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How to create a rewards system that effectively motivates airline cabin crew to sell?

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Abstract

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Contents

1. The topic

In a work prioritising the highest safety level and service such as in airline cabin crew's work how should the crew be motivated to sell inflight products and ancillary services in the most effective way?

The thesis goes on to study the primary effects of rewards to an individual's work performance and on how it might affect the individual's motivation. The chosen focus work group are airline cabin service personnel, and the reason for this is the author's personal interest through his work in an airline. The focus of the work in on the meanings of pay-for-performance rewards to an individual that are the result of a group work performance.

The second chapter investigates the focus business area and builds a case for the importance of ancillary sales, and how this is linked to the cabin personnel. Therefore, motivation plays a crucial role in reaching successful results.

The third chapter outlines the theoretical framework. First half of the chapter investigates the different forms and meanings of compensation and rewards. The second highlights the most important motivational theories.

The broad subject of the thesis is money and its motivational effects on people. Money is not discussed in an economical sense, but rather in the social and psychological meanings it has. In other words, the focus of the study is money in work life, especially the meanings of monetary rewards on personnel and their impact on work motivation and work performance.

Following chapters take on the experiences of the author and the past theory to suggest and investigate possible reward system scenarios, the strengths, and weaknesses of each. The thesis concludes with limitations of the study and future research suggestions.

2. The focus business field of study

The focus business field of the thesis is the inflight sales of ancillary products as an airline revenue source.

Currency conversions used from a given currency to Euro as provided by Oanda currency converter (Oanda) on the 1st of July 2020.

NOK to Euro 1 NOK = 0.09197 Euro Dollar to Euro 1 Dollar = 0.89049 Euro

The inflight sale of food, drink, tax free products and ancillary services are all high margin extra revenue for the company sold by cabin crew during the flight. The amount of which these products and services are sold depends on the cabin crew's ability and willingness to sell, this being fuelled by motivation. IdeaWorks (2011, cited in O'Connell, J. F. & Warnock-Smith, D., 2013), the leading airline ancillary revenue consulting company, describes ancillary revenue as "revenue beyond the sale of tickets that is generated by direct sales to passengers, or indirectly as a part of the travel experience". Furthermore, ancillary revenue can be divided into three categories: a-la-carte, commission-based (also called third-party) and frequent flyer activities. The focus on ancillary revenue was initiated by the Low-cost carriers (LCCs) when airlines in Europe such as Ryanair and easyJet started to adopt a concept of optional fees. Nowadays the model of "unbundling" the airline ticket is used by both LCCs and full-service airlines. (O'Connell, J. F., & Warnock-Smith, D. 2013.) As stated above, ancillaries as a focus revenue source was initiated low cost carriers but has been since adopted by full-service airlines, such as Finnair.

Škurla B.R., Ozmec-Ban M., Bajić J. (2018) have studied the development of ancillary revenues in airline business. Ancillary revenue is a necessity for all airlines as they struggle to maintain their profitability continuously threatened with high operating costs and intense competition. Ancillary revenues increased from about 2% to more than 10% over the last decade, when measured as a proportion of total operating revenues. Therefore, to achieve significant revenue gains and maximize total revenue airlines need to upgrade their revenue management systems to assess the total expected revenue contribution of each passenger. Traditional airlines generate the largest part of their ancillary revenue from their frequent flyer programs. An increasing number of full-service carriers decided to move from all-inclusive booking arrangement and adopt add-on bundling practice when selling flight tickets, by making some components of service optional to passengers. (Škurla, B.R. et. Al. 2018, p. 11.) The change of "unbundling" the airline ticket can be seen at Finnair in many ways, but for the focus area of the inflight personnel the change has been in removing certain items from the service included in the ticket which can instead be purchased by the passenger during the flight.

The largest Finnish airline Finnair has said the following in their 2016 annual statement recognizing the ancillaries as a key source of revenue: "ancillary and retail business is the fastest growing revenue line and the growth is expected to continue during the strategy period as Finnair aims to increase ancillary sales per passenger by 46%." (Finnair, 2017). In monetary value this being from 10.2 euro to 14.9 euro by 2018. (Finnair, 2017) Ancillary and retail revenue sales are the additional services that are sold to passengers. In 2019, Ancillary and retail revenue accounted for approximately 6% of Finnair's revenue. Ancillary and retail revenue increased by 9.5 per cent and amounted to 176.2 million euros (160.8), reflecting the growth in passenger volumes. On average, customers spent 12.03 euros per passenger (12.11 euros). During the year, particularly advance seat reservations, service charges, extra luggage and in-flight sales were the largest ancillary categories. (Finnair, 2020) It can be seen that the set goal of 14.9 euros per passenger in ancillary sales by 2018 was not met, but that there has been growth in the sector. The company has not published how big part of the ancillary revenue is the categories in which the inflight personnel have a direct impact.

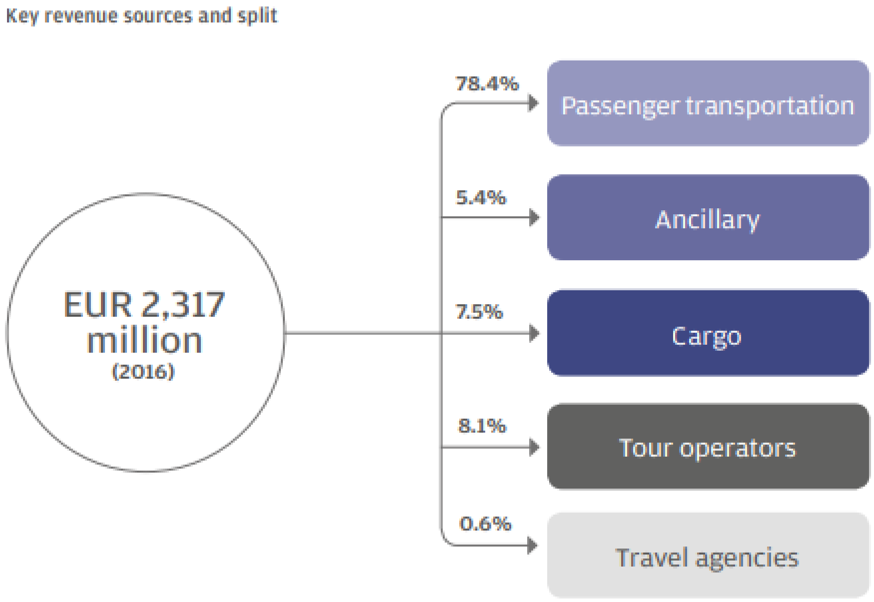

Figure 1 - Finnair key revenue sources (pp. 8. Finnair, 2017)

The ancillary revenue comprises of products and services sold before and during the flight. Items that can be purchased before the flight are for example special meals, advance seat reservations, in flight Wi-Fi access and excess baggage. In the thesis we are going to concentrate only on items sold during the flight, which is the revenue source that is affected by the inflight personnel's efforts, willingness and motivation to sell.

Norwegian air shuttle is a competing airline within the region operating on a low-cost carrier strategy and leaning more on ancillary revenue. The company's total revenue in 2019 was NOK 43.5 billion, an increase of eight percent compared to 2018, driven by improved unit revenue and increased ancillary revenue per passenger. (Norwegian, 2020.) According to an article written by Rytis Beresnevicius (2019), the airline is showcasing positive signs even in Q3 2019. Despite falling capacity, the carrier's unit yields, and unit revenues are both up by 3%, while unit costs, including fuel, are down by 6%. On average, Norwegian earned 18 euros (NOK196) of ancillary revenue per passenger, up by 11% compared to the same period in 2018. (Beresnevicius, 2019.) In Q4, production (ASK) decreased by 19 percent, while a 16 percent improvement in unit revenue and eight percent higher ancillary revenue per passenger countered much of the capacity reduction. (Norwegian, 2020.) It can be seen that ancillary revenue has been an important benefactor for positive results, even in a situation of decreasing productivity. Norwegian has been earning approximately 18 euros of ancillary revenue per passenger in 2019, over one and a half times more than Finnair at the same time. This supports the idea of low-cost carriers being the leaders of generating ancillary revenue.

Loh (2020) wrote an article of documents provided in a presentation to bondholders showing that low-cost carrier Norwegian Air is preparing itself for various scenarios in the coming months as a response to the COVID-19 pandemic. Part of its strategy for survival and ultimate recovery will see the airline shrink its operations and focus on its ancillary revenue over the next few months. The airline envisions ancillary revenue becoming an important path to profitability and loss avoidance. As such, passengers may see new products or more promotions for extra services beyond the basic cost of airfare. The airline will "[respond] to customer's needs with right products and [capture] willingness-to-pay". As such, it is targeting a boost of ancillary sales to 25% of ticket revenue. To do this, Norwegian will lean on a "personalized, data-driven e-commerce engine". (Chris Loh, 2020.) Norwegian is using the increase in ancillary revenues as a keyway of survival over the challenges brought by the COVID-19 pandemic and its effects on the airline business.

3. Compensation and rewards

The two main components of the theoretical framework are rewards and motivational theories. In the following chapter we will look at the written works on theory of rewards.

There are plenty of definitions for rewards. Something in common to them seems to be that there is a baseline idea of an exchange – in exchange for his or her skills and effort the employee receives a pay, varying benefits and possibly other complementing rewards. (Hakonen 2006, p.7.)

Hulkko, Hakonen, Hakonen and Palva (2002, p. 54) define rewards in the following way:

- Rewarding is two-way process of the organisation and its members benefitting both.
- Rewarding is a tool for management supporting the strategy of the organisation and reaching of goals.
- Rewarding conveys a message of wanted actions. The interpretation of this message affects the action of the members of the organisation.
- The views on something being rewarding are subjective.

The first three points of the definition describe the ideal of rewarding and the fourth states that the subjective experience finally defines what is rewarding. (Hulkko et al., 2002.)

Hakonen (2006, p. 7) adds that even if it is often thought rewards are monetary, they also include other things such as work time arrangements or study opportunities. Therefore, rewarding can be tangible as well as intangible. Together tangible and intangible methods make up the totality of compensation. (Vartiainen & Kauhanen, 2005, pp. 20-21.)

As expressed by Hakonen, Hakonen, Hulkko & Ylikorkala (2005, p. 69) and Vartiainen & Kauhanen (2005, p. 21) tangible rewards usually mean monetary pay in its different forms together with benefits brought by the work. Tangible rewards can be seen to include base pay, pay-for-performance, benefits, stocks, stock options, incentive rewards and special rewards.

3.1. The development of a compensation system

As written by Ahokas, Hakonen, Hänninen, Kopra, Mäkinen, Neuvonen & Suokas, (2011, p. 17.) one's own income can be seen as too little when it is compared to the wages and work of others. Pay can also feel as too little higher than the pay of another, if one feels as if they are doing a consistently better result. If pay and work are seen as unjust in relation to each other, it easily leads to lack of motivation, arguments and grudge. The working results and atmosphere can suffer, even if it is not a wanted outcome by anyone. Therefore, the compensation system has to be carefully planned.

Hakonen et al. (2005, p. 30) stated that the actual processes of rewarding are to do with the planning, introduction and implementation of a rewards system. According to Lawler (2000, p. 48), for the processes central issues are communication and decision making. Hakonen et al. (2005 p. 32) add that when designing and implementing processes it is worthwhile paying attention to the justice of division and decision making and how people are involved in the process. Empirical research conducted by Bowey and Thierry (1980; 1987) has shown rewards to have the greatest impact on efficiency of actions when personnel are involved in the design of the reward system. Vartiainen and Kauhanen (2005, pp. 26-27) point out that personnel should have real decision-making power if they are included. Otherwise participants can be frustrated.

Ahokas et al. (2011) and Hulkko et al. (2002) brought forward the idea that in designing of a pay-for-performance and profit-sharing systems it should be evaluated that the base pay systems are working correctly. Possible deficiencies in the base pay system can prevent the sough after incentivising effects of pay-for-performance and profit-sharing systems.

According to Vartiainen and Kauhanen (2005, pp. 18-19) the meaning of a well-functioning reward system is understood by the effect the system has, experiences of the personnel and the satisfaction towards the system. Moisio (2005, p. 31) adds to that the functioning of a reward system can be viewed though its effects as well as the satisfaction of personnel and management. How well the set goals for rewarding are met can be a criterion for functionality. Rewarding systems can also be evaluated in relation to wage cost management, employee retention or employee satisfaction on pay, rewards and the employer. (Moisio 2005; Hakonen et al. 2005; Hakonen 2006)

By definition of Hakonen et al. (2005, p. 275) rewarding can be seen as functional when it fills three criteria:

- It is in line or compatible with the objectives of an organisation

- It has wanted effects
- The management and the personnel see the system as good.

Ahokas et al. (2011, p. 11) argue that a well-functioning rewarding system is just. For corporations as well as individuals it is important to reward for the right things in a diverse, acceptable, open, equal and justified way.

In evaluating the functionality of a rewarding system, the two different viewpoints must be separated; the design point of view and that of the experience (Hakonen et al. 2005 p. 277). In the design point of view the structure and processes of the system are evaluated. Evaluation is based on the compatibility of the system with objectives and the operational environment. In the experience point of view the functioning of the system in practise is evaluated; how people experience it. From the view of quality and process management the question is that the described process and practical solution usually differ from one another. When evaluating a system, it has to be defined if the described system, or the implementation of it, is under evaluation (Moisio 2005, p.28.).

Hong's (2017 pp.1125-1126) literature review on compensation system design suggests that compensation system design should not only focus on the methods used to reward employees' performance, such as the combination of short-term and long-term incentives and attaching importance to the degree of team effort, but also integrate with the enterprise's conditions, for instance, corporate strategy, organizational culture, etc. For an airline this is especially true as direct supervision is harder, personnel work in changing teams and differing routes every work shift. The compensation system can therefore be a valuable management tool.

According to Lai (2011, pp. 10722-10723) employee satisfaction relates to the reward system design of an enterprise. Since this is the key indicator of the selection of pay strategies, it should be highly valued. Lai's study proposes two practical suggestions regarding reward system design:

1. Value employees' expectations: Employees' expectations refer to the general analysis of employees regarding information controlled and external information obtained. Employees construct a basic requirement for "products" (including works, compensation and welfare) provided by enterprises and further expect certain business behaviour. Employees' expectation management means that enterprises should aim to eliminate unreasonable expectations by providing satisfactory explanations of pay, working conditions, etc., and make efforts to satisfy reasonable expectations. They should also guide employees to construct effective expectations that can be fulfilled.

2. Adopt compensation system reforms that encourage internal and external equity: Compensation equity does not mean setting up an average value according to age, educational level and post. Instead, it means establishing a reasonable pay based on the overall level of the business, the development of the enterprise, an overall evaluation of posts and employees, as well as locations and overall industrial situations.

3.2. Strategic rewards

As Vartiainen and Kauhanen (2005, p. 16) argued, rewards have a central role in a company strategy. Strategy aims to direct the organisation's financial and mental resources. Organisation usually has a business idea that is called a mission. Through its mission the organisation aims to define the customer needs, that it aims to satisfy, and the means of accomplishing this. Additionally, company usually has a vision describing the five to ten-year future state of the company. The values of the company are a third central strategic element. Values describe the principles by which the company seeks to execute its business idea and its vision. Based on these the plan can be made for business strategy, part of which is the personnel strategy, and this includes the rewarding strategy. From my perspective when planned with care strategic rewards can help to align the personnel to work towards the strategy in a way the organisation had planned.

Vartiainen and Kauhanen (2005, p. 17) continue that on organisational levels rewards are often given to individual employees, teams, departments or business units. When giving rewards it is central to keep the values of the organisation in mind. According to the thought of compatibility Lawler (1990, p. 22) states that an organisation has the best chance at reaching its goals when its strategy, structure, management processes, personnel and rewards are compatible. The efficiency of an organisation is dependent on its ability to create a structure of compatible systems (Vartiainen & Kauhanen 2005.) The activities are directed to align with the strategy through rewards and rewards are a central way of supporting the execution of a strategy. (Hakonen 2012, p.8.) Hakonen (2006, p .9.) calls this trend as strategic rewarding that has been written about by for example Lawler (1990, p. 22) as well as Gomez-Mejia and Balkin (1992). Balogun & Johnson (2005) wrote that in a simplified way strategic rewarding is referring to the way organisations strategic ambitions are taken into account when deciding on personnel pay and possible additional rewards. Strategies often do not play out in the expected or wanted manner, but sought-after strategies have a tendency of leading to unexpected outcomes.

Rewards have been thought to be more useful from organisational efficiency point of view when the reward system and organisational goals fit together, in other words the rewards are supporting the organisational strategy plan (e.g. Lawler, 1990; Milcovich & Newman, 2005, cited in Hakonen, 2012, p. 57). According to Lawler (1990 p. 75) the organisational strategy or goals, structure, management processes, rewards and personnel all influence each other. In order for an organisation to function efficiently should these five pieces fit together well.

Chen and Hsieh (2006) argue that many companies realise that the best people with the most important skills work for more than just pay. The best people work for companies with a compelling future to offer, plus the chance to grow as individuals, a place that offers a positive work experience and total pay including base pay, benefits, incentives and recognition. To create an effective reward system, companies need to understand where their reward dollars are being allocated. The companies that do the best job of linking rewards to business results and employee performance to attract and retain the best workers will be the ones best positioned for future success.

Lawler (1981, p. 22) emphasises in an earlier work, the importance of the implementation process when he states, “In order for employees to believe that a performance-based pay relationship exists, the connection between performance and rewards must be visible, and a climate of trust and credibility must exist in the organization.” Decision-making in relation to reward systems can also be thought in terms of a continuum. Lawler (1981, p. 50) states, “…decisions need to be made about how big the pie will be, what procedure will be used to divide it up, and what size piece each person will get. None or all of these decisions can be made on a participative basis.”

3.3. Payment in exchange for a result

The entirety of rewards is made up of tangible and intangible means of rewards, meaning the person’s base pay, rewards, benefits, stability of employment, work time management, advancement options, feedback and influence (Milkovich & Newman 2005; Hakonen, Hakonen, Hulkko & Ylikorkala, 2005, cited in Hakonen, 2012, p.8). De Gieter, De Cooman, Pepermans and Jegers (2008, cited in Hakonen, 2012, p. 8) divide methods of rewards into three groups, monetary, material with monetary value and psychological rewards, such as respect.

Research by Turban & Keon (1993, p. 186) suggests that persons with a high need for achievement, or high trust in their performance, are drawn to pay-for-performance rewards. The results are similar also for employee engagement. According to Trevor, Gerhart & Boudreau (1997) when performance has no connection to the monetary reward received for work it is noted that the high performers are most likely to leave. It has also been noted by Harrison, Virick & Wiliam (1996) that the lowest performing employees are most likely to stay when the connection with salary and performance is minimal.

Lazear (1999; 2000) investigated the connection between pay-for-performance rewards and productivity. He followed US car glass manufacturing business employees for 19 months. During this period, the company shifted from fixed hourly wage into piece rate pay. Results show that productivity grew by 44 percent due to the changes. Productivity was seen to increase in two ways. On average the employee work efficiency grew by 22 percent. The rest of the growth was explained by poor performers leaving the company. The high performing employees resigned the company less during the period, whereas the poor performers resignation rate grew.

3.4. Pay-for-performance

Common for many definitions of pay-for-performance is that it is a monetary reward system, in other words of rewards, the size of which is dependent on the accomplishments of a team, group or an organisation (Miceli et al., 2000). Differing practises exist whether personal rewards belong to pay-for-performance system. Pay-for-performance is not about piece rate pay, nor personal wage determinants, such as experience pay. Pay-for-performance is within the decision power of the employer, and the way it is determined is agreed on beforehand (e.g. Hulkko et al. 2005 pp. 49–50.)

Pay-for-performance is most commonly used within the private sector; about a half of personnel (47 %) was within pay-for-performance schemes in 2008 according to a survey done by the Confederation of Finnish Industries. The least it was used within the communal services. According to Finnish Local Government Employers in 2011 about 15 % of municipalities used pay-for-performance systems and one in ten had received a performance reward. The size of rewards depends on the business sector. On average from 2003 to 2008 the rewards have been 4,9–6,7 % of the yearly income on the private sector and 2,2–3,2 on the communal services field. (Hakonen, 2012, p.12.)

According to empirical research by Thierry (1987), Cox (2000) and the research by Bowey (1980) rewards affect the efficiency of actions the most when personnel are involved in the design process of the reward system. Bowey (1980) also researched new reward systems in 63 companies. The more the management used time in the design of the reward system and hearing personnel on the matter, the more the systems influenced work efficiency.

Hulkko et al. (2002, pp. 25-27) argue that a well-functioning pay-for-performance system creates expected results from which all parties (personnel, owner and the customers) benefit from. Pay-for-performance can be used to guide personnel attention to important objectives and to motivate to better performance. Owner enjoys an improved result. Customer receives the wanted product in time and it matches its purpose better than before. In simple terms, pay-for-performance means that a monetary reward is connected in some way to previously set objectives so that success benefits all parties. The principle is simple but in practice it is a challenge for the designer of a pay-for-performance system.

The greatest challenge in the design of a pay-for-performance system is met in delving into the processes of the system. For the part of the processes, it has to be defined how pay-for-performance related issues are communicated, which instruments are chosen and built, which objectives are set, how feedback is given and how the system is improved? (Hulkko et al. 2002, p 160.) According to Hulkko et al. (2002, p. 11) a functioning pay-for-performance system:

- Creates expected results, for example promotes in part the reaching of important goals and fosters co-operation.
- Is compatible with the objectives of the corporation or the organisation.
- Has the support of all parties, personnel and management are satisfied with it.
- Benefits all parties (personnel, owned, customer).

Kauhanen and Piekola (2004) went on to say that the experience on the justice of a pay-for-performance system affects its functionality. A functioning system incentivizes individuals. Incentives are connected to following factors:

- An individual experiences he or she can influence the results
- Results are measured by units or teams
- Personnel are familiar with the measurement patterns
- Pay level is sufficient and is paid out often enough

- Personnel are included in the design of the system

Only a quarter of pay for performance systems are evaluated as functioning properly, so a conclusion can be made that most corporations do not have sufficient expertise or good communication and feedback systems. (Rantsi, 2016, p. 23.)

Hulkko et al. (2002, p. 47) argue that poorly functioning pay-for-performance systems can hinder sought after development, stop co-operation and worsen the atmosphere. The costs of a pay-for-performance system include rewards, the required effort, and in case of lacking effort the possible negative effects, or opportunities left unused.

According to Salimäki & Jämsén (2010) two key challenges in implementation are the performance review and division of rewards. Distortions in the performance review and division of rewards can be seen as breach of organisational justice or way of office politics.

As written in the work of Meyer (1975 p. 39) merit for pay or pay-for-performance as a basis for compensating employees is widely accepted as a sound management practice. We might argue about the relative importance of pay compared with other rewards, but few will deny that it is a powerful motivator for most people. In fact, the principle of merit pay is so logical that it seems almost ludicrous to criticize it. If two people are hired to perform the same job and one performs at a substantially higher level than the other, surely, he should be paid more for his superior contribution.

To recapitulate briefly the ideas, Meyer (1975, p.49) believes that the basis for most of the problems we have with merit pay plans is the fact that the great majority of people think their own job performance is above average. Even a well-administered merit pay plan cannot give positive feedback to this majority. The consequence is likely to be that the individual's self-esteem is threatened. Too often one copes with such a threat by demeaning the importance of the job or by derogating the source-that is, disparaging the boss or management in general. In addition, merit pay emphasizes the direct relationship between job performance and dollar rewards, thereby detracting from intrinsic motivation in the work itself. A system that would switch the emphasis to rewards for self-development and opportunities for greater responsibility would seem to serve both individual and organizational goals in a more effective manner.

3.5. Group performance determined pay-for-performance

Gerhart, Rynes and Fulmer (2009, p. 258) present three challenges connected to group performance determined systems. Firstly, it is possible that organisations focused on group rewards lose high performing personnel, because they typically prefer their pay to be linked to their own accomplishment. In addition, the motivating effect of group rewards can be minor due to the lack of sight between own accomplishment to the group performance being low. Third challenge are the so-called free riders. All participants of the group are not as likely to put as much effort, therefore some receive a reward for the accomplishments of others.

The multiple empirical studies in the works of Hanlon & Taylor (1991) Hatcher & Ross (1991) and Kaufman (1992) have noted group determined rewards systems to have a positive impact in the performance of the group. Guthrie & Hollensbe (2004) Hanlon & Taylor (1991) and (Hatcher & Ross (1991) also noticed the group performance determined rewards to increase communication within the group about the goals, performance related matters and of development ideas. Welbourne & Cable (1995) found group determined rewards systems to increase wage satisfaction. Wageman & Baker (1997) noticed group accomplishments to improve when the whole group needed to participate to reach the reward. Co-operation improved only when also tasks were intertwined.

Hollensbe & Guthrie (2000, p. 869) argue that in open-goal plans specific performance targets are not paired with incentives; instead, workgroups find themselves in essentially a "do-your-best" goal situation. A long line of goal-setting research pieces on individuals strongly suggests that "do-your-best" goals are less effective in raising performance than are specific, challenging goals.

According to Zander (1980, cited in Hollensbe & Guthrie, 2000, p. 869.) four types of goals can exist in groups: each member's goal for the group, each member's goal for himself or herself, the group's goal for each member, and the group's goal for itself. With no predetermined goals, groups in open-goal plans might set goals spontaneously to allay ambiguity about appropriate performance. As we suggest, this might be particularly true in groups that are small, efficacious, functionally interdependent, and strongly normative. Additionally, when more pay is at risk, pay-outs are frequent, and knowledge of results is timely, conditions are ripe for a goal-setting response.

3.6. Evaluation and improvement of a rewarding system

Hulkko et al. (2002, p. 35) argues that good reasons for improvement of a rewarding system are for example the improvement of its functionality or changes in the strategy. According to Hakonen et al. (2005 p. 34.) the improvement methods of a rewarding system describe the process how a rewarding system is created, how it is changed and how possibly at some point it is let go of. Vartiainen & Kauhanen (2005 pp. 26-27) add to that the design of a rewarding system and its later evaluation and improvement should be subject to review. Hakonen et al. (2005 p. 299) goes on that by reviewing the rewarding system its functionality can be assessed as well as information to be gathered to support improvement. The review can gather information on how the reward system should be improved to increase its functionality.

3.7. Perceived importance of compensation and its connection to motivation

For example, Turban & Keon (1993) and Bretz, Ash & Dreher (1989) argue that people with a high need of achievement or strong self-efficacy have been observed to find pay-for-performance rewards attractive. Trank, Rynes & Bretz (2002) add that cognitively apt persons, performing well in academic studies value a performance related pay high. Yoon & Choi (2015) found out that with people that see extrinsic rewards important, monetary rewards have been linked with creativity. Jurgensen (1978) and Kovach (1992) noted that importance of pay decreases with age. Kovach (1992) and Rynes, Gerhart & Minette (2004) pointed out that pay motivates high earning individuals less.

4. Motivation

4.1. Work motivation, the theory of reflection and meanings of rewards

For example, Pinder (2008) has described work motivation as the person's internal and external powers, which induce work related actions and define its form, direction, magnitude and duration. Theoretically the connection of rewards to rewards and work performance have been explained through multiple motivational theories. Vroom's (1964) expectancy theory suggests that people consider three things: is the reaching of the goal possible, what is the consequence of reaching the goal and is the consequence tempting enough. According to the theory to motivate a person the reward must be clearly connected to the performance and to be tempting enough to each person. The goal setting theory by Locke & Latham (1991) suggests a person reaches the best work performance when they have challenging, clear, comprehensible and acceptable goals, and by reaching of which they are given enough feedback. Rewards can therefore increase motivation by making the goals acceptable and giving feedback of the reaching of a goal. According to the equity theory by Adams (1965, p. 267) a person has a desire to each an equilibrium between their inputs and outputs. Rewards can be motivating by giving feedback of a person's performance against others. Deci & Ryan (2000), and Ryan & Deci (2000b) have taken a more critical approach to the motivational effects of rewards in the self-determination theory. According to the theory a person wants to be internally motivated. In this case the driving force is mainly a need for autonomy, but also a feeling of competence and a need for social cohesion. The theory sees rewards based on accomplishment mainly as external, controlling factor, which undermines person's internal motivation. On the other hand, Gagné & Deci (2005) and Gagné & Forest (2008) suggest that intangible rewards such as feedback and power can strengthen internal motivation.

The chosen approach used is through the reflection theory of rewards by Thierry (1998; 2001), which is based on multiple motivational theories. According to the theory rewards affect a person's motivation and performance through the meanings given to it. There is an idea of a person pursuing for maintaining and strengthening one's identity. It holds an idea of a person interpreting from one's own perspective. The meaning given to a reward is therefore unique. Rewards can be important and hence motivating, if it reflects or conveys a meaning of things held important to a person.

According to the theory of reflection by Thierry (1998; 2001) rewards can hold four types of meaning to a person. It can have instrumental meaning in reaching a goal seen as important, it can be a tool of feedback of work performance in relation to the goals or colleagues. It can be an expression of power at the workplace. Additionally, money can have a consumption meaning, linked to well-being.

4.2. Motivation theories in understanding the effectiveness of compensation

Most used theories in this respect are theories of expectation, equity, goal setting, internal motivation and reinforcement theory. (e.g. Bartol & Locke, 2000; Gerhart & Rynes, 2003; Jenkins et. al., 1998; Thierry 2002)

From the perspective of at least three theories, rewarding has been seen as something that cannot affect person's behaviour in a positive way. These theories are Maslow's (1943) hierarchy of needs, motivation-hygiene theory by Herzberg et al. (1959) and the theory of internal motivation by Deci and Ryan (1985). The oldest of these, Maslow's hierarchy of needs suggests that the lowest levels of physiological and safety needs can be satisfied with money. After these have been satisfied, an individual would pursue the needs higher in the hierarchy such as self-actualisation. The theory suggests the higher needs will be fulfilled in the working life through meaningful tasks, instead of monetary rewards. (Rynes et al. 2005). Even if the theory is old, many other theories and beliefs are still based on it.

Herzberg's motivation-hygiene theory concentrates on things that create satisfaction or dissatisfaction. (Herzberg et al., 1959) The theory specifies things that can either support motivation and create satisfaction and on the other hand things that are hygiene factors. According to the theory monetary reward is a hygiene factor that can cause dissatisfaction or be neutral at best but cannot promote satisfaction or motivate. Also, the theory on internal motivation by Deci and Ryan (1985) considers rewards as an issue not able to affect individual's motivation in a positive way. In fact, it can decrease internal motivation if it is seen as an external controlling mechanism.

Nevertheless multiple empirical studies have shown monetary rewards to increase individual's work performance, or at least increase its efficiency (e.g. Austin et al., 1996; Guzzo et al., 1985; Jenkins et al., 1998; LaFleur & Hyten, 1995; Stajkovic & Luthans, 1997; Thierry, 1987).

4.3. Expectancy theory & Goal setting theory

Expectancy theory was developed by Viktor Vroom (1964). The main idea of the theory simplified is that a person is motivated of a task, when they believe they can deliver the task, they believe they are rewarded of it and they see the reward as tempting. (Pinder, 2008) Three factors steering a person's actions in the theory are expectancy, instrumentality and valence. It is a motivation theory, in which people are seen as rational, considering actors, who choose between different modes of behaviour. According to the theory a person's actions are not guided by universal needs common to us all, but every person acts on his or hers own, individual capabilities and values.

According to the goal setting theory goals and intentions define a person's actions (Pinder, 2008, cited in Hakonen, 2012, p. 33). In this respect goals can be understood as things a person is trying to achieve. In work life they can be for example a level of performance or keeping with a deadline. Intentions on other hand are a person's perceptions of planned actions (Pinder, 2008, cited in Hakonen, 2012, p. 33).

According to the goal setting theory (Locke & Latham, 1991) a person's motivation and performance are at best when the goals are challenging, precise, accepted and the person is given feedback on the progress. The theory suggests that challenging goals lead to a better performance than easy goals. However, the challenge of a goal is beneficial to performance if a person has enough knowledge and skill to perform the given task. If the task is complex and new, challenging goas are not any better to self-set or ”do your best” type goals. (Latham & Locke, 1991; Locke, 1996) Participation in setting of the goals or self-set goals are a proven way of building commitment to the task. (Locke, 1996) Goal setting promotes work performance most when a person is given feedback on how they are performing. (Locke, 1996) Rewards, such as money or feedback, has no effect on performance, if it does not lead to setting precise and challenging goals or a commitment to those (Pinder, 2008, cited in Hakonen, 2012, p. 34).

Goal setting theory is seen as one of the more carefully developed theories. The hypothesis has been empirically widely tested and it is seen as well functioning (Pinder, 2008, cited in Hakonen, 2012, p. 34)

4.4. Internal motivation & Equity theory

Internal motivation refers to a person doing something because the task itself in interesting and performing of which creates contentment. External motivation on the other hand means that the action has an instrumental goal such as reward, a praise or avoiding a punishment. In such cases satisfaction is not from the action or the task but rather from the external consequences. (Deci & Ryan, 2000; Gagne & Deci, 2005) Simplified, internal motivation can be described as actions a person is pursuing not for the material or social rewards, but for the joy of the task itself.

Equity theory is one of many theories that deal with organisational justice. Usually justice is divided into three types: the justice of distribution, of policies and of interaction. The equity theory by Adams (1965) is a widely used theory of just distribution, that has also been considered as the most clear theory on the subject (Heneman & Werner, 2005) and one of the most useful organisational theories in explaining human action. (Ambrose & Kulik, 1999.) Equity theory is built on three main presumption (Pinder, 2008). First, individuals form an opinion on what is a fair and reasonable output for one’s work input. Individuals also compare these outputs to the outputs of others. Third, when an individual feels that the treatment they receive, their output to input relationship, is not in line with the treatment of others, they are motivated to change the situation.

Equity theory is not but a theory of organisational justice, but a motivational theory also. The main idea of the theory is, that an individual seeks to reach an equilibrium in one's output to input relationship in comparison to one's peer group. A feeling of inequality creates a dissonance as described by Festinger (1962), a tension, that motivates the individual to act to reach an equilibrium.

4.5. Reinforcement theory

According to reinforcement theory functional activities of an organisation should be reinforced with rewards. When a person is rewarded for one's actions, they seek to duplicate the performance in the future. The more clear a sought after performance is defined, the faster a reward is received after finishing a task and the more fitting a reward is to the performance the more clear the relationship of a reward and the actions is to a person. (Heneman & Werner, 2005.)

Rewarding from the perspective of reinforcement theory has been empirically studied by for example Frisch & Dickinson (1990); Dickinson & Gillette (1993); LaFleur & Hyten (1995) and Austin et al. (1996). These studies have found rewards to increase efficiency. The studies have received criticism for example from Heneman & Werner (2005) about the short span of the studies when long term effects cannot be known. The studies have also been accused of choosing one sided measurement instruments and focusing on easily measured quantities, and of choosing students as subjects.

4.6. Summary of motivational theories

Expectation theory highlights the instrumental meaning of rewards, in other words rewards facilitate reaching things important to oneself. Goal setting theory adds to it that rewards can give feedback to a person of how they have performed. Theories of justice, especially the equity theory by Adams, emphasises that rewards communicate of a person's status in relation to the goal and one's peers. The theory on internal motivation highlights that people act from personal perspectives so that they feel in control of their own actions. Rewards can be felt as an external control, therefore leading to diminishing internal motivation. According to reinforcement theory actions and choices need not be conscious choices, but they might be controlled by the end goal, the reward.

4.7. Reflection theory on compensation

4.7.1. Introduction

Henk Thierry (1998; 2001; 2002) developed the reflection theory on compensation. His goal has been to create theory aimed on compensation so that the meanings of rewards could be better understood, and how rewards affect a person's work performance. Thierry has developed the theory in his writing for over ten years. Empirical studies on the development and presumptions of the theory are few and mostly in Dutch. The thesis uses only material and studies done in English.

The background of the theory is of a person seeking to hold and reinforce one's identity (Thierry 1998; 2001). The idea is of a person interpreting from one's own perspective. In compensation and rewards this means that rewards do not make a difference per se, but the meaning is derived of the reward communicating things thought of as important to the person.

The theory of reflection is based on multiple theories, the most central being the expectation theory, goal setting theory, equity theory, theory of internal motivation and reinforcement theory. Thierry has wanted to combine the ideas of multiple theories in order to understand the meanings of reward to an individual and the effects it has on satisfaction, motivation and performance.

4.7.2. The four meanings of compensation in the reflection theory

The model of reflection theory is based on a presumption that rewards have an impact on an individual's actions and salary satisfaction through the meanings they have. According to the reflection theory rewards can have four types of meanings (Thierry, 1992; 1998; 2001; 2002).

1. Rewards have motivational properties if they facilitate acquisition of things seen as important to oneself. Rewards can have motivational properties to an individual for example when they need more security in life and the

reward is used to pay for insurance. This meaning is based on expectation theory (Vroom, 1964) and on a modified idea by Lawler's (1971) of the instrumentality of rewards. Meaning that a person considers if the outcome of reaching the target is tempting enough. If it is, the reward would motivate to reach the target. Additionally, Thierry utilises reinforcement theory, according to which a person's activities and choices do not need to be conscious but are led by the experienced outcome of the activities. The idea seems a little weak as Thierry claims that the meaning of rewards is created by a person's interpretation.

2. Rewards can have a relative position. The meaning refers to two central qualities of feedback. Reward can have a meaning, if it gives feedback on how a person has managed to reach the targets in one's work. Second, it can give feedback on how well the person has performed in relation to one's peer group. The basis for relative position is the felt justice of the basic exchange of work, employer receiving a work effort, employee a payment. Theories behind the meaning are goal setting theory by Locke & Latham (1991) and equity theory by Adams (1965). On the basis on goal setting, the reward has a meaning if it gives feedback on how a person has performed compared to one's goals. From the perspective of equity theory, the meaning is formed from a comparison to others, reward can give feedback on how a person has performed compared to others.

3. Rewards can have a control meaning if it is a signal of power of the person within the organisation. Thierry explains that work performance is hardly dependent on the person themselves, but from multiple factors. By control Thierry refers to the person's status in the organisation, autonomy on one's own work and chance to influence the work of others. According to Thierry (1998) the meaning is based on theory of internal motivation by Deci and Ryan (1985), a reward has a meaning if it supports a person's feeling of autonomy and competence.

4. Reward has a meaning if it helps a person to increase or support one's wellbeing by acquiring desired products and services. Therefore, the

fourth meaning is spending. Thierry (1998) explains the spending meaning to be somewhat overlapping with the first motivational property meaning. However, the motivational property meaning is in a future tense, dealing with opportunities and plans, whereas the spending meaning refers to the past, to the experience what the reward has made possible to acquire. It could be argued that the spending meaning is of more importance when resources are scarce. The spending meaning as well is based on the expectation theory.

4.8. Model of reflection theory

Thierry (1998, 2001) proposes a model (figure 2), in which the basic idea is that reward affects a person's motivation, performance and (pay) satisfaction through the meanings it has. According to the model the rewards system, one's qualities and knowledge or the experience of the rewards system have a strong impact on the creation of a meaning and therefore to the consequences. This model is known as the nuclear model of reflection theory.

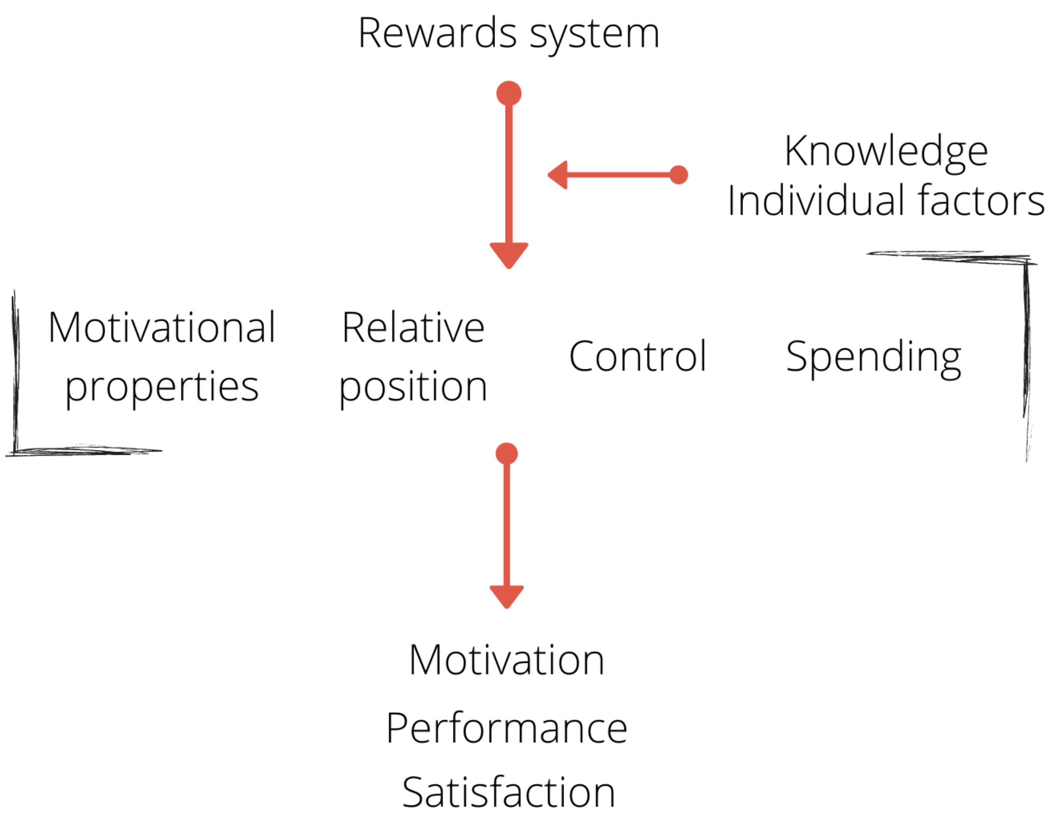

Figure 2 – The nuclear model of reflection theory (Thierry, 1998)

According to the model rewards have no effect unless they have a meaning to the recipient. On the other hand, the more meaning it has, the more it affects. Individual factors, especially knowledge and experience have a central role in the model. The presumption is that the rewards system has more influence if a person has knowledge of it. (Thierry, 1998; 2001.) There are only a few empirical studies based on reflection theory. Most of the research are in Dutch theses and articles. Thierry (1998; 2001) has published results of studies in his works, but there is no further data on how the studies were made. There is a clear need for empirical studies on the presumptions of reflection theory.

5. The research question

How to create a rewards system that effectively motivates cabin crew to sell?

Currently I am working as a cabin crew member in an airline. Working as cabin crew I have had discussions about current attitudes towards the inflight sales and rewards systems. However, this is not valuable for the thesis but does give me insight and direction on what could work and where the problems might be.

In this study my aim is to draw conclusions on the earlier works on the theory on rewards systems, motivation and lastly through the reflection theory on rewards, which combines the two.

6. Analysis

6.1. Autoethnographic approach

The chosen approach style is an autoethnographic approach in a confessional style. Adams, Jones and Ellis (2014) explain autoethnography as a research method that uses personal experience (“auto”) to describe and interpret (“graphy”) cultural texts, experiences, beliefs, and practices (“ethno”). When we do ethnography, we observe, participate in, and write about a culture and/or a cultural experience. We enter the cultural “field” for an extended amount of time, take “field notes” about our participation, and interview cultural members (“insiders”) about their experiences, thoughts, and feelings. Typically, ethnographers’ approach cultural communities inductively, allowing observations to guide what they write, that is, their “findings.” (Adams, Jones and Ellis, 2014) As I worked as a cabin crew member for two and a half years, I gained a lot of valuable insight in the culture and attitudes of cabin crew. As I am looking to use my own perceptions of the culture and attitudes in the work the chosen approach style is confessional. Van Maanen (2010) describes confessional writing as the ethnographer opting for a personal style, presenting emotional reactions, unexpected occurrences, and one’s own expectations and experiences of the fieldwork.

I am looking to connect ideas of past presented research to the personal experiences within the focus group to suggest what and why a certain style of rewards would bring a result.

My personal experience in the culture are of a single large airline that operates multiple types of aircrafts from short domestic routes to long overseas and far east routes. The company has more than two thousand cabin crew members. I have actively been participating in the culture for two and a half years as an employee.

6.2. Nature of work

In daily work the employees, the cabin crew, work in an isolated environment in the aeroplane. Each member of crew can have role specific tasks that can be different from flight to another. Also, there are several routes and types of service standards depending on the aircraft type and the duration of the flight. On every flight there is a nominated head of the cabin crew working as the overseeing person on the flight. These are some distinctive matters that affect how a rewards system should be developed and implemented.

Whatever the style of the reward system will be, an issue that is common to any style is the level of base pay and the development and implementation of the reward system. An adequate base pay creates the foundation for a satisfied and motivated employee. The theory on reward systems as well as the reflection theory on rewards agree that including the employees in the design of the system increases its effectivity (Thierry, 1987; Cox, 2000; Bowey, 1980). The theory stresses that if employees are included in the design process, they should have real decision-making power. Only an apparent inclusion can create further frustration.

By definition of Hakonen et al. (2005, p. 275) rewarding can be seen as functional when it fills three criteria:

- It is in line or compatible with the objectives of an organisation
- It has wanted effects
- The management and the personnel see the system as good.

In developing a reward system, the company needs to assess what are the factors that fill these three criteria the best. From the perspective of the study the wanted effect to highlight is an increase in ancillary sales, revenue and profit.

To structure the analysis, I have chosen three simple reward styles which I am considering the pros and cons of in relation to reward and motivational theories. The chosen reward styles are a share of personal sales, a share of total sales of personal flights or a share of sales on all flights.

A share of personal sales could mean paying out a certain fixed reward after reaching a certain sales step set by the company or paying out a certain percentage of the sales to the crew member. The type of reward can motivate a person as it has a direct connection to one's own effort and the line of sight of own accomplishment to the reward is clear. If the reward is tied to certain steps to reach, the reward could be seen communicating each four of the meanings in the reflection theory on rewards. Clear spending and motivational property meanings through the monetary value it has to the person. It can be a sign of feedback by signalling a reached goal and a job well done. The reward and reaching of the higher set goals could increase a person's feelings of competence and autonomy, communicating the control meaning.

From an experience perspective within the culture a personal reward seems problematic. Due to multiple factors out of an employee's influence. On shorter routes the chances for sales are fewer than on a longer route. Holiday type flights have better sales than routes that business travellers are more frequent on. An employee cannot affect the types of flights he or she gets during a month. Also, the tasks are different. While one is taking care of sales of drinks, food and tax-free items, another employee needs to take care of tasks in the galleys or finish up dinner service in another class. Therefore, not each employee has an equal opportunity to sell. As argued by Ahokas et al. (2011) a well-functioning reward system needs to be just to work. Each employee not having an equal opportunity is against the idea.

The second type of a reward could be a share of total sales of personal flights. Meaning the sales under review would be from the flights the employee has worked on, but the measurement of sales would consider the efforts of the whole crew working on the flight. Essentially, this would be a group performance determined pay-for-performance system. Presented by Gerhart, Rynes and Fulmer (2009) there are possible pitfalls to such system: losing of high performers, lack of sight between own accomplishment to the group performance and the free riders. On the other hand, it is a system which is more just in the sense of equal opportunity. Still it cannot address the issue allocating different types of flights, long or short, leisure or business, equally. Theory also suggests the group performance determined rewards to increase communication within the group about the goals, performance related matters and of development ideas (Guthrie & Hollensbe, 2004; Hanlon & Taylor, 1991; Hatcher & Ross, 1991). This would be beneficial for the company to increase cooperation within the crew in all matters related to the flight and work.

Third type of a reward style could be a share of sales on all flights. This system would also be a group performance determined pay-for-performance system. The group would now be the whole cabin crew personnel of a company, instead of a crew of a single flight. The issues of equal opportunity to sell on a fight and the division of the types of flights is addressed by the system. As the size of the group grows very large, the line of sight for own accomplishment to the group performance is very low.

From the meanings the latter two systems of rewards could be seen as having are the same, mostly spending and motivational property meanings. They can communicate the relative position meaning by giving feedback on successfully reaching a certain set goal. If the company chooses to publish the best performing crews on flights, then the meaning of relative position would be strengthened as it communicates the performance in relation to others.

7. Conclusion

To ensure the entire salary system works the company should investigate that the base pay system is seen as satisfactory by the employees to begin with. After it is made sure the base pay is up to the expectations and industry standards, a reward system can be utilised to focus the employee efforts in line with the company strategy. The theory suggests the employee participation in the development of the reward system is a way to increase the probability of the system to be accepted and committed with.

Each of the three styles of reward systems has its pros and cons on a spectrum of having a line of sight of one's actions to the goal and being equal in sales opportunities. A company could opt a hybrid system where they could utilise some of the strengths of another system while alleviating the problems it has with another. In essence having a personal reward and also a group reward. Then a decision must be made on the size of the reward in each style, which then affects how powerful impact and meaning each system has.

The problem of justice of equal opportunity of a pure personal reward system is quite significant. Having such system could create animosity among crew on working positions on a flight, possibly even affecting the most important aspect of a flight, the safety. To ensure safe operations communication and teamwork are necessary. Therefore, my suggestion is to have the "share of total sales of personal flights" -system in combination with a reward of total sales within the company. This would ensure a line of sight to the reward, having equal opportunity to access sales, while minimising the difference in equal opportunity of difference in type of flights. The theory suggests that group performance determined pay-for-performance system increases communication, possibly having a positive impact on flight safety.

Finally evaluating if the system is delivering the wanted results on the chosen metrics, be it for example revenue, employee retention or satisfaction, is important also. If the system does not work in the desired way, then further research and development should be made to change the system for better results.

8. Discussion

8.1. Limitations

Greatest limitations to the work have been time, chosen research style and scope. To increase the value of personal experience in the culture, a fieldwork notebook would offer more credible material than relying on personal, non-recorded, experience. With more resources and with a cooperation of an airline, interviews or a questionnaire could have been conducted to have more definitive answers. The chosen reflection theory on rewards is precise for the subject but does not have a large amount of research on it, especially in a language other than Dutch.

The thesis is relying heavily on past works so the relevance and validity of chosen sources is also an issue. For the reward section of the work Finnish works were used to guide the process. For the motivation section however, the original works of the developers of each theory were preferred.

8.2. Further research

The thesis offers an insight and a base for further research within the field. To confirm some issues and ideas raised by the work further research could include interviews with cabin crew members from different companies, or a questionnaire for cabin crew. The thesis can then be used as a source for creating a relevant questionnaire.

To have more definitive answers to proposed ideas, further research is required. Questionnaires within a company or extensive interviews to gain insight on the experiences of staff and management on current state of reward systems. It would be of value to see how the suggested ideas would be received and interpreted by the employees if the supposed meanings are also felt by the cabin crew.

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