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Incentives in the Restaurant Industry: an Analysis of Consumer Tipping Behavior

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Introduction

Tipping is the incentive that ensures quality service (Lynn, 2001). If this is the case, then it becomes important that the magnitude of the tip has a positive correlation with the quality of the service. However, this does not always hold true. In fact, past studies have shown that service quality and tip size have a weak relationship (Lynn, 2003). If service quality and tip size do not have a strong relationship, then perhaps other variables affect tipping.

There are many ways to study and survey consumer tipping habits. The most common way is a between-subject analysis. This type of analysis concerns different customers who are asked to record information about a single server. However, this method ignores the fact that any observed differences in the relationships could be because of differences in the tippers themselves, as opposed to the impact of the explanatory variables. For example, two people dine at the same restaurant and receive the same service, but they leave a different size tip. For that reason, researchers have used a within-subject analysis. By using a within-subject analysis, one can control for the subject, thus testing each individual's habits over different tipping occurrences.

In a recent study, Lynn and Sturman (2010) use the within-subject approach to study the relationship between service and tipping. By using this approach, they helped to prove that service is weakly related to tipping. By controlling for the tipper, they were able to free their study from the tipper's disposition. The study of Lynn and Sturman (2010) is important because it creates a guideline for testing other variables and their relationship to tipping.

The Purpose of the Study

This study will examine the relationship between tipping and other important variables, such as, personality type, consumer demographics (e.g., gender, age, race) and purchase patterns (e.g., meal-type variables and alcohol consumption). At the same time, this study will attempt to incorporate service quality elements into the above explanatory variables. This dovetailing will help to facilitate the investigation of the relationship between tipping and service quality. Once the

data has been collected and analyzed, the study will proceed to explain the managerial implications of the results.

Literature Review

Past research has attempted to find relationships between tipping and other variables such as, service quality, server/customer sex, customer ethnicity, customer patronage frequency and alcohol consumption (Lynn, 2006). Lynn (2006) is a cumulative review of past tipping studies. This review shows that service quality, bill size, customer patronage frequency have positive relationships with tip size. As far as gender is concerned, tipping size depends on the server/customer gender dynamic. It has been shown that males are more likely to tip female servers more and vice versa. Ethnicity is also a factor when predicting tip size. “Blacks...leave smaller average restaurant tip percentages than do Whites.” says Lynn (2006).

While numerous studies have been conducted about tipping, the relationship between personality type and tip size has not been extensively tested. Lynn (2008) is a recent study that attempts to relate extraversion, neuroticism and psychoticism to the magnitude of tipping. Here it was found that “finds that national extraversion and psychoticism, but not neuroticism, are related to customary tip sizes. More specifically, tipping size increased with national extraversion and conversely decreased with psychoticism. It is important to note that this study used second hand national data about personality traits and tipping norms to draw its conclusions.

The relationship between tipping and the aforementioned variables has been widely studied in a variety of ways. Researchers have engaged in field experiments, theoretical models, hypothetical surveys, cross-cultural comparisons, managerial studies, cross-gender comparisons, empirical surveys, meta-analysis, lab experiments, review articles, and managerial implications studies (Azar, 2007). Each of these methods seeks to explain tipping in a different way and from a different viewpoint. The methods of particular interest to this study are empirical surveys and managerial implications.

Empirical surveys seek to explain tipping behavior by collecting primary data from the actual tipper. Often researchers choose to give surveys to customers after they have dined and

closed their bills. This is commonly referred to as a between-subject analysis. In this type of analysis, customers are asked to rate service quality as well as to record their bill amount and tip amount. Lynn (2003) conducts content analysis by reviewing a multitude of published and unpublished empirical studies regarding tipping. The empirical results of his study confirm that service and tipping percentage are positively, if weakly, correlated.

Further empirical studies have concluded that between-subject correlational design suggests “that the observed relationships could be because of stable dispositional differences between tippers rather than a direct causal impact of service on tipping” (Lynn & Sturman, 2010, p. 270). They suggest that a within-subject correlational analysis would help correct for this type of error. After conducting a within-subject analysis of 51 participants, their findings showed a stronger positive correlation between service quality and tip percentage. However, a within-subject analysis is not perfect. That is, there is concern that the measure of the tip size is not always accurate because it is reported by the tippers themselves. It is important for researchers to understand the tradeoffs between within-subject analysis and between-subject analysis.

While the methodology of empirical studies is important for the validity of the results, the managerial implications are equally as important. Much of the tipping research conducted today is used to enhance management techniques, service quality, and server’s wages. For example, Lynn (2003) uses a collection of empirical surveys and data to create a list of ways that servers can use to increase the size of their tips. These ways include, but are not limited to, smiling, writing “thank you” on the check, squatting down next to the table, and introducing themselves by name. Through empirical studies, researchers have been able to quantify and prove that techniques such as these are effective. These results prove to be important to servers, managers, and consumers alike.

Data Collection

This paper will use primary data from 150 college students at a state university in the Southeastern region of the United States. Each college student will be asked to create a journal recording his or her tipping experiences over a four-week period. Each journal will ask the participant to record his or her objective observations concerning tipping experiences. Questions will include the following: tip amount, server gender, alcohol consumption, meal type, age of the

server, race of the server, service quality, length of visit, etc. In addition, each student will be asked ten questions that will determine their personality type. At the end of the four-week period, each participant will have completed his or her own tipping journal and submit the journal for analysis.

Methodology

Dining experiences will be retained for analysis if they (a) involved eating at a restaurant, (b) concerned waiter/waitress service, and (c) had nonzero contributions towards the bill from the participant. Outliers will be identified, scrutinized, and possibly dropped too. Potential outliers could include tipping amount that are uncharacteristically high (i.e. over fifty percent). It should also be noted that any journal with less than two entries will be disregarded as well.

Once the data set has been cleaned, all tips will be converted to percentages. An investigation will then take place that includes statistical analysis of all bill sizes/tips, correlational analysis between tip percent, and all aforementioned variables, linear modeling, and a review of all qualitative data.

Expected Results and Managerial Implications

Tipping is an important part of the restaurant industry. In the United States, tips in the food industry alone amount to almost 44 billion every year (Azar & Tobol, 2008). Furthermore, tips often account for a large majority of a server's paycheck (Wessels, 1997). This study's results will be used to make recommendations, as well as to discuss the managerial implications. Ideally, this study will aid managers in making the proper service-customer match that will increase customer satisfaction, improve employee performance, and increase server's pay. Moreover, this study should reexamine the idea that increased service quality results in increased tip size, as this incentive scheme benefits servers, managers, and customers alike.

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