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**An investigation and analysis of U.S. restaurant tipping practices and the relationship to  
service quality with recommendations for field application**

by

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May 2001

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## PART ONE

### **Introduction**

Restaurant tips are meant to be rewards or incentives for good service. Tips are voluntary additional payments for a service and are common in restaurants that offer the traditional table service, where the server interacts with the client extensively. In fast food restaurants there are often tip jars at the counter, but there is a far lower expectation of tips due to the more impersonal service. There is no law that compels a customer to tip an employee and therefore a client will tip when and however much he or she wants. For the same reason, servers should not serve customer with the expectations of receiving tips. The relatively undefined roles of the tipper and the tippee make the tipping phenomenon an interesting area of investigation (Azar, 2003).

### **Purpose Statement**

The purpose of this study is to investigate the relationship between tipping and service quality in restaurants. The central question is to find out whether tipping and service quality is correlated through literature review. The purpose of this study is to answer the research question and make recommendations for field practice accordingly.

### **Justification**

Tipping is not obligatory, and yet for many reasons, customers tip. One of those reasons is widely accepted to be incentive or reward for better service. This raises the questions of whether the tip indeed affects the quality of the service and to what extent service quality is dependent on tips. The answers to these questions may prove beneficial to customers who may tip differently according to the affect the tip has on service, and servers who may provide a different level of service according to how correlated service and tips are.

## **Constraints**

In conducting this research, some constraints may include validation by the limited relevant research and answering only the specific research question posed in order to do so thoroughly, when this human phenomenon does not exist in a vacuum and begs many more questions at every stage.

## **Glossary**

**Tipping:** to give a gratuity to (Merriam-Webster's)

**Service Quality:** Reliability: ability to perform the promised service dependably and accurately.

Responsiveness: willingness to help customers and provide prompt service; Assurance:

employees' knowledge and courtesy and their ability to inspire trust and confidence; Empathy:

caring, individualized attention given to customers; Tangibles: appearance of physical facilities, equipment, personnel, and written materials (Zeithaml, Bitner & Gremler, 2006:116).

**Equity:** justice according to natural law or right; specifically: freedom from bias or favoritism; something that is equitable (Merriam-Webster's). In the context of this study, equity is an exchange of equal value of quality of service and tip

**Incentive:** something that incites or has a tendency to incite to determination or action (Merriam-Webster's). In the context of this study, incentives motivate servers to provide better service.

**Reward:** something that is given in return for good received or that is offered or given for some service (Merriam-Webster's)

## PART TWO

### **Introduction**

One of the most important aspects in the restaurant business is the creation of quality service satisfaction to customers and the continuous improvement of services. This section relates to the history and the historical development of tipping in restaurants and the possible motivations for tipping. Though tipping is done in many other professions, e.g. taxi drivers, around the world, the scope of this literature review and study encompasses tipping and service quality in the U.S. hotel and restaurant industry.

### **History of Tipping**

Tipping in the restaurant business is a very interesting and complex phenomenon. Although it is not clear how tipping originated, one form of tipping has been traced back in the nineteenth century where it arose from the practice of using boxes labeled “To Insure Promptness” which were placed in the English coffee houses and inns. The label “To Insure Promptness” was abbreviated as “TIP.” Customers contributed to these boxes to ensure efficient and quick services (Lynn, 2003). Another form of tipping developed in Tudor England’s homes where visitors paid hosts’ servants for their extra effort in accommodating them. This tipping custom spread throughout Europe, chiefly in areas with a servant class. This went on and on and by the seventeenth century tips were accepted and even expected in more European establishments. However, since America did not have a servant class, this did not take off in the U.S. until the late 1800s, whereby affluent Americans who had travelled to Europe started tipping as a way of showing that they were familiar with European customs (Azar, 2004).

Europeans who travelled to American in the nineteenth century were amazed that there was no tipping in the country's restaurant industry.

Unskilled laborers especially black slaves are often thought to be the source of the spreading of the custom of tipping because they were primarily the recipients, supplementing their low earnings. This was met by fierce opposition at first for fostering a master-servant relationship in a nation where people were meant to be social equals (Lynn, 2006). It was so serious that it led to seven states between 1909 and 1918 to pass anti-tipping laws (Lynn, 2006). Opposition to tipping came from the media, salesmen, and even labor unions. However, these laws were repealed by 1926 as tipping became an accepted norm.

Eventually, business owners lowered the wages of their employees to the point where tips were required to supplement their income. Consequently, people became accustomed to tipping to ensure the livelihood of the service industry's employees. Today, tipping in the increasingly service-oriented American culture has become almost ubiquitous in the restaurant industry. Tips amount to an estimated \$42 billion annually (Azar, 2003).

Tips are intended to be an incentive or a reward for good services offered. In the restaurant businesses it is difficult for management to monitor and control the service servers provide leaving the customers and the tipping institution the task of quality control. It is also believed that customers are in a better position to appraise the servers than the restaurant managers because they are in constant touch with the servers.

Managers exploited the existing of tipping by lowering the wages of servers (Azar, 2003). Tipping started as a sign of gratitude and status, became an incentive, and finally a norm with far less connection to anything besides behaving in a socially acceptable manner.

At this point, servers in the U.S. expect that the client will tip a 15% to 20%. In addition, servers are expected to report their tips to the Internal Revenue Service (IRS) to be taxed. The IRS also provides measures through which the taxes are tracked on a daily basis for taxing purposes.

It is important to take into account that some hotels in the U.S. include the tip in the price and indicate that on the menu. Tipping this way is more common for large parties. However, customers still commonly tip servers even if the service is already charged with the argument being that tips which are in the form of service charge rarely get to the server. Tips these days are meant to be a reward for a service and if customers do not have discretion, as when the tip is included in the price, they lose this leverage. Another reason for tipping on top of a price with the tip included is not realizing that the tip was included (Walster, Berscheid, & Walster, 1973).

Tips are either included in the credit cards or given as cash with most people preferring to give cash tips separately from the paying the bill. To this point tipping after the service has been provided has been reviewed; however, in the U.S. restaurant industry there is another form of tipping called “advanced tipping” (Azar, 2003). Other forms of tipping include; tipping in form of gifts and bribery tipping. In all of these cases the question remains, how does tipping amount affect customer service satisfaction? What are the primary motivations now for tipping?

There are various reasons as to why people leave a tip with no legal obligation of doing so. However, there is one major reason which is for better future services. Other reasons for tipping include the embarrassment that result from stiffing, empathy for the one giving the services and the desire to conform to social norms. Many studies have shown that there is a relationship between evaluations of service quality and the tip size, however, these studies have used between subjects, co-relational designs meaning that the observed relationship could be due

to stable dispositional differences among tippers which affects the service quality or rather to service ratings and tip sizes. Other studies have shown that tipping improves service quality; however, the extent of improvement varies between occupations. Most of these studies have not been published and the ones already published are included in the academic journals that restaurant managers rarely read.

Economists theorize that tipping is the most effective way of providing service workers with reward or incentives that enhance their performance (Conlin, Lynn & O'Donoghue, 2003). Some restaurant managers view it as a management tool which motivates their workers to deliver high quality service to their customers. It also measures the workers' performance—more and higher tips indicates better service—and identifies dissatisfied customers—low tippers. Studies have shown that tipping frequency and size may be related to the service quality offered to the customers. This study, therefore, aims to research the exact relationship that exists between tipping and service quality in the restaurant businesses.

Economists further believe that tipping integrates three major economies that are social economics, labor economics and behavioral economics (Azar, 2003). When people tip to avoid the social embarrassment that results from not tipping, then tipping is said to exert its influence in social economics through people conforming to social norms. Through tipping, many people in the U.S. supplement their salaries through the tips they are given by clients and thus tipping can also be analyzed in a model of labor economics. Additionally, studies have shown that people tip in order to show off or to buy social approval. This falls into a behavior economics model (Azar, 2003).



## **Restaurant Tipping in the U.S.**

Tipping in the restaurant industry is important to the U.S. economy. Millions of the U.S. workers derive most of their income from tips (Council of Economic Advisors, 2002). It is approximated that out of the 21 million people in the U.S. who eat out daily at full service restaurants, 98% leave a tip (Council of Economic Advisors, 2002).

The process of deciding how much to tip is a critical part of the current investigation addressing the research question of how tipping affects service by looking at both whether and how much customers tip and the motivations for each. In the U.S. the tip is usually calculated as a percentage of the bill. For instance 10% to 15% of the total bill may be the tip amount. If a client's bill is \$50 dollars, the tip amount will be  $(10\% * \$50 = \$5)$  or  $(15\% * \$50 = \$7.50)$ . In this case the tip amount will range from \$5 to \$7.5 and the client will end up paying a total of \$55 to \$57.5.

Tipping calculated as a percentage of the bill raises the issue of waiters recommending meals which he or she knows are highly priced so that when the tip percentage is calculated, the amount will be higher. In this way, servers may end up taking advantage of the client. This practice also serves the restaurants interests as higher bills equal higher revenue. Tips also tend to lean towards the higher end of the range in more up-scale establishments irrespective of the quality of the service, giving those servers an earnings advantage (Kwortnik, Lynn, & Ross, 2009).

The tip may be calculated as a percentage of the bill before or after tax (Council of Economic Advisors, 2002). When tip amount is calculated according to the bill including tax, the server is still expected to report the tip amount for it to be taxed by the IRS. With most tips that are given to servers in the restaurant being a discrete matter between the server and the

customers, many times the tip amount goes unreported bringing us to another issue of tax evasion where servers who do not report the tip ends up evading paying taxes. When a tip is given after taxes, the tip amount is taxed and then again if a server reports the tip amount bringing about issues of double taxes.

### **Possible Factors That Influence Tipping Amount**

There are various aspects that are related to the size of the tip offered in any particular table or meal. These include the type of restaurant, number of courses ordered, alcohol consumption, food ratings, gender of the server, and gender of the customer, server appearance, group size, wait-to-serve service rating, and time of the week. Gender of the server has been a particular research interest in several studies. This effect is far more pronounced amongst female servers.

While attractive female servers earn more in tips than their average-looking counterparts, the same cannot be said regarding male servers. No significant difference between the tip earnings of attractive male servers and attractive female servers has been found.

#### **Race.**

The influence of appearances on tips may also be race-related. With a restaurant that has predominantly white clients, a black server may receive a smaller tip or no tip as compared to a white server and vice versa regardless of the quality of service (Lynn, 2008).

Racial prejudices can influence tipping practice from another direction entirely. In investigating whether members of minority groups tip in smaller amounts, Koku (2005) questioned whether stereotypes of minority groups as “cheap” have become a self-fulfilling prophecy. Servers who buy into such stereotypes lower the quality of their work, and then receive the smaller tip they anticipated in return for the shoddy service. It can be difficult, or

even impossible, to pinpoint the start of this self-perpetuating cycle, and evidence on both sides is largely anecdotal and therefore insufficient to prove any hypothesis. However, Lynn's research into the subject indicates that a small to average tip size among minority patrons may be largely due to a lack of awareness of the conventional 15% to 20%, and that education could "eliminate the difference between races in restaurant tipping" (Koku, 2005, p. 448).

Koku's study polled 245 MBA students above the age of 21 about their tipping propensities in service industries outside of the restaurant industry. Results indicated that there is no substantial difference between the tipping habits of Whites and non-Whites, nor are there any substantial differences amongst non-white racial groups such as Blacks and Hispanics (Koku, 2005). Koku suggested that these results should encourage high quality service for all customers, since it appears that when well-treated, minority customers tip just as well as white customers, and that Lynn's research was correct in attributing the difference within the restaurant industry to unfamiliarity with tipping conventions, which do not exist outside the restaurant industry.

### **Credit cards.**

Studies have shown that customers who pay their bills via credit card tend to leave larger tips (Koku, 2005). In one study, "diners who charged their lunch" leaving "substantially larger tips" (Garrity & Degelman, 1990) of 22.6%, versus the 15.9% rate of those who paid cash. The researchers also acknowledge that numerous factors remain to be tested in server-customer interaction.

This has been attributed to psychological factors, rather than to any quantifiable and controllable element of the server-customer relationship. The tendency seems to be that paying by way of credit lessens the sting of parting with one's money, and allows for a greater generosity when it comes to the tip.

## **Day.**

The time of the month and week also affects the tip size. For instance, on a busy Saturday afternoon when most people are out of work and are busy relaxing, it is very hard to get restaurants which are not crowded. Servers too are busy and when a server takes his or her time to serve a client, the client can consider the server's dedication in the amount of tip. During week days, restaurants are not crowded and servers therefore do not struggle to please their clients as their attention is not divided.

During festive seasons for instance Christmas, clients tend to tip more. Festive seasons are times when people show appreciation and therefore clients tend to tip more to show that they appreciate the servers (Bodvarson, & Gibson, 1994).

## **Demeanor and first impressions.**

Servers' attitudes also contribute to the amount of tip that a client will offer. For instance, a client who have had a busy and a rough day at work may appreciate more a waiter or waitress more if he or she is warm and friendly. Servers with a smiling face and polite manner are likely to receive a larger tip than one who is rude. Other gestures that have proven effective include touching the patron and "[squatting] next to the table when interacting with the patron" (Koku, 2005, p. 446).

A 1990 study of 42 two-person parties in the same California restaurant demonstrated the importance of the first contact between server and customer, and the behaviors that the server can exhibit in order to positively influence the tip that the customer ultimately leaves. In this study, the restaurant was set up buffet-style, and customers all paid a flat rate; party size and the final bill therefore had no bearing on the outcome. The server introduced herself to 21 of the diners and asked them if they'd ever eaten in the restaurant before; she greeted the other 21

diners with nearly identical wording, but neglected to introduce herself by name. Diners in the first group left tips of 23.4%, while diners in the second group left tips of 15%, a statistically significant difference. Additionally, the researchers suggested that the server introducing herself by name acted as a social cue for her customers, and signaled to them that the restaurant was of a class whose servers would be likely to expect tips.

### **Summary.**

Overall, eight salient factors are shown influencing participants' tipping habits, according to a 1999 study: "[Type] of restaurant, cleanliness of restaurant, atmosphere of restaurant, friendliness of the server, server gender, quality of service, quality of food, and size of bill" (Rogelberg, Barnes-Farrell, & Creamer, 1999, p. 251). These factors account for 80% of the tipping decisions for almost half of the study participants.

Further analysis of the results of the study produced 11 different approaches to tipping amongst participants, each one lending differing amounts of weight to the eight essential factors already determined. The most common approach showed a heavy reliance on bill size as the highest priority if not to the exclusion of the other seven factors. At the other end of the spectrum, and far less common, are those who rely solely on service quality-related factors, an approach more common among those who eat out frequently. Five of the 11 approaches are based strongly in food-quality factors—and, indeed, food quality seemed to be more of a factor in the tipping of service staff than service quality or friendliness overall—this in spite of the fact that food quality is “a variable out of the immediate control of the waiter/waitress” (Rogelberg et al., 1999, p. 259).

However, those who take the same approach to tipping still vary widely in the magnitude of the tips that they leave. One third of the participants in the study polled at a hypothetical

average rate of less than 10% over the course of over 80 dining situations; almost 61% tipped between 10% and 15%; less than 10% tipped more than 15%.

The conclusions of this research can have implications for service staff and the quality of their work. Although tipping approaches do often appear to be out of their hands, an analysis can be made of how tips vary when bill size is constant, as in the case of Koku's buffet study. The results would not be conclusive, however, considering how many factors might influence a customer's tipping policy and how variable tip size can be.

### **General Issues on Tip Amount**

In restaurants where the tip is included in the bill, it is harder to draw conclusions about how the quality of the service affected the tip—in this case adding no additional cash tip is not as indicative of dissatisfaction as it would be if no gratuity was included with the bill. The latter scenario, though not the norm, should be considered. Bad service may be met with no tip (Lynn, 2003).

As the trend continues toward tipping exclusively according to tipping as a percent of the bill, the fluctuation in tips will be far less reflective of the service. There is evidence to support that tipping should be left more to discretion for an overall better result (Azar, 2003).

A low tip may not have to do with any of these factors including service quality and bill total, but rather, a reflection of the customers' belief that servers should not be rewarded for doing their job. Some customers expect the employer to pay the workers a fare wage and resent being expected to supplement that amount.

## **Tipping As Social Norm**

Social norms refers to the social attitudes of disapproval and approval, particular to what ought to be done and what ought not to be done (Conlin, Lynn, & O'Donoghue, 2003). For instance, when dinning with friends who are used to tipping servers, a person will feel obligated to also tip the server because his or her friends have done so. The dynamic of the social norm is such that people seek social approval of their friends and the waiters and waitresses. This explains why people give tips even when dining alone to avoid embarrassment. Where tipping is not a social norm people are not embarrassed for not tipping like in Japan (Margalioth, Saporiti, & Coloma, 2010). The same explains why people in the U.S. do not tip flight attendants even though they provide similar services to those offered in restaurants; tipping flight attendants is not a norm (Conlin et. al, 2003).

People abide by social norms even though they cannot be enforced directly through social sanctions although they are likely to encounter disapproval from peers. They are aware that even if the service component is not included in the bill, it is not meant to be free. The tip is not only an indication of the quality of the service, but that service was provided at all. Servers are expected to provide service however, even if no tip is expected.

The extent to which tipping in the U.S. has become a norm is evident when considering relevant tax law. An estimated \$26 billion is generated by the restaurant industry in U.S. before tips—that number jumps to \$42. In the case that tipping was not considered, to say that the U.S. economy would be affected would be an understatement; it would experience disequilibrium (Anderson & Bodvarson, 2005).

During the financial year ending in 2009, the federal government posted a total of \$2.1 trillion dollars in taxes. According to the Council of Economic Advisors (2002), tax tips from all

industries where the norm is practiced amounts to an estimated \$42 billion, or 20% of the total tax revenue in the financial year ending 2009. Tip taxes from the restaurant industry alone contribute about 12.38% annually (Council of Economic Advisors, 2002).

### **Tipping Efficiency**

The practice of tipping gives room for customers to provide incentives to servers since it is in the customer's interest more than the restaurant's that the servers perform, and the customers are in a better position than the restaurant managers and owners to monitor and reward servers accordingly. The customer can directly reward the server for a service well delivered. Service quality monitoring is quite expensive to the restaurant managers and owners but to the customer it is practically free. This service monitoring mechanism is based on an informal contract between the customer and the server (Lynn, 2001). The customer's option not to tip is also a convenient alternative to the restaurant management to giving a discount on the bill to unsatisfied customers.

While this contract between customer and server increases both the chances of the customer having a positive experience and of the server receiving a higher wage, the customer-monitoring mechanism that results from tipping is subject to free riding problem. This is a form of market inefficiency that normally calls for government intervention (Econ & Stat, 1954). Tipping is also subjected to this type of market inefficiency such that customers who do not leave a tip also benefit from good services and the low cost offered as long as the other customers leave tips for the quality services offered. Therefore, the issue of tipping being efficient is debatable.



## **Potential Reasons for Tipping**

As mentioned above, one of the main reasons given as to why people tip is because it is a social norm and deviating from a social norm results in a psychological disutility. This can be further expounded by discussing two different sources of disutility: external and internal. External sources are those that come from other people and thus related to social pressure. This is evident especially if dining with other people who pressure, even passively, the tipper to tip appropriately. However, even if one dines alone, knowing that the server will observe how much one tips creates social pressure even though the server is a total stranger. Psychology research has shown that people do not want to risk social disapproval even if it is from total. External sources are expressed by the negative embarrassment feeling that is usually experienced if one fails to tip where the norm is to tip. Internal sources of disutility include negative feelings of guilt, being unfair and not being honest.

Another major potential reason for tipping is for better future services (Conlin et. al, 2003). This reason applies mainly to customers with an intention of visiting the establishment again and hoping to be served by the same person. The idea is that by good tipping, the tipper encourages the server to provide better services in their subsequent encounter. Similarly, the fear that stiffing will result in a negative experience either this time or in the next time or in the next time they visit the establishment serves as motivation for tipping.

In some cases, patrons offer tips to workers in advance as a way of soliciting services (Lynn & Graves, 1996). For instance, when a customer wants to have a table reserved for a special occasion, he or she may tip the maître d' or server to have the table reserved. Contrary to the notion that tipping is done in order for the customer to avoid stiffing, when a tip is given in advance, the server is the one who finds him or herself in the position of avoiding stiffing. The

server is compelled to offer quality services to the customer. However, it is of paramount importance to differentiate between tips that are given in advance from tips that are given as bribes as it is difficult to draw a clear line between the two.

Bribery tipping though similar to advance tipping in that it is given in advance is very different (Lynn & Graves, 1996). Through advance tipping, a customer seeks favor with the server in the most desirable way but in bribery tipping, a customer seeks an undesirable favor from a server. The favor is considered undesirable if it is granted at the expense of others (Azar, 2002). Other forms of tipping which exist but are not within the scope of this study are gift tipping and holiday tipping.

There are several positive feelings attributed with tipping besides to conforming to the social norm. For instance, people tip as a way of showing their appreciation for the service they have received. Customers give tips because they understand that the quality service that the server offered is not included in the bill and feel that the only way they can compensate for that is through tipping. Others tip as way of showing their compassion for the low-income worker or as a way to express their own generosity (Azar, 2002).

Some customers may tip as a way of impressing others especially if they tip above the norm. Tipping high may also be a way to feel powerful and superior. Where the desire to tip comes from the client's need to feel good about him or herself, the tips are larger as compared to when he or she tips as a social norm. The more the client tips the more he or she feels good about him or herself (Bodvarson, 2005).

Rationally tipping is sensible only if the desired results are dependent on the size of the tip (Lynn & Grassman, 1990). This is explained by the psychological theory called the equity theory. It is similar to the reciprocity norm that explains that socially, the more people put into

their relationships with other people, the more they get out of the relationships (Walster et.al, 1973). As the theory suggests, customers feel the psychological pressure to leave larger tips for future better services (Lynn & Graves, 1996). In addition, researchers have found that the tip sizes left by the customers are positively and reliably, if weakly, correlated to the waiters and waitresses service evaluation (Lynn, 2001, 2003).

Besides the dispositional gratitude mentioned earlier as affecting the reliability of co relational data, there are other variables that may create a counterfeit relationship between service rating and tip size including extraversion, generosity and friendliness among others. Therefore this study will help rule out all these dispositional differences responsible for the positive correlation between tip sizes and service ratings. These stable dispositional differences only occur among a group of individuals and not within a single individual. Therefore, all the stable dispositional differences among tippers can be eliminated as confounds of the service-tipping relationship by collecting compound observations per subject and carrying out a within subject analysis.

However, it is not basic to identify, measure and control for particular stable dispositions since as long as the control for the individual leaving the tip is done, all the other stable dispositions that distinguish that particular individual from others in the sample is automatically controlled. Therefore, this study provides a within subject assessment of the service-tipping relationship.

### **Tip Amount and Worker Performance**

Through tipping, a customer is able to appraise a worker for a job well done directly without involving the management. As stated earlier, a customer is not obligated to give tips to servers in the restaurant industry. When a customer is satisfied with the services that have been

offered, it may be reflected by the amount of the tip he or she gives (Lynn, 2001). Tipping therefore acts as an incentive to the worker to continually improve on his or her work performance and in turn satisfy customers. When a customer is dissatisfied with the services he or she has been offered in the hotel, the customer may leave a smaller tip or no tip at all to express his or her dissatisfaction (Lynn, 2001). Tips are a useful tool for measuring workers performance with those workers who are excellent servers receiving more tips, under the assumption that workers in anticipation of a tip will offer quality services to the client knowing that low quality translate to no tips or small tip amount. Other variables must be controlled for however, as discussed above.

Tipping may encourage competition between workers (Bodvarson & Gibson, 1994). Workers strive to outdo one another to earn tips. To further expound on how tips creates competition among workers, consider the example of a customer who dines at a particular establishment and who is known to tip by the servers. It is only natural that servers would compete to serve him or her because they know the customer tips well. In some restaurants in the U.S., tips given to servers are pooled and divided equally among the workers. This means that tips given to servers are in the end shared with a coat attendant, restroom attendants, barmen, and among other employees. For pooling to work, there must be a sense of loyalty among workers.

Tipping provides an avenue through which a client resolves issues with the employee without involving the management of the hotel (Bodvarson & Gibson, 1994). When a client leaves a small tip or no tip at all, it might be another way of complaining to the worker about the quality of service offered. Consequently when the customer tips a large amount, the client is recommending the worker and congratulating him or her on the quality of service offered. The

client is able to resolve such issues without necessarily involving the management and instead communicates the message directly to the server.

In some cases, management uses the amount of tip to evaluate workers and the results forms grounds through which the workers is to be promoted. Through tip amounts, servers who are known to be good servers retain their clients because clients would want to be served by them unlike workers who are not good servers. Azar, (2002), compares tip amounts to a screening device through which the management uses to differentiate the clients who are satisfied from the clients who are not satisfied. He further argues that workers who are poor servers end up losing hope of being successful servers because they get small tips and may quit their job.

### **Service Quality**

Service quality is a global judgment or an attitude towards the superiority of a service. Therefore, for the service industries to remain globally competitive, they must exceed the customer's expectations by achieving a quality service. The success or the failure of an organization is determined by the service quality offered especially the restaurant industry (Bodvarson, 2005). The principle of applying customer satisfaction is very essential for a company, industry, or organization to succeed. The customer's satisfaction is determined by the service quality offered. On the other hand service quality is greatly influenced by the process quality, output quality, and expectations.

Customers use their service experience and feelings to form a judgment of the standard of the services offered. The kind of service that customers receive is an important factor in determining their satisfaction. Customers may judge the restaurant service even before they are seated. They judge the service quality by the length of time they wait to be served, fairness and

politeness of the host or the hostess (Lynn, 2001). In addition to this, the customer satisfaction can be influenced by the interpersonal skills of the servers. Their social sensitivity, friendliness, politeness, and helpfulness make a good impression on the customer, contributing to their satisfaction.

Many restaurants have a perception that people go there only to eat. This brings out the assumption that as long as the customers get their food they are satisfied. However, this is not true for the restaurant customers whose main purpose is to enjoy their families and friends and conduct business. The commitment of the staff and support from the management levels is vital to achieve the quality service of a business. Various models have been adopted in conducted studies to evaluate the service quality. Some of these models include;

- A. SERVQUAL model
- B. DINESERV model
- C. SERVPERF model
- D. QUALITOMETRO

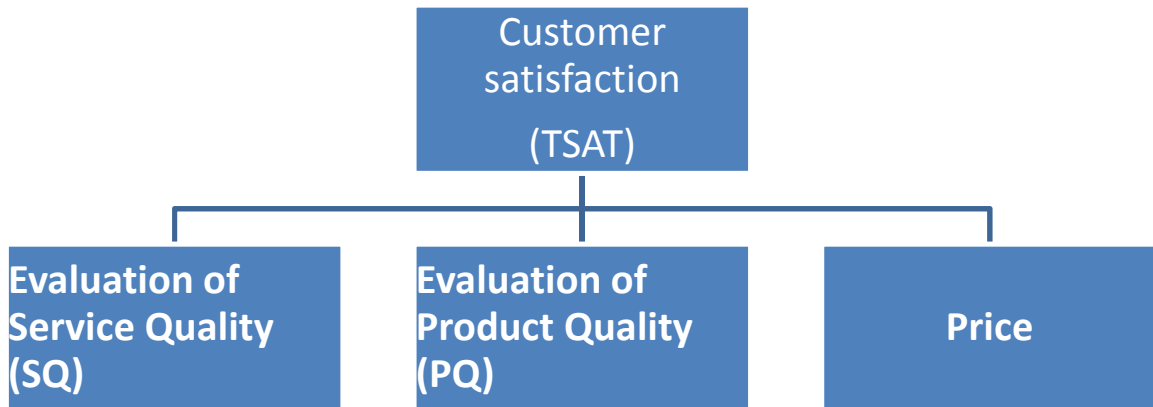
The SERVQUAL model indicates that customer service quality is measured by five dimensions. According to the model, the five dimensions include; reliability, tangibles, responsiveness, assurance and empathy. To begin with, the dimension of reliability is measured by speed, willingness to respond, dependability and accuracy. The dimension of tangibles includes the personnel, equipment, materials used to communicate with the customers and the physical appearance of the amenities. Also within this dimension of tangibles include the server appearance, atmosphere, location and space (Council of Economic Advisors, 2002). Lastly, the dimension of assurance and empathy is measured using elements of caring, knowledge, communications and trained professionals. The DINESERV model is also referred to as a two-

way model that explains that service quality is evaluated by the customer's response to objective questions on the quality attributes and the subjective questions which are on the satisfaction levels. The SERVPERF model evaluates service quality without expectations. The QUALIMETRO model explains that there are two distinct moments are used to evaluate the customer's perceptions and expectation.

### **Customer Satisfaction**

Customer service satisfaction is a consumer's experience and reactions towards a service offered. Customer satisfaction is the ultimate goal for every company, since customers are the greatest resources which determine both long term and short term survival of any company. For a restaurant to maintain high level of customer satisfaction it must endeavor to deliver quality services and products (Lynn, 2001). Customer satisfaction is influenced by various aspects both tangible and intangible. The tangible ones include the décor: seating arrangement, live entertainment and the appearance of the restaurant. There are three major attributes that matter to a customer in a restaurant and they include; food, setting and service. Studies show that satisfied customers tend to return to the restaurant while vice versa is true if they are not satisfied.

Fig. 1 Transaction-specific model.



This model suggests that the customer's overall satisfaction is influenced by the product quality, service quality and the price. The model was suggested by Teas (1993) and expanded by Parasuraman, Zeithaml, and Berry (1994). According to the model, customers consider specific aspects of the transaction such as product features such as restaurant ambience and food quality, and service features such as responsive of the server and price. This model was found to be essential for explaining fully the aspect of customer satisfaction. It urges the full service restaurant owners to focus mainly on the price, service quality and food quality while targeting at customer satisfaction.

### **Literature Review Conclusion**

The tipping construct has changed a lot in the U.S. restaurant industry. Tracing tipping since its introduction to the U.S., there were no predetermined criteria on how the tip amount should be determined and tips were meant to be a way through which clients expressed appreciation to servers for their excellent services. However the tipping industry has evolved and grown to a norm significant enough to affect government taxes, as servers now rely on tips to



supplement their earnings (Lynn, 2006). What was meant to be a way of showing gratitude and appreciation to the server has become a way of life in the U.S.

The conventional theory of correlating customer satisfaction with tipping may be far less relevant now that tipping is a norm, and expected independent of other factors in most cases (Bodvarson & Gibson, 1994). Similar to bonuses in other industries, tips in the restaurant industry are both an incentive, and to some degree expected; in contrast, tipping is between the client and server and not between the server and manager. Tips are a way to reward good service when other confounding variables are controlled for.

From a very simple practice of rewarding servers for offering quality services that customers felt satisfied with to the complex practice it has evolved to, there is no prediction as to how the tipping industry will develop next. Tipping has been studied in the contexts of economics, sociology, ethics, and other disciplines. Similarly Azar, (2003) wrote “tipping is not a single phenomenon” (p.15).

As tipping is now a concrete norm, the social phenomenon has been studied extensively. Many of those studies have been reviewed above. While researchers have investigated tipping from many angles including history, motivation and more, studies have almost always focused on tipping exclusively in the context of the server-customer relationship. However, this relationship is only one part of a larger picture of what drives the restaurant business, including enabling customer satisfaction and generating revenue.

Managers play an important role in the customer’s restaurant experience by setting the standard for cleanliness and atmosphere in general, for example; and, managers affect the service servers provide by deciding whether to pool tips, how many breaks to allow, the training they provide, etc. The affect of managers on service, customer satisfaction, and tipping seems to be a

gap in the current literature. This study aims to fill the gap by collecting and analyzing data upon which practical recommendations can be made for managers towards improving the quality of service provided by servers in their restaurants, improving customer satisfaction, and understanding what the size of tips really means.

## PART THREE

### **Introduction**

The purpose of this study was to examine the relationship between tips and quality service in restaurants in the U.S. towards making recommendations for managers to increase the quality of service provided in their establishments. The literature suggests that the study should adopt a case-study opposed to cross-sectional design due to the multiple confounding variables from participant to participant such as individual disposition.

In order to investigate the research question thoroughly, two data sets will be collected, each shedding light on a different aspect of U.S. restaurant tipping. The first data set is a quantification of the tips participating customers chose to leave for their servers, and their satisfaction rating at the end of the meal. Analysis of this data set is intended to address whether there is a correlation between tipping and satisfaction or if the combination of other factors such as social norms/expectations, class of the restaurant, gender of the server, server appearance, and others described above, had a great enough impact to nullify satisfaction.

The second data set is aimed towards investigating how managers perceive the service their servers provide as compared to the customers' perception. Because the purpose of the study was to make practical recommendations for managers to increase the quality of the service their servers provide, it was important to first determine whether managers currently make an accurate assessment of service quality as the customers judge service. If it is found that managers do not assess service quality similarly enough to the way customers asses service, recommendations will have to be built without a feedback mechanism, which might otherwise be a useful tool.

## Results

As mentioned above, two data sets will be collected by two different methods, and the results will be analyzed both independently and together. The first set will be a quantification of the tips participating customers chose to leave for their servers, and their satisfaction rating at the end of the meal. This data will be collected by recording the sums of the tips left by the participants and calculating the percentage of the total bill that the tips represent, and by recording customers' self-reported satisfaction after each meal on a scale of one to 10. This data will be normalized and graphed, creating a clear visual representation of the correlation (or lack thereof) between tip amounts and satisfaction. The second data set will allow for a correlative analysis between manager assessment and customer assessment and will be collected by having managers rank servers' service after each meal on a scale of one to 10. These ratings will be compared to the respective customer ratings.

The expected findings are that there is indeed a correlation between tips and satisfaction ratings. However, from anecdotal evidence, I expect the data to demonstrate that these fluctuations in tip according to satisfaction are relative to the individual customer. For example, two participants may tip higher when they are more satisfied and lower when they were less satisfied; however, Participant A might never tip less than 15% while participant B may never tip higher than 17%. While both of these participants would tip in accordance with their satisfaction, it would be impossible for a manager to make an absolute cut-off, for example, that satisfied customers pay more than 16.5% and unsatisfied customers pay less.

The second data set is expected to show that managers show a far narrower range in their rankings than customers, due to the inability of managers to dedicate the attention that customers can to assessing an individual server serving a specific party. The managers' inability to make

fine distinctions would be reflected in the similar ratings across participants, participants' satisfaction levels, and tip percentages. This narrow range of manager rankings is also likely to be in the upper-most range of the spectrum because managers who do not think their servers provide top-notch service do not keep them on staff, or because managers will not want to appear to investigators as managing a poor wait staff.

## **Conclusions**

According to the literature and assuming the expected results are on target, it could be concluded that more satisfied customers tip higher than less satisfied customers, but that there is no absolute benchmark for "high" and "low," and therefore there is no way to determine based on an anonymous tip, the level of customer satisfaction. In order to correlate absolute numbers with relative ranks of "high" or "low," extensive comparative data such as the individual customer's tipping habits, tipping patterns broken down by time of day and day of the year, etc. would need to be collected. This would require an investment of resources that is extremely unlikely to pay off. It is not very important to be able to correlate an absolute tip value with customer satisfaction; however, the fact that absolute tip amount is not indicative of satisfaction in itself is an important discovery. The purpose of this study was to reach practical recommendations for restaurant managers and giving managers the understanding that they should not judge a staff person's service by the dollar-amount received in tips is a significant step towards that aim.

A second conclusion to be drawn from the study could be that managers are not nearly as in touch with servers' service quality as customers are; managers probably do tend to know generally whether a server is likely to continually receive maximal customer satisfaction ratings or not, but are not in a position to make more subtle distinctions. Again, while this conclusion

highlights a lack of information, the understanding of what is missing is in itself a significant contribution to improving the system. In other words, an important first step in creating managerial solutions is understanding the obstacles that must be overcome. Taken together, it would then appear that the manager can neither assess a server's level of service by the tips he or she receives, or by trusting his or her own judgment, made while spreading attention thin across managerial responsibilities.

The primary importance of these results is that they highlight the inability of managers to judge the service their staffs are providing, even when looking at a quantitative metric like tips. Because it is the manager's responsibility to maintain the highest standards in his or her establishment, not being able to directly monitor service is a significant obstacle. Understanding this obstacle is the first step in developing effective tools towards quality assurance.

These findings are also important for servers to understand that though there is a relationship between customer satisfaction and tip, a lower tip than expected does not necessarily mean dissatisfaction. Each customer comes with his or her own range of tips, and earning even the highest tip on one customer's scale might not be as high in extreme cases, as the lowest tip on another customer's scale. Servers should be encouraged that their efforts do pay off, and that even if a tip seems low, it is most likely higher than it would have been if the server had not made the extra effort.

Collecting results in a wide range restaurant price-ranges, cuisines, times of day, with male and female servers, and with male, female, individual, and group parties will increase the applicability of the results. Therefore, the findings could be considered universal within the U.S. weekday restaurant context. Details such as whether a high tip is considered 17% or 19% may

vary between suburban and urban areas, or from city to city, but the overall conclusions apply widely.

Although tipping has become commonplace in a range of industries in the U.S. the current study was designed specifically for the restaurant industry. The findings could shed light for the entire industry on how managers should and should not motivate their waiters. For example, managers who are unable to differentiate between servers who provided good service and those who provided excellent service are not unique to any of the study constraints. This finding would be applicable across the restaurant industry and is important to understand if managers want to motivated good servers to become excellent servers and encourage excellent servers to keep up the good work. Managers cannot do this if they do not know who is who and the results of this study lay the foundation for developing effective solutions.

Beyond the restaurant industry, the conclusion that the tip reflects customer satisfaction on a customer-specific scale is novel. Firstly, the same likely holds true in all tipping industries. Taxi drivers, doormen, and other workers who receive tips and their managers should not look at the absolute amount tipped as a reflection of the quality of the service being provided. The tip amounts may be an informative tool, but they are from far stand-alone proof. Outside of the tipping context, the idea that different parties in a transaction value money differently and express themselves through generosity to varying degrees may shed light onto what otherwise be many misunderstandings.

## **Recommendations**

A review of the existing literature and analysis of the expected results of this study lead to two clear recommendations for managerial strategies towards consistently providing the best customer service in their restaurants.

The first recommendation is that managers implement a pooling policy. As mentioned earlier, pooling is when all tips are combined at the end of each shift, and then divided equally among the servers who worked that shift. Sometimes, a smaller portion is given to other staff including busboys and dishwashers. Because in a restaurant that pools tips, each waiter has a vested interest in the tips earned by every other waiter working the same shift, servers are far more likely to assist one another. For example, if a customer from a table being served by server A asks server B for ketchup, simply because server B happens to be passing by at the time, server B will be happy to get the ketchup and please the customer because that customer's tip is part of what server B will be taking home. In a restaurant that does not pool, server B has almost no motivation—at least no fiscal motivation, which as discussed above is the by far the greatest motivation servers have—to bring the ketchup. The customer does not care that server B expects server A to take care of the customer; the customer wants ketchup, and the customer's satisfaction with his or her overall experience in the restaurant will in part be based on the outcome of this scenario. From a manager's perspective, pooling, which encourages servers to work together to satisfy customers, is an effective tool.

The drawback to pooling is that some servers will decrease their efforts because as long as other servers provide high-quality service, all servers will receive good tips. In a restaurant that does not pool, servers inclined to let others do their work for them would have greater incentive not to act that way. However, server disposition and perspective were found in this study to be factors in servers providing poor service regardless of whether the staff pools tips, and so the recommendation stands that pooling tips provides an overall higher quality service.

A second recommendation for managers is not to include the tip in the bill. As seen in this study, servers' primary and often sole motivation for providing high-quality service is their



belief that there is a direct correlation between better service and a higher tip. Although most customers will add to a bill with the gratuity already included, they will have less room for discretion, meaning there is less room for earning more money by providing better service. If managers choose to include the tip in the bill, they remove significant motivation for servers to make the extra effort to provide top-notch service.

The findings indicate the great potential that servers have to contribute to understanding what goes into providing quality service, what works and what doesn't. Future studies should focus less on how customers tip, as most of the literature has covered until this point, and more on in depth analysis of the servers' perspective. Servers are in constant contact with the customers and they are therefore in a far better position than managers to know what has the greatest impact on customer satisfaction.

In addition to these two recommendations for managerial practice, this study suggests that the managerial aspect of tipping, among others, is significant and neglected in the literature. Further investigations should be carried out specifically in order to better understand the manager-server relationship. Preliminary studies may employ survey method, interviews and other qualitative approaches to narrow in on the most important areas of focus to be subsequently evaluated quantitatively. The current body of knowledge and the present study support the hypothesis that managerial practices affect service and better understanding the relationship between servers and their managers, the different factors that influence this relationship, and how the relationship affects the customer experience and tipping practices is a worthwhile area of investigation and development.

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