

4-2012

Why Do We Tip?

Kevin F. Hallock
University of Richmond, president@richmond.edu

Follow this and additional works at: <https://scholarship.richmond.edu/economics-faculty-publications>



Part of the [Economics Commons](#), and the [Hospitality Administration and Management Commons](#)

Recommended Citation

Hallock, Kevin F. 2012. "Why do we Tip?" *Workspan* 55 (4) (04): 12.

This Article is brought to you for free and open access by the Economics at UR Scholarship Repository. It has been accepted for inclusion in Economics Faculty Publications by an authorized administrator of UR Scholarship Repository. For more information, please contact scholarshiprepository@richmond.edu.

Why Do We Tip?

Why do people complain
when a sales tax is
raised by half a percent
but voluntarily “tax”
themselves an extra
15 percent to 20 percent
to tip service workers,
even ones they don’t
know and will likely
never see again?



Cornell University
ILR School
Institute for Compensation Studies

Kevin F. Hallock
Joseph R. Rich '80 Professor,
Economics and HR Studies,
Cornell University

Director,
Institute for Compensation Studies,
Cornell University

Member,
2012 WorldatWork Society
of Certified Professionals Board

When I delivered the *Daily Hampshire Gazette* in Western Massachusetts I was paid \$0.04 per paper sold and also earned tips. One customer gave me a dime tip each week and another on my route gave me a quarter. Their tips were regular (but I am not sure my service was). And I often received (relatively) enormous tips in late December. In my case, was the tipping a reward for past good work, a pre-payment for on-time and dry papers in the future, a voluntary and direct income redistribution to a hard-working child, or was it something else altogether?

Why Tip?

Some economists may argue that the billions of dollars a year spent on tipping are difficult to understand. After all, there is no requirement to tip. It may be reasonable to tip the person who cuts your hair (since you may go back to the same person to again have them go at your hair with a pair of sharp scissors), but it makes considerably less “economic sense” to tip a Manhattan cab driver you will surely never see again.

In their recent article “Why Tip? An Empirical Investigation for Tipping Car Guards” (*Journal of Economic Psychology*, February 2010), Stephen G. Saunders and Michael Lynn summarize potential reasons for tipping as: to increase the probability of good service upon repeat business, to reward

good work, to redistribute income to service workers, to avoid societal disapproval or gain societal approval and to conform to internalized norms.

Tipping hair stylists and babysitters clearly fits into the realm of increasing the probability of good service upon repeat business. In fact, my wife and I used to intentionally and considerably over-pay babysitters specifically to make sure the babysitters would immediately respond when called again and give extra special care to our children (not necessarily in that

order). I also try to give good tips to the person who cuts my hair (or what is left of it), in part because I want her to know how much I appreciate her trying to fit me into her schedule at the last minute.

Many people give larger tips for better service and lower tips for poorer service. So I don't think the tips for good work category is particularly controversial.

Redistributing income to service workers is an interesting reason for giving tips. Once, a person driving me to the airport said that if he stops at his regular coffee shop at night, he gives larger tips (double the daytime tip). His reason? The folks working at night probably need it more. While many folks are conscious of redistributing income to others through taxes and charitable giving, how many are like this guy and use tipping as a purposeful redistributive donation?

In terms of societal approval and social norms, the (well-known) variability across the world in the kinds of occupations that are tipped and the level of those tips supports the proposition that what we think others think that we should tip is important. For example, research by Michael Lynn, George Zinkhan and Judy Harris ("Consumer Tipping: A Cross-County Study," *Journal of Consumer Research*, December 1993) shows that far fewer occupations are tipped in Norway, Sweden, Denmark, Japan and New Zealand than in the United States, Germany, Argentina and Spain, and tipping behavior is correlated with such cultural values as uncertainty, avoidance, individualism and power-distance norms.

There is growing work on the motives and reasons for tipping. In their study of tipping car guards, Saunders and Lynn find strong support for rewarding good quality, helping service workers and gaining societal approval as reasons for tipping. Lynn also finds that tipping in restaurants varies based on many issues, such as bill size, payment


In terms of societal approval and social norms, the (well-known) variability across the world in the kinds of occupations that are tipped and the level of those tips supports the proposition that what we think others think that we should tip is important.

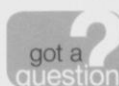
method, dining party size, service quality, service friendliness, server and customer gender, patronage frequency and ethnicity. (See "Tipping in Restaurants and Around the Globe: An Interdisciplinary Review" in Morris Altman's *Handbook of Contemporary Behavioral Economics*, 2006.)

These are interesting findings but more work needs to be done with more detailed and even experimental data.

Experiments?

Tipping is an area where there is significant opportunity for designed experimental research. An obvious, but simple, example would be for restaurants to randomize a "suggested tip" on credit card receipts. Or, to see if more sharing or transparency of tips increases the overall quality of service provided by a team of employees, a hotel might experiment with degrees of pooling of cleaning staff tips or incenting guests to tip at checkout rather than leaving it in the room. More carefully designed (and minimally invasive) research on tipping could lead to higher profits for organizations, higher levels of compensation for employees and a more satisfying experience for customers.

But such tipping experiments should also be considered outside the traditional service sector occupations. Which of the five reasons articulated by Saunders and Lynn is why we tip our salaried employees with bonus pay? Are we really achieving the desired result? 



The Institute for Compensation Studies (ICS) at Cornell University analyzes, teaches and communicates about monetary and nonmonetary rewards from work, and how rewards influence individuals, companies, industries and economies. ICS research and leading-edge insight address compensation issues challenging employers and employees in today's dynamic global marketplace. www.ilr.cornell.edu/ics

Send topic suggestions to ics-ilr@cornell.edu.