

Employee reactions to lottery-based incentives at United Airlines

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ABSTRACT

This case describes an event in 2018 when United Airlines announced to employees that its quarterly performance-based bonus system was being replaced with a lottery incentive program. Under the previous bonus system, employees were guaranteed a monetary bonus each quarter that specific performance goals were met by the company. For the new incentive program, employees' names would be entered into a random lottery-style drawing, resulting in only a small percentage of employees receiving prizes ranging from cash to new cars to vacation packages. Due to overwhelmingly negative reaction from employees, United retracted the lottery program just three days after it was announced. The case asks students to consider why the lottery program was poorly received by employees. The case is designed for human resource management and general management courses as part of discussions on employee incentives, motivation, and performance management.

Keywords: incentives, bonuses, rewards, customer service, employee feedback, United Airlines



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INTRODUCTION

On a Friday in March 2018, United Airlines President Scott Kirby sent a company-wide email to employees announcing an “exciting” new performance-based incentive program called Core4 Score Rewards. Within hours, Kirby’s announcement resulted in widespread anger from United employees, many of whom posted scathing criticisms of the program on social media. By the next day, various news sources began reporting the story. The following Monday, just three days following Kirby’s announcement, United retracted the new incentive program due to overwhelmingly negative reaction from employees. The case briefly describes company background, the bonus system prior to the announcement, customer service issues, the new lottery incentive program, and employee reactions to the lottery.

COMPANY BACKGROUND

United Airlines, the fourth largest airline in the world, is a wholly-owned subsidiary of United Holdings Inc., a U.S.-based company headquartered in Chicago. United Airlines operates across North America, Asia, Europe, the Middle East, and Latin America, with hubs in Chicago, Newark, Denver, Houston, Los Angeles, San Francisco, Washington, D.C., and Guam (CNBC, 2018). Exhibit 1 (Appendix) summarizes key information for United Airlines for 2017, the year prior to the events of this case.

Salaries represented 32% of operating expenses in 2017. (Other expense categories included fuel, landing fees, rents, maintenance materials, etc.). From 2016 to 2017, salary expenses increased by \$770 million, or 7.5%, due to higher pay rates, benefit expenses, and a 2.5% increase in the number of full-time equivalent employees. Approximately 22,600 of United’s employees in 2017 were flight attendants, representing the largest group of employees at United (United Airlines, 2017).

Oscar Munoz was named CEO and President of United Airlines in 2015. In 2016, the role of President was split off into a separate position with the hiring of Scott Kirby, who is responsible for the airline’s operations (United Airlines, 2016).

EMPLOYEE BONUSES

Prior to the announcement of a new incentive program in March 2018, United had a bonus system in place for employees based on three key metrics that were measured monthly and paid out quarterly. Employees could earn a payout of up to \$375 per quarter, or \$1500 per year, based on three key performance goals (see Exhibit 2, Appendix).

Although it’s not known exactly how many of United’s employees were eligible for bonuses under the previous system, eligible employees included flight attendants, gate agents, customer service representatives, pilots, counter agents, ramp agents, and certain management and administrative employees.

CUSTOMER SERVICE AND THE CORE4 PROGRAM

In recent years, the United Airlines brand suffered from low customer ratings and public relations scandals following poorly-handled on-board customer service incidents. One situation quickly went viral in April 2017 when David Dao, a 69-year old United passenger in Chicago,

refused to give up his seat on an overbooked flight and was forcibly dragged off a plane by law enforcement. Dao suffered physical injuries including a concussion, broken nose, sinus injuries, and loss of two front teeth. Days later, demonstrators protested United at O'Hare Airport, carrying signs such as "Stop brutality," "Boycott United," and "Beat your competition, not your customers" (Bacon, 2017; Zhang, 2017). A survey of 55,000 flyers conducted by Consumer Reports in the summer of 2017 resulted in United Airlines being ranked as one of the worst U.S. domestic airlines (Bianco, 2018).

In response to its tarnished image, in January 2018 United introduced the Core4 program, with the goal of building United's reputation as "the most caring airline in a highly-competitive industry" (Lazare, 2018a). Core4 was based on four key values: caring, dependable, safe, and efficient. Employees participating in Core4 training were coached to use their judgment rather than strictly adhering to rigid rules and policies and empowered to make the "right" decisions in dealing with customers, while still remaining efficient and adhering to safety. In describing Core4, Kirby stated, "This isn't just the flavor of the day. We have to be a customer-centric airline, and this is the foundation of doing that. This is how we're going to take our airline to the next level" (Josephs, 2018; Lazare, 2018a).

THE LOTTERY

The *Chicago Business Journal* was the first media source to report Scott Kirby's Friday announcement to United Airlines employees outlining a new incentive system called Core4 Score Rewards, as part of the company's Core4 program (Lazare, 2018b). Employees would give up their individual bonus amounts and instead have a chance at a prize in a lottery in which only a small percentage of employees could "win." Each quarter the company reached at least one performance goal, there would be a random drawing for the prizes, including cash, cars, and vacations, with a grand prize of \$100,000 in cash awarded to one lucky employee (see Exhibit 3, Appendix). To be entered into the drawing, an employee had to have perfect attendance for the quarter.

Only 1,361, or 1.5%, of United's 89,900 employees would have received a prize from the lottery drawing. The lottery prizes totaled \$4.7 million per quarter. Assuming that 90% of employees were eligible for a bonus under the previous bonus system, United would have paid out \$30 million in bonuses for the quarters when all three performance goals were met. In comparison, under the new lottery system United would have saved \$25 million per quarter, or \$100 million per year, in incentive payouts to employees. The lottery bonus system would have no effect on the company's profit-sharing program, which remained in place.

EMPLOYEE RESPONSE

In the hours and days following Kirby's email announcement of the lottery program, employees posted thousands of negative comments on the company's private internal website, Facebook, and other websites. One employee initiated a petition on Change.org in protest of the lottery program, but shortly after that, the employee removed the petition when she was warned by United management that it was against company guidelines.

Among the comments employees posted in Flying Together, United's internal online forum (Murphy, 2018):

"I can't imagine driving the Mercedes into the employee lot while everyone around me that worked just as hard, or harder got nothing. I would feel like such a jerk." – *Flight Attendant*

"I would be embarrassed and mortified to win this lottery. If it was possible I wouldn't allow my name to be released and I would give my 'winnings' to the Flight Attendant AFA Cause Charity. I win at the expense of tens of thousands of fellow employees? No thanks." – *Flight Attendant*

"This sounds like a game show with cash prizes and lets see who gets the spin of the wheel. This doesn't sound like a plan that even attempts to show value, respect and appreciation for the work of its employees." – *Flight Attendant*

"When I win the \$100,000 drawing.....I am going to hire some young kid to write my 84,000 teammates each a check for \$1.19 and share the reward with those who helped ME win this reward.....on YOUR hard work!" – *Pilot*

In response to the requirement that employees would only be eligible for the program if they had perfect attendance for the quarter, an employee commented:

"Only employees with perfect attendance for the quarter would be entered into the drawing, which employees interpreted as meaning no sick days. It occurred to me and my wife that this is terribly unfair to single parents. ... Imagine your child coming home sick from school, no fault of your own. You are faced with calling in sick thus losing your 'chance' at a bonus or leaving your child/children home alone to care for themselves. What a terrible situation United has put that person in." – *Pilot*

Commenting on the lottery announcement, Ken Diaz, the president of the Association of Flight Attendants at United, stated (Matousek, 2018):

"The new United has been built on the principle of 'shared purpose' and it only makes sense that the fruits of that united effort would mean shared reward. With this move, there's no doubt management has succeeded in achieving a united voice with all employees, but that voice is entirely opposed to and offended by this new 'select' bonus program. Being 'caring' cannot be choosy."

Craig Symons, president of United's flight dispatchers union, observed that "no team-oriented reward should be dictated by lottery" (Sasso, 2018).

In an email sent to employees on Monday following the announcement of the lottery, Kirby indicated he would be "pressing the pause button" on the program, admitting the company had misjudged how it would be received by employees. A major sticking point was that the lottery program was apparently launched without input from employees. Kirby stated his intention to initiate a series of listening sessions to invite employee feedback on how to structure incentives, and to make changes that "better reflect your feedback" (Bomkamp & Zumbach, 2018).

TEACHING NOTES

Suggested discussion questions and responses are as follows:

1. What appeared to be United's purpose in introducing the lottery incentive?
 - The lottery was introduced to employees as part of the Core4 program, whose purpose was to make the airline more “caring.” While this may have been the stated purpose, a more cynical conclusion is that cost savings largely drove the change. As pointed out in the case, under the lottery system, United would be paying out millions less in employee bonuses.
2. Would the lottery system have supported United's goal of becoming a more caring airline? Why or why not?
 - Becoming a more caring airline requires changes in employee behavior on a daily basis. It seems unlikely that a random lottery where only a very small percentage of employees would receive a “prize,” would impact employees' daily behaviors. For an incentive to be effective, employees need to see a direct relationship between their behavior and rewards. Under the lottery system, even if the airline met its quarterly performance goals, any given employee was far more likely to receive nothing than to receive a prize. It's possible that the lottery system might have positively influenced employee behavior. More likely, it could have demotivated employees, damaged morale, and created resentment, because the prizes were awarded randomly based on chance rather than actual work effort.
3. Why did many United Airlines employees react negatively to the announcement of the lottery incentive system?
 - Students could first be polled on how they would react if their company announced a lottery incentive system similar to United's. Or, you could ask, “Suppose all of you in this class worked equally hard this semester, but I randomly picked one of you to receive an ‘A’ while the rest received lower grades?”
 - The announcement of the lottery seemed to catch employees off guard. It appears they knew nothing of it prior to the announcement, and that top management had “cooked up” the program without employee input. Employees are understandably sensitive to changes that affect their paychecks; failing to gather and listen to employee input exacerbates this anxiety. It's quite surprising that Kirby, and United's top managers, assumed in advance—rather than confirmed through employee feedback—that employees would be receptive to the lottery system. After pausing the program, Kirby stated that the company would hold listening sessions and ask for employee feedback, but these are actions that should take place prior to launching a new incentive program.
 - Many employees likely saw the lottery system as a cost-saving measure disguised as an “exciting” new program to help the company meet its performance goals.

- Employees quickly recognized that the lottery system did not support teamwork but was instead based on individual luck.
 - Management may have failed to consider the lottery from the perspective of “winning” employees, especially those who won one of the big prizes, who might feel uncomfortable and embarrassed by being singled out in front of their peers for receiving a reward that others equally deserved.
 - Some students might point out that the maximum \$375 bonus per quarter that employees were eligible to receive prior to the lottery was not a significant amount of money, and that perhaps the chance to win \$100,000 or a brand-new Mercedes should have been quite motivating. Students could be polled on whether they would rather receive \$375 as a “sure thing” versus the slim chance to win a much more desirable reward, assuming the company met its performance goals in both scenarios.
4. What type of bonus or incentive program might be effective in rewarding employees for being more “caring?”
- In answering this question, students should recognize the difficulty in measuring subjective, interpersonal aspects of customer service as opposed to objective measures such as mishandled baggage and on-time departures. Students might be quite critical of the lottery incentive system, and perhaps rightly so, but they should be prodded to consider the challenges in designing incentive systems that measure and reward subjective aspects of employee behavior.

APPENDIX

Table 1: Selected Information, United Airlines 2017

Operating Revenue: \$37.7 billion
Net Income: \$2.1 billion
Net profit margin: 5.6%
Number of passengers flown: 108 million
Number of employees: 89,800
Salary expenses: \$11 billion

Source: United Airlines, 2017

Table 2: United Airlines Quarterly Bonus System Criteria, Pre-Lottery

Performance Criteria	Bonus Payout
Completion performance (percentage of flights that were not cancelled)	\$150
On-time departure bonus	\$150
Mishandled baggage ratio bonus	\$75

Source: Genter, 2018a

Table 3: Lottery Prizes

Prize	Number of Employee Winners Per Quarter
\$100,000 cash	1
Mercedes-Benz C-Class	10
Platinum United Vacation package or \$20,000 cash	20
Gold United Vacation package of \$10,000 cash	30
\$5,000 cash	300
\$2,000 cash	1,000

Source: Genter, 2018b

DISCLAIMER

This case was prepared by the author for class discussion rather than to illustrate effective or ineffective handling of an administrative situation and is based on actual situations as reported by various media sources.

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