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A Review of Hospitality's Restaurant Operations: An Explanation of the Tipping Phenomenon

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Abstract- Scholars in the field of psychology and economics have carried out studies and developed several economic theories, models and speculations which can be successfully applied in explaining restaurant tipping. Today, tipping is practiced in several countries of the world, though with a few countries in which the act is prohibited. Broadly, tipping is meant to serve as a reward to the food and beverage service staff for providing quality service and more importantly – a complement of their monthly income. On the other hand, it was decided through union negotiations in 1924 to add a 10% service charge to restaurant bills and as a result therefore, some countries of the world such as the United States and Norway adopted laws prohibiting tipping in early 1900s, probably as a result of the negative effects that this act imposed on service quality. Research indicates that tipping is to fulfill three reasons; a reward upon perception of service, incentive for improved future service and as a social norm.

Keywords: *incentive, reward, social norm.*

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A Review of Hospitality's Restaurant Operations: An Explanation of the Tipping Phenomenon

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Abstract- **Scholars in the field of psychology and economics have carried out studies and developed several economic theories, models and speculations which can be successfully applied in explaining restaurant tipping. Today, tipping is practiced in several countries of the world, though with a few countries in which the act is prohibited. Broadly, tipping is meant to serve as a reward to the food and beverage service staff for providing quality service and more importantly – a complement of their monthly income. On the other hand, it was decided through union negotiations in 1924 to add a 10% service charge to restaurant bills and as a result therefore, some countries of the world such as the United States and Norway adopted laws prohibiting tipping in early 1900s, probably as a result of the negative effects that this act imposed on service quality. Research indicates that tipping is to fulfill three reasons; a reward upon perception of service, incentive for improved future service and as a social norm.**

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I. Introduction

Tipping as we understand it on a global perspective is generally practiced in the Netherlands, Sweden, Belgium, France, Switzerland, Italy and other European as well as African countries, while it is hardly practiced in Australia, China, Denmark, Japan and Iceland (Bigler & Hoaas, 2016). In Africa however, very little has been studies have been carried out on this subject (Megan, 2017) and thus there is scanty information on the subject, although optional tipping as well as service charge is allowed in majority of the countries (Clotildah, 2014). Conversely, in East Africa and Kenya in particular, service charge is mandatory as it is included in the final bills of guests (Concern Tourism, 2013).

Tipping is meant to serve as a reward to the food and beverage service staff for providing quality service and more importantly – a complement of their monthly income (Brewster & Mallinson, 2009). Even so, it was decided through union negotiations in 1924 to add a 10% service charge to restaurant bills (Mohd Salehudin, Mohd Zohari, Mohd Rashdi, Salleh Mohd & Othman, 2011; Mcenzie, 2016; Mohsen, 2011) and as a result therefore, some countries of the world such as the United States and Norway adopted laws prohibiting tipping in early 1900s (Azer, 2010) as it was assumed that tipping was to be replaced by service charge.

The decision to abolish tipping was probably arrived at as a result of the negative effects that this act imposed on the level of the general hospitality related services quality (Charity & Kazembe, 2014) in relation to hospitality clients' level of satisfaction, hence a reason for service failures which resulted into reduced customer turn over and thus profitability within these firms.

Nonetheless, many countries of the world are still grappling on whether to abolish tipping or not and thus no policy exists in relation to tipping. Therefore the purpose of this study review is to investigate the probable reasons for tipping and by extrapolation, the influence on food service quality. As a matter of fact, the current literature on tipping behavior presents three dominating explanations on tipping (Megan, 2017; Lynn & Sturman, 2010) on which basis forms the foundation of this study.

a) *Theoretical review*

Tipping is recorded as occurring in a tripartite relationship between the employer, client and staff (O'Connor, 2008; Nemer, 2015). For purposes of achieving the set objectives of this study, a number of theories and models have been applied by researchers in both economics and psychology (Megan, 2017), and will be reviewed as they have some relevance in explaining the phenomenon of tipping; the game theory models, equity theory and reciprocity theory.

i. *The Game theory models*

The game theory incorporates theoretical and empirical models in order to understand the complexities of the broad service industry (Lynn, 2006). This theory was pioneered by John von Neumann, John Nash, and Oskar Morgenstern in 1944, (Back, Carra, Spindola & Oliveira, 2009) who propose game theory as; "the science of strategy, or at least the optimal decision-making of independent and competing actors in a strategic setting". According to Back et al., (2009), people voluntarily choose to give their time or even money, without the smallest hint of later reciprocation which also apply in the tipping phenomenon. In the application of the theory to explain tipping in hotel's restaurant business, service staff willingly choose to give their time for quality service delivery towards guest

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satisfaction, while clients on the other hand give out money or other valuables without the smallest hint of the other party's ability to later give back in return., thus a game on the competing actions among the staff and clients.

ii. *Equity Theory*

John Stacy Adams developed the theory in 1963, based on a principle that *"peoples' actions and motivations are guided by fairness"*. According to Carrell & Dittrich (1978), "employees within the organisation who perceive inequity, will seek to reduce it, either by distorting inputs and/or outcomes in their own minds. The 'inputs,' can be broken down in to time, loyalty, effort, tolerance, flexibility, enthusiasm, personal sacrifice, skill and trust in superiors, while outcomes include 'hard' factors, such as salary, job security and *employee benefits,* which may include bonuses, service charge, and tips as well (Carrell et. al., 1978).

In food service tipping, equity theory cogitate that people feel distress when the benefits they get and give in their relationships with others are not comparative to one another (Lynn, Sturman, Ganley, Adams, Douglas & McNeil, 2008). On the foundation of this theory, and by extension to tipping and service quality study carried out by Lynn et. al., (2010), there sprawls justification on the variation of tipping in relation to service quality.

iii. *Reciprocity Theory*

Reciprocity is a *social norm* of responding to a positive action with another positive action, rewarding kind actions (Falk & Fishbacher, 2006). According to Nugent (2013), it is a behavioral response to perceived kindness, where kindness comprises both distributional fairness and fairness intentions. In relation to tipping, Folk & Fishbacher (2006) found evidence of a universal reciprocity norm obligating people to pay the favors others do for them, and asserts that it's similar to the *"tit-for-tat strategy"* (Seltzer, 2016). In association to tipping, the tit-for-tat strategy suggests that relationship between food service quality and tipping should be stronger for regular than non-regular customers (Lynn, 2010), a concept that needs verification.

b) Tipping theorem

Megan (2017) proposes that tipping is threefold; a reward upon perception of service, incentive for improved future service and as a social norm, all of which has been reviewed in this study in an effort to establish the motivation behind the act of tipping within hospitality's restaurant operations.

i. *Reward upon perception of service*

The economic rationalization of tipping is based on the precincts that it is an efficient means of monitoring and rewarding food service staff (Ali, Ryan & Hussein, 2016; Grandbois, 2016). However, it is the customer who plays the role of rewarding food service staff, thus may not be well versed with the service delivery levels and the technical abilities of the individual food service staff (Wang & Lynn, 2013) to the extent of being in a position to give unprejudiced rewards.

Accordingly, majority if not all of the hotels worldwide have well-structured and convoluted human resource departments with the function of not only carrying out professional staff evaluation and development of impartial reward systems but also on the modalities to reward the staff in a fair manner, based on the current human capital best practice and procedures (Tracy & Nathan, 2002; Boella & Goss-Tuner, 2011) without passing over the burden to food and beverage clients. On the basis of this indicator of tipping, it is two-fold; towards excellent dining experience and reciprocating superior quality/ excellent food and beverage service rating (Lynn & Sturman, 2010).

a. *Dining Experience*

Frazer & Gow (2014) underpin the fact that tips are a substantial, though an un-quantified part of income for hospitality workers, especially for rewarding front-of-the-house employees' superior service (Mcenzie, 2016). This assumption held water only until 1900, when hospitality personnel were considered for the award of salaries and wages, and thereafter the act of tipping was abolished.

Moreover in Kenya and other African states, there lacks clear policy on tipping, even though Lynn et al., (2012) found out that tipping is related to consumers' evaluation of service and the dining experience. Besides, these studies were based in the United States of America and other western countries, and therefore may not be used to generalize the relation to other countries as a result of geographic, social, economic as well as demographic differences. Lynn (2015) concurs with the sentiment that the highly personalized, intangible and variability nature of services (Lillicrap & Cousins, 2014) means that customers are in a much better position than managers to evaluate and reward food service staff for excellent dining experience.

b. *Reciprocity Act*

The assumption behind this approach is that consumers should tip in accordance to the perceived amount and quality of service they received (Lynn, Sturman, Ganley, Adams, Douglas & McNeil, 2008). Lynn (2015), as well as Folk & Fishbacher (2006), relates the act of tipping with the theories and research on equity and reciprocity, the basis on which many scholars have carried out studies on tipping, on which sprouts justification on the variation of tipping in relation to service quality on the basis of bill size, payment method, dinning party size and service quality. However, service quality is difficult to measure, as may denote differently to different people at different times.

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Furthermore, Lynn (2006) confirms that tipping varies in relation to a series of customer determined factors. Nevertheless, Charity & Kazembe (2014), Wang & Lynn (2013), Walsh, Kliner & Nicole (2013), Brewster (2013), Brewster & Rusche (2017), Mcenzie (2016) and Saayman (2014), elaborately summarizes the negative impacts of tipping to the organization as a whole as well as individuals, therefore casting doubt on the assumption by many scholars that tipping serves as an in incentive for improved future service as well as a reward upon perception of service (Megan, 2017). Dissimilarly then, it points out that tipping is the origin of impoverished food service quality instead and so contradictions of the reciprocity approach of the act.

ii. *Incentive for improved future service*

Researchers have proposed the underlying principle behind tipping as attempts to buy enhanced future service (Bodvarson & Gibson, 2002), thus describe tipping as an incentive for improved future service on the basis of tit-for-tat approach and customer patronage frequency.

a. *Tit-for-Tat Approach of Tipping*

In relation to tipping, Folk & Fishbacher (2006) found evidence of a universal reciprocity norm obligating people to pay the favors others do for them, similar to the *"tit-for-tat strategy*", which is a repeated game between the food servers and clients. According to the strategy, hospitality's food service clients will tip in anticipation of improved/ enhanced future service as tips represents favors extended by clients which must be repaid with quality service. However, this may limit explanation of tipping on regular clients especially in consideration of the contribution from non-regular clients.

b. *Customer patronage frequency*

According to Lynn (2010), the relationship between food service quality and tipping should be stronger for regular than non-regular customers. On the basis of this supposition, enhanced service quality is dependent on repeat unlike "walk-in" business. However, due to increased global market competition, many hotels are facing challenges in building brand loyalty and retaining customers, although Carev (2008) cements the argument that by raising quality, and hence customer satisfaction standards, hotel's food service sections gradually rises guests expectation levels, and this may contribute to customer loyalty through repeat business or make it more difficult and more costly to please them hence the cause for brand switching (Chakraborty, 2017). Consequently, tests on service quality by customer patronage and frequency carried out by Lynn (2006), failed to support the assumption that the relationship between service quality and tipping should be stronger for regular than non-regular customers.

c) *Social Norm*

Milos, Youngsoo & Matt (2013) defines social norm as explicit or implicit rules specifying what behaviors are acceptable within a society. According to Wang (2010), 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. Nonetheless, Mohd et. al., (2011) notes that tipping growth in many countries may be attributed to; increasing numbers of travelers from countries where tipping is the norm, bringing back the custom by the local travelers overseas, and the rapid expansion of the hospitality industry which is increasingly internationalized, with notably increasing numbers of people working in the industry who have adopted tipping.

Undeniably, research findings suggests that tipping decisions are influenced by various social norms (Lynn et al., 2015; Jeremy et. al., 2014; Sum & Ala' a Nimer, 2012 and Melia, 2011) and therefore developed in to a culture among hospitality patrons to reward superior service, although it may not necessarily be on the basis of outstanding service (Suksutdhi, 2014). The norm of tipping in hospitality may be explained on the basis of: bill size, ethnicity of the client, customer-server sex as well as miscellaneous variables.

i. *Bill Size*

The acceptable norm dictates that tipping should be 5-20% of the actual bill (Bigler & Hoaas, 2016; Bodvarson et al., 2002), and thus deviation from this norm results in a psychological disunity from other people, and thus related to social pressure (Wang, 2010). In fact according to psychology research, people do not want to risk social disapproval (Margalioth, Sapriti & Coloma, 2010) and as a result will opt to fulfill the norm of tipping. Though, Ala' Nimer, Abukhalifeh & Puad Mat, (2012); Bigler et. al., (2016) and Mohd et al. (2011) records variations in the custom of tipping across countries, ranging from 5% to 20%.

ii. *Customer Ethnicity*

Research has shown that black restaurant patrons are more likely than white patrons to tip a flat amount rather than a percentage of the bill (Margalioth et al., 2010). Additionally, blacks also leave smaller, or sometimes no restaurant tips than whites (Megan, 2017). In view of the results of these studies, it is important to note that whites are most likely to get quality service as compared to the blacks with the servers' anticipation to be rewarded through tips. Nevertheless, the study results represent tipping patterns in western countries, in addition to the sampling biases by Margalioth et al., (2010) as well as Megan (2017).

iii. *Customer-Server Sex*

Previous studies have shown that tipping is affected by the dynamics of sexual attraction,

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suggesting that men leave larger tips than do women, and waitresses receive larger tips than do waiters (Lynn 2010). As a result therefore, service quality may be tilted towards the customer-server sex orientation which is likely not only to influence tipping but also the amount of tips. However, with the current struggle towards gender parity as well as empowerment, in addition to elimination of discrimination on the basis of sex, uncertainties may be cast on these results as it may not represent the current real situation on the ground. Yet again, Lynn (2010) might have been biased in the sampling of respondents thus the need to confirm the results.

iv. *Miscellaneous*

Among other variables that are positively found to be related to the bill-adjusted tip amounts as well as the ability of the food service clientele giving tips to the food service personnel, as pointed out in some studies includes; alcohol consumption, weather forecasts and customer income (Lynn, 2015).

II. Conclusion

Scholars in the field of psychology and economics have carried out studies and developed theories, models and speculations which can be successfully applied in explaining tipping. Thus following several studies across the world on this topic, research postulates that tipping is on the basis of three reasons; reward upon perception of service which stands out tall across the hospitality's food service industry, incentives for improved future service, which may not be applicable to non-regular clients, as well as a social norm that commands one to give a tip irrespective of the food service quality, but as a percentage of the bill size.

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