

LEVEL 7 ASSESSMENT SPECIFICATION

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1) Executive Summary

The objective of this business report is to provide solutions to the people management issues in Cathay Pacific Airways Limited (Cathay Pacific) for the purpose of improving its profitability and competitiveness.

Cathay Pacific suffered a substantial loss in 2016 and 2017 due to keen competition in the airline industry, especially from the low cost carrier (LCC) airline companies. It launched a large scale restructuring plan in 2017, but unions in Cathay Pacific exerted pressure, resisted change and threatened to take more industrial actions. Cathay Pacific's union relationship has not been smooth at least for last two decades, no mutual respects nor was trust seemed. It significantly hinders Cathay Pacific's profitability and future growth, these people management problems become imminent.

This report will provide a brief introduction of the trend in the airline industry, a detailed analysis of the unions in Cathay Pacific, and solution plans. These plans are based on the model of dealing with union relationship by Briscoe, Schuler and Claus (2012), the model of facilitating change by Evans, Pucik and Bjorkman (2011) and other good methods from various researches. Plans and their implementation may depend on the market conditions, thus a short discussion on the market conditions will also be included. Plans are divided into three categories. Short-term plans include developing mutual understanding and respect with unions and employees through education, meetings and open forums. A direct communication channel with employees through social media will also be established in the short-term plan, it is a decent way to avoid distortion from other sources. After building the mutual trust with unions, mid-term plans include the sharing of power with unions through letting them participate in some management processes such as formulating of business strategies, reward and layoff decisions. Increase of winner coverage of the reward programme to make the programme seemed to be real and fair is also recommended. The expected result of the

short and mid-term plans is the improvement of relationship between Cathay Pacific and its unions as well as Cathay Pacific and its employees. Work force morale should be raised significantly, which will be reflected in their work performance, customers' satisfaction and loyalty. Profitability and competitiveness will also be advanced. After raising the morale, the long-term plan involves further increase in operation efficiency through putting all air crew under Cathay Pacific into one pool, the dispatch of them will be based on the calculated result from a computer optimization programme, which will make cost advantage as one of Cathay Pacific's competitive edge in the future, winning the competition in the airline industry.

2) Background of the Case

2.1 Background of Cathay Pacific

Competition in airline industry has been keen for decades, airline companies tried their best to reduce operating cost for improving competitiveness. As one of the major operators in the airline industry, utilizes around 45 percent of Hong Kong International Airport runway slots, operates a fleet of 201 passenger and cargo plane and has a network to connect 232 destinations in 53 countries (Lee and Zhang, 2019), Cathay Pacific inevitably suffers from such keen competition, significant net loss during 2016 and 2017 were recorded.

Cathay Pacific group is composed of Cathay Pacific and Hong Kong Dragon Airlines Limited (Cathay Dragon). Cathay Pacific group employed more than 32,400 people over the world. Close to 25,800 of them are based in Hong Kong. Cathay Pacific employed around 22,000 people over the world while Cathay Dragon employed more than 3,400 people. (Cathay Pacific Airways Limited, 2018b)

2.2 Trends in the Airline Industry Since 1978

For a better understanding of the competition environment in the airline industry, a brief review of the industry is appropriate. Since the deregulation of U.S. airline industry in 1978, competition had been very keen. The appearance of LCCs enlightened the fierce competition. The LCCs operations were innovative at that time and it raised the efficiency of both employees and aircrafts. Employees' efficiency enhancement achieved by applying more flexible work rules and coordination among different flights. Aircrafts efficiency boosted by reducing the ground times of the aircraft through simplified passenger processing and point-to-point flight operation. In the last two decades, they further reduced the operating costs by using advanced technology such as internet booking and check-in, electronic tickets etc. They even stopped providing free in-flight food and beverages as well as checked baggage allowance to reduce the operating costs further. As a result, LCCs could provide a very attractive fare to passengers as a competitive edge. In responding to the challenge brought by the LCCs, the traditional Network Legacy Carriers (NLCs) developed a cost-reduction method by establishing Hub-and-spoke networks. It was a network with "joint supply of seats to multiple origin-destination markets with fewer flight departures and fewer aircraft, with lower total operating costs than in a point-to-point route network" (Belobaba et al., 2015). Despite fewer aircrafts were utilized but more passengers were carried due to the use of larger aircrafts.

Around 2010, NLCs replicated some of the LCCs' costs efficiency methods such as using advanced technology to lower the operating costs. LCCs also joined the hub and spoke network to lower their operating costs. Both of them use code sharing to enhance their efficiency too. As a result, LCCs and NLCs operating costs converged to close to each other. In the past LCCs had a good market share in the short-haul market. With the new technology in propulsion, the new airplanes are more fuel efficient than the old airplanes, this enables LCCs to establish long-haul point-to-point routes, Perth-London non-stop flight is a good recent example. As a result, the LCCs operator regain their

cost advantage and the NLCs operators need to compete with them fiercely again. Another concern is the airline industry becomes fragmentation. Hub-and-spoke networks concept works successfully in some areas while point-to point concept also work successfully in other areas (Boeing, 2017).

There are many factors influencing the airline companies' profitability. The three main operation costs of airline companies are labour costs, fuel costs and non-labour costs (Belobaba et al 2015), this management report will focus on the reduction of labour costs and enhancement of service quality through people management strategies.

3) Report Objectives

In addition to the keen competition in the airline industry, especially from the aggressive operation of LLCs, union relationship has been a challenging issue to the management of Cathay Pacific. If unions call for industrial actions such as work-to-rule and strike in the peak season, Cathay Pacific would lose a lot of revenue. Even such industrial actions are called in non-peak seasons, the service quality and customers experience will be impacted negatively, so does the brand name of Cathay Pacific. Therefore, the Cathay Pacific management now is facing two people management issues, the first one is to improve the relationship between the Cathay Pacific and its unions, especially the unions in Hong Kong. The second one is to facilitate the change brought by the Cathay Pacific restructuring plan, which aims to cope with the competition from LLCs. Cathay Pacific has been operating as a NLC, it provides satisfactory services to its customers and emphasis the customers' experience. Nowadays more and more customers choose to take LLCs because of their very competitive prices. In Southeast Asia, LCCs share 53% of total seats (Boeing, 2017). If this trend continues, Cathay Pacific can lose its market share to LLCs. Therefore, there is a need to facilitate the change of Cathay Pacific's business strategy, which will in turn impact the employees performing their duties.

These two human resource management issues are imminent and most important to Cathay Pacific. If Cathay Pacific can improve the relationships of unions, employees' morale and performance will also be raised (Chawla *et al.*, 2018), which will be one of the important factors to facilitate the change of Cathay Pacific and regain its profitability.

4) Scope

Cathay Pacific is a multinational company with worldwide operations. This business management report mainly focuses on the people management in Hong Kong as 79.6% of the employees are based in Hong Kong (Cathay Pacific Airways Limited, 2018b). International human resource management inevitably involves the local legal issues of other countries, which is not the focus of this report but certainly this is the limitation of this report.

Under the proposed human management strategies, all Hong Kong employees in the Cathay Pacific group which including pilots, cabin crew, ground staff, administrative staff and managers will be affected. Unions in Hong Kong are composed of Cathay Pacific employees, so they will be one kind of the stakeholders too. The change will surely affect Cathay Pacific's provision of service, in terms of style and quality, customers of Cathay Pacific will also be impacted. Since the objective of the change is to raise the profitability of Cathay Pacific, shareholders will also be affected. One of the major shareholders of Cathay Pacific is Air China Limited (Air China), which is also an airline operator in China, holding 29.9% of Cathay Pacific's ownership. Cathay Pacific also owns 18.1% of Air China as of 30 June 2018 (Cathay Pacific Airways Limited, 2018b). Cathay Pacific and Air China are cross shareholders, competitors and cooperators to each other. Cathay Pacific was a reputable company in the past with strong financial performance. After suffering losses in 2016 and 2017, the market sentiment changed, which would increase its financing costs as the chance of default

increased. Airline companies need substantial capital financing from banks for airplane purchases. If Cathay Pacific cannot turn around, its financing cost will keep increasing, which will also be a negative profitability factor. Banks as a stakeholder will be affected too.

5) Approach

This business management report is based on academic and professional journals, several people management models, internal magazines, interim and annual reports of corporations, reliable news sources, professional magazines as well as internet websites to gather information. Literature reviews are used to form a theoretical ground and identify the basis information of the airline industry. Briscoe, Schuler and Claus (2012) model of dealing with union and Evans, Pucik and Bjorkman (2011) model of facilitating change in multinational organizations will primarily be applied to the human management in Cathay Pacific. The limitation of this up-to-date business report is the difficulty to find updated industry or Cathay Pacific information in literature, especially in the famous academic journals. Thus this paper also uses Cathay Pacific's public information such as its CX World and Sustainable Development Report as well as other internet information whenever it seems appropriate.

6) Key Analyses and Findings

6.1 Cathay Pacific's Restructuring Plan

On 18 January 2017, Cathay Pacific launched its largest restructuring programme in last 20 years, Time to Win. The goal of the programme is to enrich the lives of its customers and to make management's decision quicker as well as to break down silos. The programme focuses on four pillars. "Operational Excellence" focuses on safety and reassurance Cathay Pacific provided for its customers; "Customer Centric" emphasizes customer experience and satisfaction to create loyalty; "Productivity and Value Focused" stresses on efficiency, smart working resource management and continuous improvement, while "High Performance Culture" means that Cathay Pacific ensures proper tools and

assistance will be provided to its employees to deliver good customer service (Cathay Pacific Airways Limited, 2017). Under this restructuring plan, simplifying both the labour force and management team will be implemented.

6.2 Cathay Pacific Unions

There are 3 major unions in the Cathay Pacific, The Hong Kong Aircrew Officers Association (HKAOA), Cathay Pacific Airways Flight Attendants Union (FAU) and Cathay Pacific Airways Local Staff Union (LSU). The HKAOA and FAU continuously request for better salary, benefits and working conditions through negotiations with Cathay Pacific management. LSU keeps low profile to the public and has not called any industrial action for its members.

6.2.1 The Hong Kong Aircrew Officers Association (HKAOA)

HKAOA represents Pilots and Flight Engineers employed by Cathay Pacific. It currently has over 2,200 members from Hong Kong and New Zealand. The objective of HKAOA is to

“To liaise with the Company and other institutions on behalf of the Membership. To strive for the enhancement of life for Aircrew to the mutual benefit of Members and Cathay Pacific Airways.” (HKAOA, 2019).

The following is a list of the union’s past industrial actions:

09 July 2001: Cathay Pacific sacked 51 pilots. HKAOA said it was because of their limited industrial actions, despite Cathay Pacific denied that. The sacked pilots refused to sign a new Conditions of Service requested by Cathay Pacific. (HKAOA, 2002)

November 2014: 93 percent of HKAOA members voted for their work-to-rule protest since 2001. After 6 months negotiation with its employer, HKAOA announced on 14 May 2015 that the industrial

action was over. Rumor said that the salary adjustment increased from 3 percent for both 2015 and 2016 to 4.5 percent for 2015 and 3.5 percent for 2016 (Huang, 2015). However, HKAOA kept silent and did not respond to the news.

November 2017: Cathay Pacific pilots threatened to strike after the company announced pay freezes and changes in pension benefits to save up to HKD 1 billion in September 2017, and housing package cuts for Hong Kong based pilots in October 2017 (Wong, 2017). The HKAOA called off the strike because the employer would continue the housing package in next 12 months while negotiation would continue (Hall, 2017).

February 2019: 78 percent of voted 2,276 HKAOA member rejected their employer's offer of improved pay, perks and conditions to settle the industrial dispute five years ago (Lee, 2019).

From the above events, we can observe that HKAOA puts members' benefit on the top priority, if any industrial action is not on this direction, they may hesitate to take it. It is a union adopting business unionism mentioned by Briscoe, Schuler and Claus (2015). Since the sacking of 51 pilots in 2001, the HKAOA has been behaving very constrained in taking industrial actions. They still will threaten to take industrial actions as a tactic in negotiation with the management, but only mild industrial action such as work-to-rule has been taken and the impact on Cathay Pacific's business is limited. The current example is the long and patient negotiation with the Cathay Pacific's management since 2015. As long as Cathay Pacific pays and treats them well, they would be a very good partner to growth the company.

6.2.1.1 Strategy towards HKAOA

The demand and supply of airline pilots are world-wide. On the supply side, there is a significant

shortage of airline pilot in the United States mainly due to the following factors. Firstly, it is expected that around 18,000 pilots will retire between 2017 and 2019; secondly, the Federal Aviation Administration requires pilots to be trained longer and rest longer between flights; thirdly there is less new blood to join the industry because the training costs are very high comparing with what their starting salary. They have to work away from home too (Reynolds, 2017). On the demand side, the annual passenger travel growth for the last five years was 6.2%, fueling by the low ticket prices, higher income growth and improved living standard in the emerging markets (Boeing, 2017). The increasing number of smaller size LLCs demands for more pilots. As a result, the shortage of pilot becomes a global phenomenon.

If the shortage of pilot is so serious, why have the pilots under suppress by the Cathay Pacific not taken any industrial action? The answer lies on a pilot's income. The larger the plane a pilot can fly, the higher is the pilot's income. Usually senior pilots such as captain grade pilot will fly the large long-haul carriers. Seniority is based on how long the pilot serves the same company (Langone, 2018). The salary gap is very wide too. Based on 2015 data, a pilot with 1 year experience earned a month salary of USD5,811 while a pilot with 10 year seniority earned a month salary of USD13,515 (Phoenix East Aviation, 2015). Therefore, the pilots in Cathay Pacific want to stick with the company for a longer time to promote their seniority. In addition, Cathay Pacific has lots of large airplanes, so they do not want any industrial actions to interrupt their seniority path since 2001, the year Cathay Pacific sacked 51 pilots due to their limited industrial actions. Besides, Cathay Pacific is a large employer in the airline industry.

Despite the HKAOA has not been aggressive since 2001, it is uncertain that whether it will keep the current status. As mentioned in the previous paragraph, the shortage of pilot over the globe is severe. Other airlines, especially those based in China, have offered attractive package to attract airline pilots

(Langone, 2018), such scenario will strengthen the bargaining of HKAOA. Therefore, the strategy towards HKAOA should focus largely on negotiation and avoid sacking of pilots. If they do not feel the existence of job security, they will fly away easily, Cathay Pacific will have a deep trouble in operation.

6.2.2 Cathay Pacific Airways Flight Attendants Union (FAU)

Established in 1975, the objective of the FAU is:

“We continuously strive to communicate as ONE collective voice, protect and improve Conditions of Service, ensure justice for all CX cabin crew as well as constructively inform Members and support the organizational growth of Cathay Pacific!” (The Hong Kong Confederation of Trade Unions, 2019).

FAU will usually have a year-end negotiation with Cathay Pacific for employee related matters, especially on salary, benefits, working hours and conditions etc.

FAU is a core member of Hong Kong Confederation of Unions (HKCTU), which is a high profile political party led by Mr. Lee Cheuk Yan. Mr. Lee is well known as one of the labour movement leaders in Hong Kong. The mission of HKCTU is to “strive decent work and dignity for workers through the consolidation of collective strength and promotion of independent trade union movement and societal change” (The Hong Kong Confederation of Trade Unions, 2019). FAU is also a member of International Transport Workers’ Federation (ITF). (Cathay Pacific Airways Flight Attendants Union, 2019b).

The following is a list of FAU’s industrial actions:

1993: 17 days of strike for crew manpower shortage (Cathay Pacific Airways Flight Attendants Union, 2019a).

2010: 850 union members joined the rally around CX City for objecting of Cathay Pacific's new policy, which prohibited "paid crew to swap away their flights to their contractual minimum of 70 block hours a month". Under the intervention of the Labour Department in Hong Kong, Cathay Pacific agreed to withdraw the prohibition. (Cathay Pacific Airways Flight Attendants Union, 2019a)

November 2012: More than 900 members in addition to the over 700 proxies joined an extra ordinary meeting for negotiation of working conditions and objection a 2-percent salary increase. The union threatened to take work-to-rule industrial action. Under the intervention of Labour Department in Hong Kong, both sides finally reached an agreement. (Cathay Pacific Airways Flight Attendants Union, 2019a)

From the above events, we can observe that FAU is more aggressive than HKAOA in taking industrial actions. In the past, FAU's industrial actions were supported by politicians such as Mr. Martin Lee, and Mr. Lee Cheuk Yan (Cathay Pacific Airways Flight Attendants Union, 2019a). Therefore, FAU is a union adopting political unionism mentioned by Briscoe, Schuler and Claus (2015). One of the examples is the baggage matter of the daughter of Hong Kong Special Administration Region's Chief Executive. She left a baggage in the non-restricted area, subsequently it was delivered to her in the closed zone in airport under a special arrangement (Fung, Siu and Cheung 2016). The news was widely spread and political movements were resulted. The management of Cathay Pacific needs to handle FAU with extreme caution because there are not only cabin crew issues needed to be deal with, but also lots of events which have political consequences.

6.2.2.1 Strategy towards FAU

The members of the HKAOA are pilots and engineers, they are more professional than the FAU members, who are mainly cabin crew. The former is more business unionism orientated while the

latter is more political unionism orientated. The issues from FAU is more complicate than those from HKAOA. Fortunately, anti-management attitude alone does not attract membership participation. Unfair pay, benefit, treatment, job security and working conditions promote industrial actions (Chawla *et al.*, 2018). However, this paper only concerns the people management issues, the political issues will not be covered in this paper. This is another limitation of this report.

6.2.3 Cathay Pacific Airways Local Staff Union (LSU)

Established on 21 September 1979, LSU is one of the few unions in Hong Kong has collective bargaining power. It is recognized by the Cathay Pacific and registered with the Registry of Trade Unions under the Labour Department in Hong Kong. Its memberships coverage is wide and covers every departments of Cathay Pacific, it holds regular bi-monthly meeting with the management for the purpose of improvement of relationship between employees and employer. Its objective is to pursue and maintain fair and equitable salary, working time and other conditions of employment (Cathay Pacific Airways Local Staff Union, 2019). LSU maintained a low public profile in the past, it did not request their members to take any industrial action. LSU seems very cooperative with the Cathay Pacific's management.

6.3 Current Event: Hong Kong Express Airways Limited (Hong Kong Express)

Recently, there is a news that Cathay Pacific is investigating the possibility of acquiring Hong Kong Express, a LCC airline company based in Hong Kong and use 5% of the Hong Kong International Airport runway slots. Since Cathay Pacific group has already used 45% of the runway slots in Hong Kong, the combination of Cathay Pacific group and Hong Kong Express will further strengthen Cathay Pacific group's dominant position in Hong Kong airline market (Lee and Zhang, 2019). Because there is no union in Hong Kong Express, more than 100 cabin crew joined the Cabin Attendant Union to raise their bargaining power. Cabin Attendant Union is a union for small airline companies (Kao, 2017). If the deal materialized, the staff in Hong Kong Express will join the FAU

to gain better bargaining power, just like what the Cathay Dragon staff did before. FAU's bargaining power will be enhanced.

If the acquisition comes true, then Cathay Pacific group can provide a full range of services, because it has the quality brand: Cathay Pacific, the mid-range brand: Cathay Dragon and the budget brand: Hong Kong Express. Substantial synergy will be created through code sharing, which means different kind of services will be provided on the same flight. Significant costs saving and competitiveness enhancement will be achieved.

7) Recommendation

Although HKAOA, FAU and LSU should be treated separately and differently due to different economic implications. However, we need to treat every union equally and fairly, otherwise, additional problems will be created. As a result, the following suggestions will be applied to all unions inside the Cathay Pacific group.

7.1 Short Term Plans

Short term plans are to be proceeded within the first year from now. The objective of the short term plans is to build mutual respect and trust with the unions and employees. Plans include improving mutual respect and communication between unions and Cathay Pacific; educating union representative for the business logic, make them understand the current market situation, pull their thoughts closer to the management's and also make management realize what the unions think; creating a direct and user-friendly channel to communicate with all employees.

In many managers' view, trade union is counter-productive to a company. It makes employees concentrate on their own benefits without considering their employers' interest. Unions usually apply industrial actions to demand for more than what they should have. This general view was

refuted by Chawla et al. (2018), they suggest that employees' participation in strikes, demonstrations and other industrial actions is not necessarily detrimental to a company because these actions address employees' dissatisfaction, make employees feel the existence of organization democracy, which in turn impacts employees' behavior positively, i.e. more productive, less staff turnover, less workplace conflict and better organization performance. Therefore, maintenance of good relationship with unions is essential.

7.1.1 Building Trust and Mutual Respect

Building trust is the first step to establish a good relationship with unions. Sharing of vision of economic gain, mutual understanding and mutual respect are the important elements in building trust (Maccoby, 1997),

Mutual respect was absent from previous negotiations with unions, the trigger of the pilots industrial actions was Cathay Pacific unilaterally to put a deadline to sign the new Conditions of Service for the 700 pilots who had joined Cathay Pacific prior to April 1993 (HKAOA, 2002). The 13 days strike called by FAU was also trigger by Cathay Pacific unilaterally terminated 3 members of FAU and refused to adjust pay rise according to inflation (Cathay Pacific Airways Flight Attendants Union, 2019a). These actions would be interpreted as not respecting the views from unions or employees, so unions called for industrial actions, a loss-loss situation.

The management should invite union leaders to learn Cathay Pacific's business strategies, let them know the airline industrial trend and understand business logic. On the other hand, they can provide good advice from the employees' point of view, which may bring the operating costs down and cheer up the employees at the same time. This action can create mutual understanding and mutual respect between Cathay Pacific and its unions. Furthermore, the management should hold regular meeting

with union representatives to enhance their relationship and mutual understanding. Open forums should be held between the employees, unions and the management. Open forum is a good way to communicate the changes to employees especially at the initial stage of the change, it helps identify issues and the best solutions (Maheshwari and Vohra, 2015). It also shows management's sincere and respect to the employees, it serves as a trust building tool.

Maccoby (1997) also pointed that people like to work in a reputable company and want to be a member of the winning team. The management can work with the unions, make them realize what is happening in the real world, especially the fierce price competition from the LCCs, to persuade them to change for better. If such change is a successful one, unions are parts of the winning team.

7.1.2 Communication

Efficient and effective communication between employees and the management are essentials to build trust and facilitate changes (Evans, Pucik and Bjorkman, 2011).

The current communication of Cathay Pacific is rather formal. For example, the senior management requires its company's 350 leaders to make their subordinates understand the strategy of Time to Win by the end of the second quarter of 2017 (Cathay Pacific Airways Limited, 2017). This means that the communication method is top-down unilateral communication. For developing a good communication between employees and the company, the management needs to listen to the employees' opinion and to create bilateral communication channels. In fact, Cathay Pacific launched online employee engagement survey in September 2017, more than 11,000 employees responded, which accounted for 43% of the employees in 2017. (Cathay Pacific Airways Limited, 2018c). The result seemed encouraging. However, these employees opinions may not necessary be the same as the union's collective opinions. There are two potential sources to make them

different. If employees formally submit their opinions, they may be afraid of being retaliated if they accuse someone's wrong doing or criticize the employer's policy, their opinions are not what they want to express and cannot reflect their true feeling. On the other hand, they are anonymous to the management in providing their true input in the collective voice (Gill and Meyer, 2013). In that sense collective opinion is better to capture employees' genuine input. The other potential source is the manipulation of opinion by union to achieve its political purpose, especially in the case of political unionism, which is not discussed in detail in this report.

Management needs genuine input from employees to improve company's efficiency and high performance work practices. Direct communication with employees are necessary to reduce the noise in communication. In order to make employees dare to express their real input directly, use of social media, which allows users to communicate without disclose user's true identity, such as Instagram, WhatsApp and WeChat may seem to be appropriate, because employees can register these apps through other e-mails so that they can communicate with the company without the threat of reprisal. Luarn and Hsieh (2014) did an experiment that showed anonymous people in virtual world are more willing to provide true opinions than non-anonymous people.

In addition, social media communication are more user friendly. It will increase employees' willingness and frequency to use them, more accurate opinions can be collected directly from the employees. As Cathay Pacific has already had these social media public accounts, these direct communication methods require slightly more resource to invest in the human resource department, but it is believed that the benefit will outweigh the costs. The end result is that employees will be less relied on unions' representation, because they can communicate with the management directly without the fear of being retaliated. Morale and performance will be raised and the power of unions will be reduced. This directly communication is more effective for managing FAU members, they

are more rely on FAU to voice out their opinion in the past. Another advantage of direct communication through social media is that the communication is two-way and speedy. Employees do not need other channel, which may be distorted, to get information about Cathay Pacific. The spread of information from Cathay Pacific to its employees is instantaneously, this is crucial important in case of clarification of rumors and negative allegations, which in turn could prevent some industrial actions. In fact, social media are using by many crisis communication practitioners (Veil, Buehner and Palenchar, 2011). If a company cannot control its message of change well, rumors and resistance will occur. Over 70 percentage of the change failure was due to poor communication. On the other hand, good communication will create positive perception to employees (Maheshwari and Vohra, 2015).

7.2 Mid-Term Plans

Mid-term plans are to be proceeded from the second year to the fourth year, they include allowing union representatives to participate in the business strategies formulation process, reward and layoff decision making; creating a reward system with the number of winners covering around 2% of the work force and establishing a share option incentive scheme.

After building initial good relationship with unions in the short-term plan, further strengthening the relationship, mutual understanding and cooperation should be processed. The mid-term plan involves sharing a part of the management power with union representative to build a better cooperative environment to enhance mutual trust and the operational efficiency.

At this stage, the management invites union representatives to participate in the business strategy decision making process. A confidentiality agreement needed to be signed by the unions and union

representatives for the security of Cathay Pacific's business confidential information. The union representatives should also be held personally liable for leaking of confidential information. In addition to secure the confidential information, the implicit function of this agreement will also serve the purpose of continuing building mutual trust, because the trust will be vanished if the confidential information was leaked by the union side. If they want to break the trust, the cost is very high.

7.2.1 Layoff Related Matters

During a difficult period, layoff is inevitable. In order to maintain trust between the management and employees, open forums should be held for letting employees to raise questions and get feedback, explain to them why layoff is necessary. During the layoff process, the management has to do it professionally, show the employees their well-being and value are being cared and respected (McManus and Mosca, 2015).

According to Cathay Pacific's Corporate Code of Conduct, all employees will be treated fairly and equally (Cathay Pacific Airways Limited, 2018c). This is also the base of the trust process mentioned in Evans, Pucik and Bjorkman's model (Evans, Pucik and Bjorkman, 2011). Under the Time to Win restructuring, 600 employees left Cathay Pacific in 2017. The senior leadership team was reduced to 10 directors. However, these employees received a good severance package, which included extended travel benefits, medical coverage, full employer's pension contribution and up to 12 months' salary. (Cathay Pacific Airways Limited, 2018c). This is a good example to show to the employees that Cathay Pacific does care about them and treat them employee well. The restructuring is not only for low-rank employees but also for senior managers, it is fair, it is a pure result of keen competition in the airline industry. This is a decent step for developing trust between the employees, unions and the management of Cathay Pacific.

Another step to strengthen the trust is to invite unions' representatives to participate the layoff process, to make them understand the underlying reason for a particular employee's redundancy and let them explain to those remain in the work force. This is a kind of sharing of power mentioned in Briscoe, Schuler and Claus (2012). The inclusion of union representatives will make the layoff process more transparent and reinforce the public image of Cathay Pacific.

7.2.2 Reward System

In order to facilitate the change, Evans, Pucik and Bjorkman (2011) suggested that a short win were needed to create to guide the direction and attention of the labour force. Cathay Pacific did that in 2017. In addition to the existing Work Well Done recognition programme, Cathay Pacific created another 2 award programmes under the restructuring plan, Niki Awards and Bestsy Awards. Niki award is for the outstanding employees working behind the scenes while Bestsy Awards is for the exceptional customer service employees. A total of 20 employees won these awards in 2017 (Cathay Pacific Airways Limited, 2018c).

McManus and Mosca (2015) also suggested to create employee recognition and reward program to build trust between employees and the management. The programme must be a continuous evaluation system with management's commitment, it also should be deemed as fair and "not a game of favoritism". The total number of winners seems to be minimal comparing with Cathay Pacific's work force of more than 32,400 people, it may be viewed as a boss' pets pageant. The scale should be increased, up to 2% of the work force is considered appropriate for creating the short wins, lead the attention among employees and build the trust. This will create some positive emotion to facilitate the change (Briscoe, Schuler and Claus, 2012). The reward committee should also include unions' representatives to ensure that the reward program is a genuine and fair one.

7.2.3 Share Option Scheme

The fundamental problem between the employees and employers is the distribution of benefit generated by the firm. Employees think that they contribute a lot to generate profit to the firm so they deserve to get more. Employers suppose that the profit is generated by their good business decision making, good management skill and they need to take risks for profit. Minimizing the operating costs, which include labour costs, will further enhance the firm's profitability and the employer can get more. The benefit directions between employees and employers diverges.

One of the methods to converge their benefit directions is to use share options as an incentive to all employees, the number of share options will depend on the quarterly performance. Please notice that share option is only an incentive, which is an addition to employees' salary, not a mean to pay part of the salary to employees. Core and Guay (2001) found that companies offered share option to employees did create incentive and raised the value of the companies. Cathay Pacific group has not adopted any share option scheme by the end of 2017(Cathay Pacific Airways Limited, 2018a). Share option is a right to buy the underlying company shares, Cathay Pacific in this case, within a certain period of time. For example, if an employee has 1,000 share options and it gives the right to the employee to buy shares from his employer at a share price of \$4 on 31 December 2019. If the share price on 31 December 2019 is \$5, the employee can buy 1,000 shares at \$4 each from his employer, then he can sell the shares to the market through his broker to pocket the profit if he wants to do so. However, the \$1,000 gain, being \$1 of the price difference between the market price (\$5) and the exercise price (\$4) of 1,000 shares, is taxable in Hong Kong (GovHK, 2019). The employee should be happy to pay a small percentage of tax of the gain. If the share price is \$3 on 31 December 2019, employees will not exercise the option and will leave it expired worthlessly. The employee will neither incur a loss nor any tax liability. Therefore, employee will only benefit from the share option incentive scheme.

If Cathay Pacific performs well, the share price of Cathay Pacific will increase, the value of the share option will increase, which in turn increases the wealth of the employees. Therefore, employees do have incentive to perform well, to provide quality services to their customers for the purpose of earning customers' appreciation and loyalty, so that Cathay Pacific's profit will be enhanced and so does its share price. The final result is that employees can profit from the share option scheme. The spillover effect of this share-option scheme is the creation of shareholders' wealth and Cathay Pacific's market value.

One of the good side effect is that when an employee tries to exercise his improper behavior towards his customers, other employees have incentive to stop him because such negative action will affect their benefit under the share option scheme. Unintentionally mutual monitoring among employees can be quite effective.

Another advantage of issuing share option as an incentive lies in the duration of exercising the option. For example, the employee needs to continue to work with the company at least for another two years in order to exercise the share option. This will reduce the staff turnover rate. The costs of issuing share options to employee is quite acceptable. It is usually the fair market value of the share options adjusted by the term to maturity of the options and the estimated number of options exercised on the expiry date (Hong Kong Institute of Certified Accountants, 2018). If Cathay Pacific issues share options with exercise price higher than the current market share price, the fair value will further be reduced, which reduces the cost of issuing.

7.3 Long-Term Plan

Long term plan is to be proceeded from the fifth year onward.

7.3.1 Put All Subsidiaries' Air Crew under One Pool

For a pilot, there is no big difference between flying a LCC and a NLC. For a flight attendant, there is also no big difference between servicing in a LCC and a NLC, because the attendant knows how to serve customers, it is just a matter if the customer has purchased the service or not. These means the mobility of air crew between the subsidiaries under the Cathay Pacific group is very high. In the long run, Cathay Pacific group should put all its air crew into one pool and dispatch them in the most efficient way through a powerful computer program. In addition to the current subsidiaries under the Cathay Pacific group, potential inclusion may be the air crew under Air China, or those under Hong Kong Express if the current negotiation is a successful one. Implementation of this human management strategy requires excellent coordination among all related companies' operation management teams and the cooperation from unions and employees of all related companies. It takes time to implement, especially it will involve unions and employees in other countries. However, if this plan is a successful one, Cathay Pacific may be able to turn its cost disadvantage into a cost advantage as the labour cost is the third largest cost of airline operation (Koopmans and Lieshout, 2015).

7.3.2 Alternatives to Unions

According to Briscoe, Schuler and Claus (2012), many European countries develop work councils and co-determination to replace the function of unions. These alternatives give the representatives of employees a legal power to involve in the employer's business. However, these concepts are not covered in this business report because Hong Kong does not have the proper legislation yet.

At this point, this paper has offered solutions to Cathay Pacific's union relationship problem and how to facilitate the change of business strategies to compete with LLC operators. The next step is to determine the timing and scope of the execution of the plans.

7.4 Implementation of the Plans

In general, the most urgent matter should be handled first. In reality, we also need to consider the cost of the plans in terms of time and financial resource, these two factors in turn will depend on the company's business environment.

There are three scenarios: Optimistic, Most likely, Pessimistic market situations. No matter under which scenarios, the keen competition between NLCs and LCCs still exists. There are many factors which can influence the market, this paper only focuses on the two largest economies in the world, the U.S. and China, and use the trade war between them as an indicator.

Under the optimistic market situations. The trade war between the U.S. and China is over. Both economies continue their economy growths. The strong demand is expected generating from the Eastern countries such as China and India, where middle class of people are expanding at a fast pace and travel around the world is not a luxury item for them anymore (Boeing, 2017), Cathay Pacific has to make more flights available to satisfy the strong demand. Under this scenario, all plans will be proceeded as planned.

Under the most likely market situations. The trade war between the U.S. and China goes on and off, but negotiation between these two countries still continues. The world economy is covered by the uncertainty of economic and political events. Investment from the business side are constrained while consumers confine their spending. In this situation, plans involve monetary costs will be reconsidered or need to reduce its scale to accumulate resource for the rainy days. In addition, plans need a lot of management attention but do not have immediate good result will be proceeded at a slower pace.

Under the pessimistic market situations. The U. S. and China has a trade war, tariff and other economic and political means are used to attack each other. Economies of both countries suffered, the negative impulse from these two largest economies in world spreads out globally. In such adverse market environment, the management of Cathay Pacific will fully concentrate to handle the business matters for the survival of Cathay Pacific. There is no extra resource to be allocated to other matters, only those essential plans will be proceeded as planned.

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The following table shows the implementation of plans under different market situations as well as the major benefit and costs involved.

Timing of Implementation of Plans				
(Yes: will do it as planned; No: will not do it as planned.)		Market Situations		
Plans	Term	Opt.	M. L.	Pes.
Develop mutual respect Benefit: develop trust, raise performance Cost: human resource, minimal	ST	Yes	Yes	Yes
Educate union representative Benefit: develop trust, raise performance Cost: human resource, minimal	ST	Yes	Yes, but slower	No
Create a social media communication channel Benefit: obtain employees' genuine inputs, positive perceptions, effective communication Cost: Monetary, not large	ST	Yes	Yes, but slower	No
Allow union representatives to participate in the business strategies formulation process Benefit: develop trust, more input from the employee side Cost: human resource, minimal	MT	Yes	No	No
Allow union representatives to participate in the layoff decision process Benefit: develop trust, raise performance Cost: human resource, minimal	MT	Yes	Yes	Yes
Increase the number of winners under the reward system Benefit: develop trust, raise performance Cost: Monetary, small	MT	Yes	Yes, but scale it down	No
Share Option Scheme Benefit : raise performance Cost: Monetary, small	MT	Yes	Yes, but scale it down	No
Central pool for all air crew Benefit : reduce operating costs substantially Cost: Monetary, medium	LT	Yes	Yes	No

8) Stakeholders

The human resource problem hindered the growth of Cathay Pacific in the past years, the recommendations will improve the relationship with unions and all employees. Mutual respect and trust will be built, communication will be effective and employees will perform their duties with higher team spirit, morale and efficiency. Customers will satisfy the quality service, hence their loyalty to Cathay Pacific. Cathay Pacific will benefit substantially in these changes, it will be able to compete with other airline competitors including LLCs. These good results will be reflected on Cathay Pacific's earnings and share price. All major stakeholders including employees, unions, customers, management, shareholders and banks will appreciate these changes.

9) Conclusion

This management report mainly applies the model of dealing with union relationship by Briscoe, Schuler and Claus (2012), the model of facilitating change by Evans, Pucik and Bjorkman (2011) and other good methods from various researches to solve Cathay Pacific's people management problems.

A brief introduction of airline industry followed by an in-depth analysis of unions, which will certainly help to understand Cathay Pacific's current situation. Detailed plans which focus on building trust and mutual respect, opening an effective communication channel, raising morale through employees participation in the decision making process, offering rewards and share option incentive to employees for raising performance and winning customers' loyalty. These plans will bring back Cathay Pacific's profitability. The long-term plan further brings operation efficiency up to a new level and make Cathay Pacific be the winner in the future competition.

The limitation of this report is lack of Cathay Pacific's internal information. Nevertheless, the plans recommended in this report still have the intended functions. Cathay Pacific can use the plans in

this report, modified by its internal information to arrive a more accurate solution to enhance its competitiveness further.

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