Tipping and Its Alternatives:

Business Considerations and Directions for Research

Michael Lynn

and

Glenn Withiam

School of Hotel Administration

Cornell University

Ithaca, NY 14853-6902

(607) 255-8271

JOURNAL OF SERVICES MARKETING (forthcoming)

ABSTRACT

Purpose – To outline the business issues surrounding tipping and its alternatives, to summarize what we know about those issues, and to identify questions in need of further research.

Design – Objectives are achieved via conceptual analysis and review of relevant literature.

Findings – Voluntary tipping, service charges, and service-inclusive pricing offer different sets of costs and benefits, so that no one policy is always the best. The principal benefits to service firms of voluntary tipping are that it lowers nominal prices, increases profits through price discrimination, motivates up-selling and service, attracts talented workers, and lowers FICA tax payments. However, tipping also motivates discrimination in service delivery, gives servers surplus income that could go the firms' bottom line, increases the risk of income tax audits, and opens firms up to adverse impact lawsuits.

Practical implications – No one tipping policy is always the best. Service industry executives and managers should carefully weigh each of eight different issues (outlined together for the first time here) to identify the best tipping policy for their circumstances.

Originality/value – Tipping has received little attention in service marketing. Furthermore, there is no good, published source of guidance to help service industry executives and mangers make decisions about tipping policies. This paper addresses these voids by providing and discussing a comprehensive list of the pros and cons of tipping and its alternatives from a business perspective.

Keywords Tipping, price discrimination, employee recruitment and motivation, tax evasion, employment discrimination

Paper type Conceptual paper

Tipping and Its Alternatives:

Business Considerations and Directions for Research

Service consumers often leave voluntary payments of money – "tips" – for the workers who served them. Among the services workers commonly tipped in the United States are bartenders, bellhops, casino croupiers, concierges, delivery people, doormen, golf caddies, limousine drivers, maître d's, massage therapists, parking valets, porters, restaurant musicians, washroom attendants, shoeshine boys, taxicab drivers, and tour guides (Star, 1988). Although not as widespread as in the United States, tipping is also practiced in most countries around the world (Star, 1988).

Consumers' decisions about whom and how to tip are largely determined by custom. However, service industry executives and managers need not passively accept the dictates of custom. They can encourage tipping by allowing employees to accept tips, placing tip jars in visible locations, and posting messages like "Gratuities Appreciated" on menus, table tents, checks and/or public signs. Conversely, they can discourage tipping by prohibiting employees from accepting tips, adding automatic service charges to bills, and posting messages like "Tipping Not Necessary" on menus, table tents, checks and/or public signs. In fact, many cruise lines (Engle, 2004), resorts (Evans & Dave, 1999), and private clubs (Club Managers Association of America, 1996), as well as some hotels (Rihards and Rosato, 1995) and restaurants (Ortega, 1998) have used these or similar practices to actively manage the tipping behavior at their establishments. Last year, for example, chef/owner Thomas Keller replaced tipping with an automatic 20 percent service charge at Per Se -- a highly regarded French restaurant in New York City

(Shaw, 2005). The year before that, Holland America Line abandoned its decades old tipping policy in favor of daily service charges (Engle, 2004).

The ability to actively manage customers' tipping behavior raises questions about how tipping policy decisions should be made. What are the business functions of tipping? When should tipping be allowed and when not? If tipping is abandoned, should it be replaced with service charges or with service-inclusive prices? Unfortunately, executives and managers in the service industry have few places to go for the answers to these questions. Tipping has received very little attention in the services marketing literature (see Koku, 2005, for a rare exception). The purpose of this paper is to outline the business issues surrounding tipping and its alternatives, to summarize what we know about those issues, and to identify questions in need of further research. Thus, this paper should provide service industry executives and managers with information and guidance regarding tipping policies and should provide services marketing scholars with an agenda for future research. The report is structured around eight major issues –

- consumer preferences,
- price partitioning,
- price discrimination,
- server incentives,
- pay levels,
- employee recruitment and retention,
- income tax evasion, and
- employment discrimination.

After all the issues are discussed and questions for future research are identified, a final section summarizes the issues and offers suggestions about how executives and managers can integrate them to arrive at a reasonable tipping policy.

Consumer Preferences

Tipping policies are a feature of service products that may be viewed favorably or unfavorably by consumers. Indeed, scholars have argued that tipping provides tippers direct psychological benefits such as a reduction in tippers' anxieties about being the target of servers' envy (Foster, 1972; Lynn, 1994), a reduction in tippers' feelings of guilt about the status and power inequalities between themselves and servers (Shamir, 1984), an increase in the social recognition and status of big tippers (Lynn, 1997; Paules, 1991), an increase in tippers' self-perceived freedom (Shamir, 1984), and an increase in tippers' positive feelings from helping servers (Shamir, 1984). However, tipping also separates the payment for service from that of accompanying products (e.g., food, accommodation, transportation, etc...) and research on decision making has found that such separation of payments or losses increases the psychological pain of those losses relative to the pain of a single loss of comparable magnitude (Thaler, 1985). Moreover, tipping puts unwelcome social pressures on many consumers to part with money they would rather keep (Crespi, 1947; Seagrave, 1998). Though less scholarly attention has been devoted to service charges and service-inclusive pricing than to tipping, the former policies undoubtedly provide their own set of psychological benefits and costs. The net effects of all these psychological benefits and costs should be reflected in consumers' attitudes towards the different policies.

Surveys about consumers' attitudes toward tipping and its alternatives that have been conducted in the United States over past thirty years indicate that a majority of consumers prefer guaranteed server wages (implying service-inclusive pricing) over voluntary tipping and voluntary tipping over service charges (see Table 1). Research is needed to assess the impact of these preferences on consumers' patronage behavior. However, there are two reasons for expecting that effect to be small. First, psychologists have found that general attitudes, like those concerning tipping and its alternatives, typically have only weak effects on behavior (Myers, 1994). There are simply too many other factors influencing behavior for attitudes to strongly predict behavior. Second, consumers' preferences about tipping policies do not appear to be all that strong. For example, 77 percent of U.S. respondents to a 1989 telephone survey did not favor service charges, but only 34 percent of U.S. respondents to a 1987 telephone survey thought a 15 to 18 percent service charge was unreasonable (see Table 1). Similarly, 44 percent of U.S. respondents to a 2004 internet survey would prefer to have waiters/waitresses paid higher wages instead of tips, but only 11 percent of those same respondents disliked tipping (see Table 1). Given that consumers' preferences appear to be weak and are unlikely to have strong effects on patronage behavior, they need not dictate tipping policies.

take in Table I

Price Partitioning

Tipping and service charges both separate (or partition) the price of service from that of accompanying products such as food, accommodation or transportation, while service-inclusive pricing bundles these prices together. A similar point about payments was made in the previous section. Here, the focus is not on payments but on pricing – a subtle but important distinction. In discussing this issue, it will be helpful to differentiate nominal prices from real prices. Nominal prices constitute only part of the final bill, which also comprises hidden surcharges such as taxes, service charges or tips. The prices on most restaurant menus, for example, are nominal prices as is the case with most hotel room rates and cruise fares. In contrast, real prices are the total costs to consumers of goods and services including all hidden surcharges. Nominal prices are generally lower with tipping and service charges, because tips and service charges cover some labor costs that would otherwise add to nominal prices. By lowering nominal prices via tipping and service charges, service firms can reduce distribution costs and increase demand as discussed next.

<u>Reduces Distribution Costs</u>

Commissions paid to travel agents, tour operators, and/or off-line distributors (such as Expedia) are based on a percentage of the sales they generate. With tipping and service charges, lower nominal prices reduce sales figures, so commission payments are not as high as they might otherwise be. The benefits are difficult to see because they are accompanied by those reduced sales figures, but they are real. The following hypothetical calculation shows why.

Say that an organization that uses service-inclusive pricing generates $100 in sales with transactions that involve labor costs of $30 and other production and marketing costs of $40. Further assume the organization must pay a 5% commission to distributors. Under the service-inclusive pricing system, the firm makes a profit of $25 on $100 in sales -- $100 (sales) - $30 (labor costs) - $40 (other production and marketing costs) - $5

(5% commissions) = $25 (profit). Now assume that $20 of labor costs are covered by tips or service charges and that nominal prices are reduced accordingly. Sales and labor costs fall, while everything else (including the actual number of transactions) remains the same. In this case, sales drop to $80, labor costs fall to $10, other production costs remain at $40, and the 5 percent commission is $4. Thus, the firm is making a profit of $26.00 on $80 in sales --$80 (sales) - $10 (labor costs) - $40 (other production and marketing costs) - $4.00 (5% commissions) = $26.00 (profit). In this hypothetical case, tipping and/or service charges increased profits by 4 percent on the same volume of business. (Stated sales declined due to lower nominal prices, not lower volume.)

While the specific numbers in this hypothetical case do not generalize, the underlying logic does. When labor costs are built into prices, companies must pay percentage commissions on higher sales figures. By reducing sales figures and, therefore, the commissions paid to distributors, tipping and service charges increase profits. Obviously, this increase in profits is greater the greater the commissions paid to distributors.

Increases Demand

Consumers may focus on nominal (rather than real prices) as they compare the expense of competing services. If they do so, the lower nominal prices made possible by tipping or service charges should improve competitiveness and increase demand. However, if consumers instead focus on real prices when comparing service providers, then lower nominal prices will not improve competitiveness. The question is whether consumers compare the nominal prices or the real prices of services. Research is needed to answer this question and to determine the influence of tipping and alternative policies on consumers' perceptions of how expensive a service is. Until that research is conducted, however, executives and managers can take guidance from general theory and research on decision making, which suggests that people do focus on nominal prices when assessing expensiveness.

Researchers have found that the easier information is to acquire and use, the more likely it will actually be applied in decision making (Moorman, 1990; Simon, 1957). Nominal prices are generally more *accessible* than real prices because nominal prices are explicitly stated while real prices include add on charges that are often hidden. Even when add on charges are not hidden, they are often presented in a format (such as percentages) that makes their use more difficult for consumers. Thus, the principles of *accessibility* and ease of use suggest that consumers use nominal prices more than real prices when making judgments about expensiveness. In addition, researchers have found that when people subjectively adjust an initial judgment they almost always make too small an adjustment (Plous, 1993). This means that subjective comparisons of expensiveness will be influenced by nominal prices even if people make adjustments for add-on costs not factored into their initial assessments.

Consistent with the above reasoning, marketing researchers have found that price partitioning in non-service contexts sometimes reduces perceived expensiveness and increases demand. For example, Morwitz, Greenleaf and Johnson (1998) found that total recalled costs of a catalogue order were lower when the shipping and handling fees were presented as a separate charge than when they were included in the catalogue prices. In another study, they found that auction bidders agreed to pay more in total costs when a 15 percent auction fee was charged separately than when it was bundled into the bid price.

These findings need to be replicated in the context of tipping and service charges, but they suggest that firms charging separate fees for their product and service via tipping or service charges may be perceived as less expensive than those using all-inclusive pricing. It is difficult to quantify the effects on demand of that competitive advantage, but it should be larger the greater the price sensitivity of consumers.

Price Discrimination

Charging different customers different prices for the same good or service results in higher profits when (1) consumers differ in the amounts they are willing to pay, (2) the prices charged match the different segments' willingness to pay, and (3) demand from price-insensitive customers is lower than the firm's production capacity. In that case, revenues and profits are maximized by price discrimination because firms extract more money from price-insensitive customers without losing the business of price-sensitive customers (Hanks, Cross & Noland, 1992). Tipping represents a form of price discrimination, because it allows some customers to pay less than other customers for the same service. Although all customers must pay the same nominal price for a given service, they can differ in the amounts that they tip.

As a form of price discrimination, tipping is unique in two respects that deserve discussion. First, the price differentials paid under tipping are voluntary. Consequently, price-insensitive customers could avoid paying a price premium by tipping as little as do price-sensitive customers. Fortunately, research suggests that this does not occur. Price-insensitivity (or the amount consumers are willing to pay for a service) should increase with income and perceptions of value, both of which are associated with larger tips (Lynn

& McCall, 2000; Lynn & Thomas-Haysbert, 2003; McCrohan & Pearl, 1983). Thus, price-insensitive customers do pay a price premium by tipping more than do their price-sensitive counterparts. Second, firms do not directly receive revenues from tips as they do from other premium prices charged to price-insensitive customers. However, they do receive those revenues indirectly in the form of lower labor costs. Since price-sensitive customers can and do keep their costs down by tipping less than price-insensitive customers, and since the price premiums paid by the price-insensitive customers do go indirectly to the service firm, the price discrimination achieved through tipping means increased sales and profits as long as the price-sensitive customers are filling seats that would otherwise be empty (Schwartz, 1997).

When demand from price-sensitive customers is not needed to fill seats, however, price discrimination through tipping simply attracts a more diverse customer base without enhancing revenues or profits. Therefore, firms enjoying strong demand and seeking a relatively exclusive, up-scale clientele may want to replace tipping with service charges or service-inclusive pricing as a way to discourage price-sensitive customers.

Server Incentives

One set of arguments for tipping involve its supposed incentive for servers to up-sell menu items and to deliver good service. In contrast, it is thought that service charges provide an incentive to up-sell but not to deliver good service, and that service-inclusive pricing provides no incentive for either activity. These assumptions are not entirely supported as explained next.

Incentives for Up-Selling

Tips and service charges are both generally calculated as a percentage of the bill, so servers who sell more can expect to earn more in tips and service charges (assuming that a fixed percentage of service charges go to the server). However, academic theory and research indicates that this incentive for up-selling will motivate behavior only if servers have a sense of self-efficacy and expect their up-selling efforts to affect customers' orders (Bandura, 1997; McMurrain, Srivastava and Holmes, 2002). More research is needed on this issue, but managers should not assume that tipping or service charges alone will motivate their staff to up-sell. Feelings of sales competence, which can be enhanced through sales training, are also necessary for tipping and service charges to increase staff's selling efforts.

Incentives for Good Service

Economists argue that tipping exists because it is the most efficient way to provide service workers with an incentive to deliver good service (e.g., Ben-Zion & Karni, 1977; Jacob & Page, 1980). They argue that the intangible and customized nature of services makes it difficult and costly for managers to monitor and reward service workers' efforts, so this task is given to the customer via tipping whenever the consumer is able to evaluate the service worker's performance. From this perspective, we do not tip physicians, car mechanics, and some other service workers because consumers cannot tell in the short term if those workers have done a good job or not. In the case of most personal services, however, consumers can evaluate service workers' performances and can do so more efficiently than can firms. In those cases, tipping is supposed to improve service levels by providing workers with a stronger incentive to deliver good service than would otherwise be possible.

The idea that voluntary tipping policies enhance service levels is important and needs to be tested. Although no direct tests of this idea have been published, there are numerous studies testing the related idea that consumers tip more for better service. A recent meta-analysis of those studies found that the average correlation between bill adjusted tips and customers' evaluations of the service and/or dining experience is only .11 (Lynn & McCall, 2000). This correlation is so small that servers are unlikely to notice the effects of service on the tips their customers leave (Lynn & Graves 1996). While it is not clear how much the weak service-tipping relationship in restaurants generalizes to other service contexts, it does suggest that tipping may not provide as strong an incentive to deliver good service as many believe.

<u>Other Incentives</u>

In addition to providing some incentive for the delivery of good service, tipping provides an incentive for several undesirable behaviors. First, it encourages servers to give less attention to members of groups known to be poor tippers. For example, Blacks tip less than Whites in the United States, so many servers dislike waiting on black parties and deliver inferior service to those black customers they must serve (Lynn and Thomas-Haysbert, 2003). Other groups likely to receive reduced attention from U.S. servers under a tipping system include foreigners, women, teenagers, the elderly, and anyone bearing coupons (Caudill, 2004; Harris, 1995; Lynn, 2004b). Second, tipping encourages servers to focus on their own tables and to ignore the needs of other guests. Unless tips are pooled (which reduces any incentive for individual effort provided by tipping), helping another server is irrational because it reduces a servers' ability to attend to his or her own, tipping customers. Finally tipping encourages servers to give product to customers free of charge. Research has found that customers receiving gifts from servers reciprocate with larger tips, so one strategy astute servers use to increase their tips is to give away goods and services their employers want them to charge for (Strohmetz, Rind, Fisher & Lynn, 2002). To my knowledge, there is no research quantifying the negative effects of tipping described above. Nevertheless, tipping provides at least as strong an incentive for servers to engage in these negative behaviors as it does for servers to deliver good service.

In summary, tipping does provide servers with some incentive to up-sell and to deliver good service. However, those incentives may not be very strong. Furthermore, tipping also provides servers with incentives to ignore some customers and to give away product that should be sold. Thus, the value of tipping as a system for motivating servers is lower than commonly believed. In particular, service organizations with a large clientele of people perceived to be poor tippers – i.e., ethnic minorities, foreigners, women, teenagers, the elderly and coupon users -- should look to other means of motivating servers to deliver good service.

Pay Levels

According to the Bureau of Labor Statistics, tipped service workers such as bartenders and waiters earn hourly incomes that are roughly the same as those of non-tipped service workers such as hostesses, fast-food workers, cafeteria counter attendants, and dishwashers (Bureau of Labor Statistics, 2006). However, tipped employees rarely report all their tip income (Internal Revenue Service, 1990), so those statistics may be misleading – especially for high-end establishments where tips are very generous. In fact, my own experiences as a tipped employee and my conversations with other people in the service industry suggest that many tipped workers earn far more in tips than they could possibly earn in wages from other types of work involving similar skill sets. This income premium helps to attract and retain good employees in tipped positions. On the other hand, it also gives the servers income that might otherwise go to the firm if tipping were replaced with service charges or service-inclusive pricing – provided wages were adjusted to offset only part of the lost tip income. Another problem with the income premium provided by tipping is that it contributes to disparities in the incomes of tipped and non-tipped employees, which can create problems with the non-tipped staff. Research studying these issues is unavailable and needed. However, executives and managers can assess for themselves the extent to which their tipped workers are overpaid by comparing the incomes of their tipped and non-tipped staff. Those managers finding large discrepancies may want to consider alternative tipping policies in order to redistribute income from tipped employees to non-tipped employees or to the bottom line.

Employee Recruitment and Retention

As different ways of compensating employees, tipping and it alternatives are likely to have different effects on employee recruitment and retention. In particular, tipping may have three effects that its alternatives do not. First, tipping may increase the quality of applicant pools and service staffs because poor servers come to expect low tip incomes and look elsewhere for work (Brauer, 1997; Schotter, 2000). Second, tipping may provide a competitive advantage over employers relying on other compensation methods in attracting talented servers, because tipping often results in higher overall pay for servers than is possible under service charges or service-inclusive pricing (see previous section on pay levels). Finally, tipping may attract less professional workers than do its alternatives, because daily cash payments are more attractive and uncertainty about income is less important to young, part-time, and temporary workers than to mature, full-time, and long-term workers (Parise, 1987). These effects, though plausible, need to be empirically tested. Until that research is forthcoming, executives and managers should simply note that offering higher wages under service charge or service-inclusive pricing systems will reduce any competitive advantage in attracting workers that tipping provides and will increase the likelihood of attracting a more professional work force.

Income Tax Evasion

Unlike wages, tip income is easy to hide from employers and governments. As a result, tipping raises issues about income tax evasion that do arise under service-inclusive pricing or service-charge systems. Income tax laws vary across countries and this report cannot provide a country by country analysis, so I will limit my discussion of this issue to the United States, where the Internal Revenue Service (IRS) estimates that about half of all tip income is undeclared (Internal Revenue Service, 1990). This under-reporting of tip income is both a benefit and a liability to service firms. It benefits service firms because the ability to earn undeclared and, therefore, untaxed income effectively raises the wages of service workers at the expense of the government rather than that of the service firms. In turn, higher wages attract better workers as mentioned previously. Furthermore, undeclared tip income effectively reduces the FICA taxes firms pay. This latter point can be a short-term benefit, but also a long-term liability because employers are responsible for paying FICA taxes on all the tip income (declared or otherwise) of their employees. If the IRS audits a firm and finds undeclared tip income, it can make the firm pay back taxes on that income along with penalties and interest. Moreover, the Supreme Court recently upheld the use of aggregate tip estimates to calculate employer FICA tax liability, so audits are easier for the IRS and more likely for firms than in the past (Mills & Mason, 2004).

The tax liabilities associated with tipping can be eliminated by participating in one of two programs the Internal Revenue Service has set up for increasing tip reporting (Mills & Mason, 2004). The Tip Rate Determination Agreement (TDRA) is an arrangement in which the IRS agrees not to audit an employer for undeclared tip income if the employer gets 75 percent of his or her tipped employees to promise in writing to declare tip income equal to some percentage of sales predetermined by the IRS. The Tip Reporting Alternative Commitment (TRAC) is a similar arrangement in which the employer is freed from audits of tip income in exchange for educating employees every quarter about their obligation to report all tip income. Although these programs increase tip reporting, they do not completely eliminate under-reporting of tip income. In essence, the IRS is agreeing to let firms get away with having employees under-report some of their tip income in exchange for having more of it declared than would otherwise occur. Thus, service firms participating in these programs can still benefit from the increased attractiveness of jobs involving untaxed income while eliminating the tax liabilities of having employees who under-report tips.

Employment Discrimination

Service-inclusive pricing and service charge systems place the compensation of employees entirely in the hands of management while voluntary tipping places much of employee compensation in the hands of customers. One potential drawback of giving customers direct control over employee compensation in this way is that customers may discriminate against protected classes of people, which could leave firms open to adverse impact discrimination lawsuits. Discrimination laws vary across countries and this report cannot cover them all, so I will focus on discrimination law in the United States and its implications for tipping. Title VII in the Civil Rights Act of 1964 prohibits employment discrimination on the basis of race, color, religion, sex, or national origin (Twomey, 1998). Furthermore, in Griggs v. Duke Power Company (1971), the Supreme Court ruled that the Civil Rights Act of 1964 prohibits business policies and practices that have a disparate impact on protected classes of applicants and employees even if those policies and practices appear at face value to be neutral and are not intended to discriminate. These laws and court rulings mean that tipping may be an illegal means of compensating employees if consumers' tipping behavior discriminates against protected classes of servers.

Very little research has examined customer discrimination in tipping, but a few studies have examined the effects of server sex and race on tipping. Server sex does not affect tipping in every study, but in at least some studies waitresses receive larger tips on average than do waiters (Davis, Schrader, Richardson, Kring abd Kiefer, 1998; Lynn & McCall, 2000). Server race has also been shown to affect tipping. Black cab drivers receive smaller tips on average than do white cab drivers (Ayres, Vars & Zakariya, 2003). This is true regardless of the race of the tipper – both black and white tippers give white drivers larger tips than black drivers. The studies examining these effects are too limited in number and in diversity of settings to support broad generalizations about customer sex and race discrimination in tipping. This is another issue in need of further research. However, the existing studies do suggest that such discrimination occurs at least sometimes and in some places, so at least some service firms may be subject to adverse impact, employment discrimination lawsuits.

The interpretation of the law described above is new. Certainly, it has not yet been tested in the courts. However, the idea that a restaurant would lose a multi-million-dollar judgment when a customer spilled coffee on herself also came as a surprise to many (Enghagen & Gilardi, 2002). Even though the success of an employment discrimination lawsuit based on a claim of disparate impact from tipping is uncertain, large chains should take the possibility of such lawsuits seriously because the potential costs of losing a class action lawsuit of this nature are very high. To protect themselves against such a lawsuit, large chains should test to see if tipping has a disparate impact in their businesses and, if it does, should either pool tips or replace tipping with one of its alternatives.

take in Table II

Weighing the Pros and Cons of Each Option

Table II summarizes the issues identified and discussed in this report. All the issues are framed as benefits and the extent to which each favors tipping, service charges, and/or service-inclusive pricing is indicated via plus or minus signs. Furthermore, the conditions under which each benefit is especially strong or important are identified.

An examination of this table reveals that no one of the policies is always the best. Service industry executives and managers need to carefully weigh the pros and cons of each policy given their own circumstances. Unfortunately, there is no way to accurately put the different benefits on a common objective metric, so decision makers must assign subjective weights to each when integrating them into an overall assessment of each policy. The need for subjective weightings means that small differences in the overall desirability of the different policies should not be given too much credence. However, if the desirability of one policy stands out (positively or negatively) from that of the others, then it should be accepted or rejected accordingly. Certainly, basing tipping policies on such a careful consideration of all the issues raised in this paper makes more sense than unthinking acceptance of local industry norms.

References

Ayres, I., Vars, F. and Zakariya, N. (2003), To insure racial prejudice: racial disparities in taxicab tipping", *Yale Law Journal*, Vol. 114, May, pp. 1613-1674.

Bandura, A. (1997), *Self-Efficacy: The Exercise of Control*, W.H. Freeman, New York, NY.

Ben-Zion, U. and Karni, E. (1977), "Tip payments and the quality of service", in Ashenfelter, O.C. and Oates, W.E. (Eds.), *Essays in Labor Market Analysis*, John Wiley and Sons, New York, NY, pp. 37-44.

Brauer, J. (1997), "Tipping your waiter: A useful formula for employee compensation", *The Augusta Regional Business Journal*, September. Available at http//:www.aug.edu/~sbajmb/abc017.htm.

Bureau of Labor Statistics (2006), "Food and beverage serving and related workers" in *Occupational Outlook Handbook*, Bureau of Labor Statistics, Washington, D.C. Available at http//: www.bls.gov/oco/ocos162.htm.

Caudill, D. (2004), "restaurant servers' viewpoints toward consumers' tipping behavior: An empirical analysis", unpublished manuscript, Bluefield State College, West Virginia.

Club Managers Association of America (1996), *Report on the 1996 Operations and Financial Data Survey*, Club Managers Association of America, Washington, D.C.

Cole, W. (1989), "Leaving tips", *Time*, February 27, p. 54.

Crespi, L.P. (1947), "The implications of tipping in America", *Public Opinion Quarterly*, Vol. 11 (Fall), pp. 424-435.

Davis, S., Schrader, B., Richarson, T., Kring, J. and Kiefer, J. (1998), "Restaurant servers influence tipping behavior", *Psychological Reports*, Vol. 83, pp. 223-226.

Engle, J. (2004), “Is a mandatory gratuity still a tip?”, *The Ithaca Journal*, September 11, p. 11A.

Enghagen, L. and Gilardi, A. (2002), “Putting things in perspective: McDonald’s and the $29 million cup of coffee”, *Cornell Hotel and Restaurant Administration Quarterl,* Vol. 43, No. 3, pp. 53-60.

Evans, M. and Dinesh, D. (1999), “The thorny question of automatic service charges”, *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 40, No. 4, pp. 78-83.

Foster, G.M. (1972), “The anatomy of evil: A study of symbolic behavior”, *Current Anthropology*, Vol. 13, pp. 165-186.

Griggs v. Duke Power (1971), *401 U.S. 424*, Washington, D.C.

Hanks, R., Cross, R. and Noland, P. (1992), “Discounting in the hotel industry: A new approach”, *Cornell Hotel and Restaurant Administration Quarterly,*Vol. 33, No. 1, pp. 15-23.

Harris, M. (1995), “Waiters, customers and service: Some tips about tipping”, *Journal of Applied Social Psychology*, Vol. 25, No. 8, pp. 725-744.

Internal Revenue Service (1990), *Tip Income Study*, Publication 1530 (8-90), catalog Number 12482K, Department of the Treasury, Washinton, D.C.

Jacob, N. and Page, A. (1980), “Production, information costs and economic organization: The buyer monitoring case”, *American Economic Review*, Vol. 70, June, pp. 476- 478.

Koku, P.S. (2005), “Is there a difference in tipping in restaurant versus non-restaurant service encounters, and do ethnicity and gender matter?”, *Journal of Services Marketing*, Vol. 19, No. 7, pp. 445-452.

Lynn, M. (1994), “Neuroticism and the prevalence of tipping: A cross-country study”, *Personality and Individual Differences*, Vol. 17, No. 1, pp. 137-138.

Lynn, M. (1997), "Tipping customs and status seeking: A cross-country study", *International Journal of Hospitality Management*, Vol. 16, No. 2, pp. 221-224.

Lynn, M. (2004a), "Cornell University Tipping Study", unpublished data from an internet survey, Cornell University, Ithaca, NY.

Lynn, M. (2004b), "Servers' perceptions of who are good and poor tippers", unpublished manuscript, Cornell University, Ithaca, NY.

Lynn, M. and Graves, J. (1996), "Tipping: An incentive/reward for service?", *Hospitality Research Journal*, Vol. 20, No. 1, pp. 1-13.

Lynn, M. and McCall, M. (2000), Beyond gratitude and gratuity: A meta-analytic review of the predictors of restaurant tipping", unpublished manuscript, Cornell University, Ithaca, NY. Available http://www.people.cornell.edu/pages/wml3/working papers.

Lynn, M. and Thomas-Haysbert, C. (2003), "Ethnic differences in tipping: Evidence, explanations and implications", *Journal of Applied Social Psychology*, Vol. 33, No. 8, pp. 1747-1772.

Lynn, M., Zinkhan, G. and Harris, J. (1993), "Consumer tipping: A cross-country study", *Journal of Consumer Research*, Vol. 20, No. 3, pp. 478-485.

McCrohan, K. and Pearl, R. (1983), "Tipping practices of American households: Consumer based estimates for 1979", *1983 Program and Abstracts: Joint Statistical Meetings*, August 15-18, Toronto, Canada.

McMurrain, R., Srivastava, R. and Holmes, T. (2002), "The impact of self-efficacy on expectancy, effort and adaptive selling in a personal selling context", *American Marketing Association Conference Proceedings*, Vol. 13, Summer, pp. 399-406.

Mills, J. and mason, R. (2004), "Points to consider on tip-reporting agreements", *The CPA Journal*, July, p. 42. Available at http//:www.nysscpa.org/printversion/cpaj/2004/704/p42.htm.

Mills, S. and Riehle, H. (1987), "Tips vs service charges", *Restaurants USA*, October, pp. 20-22.

Mooreman, C. (1990), "The effects of stimulus and consumer characteristics on the utilization of nutritional information", *Journal of Consumer Research*, Vol. 17, No. 3, pp. 362-374.

Myers, D.G. (1994), *Exploring Social Psychology*, McGraw Hill, New York, NY.

Ortega, B. (1998), "Restaurants: No tips, please – just pay the service fee", *Wall Street Journal*, September 4, p. B1.

Parise, M. (1987), "Optional tipping has seen its day", *Nations' Restaurant News*, March 9, p. F50.

Paul, P. (2001), "The tricky topic of tipping", *American Demographics*, May, pp. 10-11.

Paules, G.F. (1991), *Dishing It Out: Power and Resistance Among waitresses in a New Jersey Restaurant*, Temple University Press, Philadelphia, PA.

Plous, S. (1993), *The Psychology of Judgment and Decision Making*, McGraw Hill, New York, NY.

Richards, R. and Rosato, D. (1995), "Hotel bans gratuities after tip from guest", *USA Today*, October 3, p. B9.

Schotter, A. (2000), *Microeconomics: A Modern Approach*, 3rd edition, Addison-Wesley, New York, NY.

Schwartz, Z. (1997), "The economics of tipping: Tips, profits and the market's demand-supply equilibrium", *Tourism Economics*, Vol. 3, No. 3, pp. 265-279.

Seagrave, K. (1998), *Tipping: An American History of Gratuities*, McFarland & Company, Jefferson, NC.

Shamir, B. (1984), "Between gratitude and gratuity: An analysis of tipping", *Annals of Tourism Research*, Vol. 11, pp. 59-78.

Shaw, S. (2005), "Tipped off", *The New York Times*, August 10, p. A1.

Simon, H. (1957), *Models of Man*, John Wiley and Sons, New York, NY.

Snapshots (2002), "Here's a tip", *Public Perspective*, November/December, p. 52.

Star, N. (1988), *The International Guide to Tipping*, Berkley Books, New York, NY.

Strohmetz, D., Rind, B., Fisher, R. and Lynn, M. (2002), "Sweetening the til: The use of candy to increase restaurant tipping", *Journal of Applied Social Psychology*, Vol. 32, No. 2, pp. 300-309.

Thaler, R. (1985), "Mental accounting and consumer choice", *Marketing Science*, Vol. 4, No. 3, pp. 199-214.

Twomey, D.P. (1998), *Labor and Employment Law*, 10th edition, West, Eagan, MN.

Wildes, V., Mann, S. and DeMicco, F. (1998), "The Penn State/USA Today restaurant service survey or (un) forkedible frequencies", *Journal of International Hospitality, Leisure and Tourism Mangement*, Vol. 1, No. 3, pp. 103-115.

Table I Attitudes toward Tipping and its Alternatives in the United States

Internet Survey (Lynn, 2004a)

I would prefer to have waiters and waitresses paid higher wages instead of tips.
44% Agree
34% Neutral
22% Disagree

I dislike having to tip waiters and waitresses.
11% Agree
20% Neutral
69% Disagree

Telephone Survey by International Communications Research (Snaphots, 2002)

How do you feel about the practice of tipping – that is a fair way to compensate people who perform various services, or that it is unfair to customers to expects them to pay extra for services they've already paid for.
73% Fair
24% Unfair
3% Don't Know

Telephone Survey by TNS Intersearch (Paul, 2001)

Under normal circumstances, how do you feel when a tip is automatically added to your bill? Are you
57% Annoyed
41% Not Anoyed
1% Don't Know

Reader Survey by USA Today (Wildes, Mann & DeMicco, 1998)

Which do you prefer – having an automatic service charge added to your bill to cover the tip or determining for yourself what the tip should be?
5% Prefer service charge
95% Prefer tipping

In general, which of the following best describes how you feel about tipping?
86% Favor
12% Oppose

Telephone Survey by Yankelovich Clancy Shulman (Cole, 1989)

Would you favor a system under which restaurants would add a mandatory service charge of 15 to 18 percent to your bill?
19% Yes
77% No

Telephone Survey by Gallup (Mills & Riehle, 1987)

Waiter/waitress should receive a guaranteed wage instead of tips.
58% Agree
13% Neutral
23% Disagree
5% Don't Know

I would like it better if I was not expected to tip at restaurants.
33% Agree
19% Neutral
45% Disagree
3% Don't Know

A service charge of 15 to 18 percent is reasonable.
45% Agree
16% Neutral
34% Disagree
5% Don't Know

Table II Summary of the benefits offered by tipping, service charges and/or service-inclusive pricing.

Benefit	Tipping	Service Charge	Service-Inclusive Pricing	Benefit is Especially Strong or Important When ...
Match consumer preferences	+	-	++	Rarely – preferences are weak and likely to have little effect on patronage
Lower distribution costs (via lower nominal prices)	+	+	-	Commissions paid to distributors are high
Increased demand (via partitioned prices)	+	+	-	Customers are price sensitive – e.g., when customers are lower SES
Higher profits (via price discrimination)	+	-	-	Customers differ in willingness to pay – e.g., when customers have diverse SES backgrounds
Motivate up-selling	+	+	-	Servers are trained how to sell and feel competent to do so
Motivate good service	+	-	-	Rarely – tips are only weakly related to service
Motivate equal service for all customers	-	+	+	Large portion of customer base consists of ethnic minorities, foreigners, women, teenagers and/or the elderly
Redistribute income from tipped staff to non-tipped staff or to the bottom line	-	+	+	Tipped staff make substantially more than non-tipped workers – e.g., in up-scale establishments and in areas with generous tipped minimum wages
Attract talented workers (due to high income potential)	+	-	-	Tips are high relative to wages for other jobs
Attract more professional workers (due to income certainty)	-	+	+	Wages are high as well stable
Lower FICA tax payments	+	-	-	Servers fail to declare large amounts of tip income
Lower risks from tax audits	-	+	+	No TDRA or TRAC agreement has been reached with the IRS
Lower risks of adverse impact lawsuits	-	+	+	Tips are not pooled and protected classes receive lower tips