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ameco beijing: Benefits of Performance Appraisals

Lin Ma, Xin Wu, Rui Qiao, and Wenping Su wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On January 5, 2015, Li Ma, the chief executive officer of the Beijing Aircraft Maintenance and Engineering Corporation (Ameco), was busy reviewing the company’s annual report. The report was summarized by the board secretary in preparation for the board meeting that was going to be held the following month. Overall, the company’s performance in 2014 had been good: eight foreign airlines had become new customers of the company, which meant that more than 70 international customers had signed contracts for airline maintenance-related business. The growth trend in labour costs had been contained to a certain extent, thanks in part to the implementation of the Direct Control of Personnel Cost (DCPC) monthly performance evaluation program. However, with changes taking place in the external environment, many complicated issues had emerged. For example, although the company’s airline maintenance department continued to be the busiest area of Ameco, the engine product department had experienced a significantly reduced workload at the beginning of 2014 because two main engine products had been eliminated by the market. Despite this change, the DCPC evaluation results for the two departments were quite similar, leading some key technical employees to leave the company due to unfair distribution of monthly variable salaries. Renxin Zhao, the director of the airline maintenance department, had just sent an e-mail to Ma to express his concerns about the DCPC program.

Ma looked out the window and noticed that the weather was pleasant. He had planned to take a walk on the company’s playground after lunch. For him, many solutions to work-related problems were determined during his walks along the playground. He decided that he would spend his lunchtime pondering the DCPC monthly performance evaluation issues, which he saw as wise use of his time.

AMECO Company Profile

Ameco was located at the Beijing Capital International Airport. The company was a joint venture between Air China and Deutsche Lufthansa AG. With a term of 40 years in the joint venture, Ameco started its official operation on August 1, 1989. Air China held 60 per cent of the company’s shares; Lufthansa held the remaining 40 per cent. The registered capital was US$187.53 million.[[1]](#footnote-1) The services provided by Ameco included airline maintenance, overhaul and painting of aircraft, engines repairs, and ground equipment calibration. Ameco was authorized by the Civil Aviation Administration of China and was a Designated Modification Design Organization Representative for civil aircraft. By the end of 2014, Ameco had maintenance licenses issued by various organizations in 18 countries and regions, including the Civil Aviation Administration of China, the Federal Aviation Administration, and the European Aviation Safety Agency. Ameco employed 5,442 workers. In addition to ensuring the normal operation of Air China’s entire fleet, Ameco provided maintenance services for 92 domestic and international customers.

The company structure included three major maintenance product departments: the airline maintenance department, the aircraft overhaul product department, and the engine overhaul product department. The airline maintenance department was mainly responsible for airline maintenance (including off-site maintenance), hangar maintenance, and preparation and maintenance for special flights by Air China, Air China Cargo, and third-party customers. It was the largest department, with more than 2,500 employees by the end of 2014. The aircraft overhaul product department primarily focused on overhauling and modifying aircrafts. Its business scope covered “C” inspections, in-process inspections, and “D” inspections for B737s, B747s, B767s, and B777s, including modifications for various aircraft and cabin upgrades for B747-200s. The department employed approximately 1,100 workers by the end of 2014. The engine overhaul product department was mainly engaged in overhaul and repair work for Air China’s aircraft engines. It also provided engine maintenance services to domestic and international third-party customers. In a single year, the department could repair up to 150 engines. By the end of 2014, the department employed 268 workers, of which more than 80 per cent were high-quality technical workers and engineers.

Implementing Monthly Performance Appraisals

Income Lower than Expenses: The Difficulty of Being in Charge

One day in 2010, Ma was taking the elevator to the company’s cafeteria when he noticed two colleagues: Jingxing Cao and Minghan Xiao. Cao’s position in the state-owned company was Party Secretary.[[2]](#footnote-2) Xiao was the director of the marketing department. Cao was highly respected in the company. He had also become Ma’s friend and advisor after the board of directors appointed Ma chief executive officer in April of that year. Cao’s ideas for organization management were nearly identical to Ma’s, which made it easier for Ma to effectively implement his strategic plans during executive conferences.

Ma noticed that Xiao was appropriately dressed for his position, wearing a popular style “extreme camel” cashmere coat and shoes that were light and bright. Xiao routinely discussed contracts with the heads of airlines in various countries, so he represented Ameco’s “business card from China to the world.” Xiao was currently negotiating a five-year overhaul services contract with United Airlines for its B777 and B747 fleets. If Ameco managed to sign these contracts, it could reach its internal financial targets for that year. In addition, the significant influence that United Airlines had on the North American market could greatly improve Ameco’s international reputation. With this thought in mind, Ma asked Xiao about the contract: “Minghan, how is the negotiation with United Airlines going?” Xiao sighed and responded: “Well, they are always mentioning that our maintenance period is too long. Compared with the competitors, our offer provides no advantages.”

The three of them walked and talked until they reached the company cafeteria. With China’s economy rapidly growing, the number of passengers that travelled by air had been increasing by double-digit rates, which significantly raised the frequency of airlines purchasing aircraft. Therefore, Ameco adopted the market development strategy of “follower,” by hiring more employees to deal with the increasing volume of the maintenance business. Over the previous few years, the company had increased the number employees by approximately 300 per year, on average. However, these changes caused various management problems. For example, the company cafeteria’s level of service had dropped below satisfactory with the increased number of employees. Although expanding the cafeteria was an option to consider, two issues needed to be resolved: how to obtain more land and where to get the funds required for the expansion under such tight financial conditions.

“The problem is that the income is lower than the expenses,” Ma thought to himself. The maintenance business volume of Ameco had increased in line with the growing number of aircraft ordered by the Asia-Pacific market. However, the company’s income growth had been crawling forward, which was mainly due to stiff price competition in the industry. At the same time, costs such as human resources were increasing at a great pace. It was almost impossible for the company to meet the objective of making ends meet to pay salaries. The leading cause was the increase in the consumer price index. The climbing national average wage, issued by the State Ministry of Labor and Social Security, was another unavoidable factor. In addition, new competitors entering the aircraft maintenance industry and various existing companies operating near the Beijing Capital International Airport became catalysts for increasing salaries.

Ma was concerned about the situation:

If we raise the employees’ salaries to stabilize staff morale, the company’s income might be lower than the expenses, [based on] the current business conditions of Ameco. Since the shareholders require that staff costs should not be higher than one-third of the total operating costs, how [can] I ensure the returns on investments for the shareholders?

However, for Ameco’s employees who lived in Beijing, the capital of China, material incentives were definitely a major factor. If Ameco maintained its current salary levels, many talented employees would leave the company for higher compensation that was offered by competitors. Training new professionals and engineers in aircraft maintenance to take their places would take at least five years to realize. Skilled employees were a valuable asset that helped support the sustainable development of the company. Therefore, it was necessary to find ways to increase revenue and employees’ salaries, and to control costs immediately. Ma had made up his mind.

Monthly Performance Appraisals: A Possible Solution

Ma remembered that Yao Lu, Ameco’s director of human resources, had prepared a report titled *Assumptions of Human Resources.* The report indicated that greater efforts should be devoted to performance appraisals. Based on the current annual assessment system, monthly appraisals could be implemented to strengthen the supervision and guidance of employee behaviours. Considering the current situation of small income growth and large expenses, one question emerged: Was it possible to encourage all departments to decrease costs and increase efficiency by means of designing some key performance evaluation indicators? As Ma thought about this, he made a phone call to Lu to arrange a short meeting with Cao, the Party Secretary.

Ma had always been a supporter and practitioner of performance management. Based on his observations of the company, low operation efficiency was the main reason why the company could not make ends meet. The annual performance evaluation program currently adopted by the company included a long assessment period. Therefore, it was difficult to identify problems in time and control the efficiency of the process. In contrast, implementing monthly performance appraisals could “force” all product managers to focus on the company’s operational efficiency. In addition, monthly performance appraisals could ensure high pertinence and timely feedback, and they could be an effective starting point for reducing costs and increasing efficiency. Furthermore, based on his years of experience, he knew that implementing monthly performance assessments could influence the benefit distribution of all departments. Therefore, it was of utmost importance to first convince the heads of all departments. Otherwise, implementing the monthly performance appraisals would be extremely difficult.

“This is the first reform since I took office. The gun must be fired,” Ma thought to himself. He then added a discussion about monthly performance appraisal implementation on the agenda for the next executive meeting, which included Cao, Xiao, Lu, and Langtai Qian, Ameco’s chief financial officer, as well as three heads of product departments. At the executive meeting, Ma calmly started the discussion:

Well, now let us start our meeting. First, we are going to discuss the problem of the slow income increase and high costs, with a specific focus on the rapidly increasing labour costs. If this problem cannot be controlled and solved in the short term, then it will negatively affect the development of the company. In fact, the company may even face a crisis of survival.

Ma paused to look at the senior executives sitting around the table, and continued:

We all know that the chairman has set difficult targets for us. Thus, Ameco must reduce costs and increase revenue. Income and expenses are mainly produced by three product departments. I hope that a more reasonable mechanism can be established to encourage everyone to improve efficiency. Let us put our heads together to discuss a possible solution for this pressing problem.

Gang Li, the director of the engine product department, who was a straightforward man, was the first to speak:

What solution could we have? China’s annual economic growth is 7 per cent. The income of ordinary blue-collar workers is almost the same as our workers for aircraft maintenance. We always emphasize that the company should be people-oriented. So, the benefits of the employees cannot be reduced. Otherwise, the stability and morale of the staff will be a large problem. We have to solve this issue from the perspective of management.

Qian spoke next:

I agree with Gang Li. We should increase effectiveness from the perspective of management. Among the current cost components of the company, personnel costs account for less than 40 per cent. The remaining 60 per cent are equipment costs and management fees. We should spend more effort on the management of different costs and take measures to reduce costs and increase efficiency.

Ma deliberately glanced at Lu, who quickly thought about the key points he had communicated to Ma over the phone and calmly said, “As far as I am concerned, the method of performance management is worth trying.”

Li then added, “We already have a performance assessment system. We set goals at the beginning of each year, review them in the middle of the year, and make an assessment at the end of the year.”

Lu had expected that someone would raise this point and was prepared with his response:

We do have a mechanism for annual performance assessments, but this approach is too simple. First, the assessment period is too long for obtaining timely feedback and incentives. Second, the assessment effort is weak; that is, only 10 per cent is linked to year-end awards. Third, the goals have not been broken down for each month, which is one disadvantage of process supervision and problem control. For example, last year, the performance of the aircraft overhaul department was not ideal from January to October. However, they didn’t realize that they were way behind in their task goals until November. Thus, they were unable to catch up, due to the limitations of time and resources. I think that we should try to implement monthly performance assessments. The revenues and costs can be broken down for each month and linked with the monthly performance salaries. By doing so, it could encourage all of the departments to reduce costs and increase efficiency.

Zhao, the director of the airline maintenance department, was known for his calm personality and care for his subordinates. The airline maintenance department currently included 40 per cent of the company’s employees, of which the majority were front-line production workers stationed at airport aprons or hangars. Zhao was fully convinced that “stability is above all else” and that ensuring the stability of the workforce was the prerequisite for guaranteeing the safety and punctuality of aircraft maintenance. So, when he heard that monthly assessments would be implemented, he could not help but voice his concerns:

We are just starting to prepare for the Golden Week Holiday, New Year’s Day, and transportation to the Spring Festival. All of these periods are key stages for aircraft maintenance. If the employees become disgruntled due to personal gains and losses, and the normal departure of aircraft is affected, then adverse social effects will occur. When this happens, I will not be the only one blamed. You, Mr. Ma, and even the director general of the CAAC [Civil Aviation Administration of China] will be blamed. Besides, if we are going to assess the revenues, then 80 per cent of our business comes from Air China, which is our major shareholder. However, since the lump sum construction contract price with Air China is relatively low, marketization has never been realized. Our airline maintenance department should be the most profitable department in the company. However, our real value has not been reflected, based on such pricing. In the current situation, personnel costs must be market-oriented. By simply looking at the input-output ratio, we are not being reasonable at all.

Lu added his comments:

All of these factors will be considered, and for this reason, when we assess the various indicators, the revenues of each department will be compared with their own budgets, instead of the market level. As for our budget, we only add 5 per cent each year, which is not that high, compared to the market and the development speed of the industry.

Qian, the chief financial officer, expressed his concerns: “But the workload for the financial department to collect and organize the data will greatly increase. I am afraid that the staff will complain about this.”

Lu addressed Qian’s concerns:

The human resources department will have the same problem since we need to make the calculations for labour costs. However, for the overall efficiency of the company, we should do some more work. If the revenues of the company increase, then everyone will receive salary increases, so it’s worth the effort.

Lei Wang, the director of the aircraft overhaul department, had not yet uttered a sound. However, as soon as he spoke, his deep voice drew everyone’s attention:

The purpose of such an assessment method must encourage us to increase revenues. This means that we should work more and increase the business volume. We have a strong ability in aircraft overhaul, but during certain periods, the business volume is not full. We cannot increase new business unless the marketing department can receive new orders.

Upon hearing this, Xiao stated, “The marketing department is already very busy exploiting the market. The key point is that the market competitiveness of the production department should be improved.” Wang quickly questioned Xiao’s comments. “Who said we are not competitive? We have four-seat hangars. Who else in China can compete with us?”

Cao had been silent until that moment, and then calmly spoke:

Executives of Ameco, I think Yao Lu is right. Annual performance appraisals cover a relatively long period of time and they are not encouraging enough since they are only linked with year-end awards. If we evaluate their performance each month, then it would help us make timely adjustments for each department. Previously, we were unable to realize what the problems were until the end of the year, which made it impossible to remedy the situation. I suggest that Langtai Qian, who represents the interests of the shareholders, Yao Lu, who represents the interests of the employees, and Minghan Xiao, who understands customer demands, put forward a plan for discussion during a future meeting. We need to believe in our management wisdom and have both the courage and confidence to resolve these issues.

Hearing the Party Secretary speak, the executives at the meeting realized that the proposal was imperative. Without a better solution to solve the company’s problems, they all temporarily accepted the proposal.

Ma confirmed the decision:

Monthly appraisals are suitable for the current management situation of our company. Whether the work content of each department is right or wrong, and whether the results are good or bad, should be guided and judged by performance evaluation indicators. For the next step, Yao Lu will take the lead, Langtai Qian and Minghan Xiao will participate, and to ensure the implementation and effectiveness of the monthly appraisals, the head of each product department should also send several competent employees to join the project team.

Ma drank some water, and continued in a grave tone:

I only have three requirements. First, the evaluation indicators should be fewer in number but better in quality, so that we can focus on achievements and improvements. Second, the communication with the employees should be simple and easy to understand. Third, everything should be in line with the interests of the shareholders, customers, and employees. After the human resources department presents a detailed plan, we will discuss it at the next meeting. We can first set up a three-month observation period to determine whether the monthly performance appraisals can help solve the current and future development problems within the company.

Ma concluded the meeting with one final thought:

Honestly, now the company is at a critical turning point of development. We should be confident about the future of the company and find practical solutions. Only by working together can we continue our success.

Implementing the monthly performance appraisal program

During the one-month preparation period, Ma met with the heads of all departments to discuss the implementation of a monthly performance appraisal program from the demand level of the market and customers, the basic level of the source of financial data, and the detailed level of human resources management, after which the DCPC program was formulated. In the program, budget indicators of monthly operations, monthly product operations, and monthly costs were designed for different product departments. Every month, three product departments were to compare their actual situations with the budget and monthly variable salaries of the department, based on the ratio. However, to maintain the basic stability of the workforce and avoid obvious contrasts and fluctuations, an upper limit of 120 per cent and a lower limit of 80 per cent were set. The DCPC monthly evaluation indicators were designed according to the following equation:

Total amount of the actual monthly variable salaries of the product departments = Total amount of the standard monthly variable salaries × The key performance indicator (KPI)

In the formulation, the calculations were as follows:

KPI = Input-output ratio × 70 per cent + Non-economic indicators × 30 per cent

– Deducted points of quality and safety

Input-output ratio =

The non-economic indicators of each department included flight delay rate, aircraft availability, and on‑time contract compliance rate (see Exhibit 1).

For example, assuming that the actual labour income of the airline maintenance department in one month was ¥8 million,[[3]](#footnote-3) the budget of labour income was ¥7.2 million, the actual labour cost was ¥4 million, and the budget of labour cost was ¥3.6 million, the input-output ratio of the department for that month would be calculated as follows:

= 1

The non-economic indicators included the delay rate per thousand times and flight availability. Based on this calculation, the result would be 0.9. If there were no deducted marks for safety or other items during that month, then the KPI would be 1 × 70 per cent + 0.9 × 30 per cent – 0 = 0.97. Therefore, the total amount of the monthly variable salaries would be 97 per cent of the standard amount.

To the Delight of Some and the Dismay of Others

In October 2010, Lu requested that the members of the project team initiate a three-month trial period for the monthly assessment program. The team also produced a small scope report on the results of the first month during an executive meeting. The managers of all departments found that the simple and clear assessment indicators concerned operational efficiency and customer demands; after that, they all planned to explore ways to improve the evaluation results. For example, Zhao planned to start with overtime costs. Unlike the previous method of approving overtime after the work was completed, all positions except key front-line production positions were required to apply before performing any overtime work. As expected, the overtime costs of the second month were lower, and the KPI showed an increase of 1 per cent. All the departments made progress on the KPI results during this three-month period, which gave each department momentum for development (see Exhibit 2).

The official implementation of the DCPC program occurred in January 2011. Ma told Lu that the assessment results from the previous month needed to be presented at the monthly corporate management meeting for three reasons. The first purpose was to show the determination of promoting the monthly appraisal program. The second was to allow all product departments to compare their management efficiency and cost control figures to encourage competition between them. The third was to indicate the direction of future efforts for all departments. As long as all departments could achieve their targets of management efficiency and cost control, the financial aims throughout the year could be guaranteed.

To ensure that no mistakes were made during the report, Lu practised presenting the report several times the night before the management meeting. He also analyzed and verified the key results so that he would have the basis for answering any questions and providing directional guidance for performance improvement. His presentation began with the following information:

Hi everyone, based on the objective data provided by the financial department, the marketing department, and the human resources department, we have obtained January’s DCPC assessment results for all of the departments. The KPI of the airline maintenance department was 93 per cent. This is because the overtime costs and labour costs of last month were 30 per cent higher than the budget. I hope that the relevant managers can focus on the costs and expenses of these two items from now on.

Once the data was disclosed, the meeting room became extremely noisy with outbursts such as, “Our department worked very hard last month and even worked overtime, so why was the KPI still less than 100 per cent. How can we face the hard-working frontline employees?” Managers of the airline maintenance department were obviously dissatisfied with the results.

“Everybody, please be quiet,” exclaimed Lu as he continued:

Compared with the three-month observation period, the airline maintenance department has made progress in reducing costs and increasing efficiency. The next is the aircraft overhaul product department. The overall result is great: it was 107 per cent. Even though the actual labour costs were higher than the budget, the business performance was as high as 123 per cent. So, the overall result is pretty good. Congratulations to the aircraft overhaul product department. Lastly, the KPI results of the engine product department were ranked first this month. Its operating income was also much higher than the budget, which was 140 per cent. In addition, the expense control was excellent, and the final result was 120 per cent.

Upon hearing these details, the managers of the engine department began to applaud.

Although the engine product department received the highest performance salaries, Li, the department’s director, still had some concerns. He knew that the reason for the highest KPI of that month was the receipt of a payment for a relatively large order. However, the maintenance tasks of this order would continue into the following month. This meant that the employees of the department would still be working on those tasks next month without any payment. As a result, the KPI of next month would be lower, even though the employees worked harder.

Promoting Production with Vigor and Vitality

Although some departments complained about the DCPC program in the monthly management meeting, they also started thinking about how to increase efficiency when they saw the bonus incentives. Zhao, the director of the airline maintenance department, changed focus significantly. He dedicated himself to increasing the operating income and rationalizing personnel expenses, based on the guidance of the assessment program and the premise of ensuring product safety and maintenance quality. In the past, he would talk repeatedly about “stability,” but he now focused on the balance between safety and efficiency in various meetings. He also invited experts from the financial department and the human resources department to teach his managers about relevant management knowledge.

In addition, Zhao initiated discussions with several major heads of the department to obtain advice and suggestions, based on actual situations. The department heads believed that to increase the total amount of actual monthly income and gain more benefits for the hard-working front-line machinists, the company could follow three suggestions. First, internal working efficiency should be improved. Second, they should sign more orders to increase the income from customers other than Air China. Third, work plans should be more reasonable to optimize the workflow. Overall, it was necessary to increase working efficiency while reducing waste. By doing so, it would be possible to save some work hours, which could be used to increase contract incomes.

Recognizing this critical starting point, Zhao could not help but admire the wisdom of Ma. By using the tool of performance management, he forced the heads of all product departments to make significant efforts to increase working efficiency, save labour costs, and increase revenues. As Zhao considered this, he immediately set up a project team for the improvement of the aircraft maintenance plan, as well as a project team for the optimization of the process, which generated achievements within three months. For example, the project teams shortened the on-ground maintenance period of aircraft and reasonably split the workload of maintenance. The times for aircraft to land on the ground were lowered and thus, the times for the maintenance personnel to wait for the equipment were saved. Overall, the working efficiency of the department was significantly improved.

In Zhao’s eyes, aircraft de-icing also became a source of income. Previously, aircraft de-icing was a political task that ensured the departure safety of the aircraft. However, since it had become an important business item, he rationally optimized the de-icing process and reduced the residence time of aircraft. During the entire de-icing season, the airline maintenance department achieved an income of ¥70 million.

After the DCPC monthly assessment program was implemented, the three product departments began to actively ask the marketing department for more work. In Zhao’s department, for example, due to the internal process optimization throughout the year, the workload was not as full as before. Realizing this situation, Zhao made a phone call to Xiao, the director of the marketing department. Xiao had already seen the changes in the airline maintenance department during the year. He asked his employees, in advance, to actively explore the airline maintenance market and look for potential customers. By doing so, he would be prepared when Zhao requested more orders. As expected, the DCPC monthly appraisal program did inspire all product departments. Instead of complaining about heavy workload, they actually requested more work.

Finally, when the heads of the other product departments saw that the focus of Zhao (which had always been on the safety and stability of employees) had changed considerably, they were encouraged. All superiors and subordinates set up goals, exercised strict control, and actively undertook more work. As a result, Ameco entered a new era in which positive competition stimulated performance improvements. Since then, the operational efficiency of the company continued to increase for several consecutive years.

Emergence of New Problems

By 2014, the DCPC program promoted by Ma had made significant progress. The operation efficiency of the company had been effectively improved. However, rapid changes in the external environment made it impossible for the company to effectively defend itself.

At the beginning of 2014, new problems occurred in the engine product department due to upgrades in certain products. More specifically, two main engine models, PW4000 and RB211, had changed from a ready source of income to older models that would eventually be phased out by the market. As a result, the workload of engine maintenance was suddenly reduced to half, which, in turn, reduced the monthly variable salaries and led some technical workers to leave the company. Although the company had just signed a five-year overhaul agreement for RB211 engines with Air Astana of Kazakhstan, the limited business volume was not enough to prevent a downward trend in the engine product department. The company was in the process of acquiring the maintenance technology of V2500 engines and was planning to train a new group of technical personnel. However, it would take a considerable amount of time and expenses to adequately train such individuals. Li, the director of engine products, tried every means of keeping the remaining technical employees in the company. Although he arranged technical training and sent some employees to other departments with a full workload, such arrangements were only temporary solutions.

At the same time, the airline maintenance department also faced new problems. Although performance had improved (to a certain extent), the department had signed annual fixed-price contracts with Air China, its only major customer. Air China fleets had rapidly introduced new aircraft, which made the workload of the department increase dramatically. Consequently, the department had to undertake more work that would not bring new benefits to the company. In addition, the contracts with Air China were signed in U.S. dollars, so the continued appreciation of the Chinese yuan further reduced income to the department, even though the workload remained consistent. All these factors resulted in the employees of the airline maintenance department having the heaviest workload, but not the highest salaries. Naturally, the employees began to complain, with some leaving Ameco for other companies.

On September 5, 2014, another monthly management meeting was held. Lu stood at the podium and reported the results of August’s DCPC assessments. When the results of the airline maintenance department and the engine product department appeared on the slides, the meeting room began to get loud with questions from the attendees: “Why are airline maintenance department employees working so hard and only receiving 80 per cent performance? Why did the employees of the engine product department also receive 80 per cent performance?” Some attendees claimed that the airline maintenance department’s workload was so low that the employees were simply “drinking tea and reading newspapers all day.”

The meeting room comments continued: “Is this assessment fair? What type of behaviour is it encouraging?” Other attendees joined in: “The airline maintenance department already has a large workload. Due to the unfairness of this performance appraisal, four employees resigned this month. It is really difficult to train new technical personnel. How do we fill these gaps?”

Most managers of product departments at the meeting had previously been front-line workers. Their response went from initially voicing opinions loudly to eventually becoming angry. Upon seeing this, Ma stood up and calmed everyone down. With great respect from the company’s employees and excellent communication skills, Ma was able to calm down the room, at least temporarily.

Conclusion

After lunch, Ma was walking alone on the playground. Over the previous four years, the implementation of the DCPC monthly performance evaluation program had generated many positive influences on Ameco. However, the new challenges created by the changes in the external environment resulted in sharp conflict among departments. A series of questions came to mind, all without an apparent answer: How can we set up the indicators to motivate the employees and keep talented personnel in the company? How can we minimize the impact of external factors, while considering more about the workload? How can we reasonably assign the department tasks to each employee, while avoiding the phenomenon of “unmerited” workers reaping the benefits? How can we let the employees receive real benefits from the appraisals while increasing the overall performance of the company?

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Exhibit 1: Calculations for the Non-economic Indicators of Each Department

|  |  |  |
| --- | --- | --- |
| **Department** | **Indicator** | **Calculation Method** |
| Airline maintenance department | Flight delay rate Aircraft availability | (Budget of flight delay rate ÷ Actual flight delay rate) × 50 per cent + (Actual aircraft availability ÷ budget of aircraft availability) × 50 per cent |
| Aircraft overhaul product department | On-time contract compliance rate | Budget of average contract period ÷ Actual average contract period |
| Engine product department | On-time contract compliance rate | Budget of average contract period ÷ Actual average contract period |

Source: Company documents.

Exhibit 2: KPI departmental Data during the Three-month Trial Period (%)

|  |  |  |  |
| --- | --- | --- | --- |
| **Department** | **October** | **November** | **December** |
| Airline maintenance department | 86 | 87 | 90 |
| Aircraft overhaul product department | 92 | 94 | 100 |
| Engine product department | 115 | 117 | 120 |

Source: Company documents.

1. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-1)
2. A Party Secretary in a state-owned enterprise in China is the leader of the Communist Party organizations in that enterprise, who shares dual authority with the company general manager and often has a greater voice than the director. [↑](#footnote-ref-2)
3. ¥ = RMB = Chinese yuan; US$1 = ¥6.22 on January 5, 2015. [↑](#footnote-ref-3)