major change in how Cathay Pacific interacts with its customers, as long as it continues to foster a healthy environment, it will stay on the right track.

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