Tipping in Top Auckland Restaurants: Does it help?

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Attestation of Authorship

I hereby declare that this dissertation is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Signed:

Marcus Pearson

19th July 2010

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Confidential Material

The restaurant sample that participated in this research has retained the right to keep their identity confidential. To maintain anonymity, all references to the restaurants and managers are in code and are identified only as a number within a range from Restaurant 01 to Restaurant 10.

Abstract

The practice of tipping in restaurants or the addition of service charges onto the bill at the end of the dining experience is the norm in many countries throughout the world. t is not normal to tip in New Zealand, however the practice has gained some acceptance, especially in Auckland's fine-dining restaurants.

This study applies a qualitative methodology to understand how the practice of tipping is managed in fine-dining restaurants. Ten restaurant owners/managers were interviewed about the phenomena of tipping and its application to their organisations. The sample was selected from 20 top, fine-dining restaurants. Excluded from the sample were hotel restaurants, as they are part of organisations that have multiple income streams. All managers spoken to said they their restaurants were dependant on their own organisation's reputation for their business success.

The findings from this research show that there are four influences on the impact of tips on an operation: teamwork, staff loyalty, good service, and restaurant organisation. Furthermore, the research suggests that tipping by New Zealanders sometimes relates to the quality of the dining experience that the customer receives. The managers emphasised the importance of good service and made every endeavour to run their operation in a professional manner providing an overall dining experience that met or exceeded customers' expectations.

This research has produced both theoretical and managerial implications. From a theoretical perspective, customers appear to tip for good service, a finding which differs from studies completed outside of New Zealand. Customers in New Zealand are willing to give a gratuity to the waiters, not because the service staff members are underpaid, but because they feel that they had a value for money experience. There are two viewpoints from a managerial perspective about tipping. Firstly, staff development and training, although often viewed as wasteful because of high staff turnover, is essential for maintaining a successful business. Tipping assisted in the retention of experienced personnel, giving longevity and continuity of service standards that are lacking in other parts of the industry. Secondly, managers should measure customer satisfaction by transparent criteria, such as customer feedback appraisals, rather than just using tips as a measurement. The key informants believed that customers tipped for good service and therefore structured their restaurant operations to deliver top service.

Glossary

Terms	Explanation
Average cheque or average spend	The total revenue for a restaurant session is divided by the number of customers, to get an average spend per diner.
Runner	A person who takes the food from the kitchen to the waiter. The waiter then serves the customer.
Service charge	A service charge added onto the bill before it is presented to the customer. This money generally goes to the waiting staff; however the restaurant owner has discretion on what percentage gets passed on.
Stiff (to)	The action of not tipping. A colloquialism used in countries where tipping is the norm.
Tip	A gratuity, reward or gift for services rendered.
Tippee	One who is tipped.
Tronc	A system used in Europe for pooling the tips and service charges, then distributing the proceeds to the appropriate staff. The employer generally plays no part in how the tronc is distributed. Derived from the French word for 'collecting box'.
Troncmaster	A staff representative who manages the tronc and distributes the proceeds to staff.
Wait-staff	Restaurant staff who serve customers at the table.

1 Introduction

1.1 Background and context

Historically, the practice of tipping was in evidence and gained in popularity in sixteenth century England, where London coffee houses placed brass urns to receive monies (tips) for prompt service. The practice continued in America, however never caught on in New Zealand. This may have been because of the egalitarian nature of the society which developed in the country when it was first settled. Research carried out by Lynn (1997) found that tipping was less in countries with low tolerance of personal status and power differences; for example, New Zealand. In places where tipping is prevalent, such as America and Europe, people value status and prestige.

The custom of tipping in New Zealand is not a normal practice and is not encouraged (Casey, 2001). Evaluations from tourists departing New Zealand suggest that the quality of food service in New Zealand is not consistent or up to international standards (Tourism New Zealand, 2006). Is there a correlation between not tipping and a lower standard of customer service? Despite tipping not being the norm it does occur in New Zealand, mostly in fine-dining restaurants.

Based on the increase in the number of restaurants in New Zealand between the years of 1998 to 2008, it seems evident that more people are dining out (Restaurant Association of New Zealand, 2008b). Restaurant entrepreneurs have encouraged a hospitality industry that reflects the essence of New Zealand by the promotion of local produce and wine, which is further enhanced with imported delicacies and wines. The dining experience has improved with new ideas and themes being imported from overseas.

Tourism has also been riding a wave of popularity. Visitor arrivals have steadily increased over the preceding ten years, from 1,464,000 in 1998 to 2,445,000 in 2007 (Statistics New Zealand, 2008). The increased numbers travelling to New Zealand

appear to have lifted the standard of service required of restaurants. Visitors from the USA, Europe, and Australia currently represent approximately 58 percent of all visitors to New Zealand, and they expect high levels of customer service. However, these expectations have not always been met(Tourism New Zealand, 2006).

Customers at fine-dining restaurants demand very good service and it is essential for the survival of the restaurant to provide this service. Auckland has a number of fine-dining restaurants, where the purpose of dining is to experience a pleasant atmosphere and ambiance, excellent food, fine wine, and good service. This dining experience comes at a high price. Currently a fine-dining meal in Auckland costs approximately $100.00 per person.

1.2 Justification for the research

There has been considerable research conducted on tipping in restaurants from researchers in the USA (Bodvarsson & Gibson, 1997; Lynn, 1997), Europe (Azar, 2003) and Asia (Dewald, 2003). The literature is heavily weighted by studies on tipping behaviour in the USA, where tipping is the social norm and is well practiced. The studies have ranged from researching the underlying economic reasons customers tip, to the psychological attitudes of the customer at the time of tipping. Tipping does not have a single meaning and can be divided into six categories: reward tipping, price tipping, bribery tipping, tipping in advance, holiday tipping, and gift tipping (Azar, 2007). Historically, as tourism to New Zealand increased, the practice of tipping has also increased. In a country where tipping was not practiced, it was seen as something that would have a negative impact on society and therefore information was promoted to tourists that tipping was not a New Zealand custom and not necessary. There has only been one piece of research completed on the subject from a New Zealand perspective (Casey, 2001). The point could be made that New Zealand does not have a tipping culture, and therefore, any findings are irrelevant. But Casey showed there is an increasing awareness of tipping and the practice has increased in New Zealand since the 1980s. Although all New Zealand restaurants have a service-inclusive menu pricing regime, tipping in restaurants has increased in fine-dining operations where skill is displayed by the kitchen, in food preparation

and presentation, and also displayed by the service staff, in meeting and exceeding high customer expectations. The key components of a quality dining experience.

The hospitality industry is labour intensive and has a high turnover of staff; research by the Restaurant Association of New Zealand (2008b) shows staff turnover at 30% for 2008. To operate a fine-dining restaurant requires skilled and experienced personnel who can deliver a high standard of customised service. The service staff member per customer ratio is higher than in average restaurants; the pressures placed upon the staff to meet customer expectations are also demanding. So how do restaurants maintain consistent high service standards in an industry which is affected by high staff turnover? What strategies for preserving a top reputation over many years are…?

1.3 Research problem statement

The title of this study is, "Tipping in top Auckland Restaurants: Does it help?" Therefore, the word "help" needs to be described. In this context "help" means asking: Does tipping provide for better service? Is there a professional attitude displayed by the service staff towards their customers? Does the restaurant give consistency of service? Another aspect of the definition is that help means staff members are retained, their remuneration is improved and this translates into job satisfaction; the staff members thus have positive feelings of being appreciated for a job well done and this in turn translates into a loyal long serving team. Tied to both is restaurant organisation, in that tips are managed in an open transparent manner.

The general objective of this research is to understand whether the practice of tipping "helps" Auckland's fine-dining restaurants. To meet the objective involves collecting first-hand information from the owners or managers of restaurant businesses to understand their attitude to tipping and on how they manage the practice of tipping. The scope of this dissertation is to examine management issues that surround the practice of tipping from a manager's perspective. Another aim is to understand the key issues that relate to the customers and the management of the restaurant. The intention is to determine whether tipping has an effect on customer service and

retention of staff, also to obtain information on whether tipping is something they agree or disagree with and whether another system would be beneficial for the industry.

Although tipping is not the norm in New Zealand, the practice does occur mostly in fine-dining establishments. The literature states that there is a tenuous link between tipping and good customer service and that there are other factors involved. In response to the above issues this study examines the following research questions:

RQ1: What is the manager's conception of good service?

RQ2: Does tipping help improve customer service?

In an industry where staff turnover is notoriously high and is a concern for managers, there are questions to answer about how tipping affects staff retention, the nature of staff-management issues, and how tips are managed in a restaurant organisation. To address these points, two further questions are asked:

RQ3: Does tipping help retain service personnel?

RQ4: Does tipping help improve team spirit?

A final point to consider is whether the system currently being used the best one. Would the adoption of an alternative tipping system, such as that used in the USA, be better? Therefore, the final question that this study proposes to answer is:

RQ5: Would an American style of service and tipping be beneficial to the restaurant?

1.4 Methodology

To address the research questions I gathered data from fine-dining restaurant managers on the phenomena of tipping to determine whether tipping is perceived as a means of achieving customer value. Furthermore, I established from a manager's perspective why they think customers tip and identified what they mean by good service, and how they ensure they exceed customer expectations. I also inquired

about the nature of the underlying issues relating to tipping and staffing and whether there are employee concerns, and I will identify the methods in use for managing and distributing tips within the organisation.

To understand the phenomena of tipping in fine-dining restaurants, a qualitative approach was chosen based on grounded theory methodology (Pandit, 1996; Patton, 2002). I conducted in-depth, semi-structured interviews with the managers to elicit their views and perspectives. The 'elite' interviewing technique (Patton, 2002) was conducted on the site of the participant's restaurant. This is a method of interviewing persons who have specialised information and involvement in the management of a restaurant operation. Ten interviews were audio recorded and transcribed. The data were themed and used for comparative purposes to analyse the practice of tipping.

The following criteria were used as a basis for restaurant selection: 1.) restaurant owner/manager had to be in business for four or more years, 2.) the average spend per person was approximately $100.00, and 3.) the restaurant matched the fine-dining criterion with its customised high standard of service. The chosen restaurants and their customers represent the top tier of restaurant operations, overall. The number of fine-dining restaurants in Auckland city is limited, with approximately 2o - 25 fine-dining restaurants where the average customer spend is between $85-100.00. This study of ten fine-dining restaurants represents a substantial subset of the total population.

Owners/managers of the restaurants were approached and asked if they would participate in the research. At the interviews, consent was confirmed and the participants were made aware of the procedures involved and their role within the project. Confidentiality of all participants and the restaurants they represented was preserved. Due to the longevity of the business operations selected, the managers had comprehensive backgrounds and knowledge of the New Zealand hospitality industry and substantial depth experience in the restaurant business. These facts enabled them to address the research questions.

1.5 Overview of the dissertation

The dissertation contains five chapters. This introductory chapter has provided the background that led to the aim of the research and discussed the five research questions along with the methodology used to answer the research questions.

Chapter Two refers to the methodology used and begins with a discussion on the conceptual framework and analysis of the data. This explains the research process, graphically displaying the formation of the underlying concepts. Next, the discussion focuses on the research development and details the qualitative methodology; in particular, the essence of grounded theory as it was used in this study. The chapter discusses the tenets of the theory and covers the participant selection criteria. The application of the research design is considered along with key steps in the process. Rigor and trustworthiness issues are examined and finally the limitations are noted.

Chapter Three reviews the literature on tipping, and covers the theory of the topic while examining the history of tipping from international and New Zealand perspectives. Also, there is discussion on the meaning of the word 'tip' and offers detailed explanations of the tipping phenomena and discusses key tenets that underline the practice. From a manager's viewpoint there are two areas on tipping that are highlighted. Firstly, "customer issues" cover such topics as customer service, customer satisfaction and customer value. Secondly, "management issues" focus on organisational control, service charges and staffing. These issues are discussed in relation to each other and tipping.

Chapter Four describes the findings of the research. The first section discusses restaurant demographics and covers seven key attributes of the research sample. This is followed by discussion on the theoretical themes induced from the research: good service, teamwork, loyal staff, and restaurant organisation. These are considered in terms of what they mean for the manager, the restaurant and the customers. Next, the five research questions are addressed. In terms of findings, it can be said that tipping does help the managers to maintain experienced personnel and to improve customer service which in turn fosters teamwork and gives the customer a quality experience.

Chapter Five concludes the dissertation by discussing the limitations of the research and directions for future research. Further research overviews the issue of service charges and debates the impact from an industry wide-perspective. The limitations are discussed and refer to the sample, and the managers-only view on customer service and staffing issues. Implications for theory and management are that good service is rewarded and that resources should be put into staff development. Feedback on customer service quality should be more than whether or not a customer tips. Tipping is a critical part of the businesses studied, and without it there may be repercussions on the profitability and standard of the operation. The chapter finishes with a section on final thoughts, noting how tipping helps the restaurant operation, but that there could be a possible downside for the restaurant if customers did not tip.

2   Research Method

2.1   Introduction

This chapter details a synopsis of the research analysis which is encapsulated in Figure 2.1; this overview discusses the steps taken through the research data collection and analysis stages. Following on is an outline of the qualitative research methodology and the grounded theory research design. The process of analysis explores the concept of grounded theory and what makes this method different compared to other qualitative processes. The selection criterion of the key participants is discussed, along with the research process. The rationale and justification for the design is stated along with the sources of data and how that data was collected. Rigor and trustworthiness issues are covered, and the chapter finishes with a discussion of the limitations of this research design.

2.2   Conceptual framework

In this section I discuss the conceptual framework from the data collection phase to tipping and restaurant issues. I did background reading of the literature relating to tipping and also on the research methodology. This helped me gain a fundamental understanding of the subject and also helped with the interview design. The conceptual model in Figure 2.1 shows my progression in developing the theoretical concepts.

Six themes emerged in the initial stages of data collection, shown in level one of the model. As the research progressed, the manager's thoughts were compiled and compared to the previous interview results, and from this constant comparison the four core categories shown in level two became evident. Through the process of reflection and reviewing, going backwards and forwards over the data, the themes and the coding, the generation of the two management issues at level three was inductively generated. The interplay between the analysis and data continued with the emergent issues being back-applied over the six themes and four categories, and

through rearrangement of those concepts, the customer issues and the management issues labels emerged in level three.

Figure 2. 1   Conceptual Model: An overview of the data

Level	Data collection and analysis					
1	Customer service	Customer satisfaction	Customer value	Staffing	Organisational control	Service charges
2	Good service		Teamwork	Loyal staff		Restaurant organisation
3	Customer issues			Management issues		
4	Tipping: How does it help the customer's fine-dining experience					

In this chapter, I explore four categories (good service, teamwork, loyal staff, and restaurant organisation) in further detail. In chapter three I examine the literature relating to the managerial perspectives surrounding the customer, the business, and tipping.

2.3 Methodology

The purpose of this study is to determine if the practice of tipping in Auckland fine-dining restaurants helps those operations. Qualitative (interpretive) methods were best suited to complete the project because the goal was to understand a social situation, not show repetitiveness. Interpretive research is concerned with the in-depth understanding of socially constructed realities grounded on inductive reasoning. Positivistic research is concerned with establishing objective universal laws based on deductive reasoning (Patton, 2002). The qualitative approach is chosen as the most suitable for this study as it seeks answers to how, why and what type

questions in relation to tipping. The methodology gathers rich data and thick descriptions from key participants that give a greater depth and understanding of how tipping helps with staffing and customer service, why preference is given to managing tips in a certain way, and what the managers conception of good service is. Quantitative methodology, on the other hand, is best suited to make comparisons and statistical aggregation by surveying a greater number of people using a rigid pre-determined set of variables (Patton, 2002). The use of surveys for this study would not have gained the depth of understanding of the subject, nor an appreciation of the broader viewpoint on restaurant service. The interviews also communicated the zeal the managers had in operating their restaurants, and how they took pride in their establishment's reputation and their passion for hospitality industry.

2.3.1   Process of analysis

This dissertation is based upon grounded theory. Grounded theory is a method that emerges from a systematic, comparative analysis of data. It is grounded in fieldwork; it explains what has happened and what has been observed (Patton, 2002). The objective of grounded theory is to "build theory, not test it" (Strauss & Corbin, 1990 p.13), with the dual emphasis being on a systematic approach and creativity. Grounded theory is used for generating and confirming theory that emerges from close observation, involvement, and contact with the real world; it is about what is actually happening (Glaser, 1992).

Grounded theory research requires a period of time in the field, where attention is given to accuracy, validity and integrity. It stresses the steps and procedures for connection, induction, and deduction, through comparative sampling and testing concepts with further fieldwork. In this research, the grounded theory process was concerned with the practice of tipping in fine-dining Auckland restaurants. The steps below show how it was applied to the restaurant setting.

2.3.2   Purposive sampling and constant comparison

A purposive sampling approach was used to select the sample. Purposive sampling is the study of 'information–rich' cases that yield insights and in-depth understanding

on the practice of tipping. May (2001) talks of purposive sampling in terms of those who are to be surveyed as being "fit for purpose" with the selection being made against known characteristics. Gray, Williamson, Karp and Dalphin (2007) note that the researcher "purposively and subjectively" selects the individuals for the experience they bring to the topic being studied. The characteristics employed in this case were that the managers had many years of prior experience in the industry and had depth of knowledge and understanding of the Auckland hospitality scene. This meant checking the background of the prospective participants that they meet the selection profile before proceeding with invitations to participate. In selecting the restaurants I was mindful that the organisation should suit the purpose of the dissertation and that the participants had suitable support from their establishment so that the collection of data could be achieved successfully. All managers chosen had a comprehensive background in the restaurant trade; they had a wealth of knowledge and experience in operating a restaurant business.

Access was not difficult; the managers I contacted were very helpful by being very amenable and forthcoming about the subject of tipping. The interviews were completed at the convenience of the managers on site and between lunch and dinner service times. The initial chosen sample size was ten managers; this is a reasonably large percentage of fine-dining restaurants in Auckland city. Through purposive sampling, I decided a priori that ten restaurants was sufficient sample size to begin with. However, in 'grounded theory' methodology, the sample population size does not carry any weight. What is relevant is theoretical saturation (Bryman, 2004). Theoretical saturation is the point that is reached when new data is no longer adding to, or building up the concept. That is, the researcher goes out into the field and covers the topic until such a time that further research does not add anything new to what has already been established.

Another benefit of grounded theory is the rigor used throughout the research process by the constant comparison of new data with the coded themes (Glaser, 1998). There are three types of coding: open coding, axial coding, and selective coding. Open coding analyses each sentence or statement, axial coding reconfigures open coding

concepts and puts them back to new ways of making connections categories, and selective coding is used later to delimit coding and integrate relevant categories into a theoretical framework (Pandit, 1996). Coding continues until data saturation has been achieved, indicating sufficient numbers of sample participants have been chosen. I initially selected ten restaurants from the list of twenty a few from each of the cuisine styles. The original twenty were based on restaurant guides and internet sites that rated restaurants. Seven of the restaurants were in the Auckland central business district, with three sited close by in Ponsonby and Parnell. As it turned out, the ten restaurants selected were all that was needed to reach saturation because one more interview would not produce further new material.

2.3.3   Theoretical sensitivity

Theoretical sensitivity is the ability to have an insight and to give meaning to the data. It is the capacity to understand and to have awareness of the subtleties of meaning of the data (Strauss & Corbin, 1990). Sources of theoretical sensitivity occur through:

1. Personal and professional experience
2. Knowledge of the literature
3. The analytical process, by building up knowledge in response to a greater awareness of the topic under investigation.

With regard to this dissertation, I have considerable experience in the professional hospitality industry and have an understanding of the main points relating to the literature. My insight and understanding for the subject was increased by analysing the data. My development continued throughout the interview phase. The initial interviews were quite detailed about the whole practice of tipping, and were very informative. As each manager was interviewed, the depth of my personal knowledge grew and I had a greater understanding for the topic. The interview questions changed and the interviews became more tightly focused as I became increasingly aware of key concepts and categories. Some questions were dropped and others refined. An example of one question being dropped was about the percentage of

customers who tip. The managers could not give a precise figure. This may have been deliberate on their part as they were conscious of tax department enquiries, or it may have been too difficult to obtain data. Consequently, as there was no clear valid data forthcoming, it became a fruitless enquiry and therefore was dropped. Further personal development continued the more that I became immersed in the study. An example of this was the opportune timing of a visit to New Zealand by Larry Naudine, from the French Laundry restaurant in the USA. It was only from my involvement in the study and also reading of journals that I became aware of the reputation of the restaurant and the way they handle tips, which differs from the normal custom of tipping in the USA.

2.4 Research procedures

In this section I identify the three sampling criteria used in this study and procedure for recruitment. The sample selection is based on the five cuisine styles within the fine-dining range. A discussion follows on the reasons for the interview technique used.

The first criterion for inclusion in the sample was based on selecting restaurants that were stand-alone operations (not ones that were part of a hotel or complex). That is, the restaurants were not reliant on a rooms division or banquets/functions facility that could help the income stream. The reason for this criterion was to have a sample of restaurants that had a top reputation for food, wine and service and their own customers. They relied on their own ability to stay in business.

The second criterion was the length of time the restaurant had been in business with the current manager. The purpose was to select organisations that had been in operation for at least four years. RANZ (2008a) states that 75% of restaurants fail within four years; therefore, a restaurant that had been open for more than four years could be deemed successful.

The third criterion for selecting the sample was based on the notion that the restaurant met a fine-dining standard. The guidelines for this standard can be defined on the following points. Main courses would cost approximately $45-$55 per person,

white linen table cloths, a full cutlery setting, the restaurant service would be customised and personalised, and there is an extensive wine cellar. The restaurant would have an average spend per head at approximately $100.00.

The sample selection was based on the cuisine style. This criterion was used to eliminate any bias that could be attributed to one particular operational style. A cross-sectional analysis would provide a clearer picture, giving depth and contrast to the phenomenon of tipping in Auckland. There are five cuisine styles within the fine-dining range: French, New Zealand, Pacific Rim, European and Seafood. The restaurants advertised which cuisine style they served, and I grouped 20 restaurants under these headings (refer to Appendix One). The cuisine styles where taken from descriptions on their web pages, as well as independent restaurant guides and promotional material. The 20 restaurants represented approximately 70-80 % of the fine-dining restaurants in Auckland. The restaurants represent the top tier of operations in Auckland city and are reputable organisations within the hospitality industry. I selected ten restaurants that covered a cross section of the five cuisine styles.

I chose the semi-structured interview technique for this research because this is designed to tap into the participant's knowledge to extract deep and rich descriptions of their perceptions and preferences on tipping (Patton, 2002). This 'elite interviewing' style is the interviewing of key individuals who are well informed to give a comprehensive view of the restaurant and the manner in which it operates. The participants I interviewed are leading entrepreneurs in the Auckland hospitality industry, they were able to give rich descriptions about their experience in restaurants. The semi-structured interview technique sits between focused and structured methods, and draws on tools from both methods (Marshall & Rossman, 1999). The strength of qualitative inquiry emerges in using semi-structured interviews because it opens up possible avenues that yield information-rich data. Questions are specified in advance and this allows the interviewer to probe beyond the answers. A dialogue is entered into with the interviewee that permits the participant to answer questions on their own terms, enabling the researcher to capture

the deep meanings of the interviewee's experience on tipping and to explore that in full detail.

2.5 Data sources

The sources of data collection for this dissertation were ten interviews conducted in late 2008 and early 2009. Appendix Two is the interview guide I used for this research. It is based on a number of initial questions that confirmed restaurant status and demographic data. The information obtained was on restaurant size, average spend figure, the depth of experience of the manager, and customer type. The second part of the interview guide has questions on tipping, with the questions exploring each manager's perspective and thoughts on tipping. Included in this section is the establishment of links between tipping, customer service and staff turnover. Customer service is a key element within the hospitality industry and the managers were asked for their definition and opinion on this subject. The questions used during the later interviews were more focused, and consequently, the sessions were correspondingly shorter.

I conducted interviews with the managers on site and in private. Each session took approximately 30 to 40 minutes. Conducting the semi-structured interviews at the restaurants allowed easier access to the managers as they were done at a time of their convenience. Also, this encouraged greater informational disclosure due to their familiarity with the surroundings. The face-to-face meetings in a free and open atmosphere allowed for greater possibility of gaining in-depth answers and comment. I started the interview by collecting demographic data, followed by questions relating to the management of tips, the managers' philosophical attitudes to the practice of tipping and how that related to staffing and the customer. The audio recordings were transcribed within four hours of the interview. Between interviews, I checked to see what new and different material was generated as compared to the previous ones. The transcriptions were coded, and the codes were put into categories. The codes became the 'building blocks' for the research (Bryman, 2004; May, 2001; Patton, 2002).

The analysis of the data included both inductive and deductive reasoning (Patton, 2002). Inductive analysis involves finding patterns, themes and categories within the data. This is known as 'open coding' (Strauss & Corbin, 1998) and is an essential tenet in 'grounded theory' design. In grounded theory, deductive analysis generally occurs at the later stage of research analysis, when deductions are made from hypothesing about the relationships between the concepts and categories (Strauss & Corbin, 1990). During the open coding process, when answers were analysed, different findings were labelled and integrated into new categories and onto continuous higher abstraction levels. Glaser (1998) discusses the constant comparative method, whereby the researcher inspects and compares the data fragments that arise in the interview analysis process with the participants' statements and then further verifies patterns and concepts. The comparisons occur between the data codes and the latest interviews. After the third and fourth interview, patterns emerged with initial codes; however, it wasn't until I completed the next four interviews and reviewed the previous data that the core categories evolved. The open coding resulted in creation of six categories, which were further refined through selective coding to create four core categories that systematically related back to the original raw data (refer Figure 2.1). The inductive reasoning generated customer and management issues evolved out of the research process by the continuous interplay between the analysis and data, comparing the codes and themes, changing the concepts around until a final pattern emerged. During the coding process patterns began to emerge quite quickly from the earlier interviews and consequently the initial interviews were longer as compared to the final ones. In fact, interviews nine and ten did not add any new material to the topic. The point of theoretical saturation (Bryman, 2004) was reached at this stage and all the data did was confirm the concepts in Figure 2.1.

2.6 Rigor and trustworthiness

2.6.1 Validity and reliability

In any research, validity and reliability are essential and very important criteria that the researcher aims to meet for establishing and assessing the quality of the

investigation. Of the two methods of research, quantitative and qualitative, it is the latter which is harder to establish and measure because of the social nature of qualitative discourse. In order to make sure that the results of this research be both trustworthy and credible this dissertation takes what is known as an 'alternative criterion' for evaluating research. The alternative criteria of 'trustworthiness' (Bryman, 2004), is made up of four criteria: credibility, transferability, dependability and conformability. The notion of credibility incorporates both 'respondent validation' and 'triangulation'. Respondent validation is a process whereby the interview participants have an opportunity to corroborate or challenge the findings. In this case a copy of the audiotape was offered to the participants for them to keep, plus the dissertation will be freely available for them to peruse. They refused a copy of the tape, but some left open the option to read the research. Triangulation means using one or more sources of data to enhance the accuracy of the findings. Patton (2002) noted four kinds of triangulation: methods triangulation, triangulation of sources, analyst triangulation, and theory triangulation. In this study 'triangulation of sources' is used, this means "checking interviews against other written evidence and … views expressed by people outside of the program" (Pattern, 2002, p.559). In this dissertation the emerging theory was checked and compared against literature in the field. I interviewed Larry Nadine, an industry professional from the USA. Following these processes meant that a degree of rigor had been applied to the outcomes of this dissertation.

2.6.2 Transferability

Transferability in qualitative research parallels external validity in quantitative research. To ensure validity within a qualitative methodology the researcher should provide thick, rich descriptions so that others can refer to the research when making their own judgements about transferability (Bryman, 2004). In this case a detailed account of the practice of tipping in Auckland fine-dining restaurants was obtained from the interviews with the managers and a catalogue of information and data is available to compare and to make judgements with regards to other such contexts. The interviews were conducted at the end of 2008 and early 2009 and therefore

cannot be replicated in the same time frame. However, future researchers could re-interview the managers as they are long standing owners/ managers of the restaurants. Therefore, there can be some reasonable expectation of transferability because qualitative data, although not generlisable, is transferable (Marshall & Rossman, 1999). Dependability is similar to reliability in quantitative research; here it means keeping complete records, transcripts and notes of the research data in secure files for five years, with access for auditing purposes only. The audit trail is a known strategy for enhancing the rigor of qualitative research. Confirmability of the research in qualitative studies is similar to objectivity in quantitative research (Bryman, 2004). Complete objectivity is impossible in social research methodologies; however, researchers should show that they acted in good faith and have not been influenced by personal ideals during the conduct of the research or its findings. In terms of confirmability, I have acted in good faith and have to the best of my ability not allowed personal values or bias to influence the conduct or the findings of the research. The criteria of both dependability and confirmability are interwoven throughout this dissertation.

2.7 Limitations

This inquiry process does have limitations. For one, Glaser (1998) talks about grounded theory not reviewing the literature before going out into the field, and that the researcher should go in cold, with an open mind during the data collection process. Roy (2006) states that it is a misconception that grounded theory ignores the literature and that the researcher is a blank sheet of paper, rather they should be aware of the possibility of being influenced and pay attention to the existing theory, but also to not forget their role during the data gathering phase. In this study, I have many years of experience in the industry and have some prior knowledge of tipping. Thus, in order to be competent when handling the interviews, I perused readings and literature on the topic so that I could develop and lead questions during the discussion. I did not go in cold and could have, without realising it, carried some personal bias into the data. Methods of data collection, whether primary or secondary, can also influence the richness of the research. Secondary data is

generally not collected solely for the purpose of a particular research; therefore, a bias may well manifest itself. In this dissertation, the research focused on primary sources of data collection, i.e., interviews with the managers. It is agreed that what 'we see' in research is conditioned by the social world that the interviewer is involved in (Patton, 2002). In this research every effort has been made to nullify such bias.

Another limitation is the 'grounded theory' approach to analysis questions and answers (Munhill, 2001). The choice of research question and the method of solving it is a personal decision made by the researcher and can have implications for the findings. Being aware of the pitfalls when going through the process can help reduce any bias. Although the limitations cannot be ignored, grounded theory analysis is a significant strategy for conducting qualitative research.

A third limitation is that the primary data is drawn from a sample of fine-dining restaurants in Auckland, and therefore the conclusions cannot be transferred to the restaurant industry as a whole. Some conjecture can be taken and applied to give as anecdotal evidence for what occurs in the rest of Auckland and New Zealand. All participation in this study was voluntary and consent was given by all managers. I initially phoned the managers requesting an interview and outlining the project. I stated that all personal details and restaurant particulars would remain confidential. Two managers that I approached said that tipping was a sensitive subject for them. They did not want to be interviewed if personal details were to be made public. Both agreed after I reaffirmed my commitment that no details would be disclosed. At the beginning of each interview I restated the confidentiality clause and they all signed a Consent Form (refer Appendix Three), agreeing to participate in the project. Confidentiality was protected by all data being accessible only by either my primary supervisor or myself, and kept in a secure filing cabinet. With exception of my first interview, all other interviews were audio taped; transcription was done under a coded numbering system that conceals the restaurant identity. The managers had immediate access to the tapes if they so wished. All tapes were deleted after transcription. The managers could opt out of the research at any time for any reason.

2.8 Summation

This research was about trying to understand how tipping helps Auckland restaurants, it is to appreciate how the phenomenon of tipping works and to explain what makes the different restaurant operations successful. The research sought to identify what applied strategies the managers used with regard to tipping and to clarify issues related to the customer and the management of the organisation. This dissertation is based on 'grounded theory' which is a 'robust' method of enquiry, where the aim is to generate theory out of comparing the data (Glaser, 1992).

In this chapter I discussed the research methodology and design. I examined the participant selection criteria and the data collection process. The rigor and trustworthiness issues were noted and considered. There are limitations; however, I believe they do not reduce the richness of the data collected.

It is quality, rather than the quantity, that is the essence of qualitative research and the informational rich data gained from each participant through the interviews provided rich data and background for the topic. Kahn and Cannell (Kahn & Cannell, 1957) call it a "conversation with a purpose" (p.149). The depth of data is sifted to extract key elements which are coded and then used to inductively generate core concepts which underpin the theory. Throughout the interview process, the respondents were very generous with their time and information.

3 Literature Review

3.1 Introduction

The practice of tipping has been viewed from different positions in different countries. The literature is most prolific in the USA, with research conducted in areas such as psychology, economics and business (Ogbonna & Harris, 2002). Some studies have emanated from Europe and Asia, but very little from New Zealand. In this chapter I review the history of tipping from an international and New Zealand perspectives. This is followed by the managerial perspective on customers and tipping, including social norms, customer service, customer satisfaction, and customer value. The managerial perspective on the business and tipping section includes organisational control, service charges and staffing.

3.2 History and philosophy of tipping

The custom of tipping is said to go back to Roman times, while some authors suggest that it may have begun in the Middle Ages when the master gave his servant a few extra coins for doing a good deed. Azar (2004) notes that the practice of tipping could have been based upon the giving of 'vails'. Visitors to private homes in sixteenth-century England were expected to give sums of money (vails) to the servants for the service they received. Segrave (as cited by Azar, 2004) found that there could be repercussions for those who did not give vails, such as gravy put on their clothing.

The word 'tip' may have several origins. For example 'tip' could be from the Dutch word 'tippen', or from early English phrase 'tip me', or even a shortened word for 'tipple'- to drink. Brenner (2001) attributes the origin of tipping to sixteenth century England when brass urns with the inscription 'To Insure Promptitude' (TIP) were placed in London coffee houses. By paying into the urn one got quicker service. However, there is no clear definitive statement to the origin of the word or the practice of tipping.

The practice of tipping in the USA was in evidence by the 19th century and growing in use. The custom of tipping came to prominence on July 15, 1946 when *Life* magazine made "The practice of tipping" the editorial of the week, concluding that the popular opinion was that tipping was a national nuisance and should be eliminated. Crespi's study (1947) followed up on the results of *Life* magazine and looked at the question of tipping as being 'undemocratic' and therefore un-American because it conferred a higher status on the tipper over the tippee. Furthermore, tipping was an aristocratic hangover from the colonial days when America was a colony of England. What was of interest then were the reasons and the motives for tipping. The practice of tipping was not an incentive nor reward for good service (Crespi, 1947; Lynn, 1997). It was done to avoid social disapproval from not tipping and thus being thought of as someone who does not help lower paid workers. In some European countries, such as England, France and Switzerland, tipping is also the norm; however, changes are slowly taking place and service charges are more frequently being added to restaurant bills (Azar, 2004). Countries such as Singapore have a "no tipping" policy; however, ten percent service charge is added in restaurants. Singapore also discourages tipping by advertising in tourist information pamphlets that tipping is not necessary (Singapore Tourist Board, 2008).

In New Zealand, tipping is not the norm, nor is the practice of adding on service charges. It was not so long ago, in the 1970s, that tipping was openly discouraged in New Zealand. The New Zealand Values Party (NZVP) had an anti-tipping policy. The 'Beyond Tomorrow' party manifesto of 1975, stated the "Values party believes that all visitors to New Zealand should be warned on arrival that tipping for service is prohibited" This manifesto was in response to their belief that tourism, with its luxury hotels, wealth division and elitism would have a negative impact on New Zealand society (New Zealand Values Political Party, 1975). The NZVP won 5.3% of the popular vote in the 1975 election. Under the 'first past the post' constituency-based government election system the party never won enough seats to get into parliament. They did however have enough support for a 'no tipping sign' to be placed at the Auckland International Airport. The first sign a visitor would see when

arriving in Auckland International Airport, New Zealand was "tipping is not a New Zealand custom" (Wheeler, 1977). A later edition of *Lonely Planet-New Zealand* acknowledged that customers should tip, but only for exceptional service (Williams, 2000). Throughout the world the practice of tipping varies, and travel companies such as Magellan's (Magellan's, 2009) produce tipping guides for tourists. Their *World Tipping Guide* deals with 70 countries; it states that tipping is not a custom in New Zealand. However, it also notes that in Australia there is tipping of ten percent, but only in fine-dining restaurants.

There have been examples from the USA and France of anti-tipping movements. Crespi (1947) notes in his study that there were anti-tipping movements in the USA from 1910, which promoted fair wages rather than tips. One group, the National Anti-tipping League, left a card in lieu of a tip. The card promoted 'fair wages-not tips'. Another group, The Anti-tipping Society of America, made up of a group of travelling salesmen, was able to get tipping abolished in some states. The states of Washington, Mississippi, Arkansas, Iowa, South Carolina, Tennessee, and Georgia all had anti-tipping laws, although the laws were later repealed between 1913 and 1926 (Azar, 2004). Jean Charlot from France was a one-man anti-tipping campaigner in the 1930s, stating that "tipping was beggary" (Crespi, 1947). More recently studies found that tipping was causing problems for many restaurants and suggested that the USA should reduce the legal complexities of managing the tipping issue by adopting the European practice of a fixed service charge (Enz, 2004; Ortega, 1998).

As history has shown, the anti-tipping movement did not catch on in the USA. However, it is making something of a comeback. Chef-owners of some restaurants have discouraged tips by implementing fixed service charges of 18% (Wilson, 2009), and another operator has reported an increase in sales since instituting a no tipping, fixed-service charge policy. The main reason given for the change in this case was that the tips were creating negative competition among staff, with talented back-of-house-staff leaving because they were not compensated nearly as well as servers (Sanson, 2005). However, Sanson queried whether the American public is ready and

willing to give up its right to reward or to punish servers. Michael Lynn, Professor of Consumer Behaviour at Cornell University School of Hotel Administration, is doubtful that such anti-tipping practice will catch on in the USA (as cited by Wilson, 2009).

In the UK, there have been calls recently to abolish tipping altogether. Editors of newspapers and trade magazines have espoused that the practice is confusing and should be outlawed (Gottleibb, 2002). Persaud (2005) notes that a tip seldom ensures better service in a meritocratic society and asks why we bother with the custom. More recently, an article in *The Herald,* Scotland, stated that tipping is patronising and called for it to be stopped (as cited by Home, 2008). There seems a growing acceptance in Europe of having a service charge added to the bill. Because tipping is voluntary and the service charge is advertised on the menu, a level of confusion exists over the issue. Should customers tip if there is already a service charge? Can they elect not to pay the service charge but to tip instead?

3.3 Managerial perspectives: the customers and tipping

Social norms are rules that are shared among members of a social group (Ma, Liu, & Liu, 2009). They are behavioural rules that are perceived in light of their social justification which in turn dictate social behaviour (Landa, 2006). What this means is that people maintain certain beneficial behaviours and interactions while avoiding adverse ones. A group has certain manners of behaviour and interaction, which in turn, become the customs of the individual (Ma et al., 2009).

Social norms can be classified into three types (Pound, 2000). Firstly, 'moral' norms involve ethics, mores and religious commandments. Secondly, 'contractual' norms involve a situation in which the same contract is agreed by everyone. They express an agreement with certain obligations and responsibilities. Thirdly, 'administrative' norms are rules formulated by the government such as laws, legislation and bylaws. Customers are people first and consumers second and during a service experience they are judged publically as a person, by moral and administrative norms and privately as a consumer through contractual norms (Cook et al., 2002).

Azar (2004) discussed a model of the evolution of social norms that showed when a social norm is costly, and people do not derive benefits, other than avoiding social disapproval, then that social norm erodes over time. He suggested that if customers received no benefits from tipping then, because it is a cost, that behaviour would actually cease. However, tip percentages in the USA have increased (Post, 1997) suggesting that people do derive benefits from tipping, such as feeling good, or an improved self- image.

Studies have been done on the characteristics of countries that tip and those that do not tip. (Lynn, Zinkin, & Harris) (1993) examined the tipping practices in 33 countries and found that tipping occurred less in countries with societies that had low tolerance for interpersonal status and power. In countries where tipping is prevalent, there was a high level of self-consciousness and importance, a place where the society values status and prestige (Lynn et al., 1993). Because tipping is not the norm in New Zealand, does it fit the label of having a low tolerance for interpersonal status and power? According to Nolan (2007) the answer is 'yes'. New Zealand is an egalitarian society and prides itself for not having a class system where one group in society has status and privilege over another. Therefore, the research carried by Lynn et al. can be said to confirm New Zealand's status as having a low tolerance for status and power and that tipping does not function as a display of importance.

Most research has been done on the link between tipping and customer service. Research from several writers' shows that the payment of a tip for better customer service is a tenuous weak link at best, and that there are other factors at work, such as a norm based utility where the desire for social acceptance and approval is the motivator (Lynn & Grassman, 1990; Lynn & Withiam, 2008; Persaud, 2005). In his research, Crespi (1947) found this to be the case. Bodvarsson & Gibson (1997) state that tipping is not so much a reward for good service, but is an appeal to a social construct and norm. The reasoning behind the statement is that, as the tip is given voluntarily after the service has been performed, the tip is to ensure future service, to 'get a good table' next visit. Azar (2007) disputes this and notes from surveys that 'future service' is not a reason for tipping. Azar states that the 'weak link' between

tipping and customer service is more a result of weak measures. Furthermore Azar suggests that the research could be biased and that there is evidence that wait-staff soon 'know' which customers are going to give good tips as opposed to those who are poor tippers. Thus the perceived poor tippers get poor service based on the preconceptions of the waiter, which in turn means the customer gives a poor tip, creating a self-fulfilling prophesy. Moreover reliance on anecdotal evidence can be misleading because stereotypical behaviour is more likely to reinforce expectations (Maynard & Mupandawana, 2009). One author suggests that a person who looks like a stereotypical poor tipper, but is not, should tip up front first before the service is provided (Ruffle, 1999). This prompts a rhetorical question, what does a poor tipper look like?

One definition of customer service is the service provided to support a company's core products (Zeithaml, Berry, & Parasuraman, 1988). Another is the activities that involve interactions with customers in person (Lovelock, Patterson, & Walker, 2007). The restaurant industry's core product is food, beverage and its service. Depending on the type of operation, the restaurant service strategy can be either 'standardised' service, or 'customised' service (Sandoff, 2005). The standardised service strategy focuses on the tangible aspects of the operation; it is organised with formal controls dictating productivity and service. The customised service strategy of fine-dining restaurants focuses on a cluster of service skills to meet the individual needs of the customer (Sundbo, 2002). Staff members have discretion over how to interact with the customer. The type of restaurant operation that this dissertation covers fits into the highly customised service strategy, with its higher costs and challenging control of employees required to give correct personal service.

Customer service can be broken down into two categories. Firstly, there are tangible factors, such as facilities, personnel, communication material (menus, brochures etc.), food, and wine. Secondly, intangible factors exist including assurance, responsiveness, courtesy, empathy, and reliability. Some food service operations now apply a rating percentage for the two categories. For example, a pizza delivery operation should rate highly on the scale at approximately 80% for tangible factors

and 20% for the intangible factors. The tangible factors of food, packaging and temperature outweigh the limited service aspects (Lashley, 1995). On the other hand, a fine-dining restaurant must have a high percentage of intangible service factors. The emphasis must be on very good customer service which is also highly individualised. A restaurant that pays attention to the intangible factors can gain an advantage and a point of difference from its competitors. Lashley also goes on to highlight the value of 'empowering' frontline service staff in creating and maintaining customer satisfaction and establishing a point of difference and competitive advantage. Empowerment means giving frontline staff members at the 'point of customer contact' the responsibility for the service encounter and for them to enhance the desire to 'delight the customer'. He notes empowerment through involvement will in turn produce more satisfied customers, along with increased sales. Empowered employees accept responsibility for their performance and resolve customer issues immediately (Lashley, 2000). He further sums it up as a 'service driven culture' through greater employee involvement and empowerment.

 Customer service is connected to customer satisfaction. Customer satisfaction is a consequence of service quality; there is support for the causal link between the two (Cronin & Taylor, 1994). Pratton (2003) states that restaurant success depends on customer satisfaction, which is based upon the entire eating experience rather than just one or two factors that go to make up that experience. The work done by Zeithaml et al (1988) with their SERVQUAL research has helped measure customer satisfaction. However, this measure is not specific to the restaurant industry. SERVQUAL research had a specific restaurant service in focus (Bojanic & Rosen, 1993). Further research was done by several authors and called DINSERV (Stevens, Knutson, & Pattern, 1995). However, all of these studies had drawbacks according to Talaga & Tucci (2000). Their criticism of the studies was that the research had implementation problems; the findings did not go far enough in defining where resources should be allocated in restaurants to optimise customer service. They used six attributes, derived from responses to their exploratory research, to assess customer service value. The attributes were: food quality, empathy, assurance,

tangibles, responsiveness, and price. They found that if high food quality and service were not consistent over time, then these attributes had a negative impact on the other attributes. If a top restaurateur can consistently produce high quality food and the appropriate service then resources allocated to these areas are wasted. Consumers expect consistency as an indication of high quality, and anything less would damage a restaurant's reputation. Talaga and Tucci (2000) also noted that if a restaurant cannot maintain consistently high standards, then it should not promote itself as high quality restaurant. Furthermore, improving customer satisfaction is one of the best strategies for increasing the chances of becoming a successful restaurant (Alonso & O'Neill, 2009). Management should not underestimate the importance of staff members in lifting the level of customer satisfaction prior to, during and after the dining experience (Pratton, 2003). Customer satisfaction is related to customer loyalty, and as Lashley (1998) notes, it costs 11 times more to obtain new customers than it does to retain loyal ones.

The old definition of customer value as a combination of price and quality (Treacy & Wiersma, 1993) is now being expanded to include price, product quality, innovation, service quality, and company image (Arora & Singer, 2006). Although the concept of customer value varies across industries, there have been suggestions for service firms to emphasise the role of customer quality service, customer satisfaction and value as the key attributes that go to creating customer value (Caruana, Money, & Berthon, 2000). Satisfaction studies reveal three concepts: customer expectations, service performance, and disconfirmation. Disconfirmation is the degree of discrepancy between customer expectations and the service performance. Zeithaml et al. (1988) refer to this in their Conceptual Model of Service Quality (GAP: 5). Customers evaluate service encounters based on their prior expectations before receiving the service. The actual service performance may be good but have the customers' expectations been met?

Arora and Singer (2006) define customer value as the post-service response to two questions. Firstly, would you as the customer recommend this restaurant to others, and, secondly, would you return for a second visit? Their view is that loyal repeat

customers are satisfied customers and this is the basis of customer value. It is the value of the service encounter which the customers reflect upon, it is known as the 'moment of truth' and means whether or not they will recommend or revisit the establishment. Arora and Singer (2000) further note that managers can enhance customer value significantly by offering high overall operational performance, high-quality food, and continuous service attention for the customers. Fine-dining restaurants are high priced operations and Arora and Singer (2000) noted that high prices have a negative impact and should be set competitively with the aim of exceeding customer expectations.

3.4 Managerial perspectives: the business and tipping

Current research on tipping mainly relates to customer service. Very little research has been carried out on the relationship between tipping and employee/organisational control. The literature on organisational control is wide; it varies from management's desire to subjugate workers (Hodson, 1995) to workers resisting such control (Ackroyd & Thompson, 1995).

Two broad classes of control can be identified: informal and formal (Jaworski & Merchant, 1988). Informal control includes social, cultural and self-control and is defined as the controls placed on the employee by the fellow employees or groups through the socialisation process within an organisation. Formal control is defined as written, management initiatives that strive to influence employee behaviour (Hartline, Maxham III, & McKee, 2000; Jaworski & Merchant, 1988). Formal control can be associated with reduced employee empowerment and have a negative effect on employee commitment. Employee control can be a double-edged sword; on the one hand employee empowerment and engagement is deemed the best model for service-oriented organisations but on the other hand implementation of control tactics could lead to a negative effect which diminishes an employee's commitment. The objective for customer-oriented organisations is for less emphasis to be put on formal controls (Hartline et al., 2000).

These controls can be manipulated by management through the allocation of tips to employees. In this case, the percentage of a tip is changed in response to the behaviour of an individual. It can go up and be used as positive reinforcement or down as means for changing behaviour.

In New Zealand, as in other countries, the hospitality industry suffers from persistent staff shortages and turnover (Enz, 2004; Iverson & Deery, 1997; Poulston, 2008). Iverson and Deery (1997, p.80) suggest that "the hospitality industry has created and reinforced a turnover culture" and that job satisfaction is affected by routinisation, role conflict and lack of promotional opportunities. They note that poor training also affects job satisfaction and has a negative effect on organisational commitment. Employee theft was also found to be associated with high staff turnover along with poor management systems and controls (Thoms, Wolper, Scott, & Jones, 2001). The turnover statistics from the Restaurant Association of New Zealand, (Table 3.1) show that the average annual staff turnover for the past two years is 28 % for restaurants. However, there is a marked rise in the percentage from 2007 to 2008. At 30% turnover, the 2008 figure represents a large group of disgruntled employees.

Table 3. 1   RANZ statistics on annual staff turnover

	2007	2008	Average
Restaurants (%)	26	30	28
Cafes (%)	30	32	24.5
Bars (%)	27	26	25.5

Source: RANZ Survey Summary April 2009

Wait-staff in New Zealand tend to be young and therefore few see themselves as making a career out of food service (Pratton, 2003). They are also part-timers who are not afforded the same benefits as full time employees (Nolan, 2007). The situation in New Zealand is similar to other countries (Poulston, 2008) and that staff turnover is a problematic issue for operators in the industry. In a survey of restaurant managers, Alonso & O'Neill (2009) found that staffing the restaurant was a major

challenge. Enz (2004) noted in her study that managing labour costs were a key issue, followed next by recruiting and retaining skilled workers. Enz further suggests reducing turnover by offering competitive compensation and healthcare, reducing long hours and giving training and career development opportunities.

Training is a key theme that comes out of the literature as a means of combating employee turnover. Although tightening management control systems could help reduce staff turnover, investing in proactive human resource management and practices of training, multi-skilling and better remuneration are the main tenets to improved staff retention (Enz, 2004).

From his research in the USA, Lynn (1996) recommends strategies for retaining employees without increasing labour costs. One of these strategies was for service staff to receive increased tips. He suggested that service staff introduce themselves, smile at the customers, casually touch the guests, write 'thank you,' or draw a happy face on the bill. His research showed that wait-staff who did these little extras received better tips than those who did not. Lynn further noted that bill size was the largest predictor of tip size. The inference here is for wait-staff to 'up sell' restaurant items and get the customer to spend more. Another predictor of tip size was the social relationship between customer and server. Wait-staff should focus on interpersonal skills which enable them to establish rapport with their customers (Lynn, 1996; Mok & Hanse, 1999). There are five components which make up the server characteristics measure: attentiveness, knowledgibility, friendliness, speed of service, and appearance (Conlin, Lynn, & O'Donoghue, 2003). They noted that friendliness and speed of service were the server characteristics which customers rated best and had the greatest effect on tips.

In the UK, where there is a minimum wage for service industries, the practice of adding on a service charge is growing. There has been debate over the payment of minimum wages, service charges, and tipping. The argument came to a head when the European Court of Human Rights found that restaurant owners could not use service charges to make up the minimum wage of staff members (Allen, 2008). The

court ruled it was illegal and the owner must pay the minimum wage. Furthermore, it is acknowledged that tips go to the service staff, but the service charge money that a restaurant collects belongs to the owner and it is up to the owner as to how the proceeds are managed and disbursed (Allen, 2008). However, some employers have been taking monies off the top of the service charge fund to cover other costs, which are not service related. The British Hospitality Association (BHA) has urged clarification on this matter and has suggested all restaurants adopt a new code of practice about how to distribute service charges (Catersearch, 2009). The guiding points are:

- Display publically how service charges are distributed.
- Make clear to customers how the proceeds are shared, and who controls the distribution.
- Any percentages kept back to cover administration costs should be explained.

The system used in the UK to collect and distribute service charge proceeds and tips within a restaurant is called a 'tronc'. It is a method of pooling monies and distributing the proceeds to staff. The percentage allocated to staff is negotiated and varies from place to place. The tronc is managed by a Troncmaster, a person who can be independent of the restaurant owner or management (Catersearch, 2006). When the service charge is applied also varies. Some restaurants apply it to the dinner service and not to lunch service, others add it on for groups of six or more diners. For the majority of restaurants, the service charge is an optional payment. However, there is a growing trend (as much as one-in-five) where restaurants automatically add the service charge onto the bill, thus placing the onus on customers to 'un-tip' for poor service (Garner, 2004).

Research by Dewald (2003) found that in a tronc system where the service tasks are shared among wait-staff, there is a tendency for reduced tips because the customer does not know who the person or persons were that served them. With reference to this Azar (2007, p. 398) asks, "Is tip pooling a practice that promotes free riding (by

fellow wait-staff) and therefore reduces service quality, or does it encourage cooperation and mutual monitoring, therefore increases service quality?"

One of the few restaurants in the USA to have service charges is The French Laundry restaurant Napa Valley, California (http://www.frenchlaundry.com). It is one of the most expensive restaurants in the USA. I interviewed the maître d'hôtel, Larry Nadeau (August 24, 2009), when he visited New Zealand. I asked him "what was the reason behind the inclusion of a service charge at his restaurant when it is not the norm to do this in the USA?" His answer was that they were an expensive restaurant and that it would be unfair for only waiters to receive tips of around 20% of the bill, when there was a whole team supporting the service and dining experience. With an average spend per customer of US$240.00 and the tip averaging between 15-20%, this would mean that the waiter would receive a large amount of money. Therefore, the service charges are pooled and then shared on a percentage basis among all staff.

An article by Brian Farnham in the *New York Magazine* (2000) noted that Danny Meyer of Union Square Café would like a European-style service included system instead of tipping. However, until that time, he recommends that people tip on a three point scale. For poor to fair service a tip of 10 to 14%. For good service a tip of 15-20%, and for extraordinary service tip a tip of 21- 25%. But he says, "never stiff a server". This statement reinforces researchers comments that people in the USA are compelled to tip, even for poor service.

From the literature on tipping, three forms of service pricing emerged. Firstly, there is the addition of a 'service charge' percentage which is added onto the bill just before payment. Secondly, there is tipping the voluntary payment or gratuity given by the customer at the end of the service. It is also a percentage added on to the total bill. In the USA, this voluntary payment is now generally seen as being a mandatory payment of 10 –20% or more of the bill. Finally, there is service-inclusive pricing, where the listed menu price includes service; there is no extra service charge and tips are not expected. This occurs in New Zealand. Tripadvisor (2009)notes in their promotional material that "New Zealand has been described as having a "true" merit-

based tipping culture." Previous research found that there was no single best policy between service charges, voluntary tipping, and service inclusive pricing as they all had different sets of costs and benefits (Lynn & Withiam, 2008).

3.5 Summation

Tipping is a unique phenomenon as it involves payment for service which has already been provided, when it is not legally required to do so. The majority of the research has emanated out of the USA, with a lesser amount from Europe. The debate has been going on for many years over whether tipping is done as a social construct appealing to a norm-based utility or whether it is for service provided. There is no substantive body of literature on tipping in New Zealand because tipping is not part of the social norm. Tipping is also affected by national origins of tourists, as tourists take their social norms with them. Thus, Americans are welcomed in New Zealand restaurants because they tip, whereas New Zealanders visiting the USA and dining out are likely to 'stiff' the wait staff.

In the literature review, I covered the subject of tipping from two managerial perspectives, the customer and the business. In Chapter Four, the findings are discussed in relation to these perspectives and the four pillars are evaluated in terms of how tipping helps the managers operate and run their restaurants.

4 Findings

4.1 Introduction

In this chapter, the data collected from the fieldwork is analysed. The respondents' comments are organised into four core categories, or the four pillars that were extracted during the coding process. The first section includes an information dataset on the restaurants demographics. Each of the seven variables is discussed, with commentary on the deductions derived from the data. A discussion of the four core pillars of good service, team work, loyal staff, and restaurant organisation follow. These are discussed in relation to the aims of this study. Lastly, the title of the dissertation is reviewed and then the five research questions are examined and answered.

4.2 Description of the data

The four criteria used to select the restaurants were: all operations had to be stand-alone, they were from different cuisine styles, they were of a top fine-dining standard, and they had been in operation with the current manager/owner for more than five years. The reason for inclusion was to have a sample of top, successful restaurants that made their reputations and business on their own merits.

The restaurant demographics below (refer Table 4.1) has seven rows that indicate features of the restaurants, including two variables (years of operation and average spend) that relate to the selection criteria. The table gives an overview of key factors which related to all businesses. The first and second rows state the number of years the managers had within the hospitality industry, and the length of time the manager has been with the restaurant. Row three states the capacity of the restaurants based upon the number of seats available for customers and the maximum number of clients the restaurant would serve in any one sitting. Row four shows the average spend per customer. This is a common benchmark for rating restaurants and includes both food and wine. It is noted that Restaurant 04 was experiencing a downturn in trade and that customers were spending less than they were earlier in the year. The

manager attributed it to the early stages of 2008-09 recession, which was affecting the way his clientele were spending when they dined out. Row five gives the percentage of corporate clientele that frequented the restaurant and row six specifies whether the menu prices include GST. Row seven notes whether or not a service charge is added on to the bill. Discussion on each row follows below, with two further tables highlighting key correlations derived from the data.

Table 4. 1   Restaurant demographics

Q	Restaurant code	01	02	03	04	05	06	07	08	09	10
1	Experience in industry (yrs)	20	40	25 +	25	40	30	20	20+	20	15
2	Years at restaurant	5	30	17	5	20	12	10	10	15	8
3	Restaurant size (seats)	50	50	120	100	120	60	120	80	60-80	100
4	Corporate diners (%)	20	60	50	10	60	50	60	45	40	60
5	Average spend ($)	100	120	100	85	110	130	110	140	110	95
6	Prices include GST	yes	no	yes	yes	yes	yes	yes	yes	yes	yes
7	Service charge	no	no	no	no	no	no	no	no	no	no

4.2.1 The manager

The restaurant managers I interviewed had many years of experience within the hospitality and restaurant industries before engaging in their current operation; each individual had in excess of 10,000 hours experience. Across the sample, they had depth of experience and knowledge. They know the industry well. There is an argument from some authors e.g. (Ericsson, Krampe, & Tesch-Romer, 1993) who

found those years of 'deliberate practice' and experience made the difference between someone who was an amateur and someone who was an expert. The expert attained a high standard by putting more hours into what they were doing than an amateur did, and thus benefited from the practice. Work published by Sir Francis Galton (as cited by Ericsson et al., 1993) stated that individuals needed 10 years of preparation before they attained a top level performance. Spackman (2009) in his book *Winners Bible* goes further and states that it is not only the 10,000 hours of practice which makes people successful but also their intent to learn and grow during the practice. Evidence from the data shows that all managers had substantial experience in the industry before they rose to their current position.

The restaurants I sampled have all been open for four years or longer, indicating that there is a link between their successes and the deliberate practice that was put in beforehand. The definition of a successful restaurant according to the Restaurant Association of New Zealand (2008) is one that has been in operation for at least four years. The association says that 75 percent of restaurant businesses fail long before the four year threshold. One can rightly say they all achieved their success because of experience prior to managing their restaurants. Gladwell (2008) in his book states that one of the main reasons entrepreneurs become successful at what they do is because they build up knowledge and skills over an extensive period of time in their speciality. The length of time that the restaurants have been in operation in this research varies from 5 years to 30 years.

4.2.2 The restaurant

Fine-dining restaurants by their very nature are labour intensive operations. They have a higher staff-to-customer ratio than other restaurants. Table 4.1 shows the range for restaurant seat capacity is from 50 to 120, with the average size of the fine-dining restaurants sampled being in the 50-80 seat range. This suggests that the threshold of an unprofitable operation would be a restaurant with less than 50 seats.

The percentage of diners who are corporate or business clients varies between the restaurants and is in the 10 – 60% range. This customer base was described by the

managers as essential to having a successful operation. Corporate diners demand when entertaining guests a high standard of service and nearly all showed some level of appreciation by tipping the waiters for meeting their expectations. Regular corporate customers did become familiar and one manager stated that there were numerous times when they would return to the restaurant for social occasions other than for business. The percentage of clientele who are not corporate is made up of both loyal and casual customers.

What is of interest here is that the longer the fine-dining restaurant is open, the higher the percentage of corporate clients there are. The correlation is that the longer the restaurant is in operation, the more the corporate client base grows. Total success seems to depend on getting into the corporate client market (refer Figure 4.1).

**Figure 4. 1   Years of operation versus corporate client percentages**
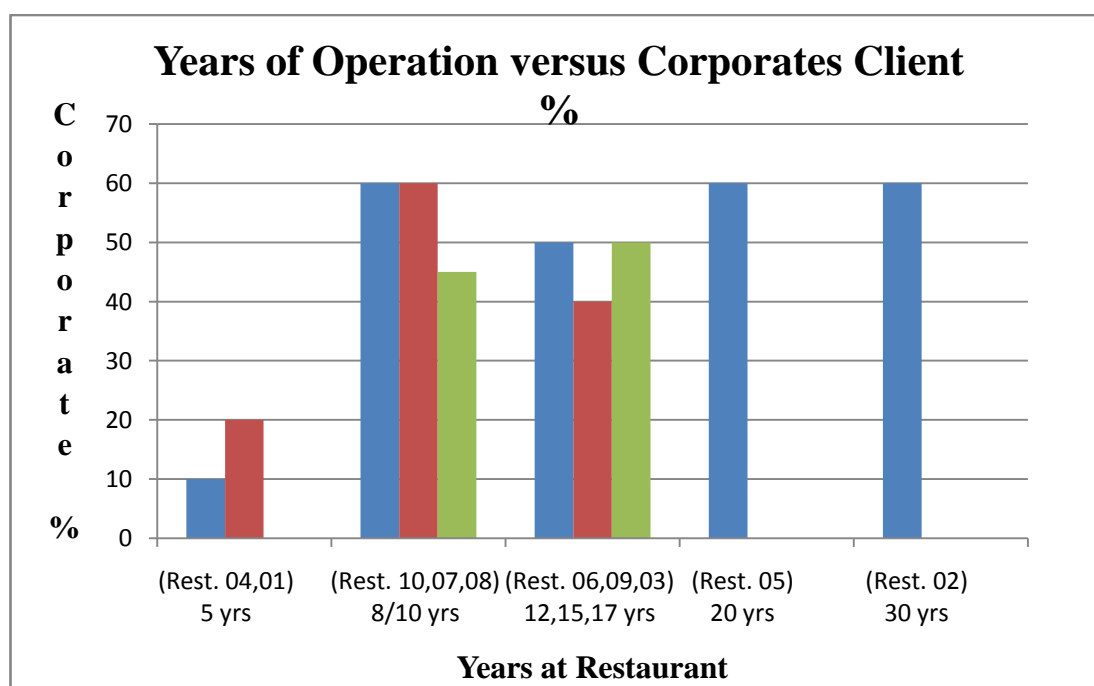
4.2.3   Money extras

The average spend per customer was an important criterion when I was selecting the restaurant sample to interview. This was initially just an intelligent guess by looking

at how the operation was marketed; its profile and reputation on the Auckland scene. The actual average spend was confirmed at the interview by the participant. Across the sample, the average spend per customer is just over $100.00 and personal experience indicates this would be the average for a fine-dining Auckland restaurant.

What is of interest is that as the average spend goes up, so does the percentage of corporate diners. Furthermore, as the spend increases the percentage of corporate clients starts to fall away. Figure 4.2 shows that as the corporate base for a restaurant increases so does the average spend, but that there is a limit to the corporate spend. It is obviously desirable to target the corporate market segment as this in turn will lift the revenue for the restaurant, although there are also higher expectations for the restaurant to deliver value.

Figure 4. 2   Average spend versus percentage of corporate clients
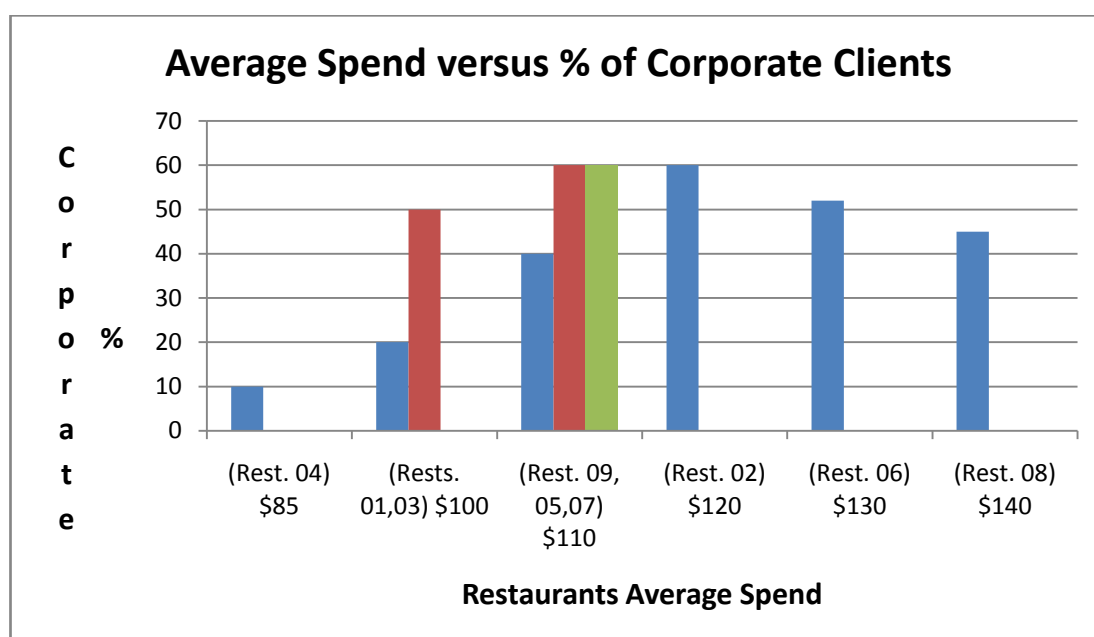
Goods and Service Tax was introduced into New Zealand in 1969 and is a tax on consumer spending. Initially set at 10% of the purchase price on every single item, the tax was raised to 12.5% shortly after its introduction where it still remains today. Overwhelmingly, the retail organisations, including restaurants that deal with the public, include GST in the purchase price of the item. All but one restaurant sampled

includes GST in the price of a meal. As the average price per main course dish is between $45 and $50, (and the managers were careful about how they priced the main course), what it means is that restaurant (Rest. 02) makes an extra 12.5% on the meals over his rivals. As he stated, "we have always added GST on to the bill at the end, right from when the tax was first introduced in 1969"(Rest.02). By adding GST on to the bill at the end, the restaurant is able to price meals on the menu at prices above the median but below the top, compared to the competition without any negative impact from the customers. What in effect this means is that this restaurant is the third most expensive without GST; however, it is really the second most expensive when GST is included as this would be the true comparison with the other restaurants.

4.2.4 Service charges

A service charge is added onto the restaurant bill in places such as the UK and Europe (Azar, 2007), Singapore, China and elsewhere in Asia (Dewald, 2003). The average amount added on is 10 percent. None of the managers I interviewed applied a service charge, nor were they thinking of doing so in the future. The reason for not applying a service charge was to keep menu prices competitive. Adding on a service charge would put their prices up and out of step with their competitors: "… keep costs down so as to entice people to buy items" (Rest. 06). He also said that in such a tight market any price rise is carefully considered as individual operations would be risking a lot. Further, New Zealand customers, including corporate diners, would look suspiciously at a service charge of 10%.

4.3 The four pillars

Out of the study four core categories develop (refer Figure 2.1: Row 2) that relate to why managers thought tipping was important to their operations and what processes they had to manage the monies. The four core categories are not ranked by importance, as they all support the two main management issues. The categories of good service, team work, loyal staff, and restaurant organisation are discussed below.

4.3.1 Customer service and tipping

Customer service is at the heart of a restaurant business and all participants expressed the view that they provided 'good service' for their customers. One of the key categories to emerge from the interviews was that managers supported tipping because it was a consequence of them offering 'good service' in their restaurants. As one manager noted, "if people receive good service, then the waiter should be tipped" (Rest. 08). The managers' views on why customers tip was because they were placed in a very nice restaurant setting and they received very good service. Therefore the customer should tip. Some expressed the view that the practice of tipping was an essential aspect of the business and fully endorsed it.

> Tipping is extremely important to us, we place patrons in a good environment so it should happen, essential to keep good staff and promote good service… If it wasn't for tips I wouldn't have the consistency of service, as staff would turnover. (Rest. 03)

> Tipping is good for business. (Rest.01)

The opinion of one manager was that when she dined out she "would only tip for good service" (Rest. 08). Another manager noted that "customers who tip are remembered and do get good future service and a good table next visit" (Rest. 02). This view reflects Azar's (2007) research when he suggests customers tip because of some future utility, and has little relationship to the service just received.

The *New Zealand Tourism Guide* (2008) guide for tourists states that New Zealanders do not expect tips for normal service given in restaurants and bars. However, tipping for "extra special service or kindness" is at the discretion of the customer. Interestingly, when asked why customers tip, the managers noted good or excellent service, but none of the managers noted 'kindness' as reason for tipping.

Studies carried out by Conlin et al. (2003) suggest there are five components that make up the server characteristics measure: attentiveness, knowledgeable, friendliness, speed of service, and appearance. From their research of 39 restaurants, they interviewed customers who had tipped, and obtained phrases which related to the reason for tipping. Of the five characteristics, the ones that had the greatest effect

on tips were appearance and speed of service. In this study, the 10 managers quoted three of the five characteristics of good service and these are underlined in Figure 4.3. However, one can say that none of the managers in this study would allow sloppy appearance or slow service.

Figure 4. 3   Good service as defined by managers

Good service statements
• Enjoyable evening. • Good food and service. I want to know if there is a problem. • Because wait-staff are known to our customers the dining experience is relaxed, they are able to give better service. • A smiley, <u>friendly</u> waiter who builds a rapport/relationship. • Forms relationship. Has <u>knowledge</u> of food and wine and is doing a good job. • Provides assistance, good personality, know how to communicate, Restaurant is whole package, anticipates needs. • A waiter who is <u>attentive, knowledgeable</u>, offers advice<u>, friendly</u>, personable, someone who adds to the occasion. Personality is a plus and one who can communicate. • Customers made to feel special, getting everything they expect, fantastic dining experience, <u>good knowledge</u>, understanding food and wine. Unobtrusive. • Exceptional service, <u>staff attentive</u>, the quality of the food is also essential.

The question of the definition of good service was not asked at the first interview, but I felt after reviewing my notes that it should be included in the subsequent interviews. The definitions varied from each of the managers (refer Figure 4.3), and the responses differed from an "enjoyable evening", to "getting a fantastic dining experience". While the managers all knew what they meant by 'good service' and knew how to put good service into practice, they found giving a detailed definition during the interview was difficult.

According to the managers, the means of achieving good service was through putting into practice what was learnt at the regular training sessions. They also had

comprehensive standard operating procedures along with staff manuals on 'best practice'. Two managers noted:

> Have good systems in place, new staff members are given a pile of information when they start; get them into the culture of the place. We have solid systems in place, which is the way we do it here. (Rest 03)

> Making sure that they are trained in silver service, know the menu and wines. (Rest.02)

All managers articulated the view that tipping and customer service are linked. Because tipping is not the norm in New Zealand, it was acknowledged by some managers that their customers either tip or don't tip. What they mean is that regardless of how good the service is, there are those customers who will never tip because the social norm of this country is not to tip. One manager stated; "If customers don't tip we want to know why they didn't" (Rest. 01). His view was that if there were service problems then he wanted to know about them. He spent time and money training staff to give good service, and if the standard was dropping then he wanted to stay on top of it. The managers noted that good food, relationship building and personality were some important factors that also related to good service and played a part in tipping. Some comments from managers related to food and to the whole restaurant environment. One manager noted that "we have an exceptional package where the whole experience is greater than the sum of the parts… gratuities are a good measure of how satisfied the customer is" (Rest. 06). Meaning in his restaurant special attention is paid to all aspects of the customer encounter. AS he said, "the quality of the food has to be up there as well" (Rest. 09), stating clearly that the food component is part of the service package.

Other managers noted that personality factors and relationship building has an impact on tips. These are traits which not everyone has and so some staff members make a difference more than others. As one manager noted, "Caring wait-staff, who build up a rapport/relationship with customers get good tips" (Rest. 04). Also waiters tend to do well when the "waiter has a good personality and knows how to talk to customer s" (Rest. 06). A further comment about personality was: "Personality is a big plus in

this industry… it is someone who adds to the occasion" (Rest. 08). Interestingly, one manager stated that ethnicity played a role: "Asian staff members do not get as many tips because they don't have the same bubbly personalities of some Europeans" (Rest.05). Another manager said there were gender issues to consider, "we will put waiters with women customers and waitresses with men customers" (Rest. 09). This comment was also supported by two other restaurant managers who suggested that a better service relationship develops with the customer if service personnel are of the opposite sex. Following on this gender theme, two operators had a preference for male-only service staff, noting that from their point of view the customer/waiter relationship was more professional.

4.3.2 Teamwork

In the USA, tipping is the norm and expected by servers. Because waiters receive less than the minimum wage, they rely on tips to make up the difference. A statement sourced from the United States Department of Labour notes that, "an employer may credit a portion of a tipped employee's tips against the federal minimum wage of $7.25 per hour effective July 24, 2009. An employer must pay at least $2.13 per hour. However, if an employee's tips combined with the employer's wage of $2.13 per hour do not equal the hourly minimum wage, the employer is required to make up the difference." The central theme is that the service by the waiter will be good because they will receive tips that will put their earnings over $7.25 per hour. The American system is based on the individual; the waiter who generates the tip receives the tip. The key point is that the tip is not shared among other wait-staff, but maybe with support staff. A question asked of the managers was whether an American type tipping system would be beneficial for them and the New Zealand hospitality industry. All of the managers had either some experience or knowledge of the American system, and the majority stated that they would not like to see such a system. Their reasons varied, but generally they felt that such a system would threaten the teamwork culture that the managers had built up. This outcome supports work done by Casey (2001), which also showed that the service staff would not like to see an American tipping system here. The following responses relate to the team

approach to running a restaurant, where staff can cover for other staff and pickup where service maybe lacking.

> Running a restaurant is all about team work, not for individuals… We stress in our restaurant it is all about teamwork and the tips are pooled and shared. (Rest. 01)

> The waiters multi-task; do wine, food, reception and cashier. (Rest. 02)

> Teamwork ethic; tipping is good for business it keeps the waiters motivated and rewarded for their good work… teamwork is what I am all about; being fair to staff. (Rest. 03)

> I am happy with our system; it is a very New Zealand system. (Rest. 08)

> I like the team system, for example a waiter will fill up water even though it is not their table. (Rest.09)

All of the interviewees in this study felt from their understanding of the USA, that a tip is given regardless of the quality of service. They thought that tips there did not lead to good service and moreover that tips were expected. Their experiences coincide with the research and conclusions reached by Bodvarsson & Gibson's (1999) study that tipping in the USA is not necessary related to the level of quality service.

4.3.3 Loyal staff

Managers in this study expressed the views that tipping did relate positively to staff turnover. None had any staff turnover problems; and they attributed it to the little extra that the waiter received as a tip as the reason for staying on. Although the waiters were experienced and most did receive a higher than normal salary for their work compared to other restaurants, the waiters role is still not seen as a career position by most wait-staff in the hospitality industry. All of the managers said that tipping was essential to their business. The main reason given is that it motivates staff to provide good service and exceed customers' expectations. In an industry where staff turnover is high, tipping is seen as a way of keeping good staff. As two managers summarised:

> Tips give consistency of service because staff would otherwise leave…because tips are a significant portion of their salary; the staff members have been reliable and have had them for years. (Rest. 03)

> To keep good staff it is necessary (to tip). (Rest. 06)

One manager noted that he had long-serving loyal staff and this made a difference with the continuity of their service. He equated length of service with very good customer service: "If it wasn't for tipping, I would have a lot more junior staff, with limited experience… customers will only pay so much" (Rest. 03).

With regard to staff "theft as a servant" has always been a concern and restaurants are no exception. I enquired of the managers their thoughts on the topic. Questions were asked about employee theft; in general the managers answered "no". Two comments were:

> We have tight controls here. (Rest.01)

> No real chance for waiters to give freebies away. (Rest.05)

All managers thought they had very good systems in place; however, they also had a high measure of trust in their employees. This fits with research from Thoms et al. (2001) where employee theft and high staff turnover are linked because of low employee commitment to the organisation. The staff members are respected by the management and in turn they are loyal to the organisation.

New Zealand has a minimum wage which is payable across all occupations and industries. The minimum wage as of 1st April 2008 for an employee aged 16 and over was $12.00. The restaurant industry is no exception and must pay employees no less than the minimum wage. Although the hospitality industry is labour intensive there have been examples where New Zealand courts have allowed employers to pay staff lower than minimum rates of pay, but this is rare. The situation in the USA is different; certain occupations are legally allowed to pay employees wage rates below the minimum wage. These occupations, and restaurant service is one of them, are recognised as positions where tips are generated. Management acknowledgement is that the tips will lift the wage up to the minimum level, "I think tips are necessary;

waiters are not paid much (minimum wage) and do a lot of work" (Rest.07). Also noted was that "…waiters should be paid the minimum wage" (Rest. 05).

The managers noted that the retention of staff was due to the extra that they received in tips. It is quite evident from the comments that the extra money made a difference to whether or not staff members moved on to other occupations. To remain competitive menu prices had to be kept low; however, with the added incentive of a tip, staff would be loyal and valued workers. This improved consistency of service, a core competency and attribute for any successful restaurant, would grow the longer staff remained in employment with the restaurant.

The cycle of service improvement in Figure 4.4 is my graphic interpretation of the research on service and tipping and was derived from linking the theory from the literature review with the findings from the research data.

Figure 4. 4   Cycle of service improvement through loyal staff
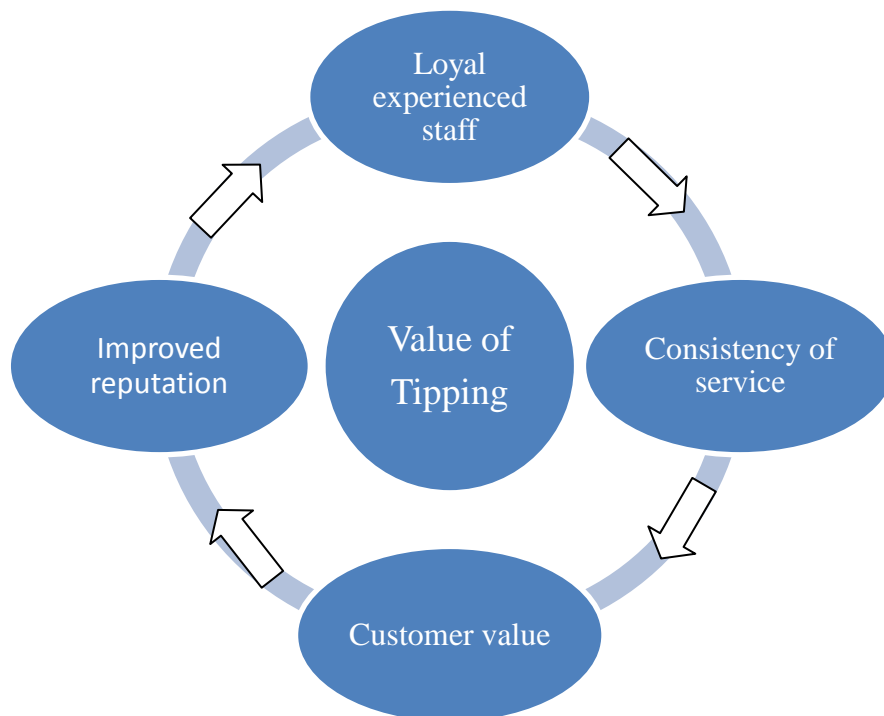
It shows that as staff retention improves through reliable, trustworthy and experienced staff so the service improves, this flows on to the customer and therefore customer value improves, the reputation grows, the more new and repeat business the

restaurant experiences. The improved reputation through loyal staff is due to high the high level of repeat business. All managers expressed the concern that experienced staff added value to the business and they wanted whatever means to keep their staff. A number of comments noted below relate to the value of tipping to an organisation, and the impact that it has on staff retention.

> Staff members would not stay on if tips dropped off. (Rest. 09)

> To keep good staff it is necessary to have tips. (Rest. 06)

> If staff weren't getting tips then they would leave for other jobs, tips help keep and hold staff. (Rest. 05)

> To keep good staff, there has to be an incentive. (Rest. 04)

> Staff wouldn't work here if there were no tips. I would have to pay more and I cannot afford that. (Rest. 03)

The managers were aware that to give good service consistently they needed experienced staff, and to hold onto them they needed to pay more. Tips helped them in this matter.

4.3.4   Restaurant organisation

Questions were asked about how the restaurant managed and distributed tips within the organization. All managers said they had a system in place for managing tips. The responses were categorised into two distinct approaches. The tips were either pooled, which was the case for the majority of organisations, or they were paid out to the waiter who had generated the tip, the same as the American system. There is a clear distinction between the attitudes of the two approaches: teamwork verses the individual.

With the restaurants that pooled the tips, the emphasis was on team work and the pooled amount was shared, reflecting the team culture of the organisation. As some managers stated.

> Tips are pooled; I want a team system due to the size of the restaurant. It is essential all work together to make the operation run. (Rest. 05)

Tips are pooled because teamwork is important. (Rest. 06)

We pool tips because it is for team work culture we have here. (Rest. 08)

Pooled and shared equally amongst the waiters. (Rest. 02)

One of the two restaurants that did not pool tips emphasised individual responsibility, noting that it was a motivating factor for the waiter to deliver personal, professional customer service throughout the dining experience. The manager said that it "…improves service, motivates staff"(Rest. 07). This meant that service staff needed to continually give top service if they wanted to be tipped.

Of the eight restaurants that pooled the tips, restaurants 05 and 06 used a scale to determine staff shares. In one instance there was a scale of 1-5 among waiters. Customer contact waiters rated 4 or 5, runners rated 2 or 3. As the waiter became more experienced, then the rating increased. The rating scale was based on experience and performance, starting low for staff in training and increasing with experience. Rest. 06 noted that "we have a tiered payment system for waiters; it is based on skill, record of experience and length of service". Another rating system was on a one-to-ten scale. Waiters were scaled by the manager and they moved up or down the scale depending on experience and behaviour. Punctuality and professional work ethic were rewarded with a higher rating, while unprofessional behaviour demoted a waiter to a lower rating. Rest. 05 stated that "the grading system is a discipline system too. I drop the grade level for unprofessional behaviour and increase it to reinforce positive behaviour". Where the tips were pooled, all of the waiters shared between 60% and 90% of the total pool, the balance being shared between the kitchen, credit card commission (monies paid to credit card companies when their card is used) and bar staff.

A question from Azar (2007: p 397) about wait-staff getting a free ride says,

"Is tip pooling a practice that promotes free riding and, therefore, reduces service quality: or a practice that encourages cooperation and mutual monitoring and, therefore, increases service quality"?

From the manager's perspective, they emphasised that pooling of tips was the foundation for the teamwork culture of their organisation and that the cooperation between staff increases service quality rather than reducing it. They note.

> Running a restaurant is all about team work, not for individuals. (Rest. 01)

> We switched over to pooling tips; the team approach is very good. (Rest. 09)

> We pool because it is teamwork… everyone pulls their weight; if they don't other staff will bring it to my attention. (Rest. 08)

However, there were two operations which did not pool the tips. In the first case the waiters received 70% of the tip value and the remaining 30% was split between paying credit card commission and breakages. The waiter got the entire tip if it was paid in cash. In the second case, the waiter received 75% of both cash and credit card tips with the balance split between the bar, credit card commission and kitchen staff. What this meant is that while some of the tip was shared with bar and kitchen staff, no tips were shared with fellow waiters. Therefore, waiters were reliant on their own customers to tip if they were to receive any extra monies. As one manager said:

> No, we don't pool tips; you create an atmosphere where other waiters become reliant on those waiters with a good work ethic and then share in the tips without pulling their weight. The waiters work for what they get paid. (Rest. 07)

The research shows that managers have definite views on whether or not to pool tips; however, the majority pool tips because they want everyone to share in the gratuity. Casey (2001) noted in her research that service employees expressed a level of dissatisfaction with the way tips were managed. They wanted transparency about how tips were managed, and that managers needed to communicate tipping policies to staff. The results of this dissertation showed that all managers had clear policies on how they managed tips and furthermore had clear procedures about how the tips were allocated to individual staff.

4.4   Does tipping in fine-dining Auckland restaurants help?

In this section I addresses the title of the dissertation and gives an overview of tipping in New Zealand; I review the aim and address the five research questions. Each question is discussed in relation to the findings and conclusions are drawn.

The operational definition of "help" includes assisting the restaurant in providing consistency of service that meets and exceeds customers' expectations through loyal, experienced, long serving staff. Although tipping is not a normal part of New Zealand culture, all managers stated that customers should tip for good service. In a competitive market, any extra money received in the form of tips was welcome because this helped the restaurant to retain top staff and in a self-perpetuating manner continue to deliver top services.

New Zealand fits the characteristic of a country that has a low tolerance for person status and interpersonal power differences because of the egalitarian nature of its society (Nolan, 2007). Studies found that tipping behaviour may also function as a status display by customers (Lynn, 1997). None of the managers said that their customers tipped in a manner that would accord them a higher status over the wait-staff. One manager noted that she tips all the time, even when going out for coffee, so long as the service is good. "I tip when I go out, but not for bad service". (Rest. 08).

The majority of the restaurants pooled their tips and shared them in varying percentages amongst the other staff, including waiters. The emphasis is on teamwork and they promoted this culture throughout the workplace. Eight out of the ten managers believed that teamwork culture contributed to better commitment and improved job satisfaction. By pooling tips, non-service personnel also shared in the gratuities. This meant all staff had a stake in the service given by the restaurant. Some managers talked about creating a caring, family environment within their operation: "we look after our staff; have a great environment and culture". (Rest.08), here the staff members are trusted, faithful and loyal employees. The waiters were involved in decision making; they took responsibility and actively participated in

running the restaurant. The same operator went further to say that their guests are like family as well: they even get Christmas gifts from them, "we get gifts from customers at Xmas time …and we have regulars who come in once or twice a week so they are part of our family". (Rest.08).

The purpose of this study is to determine the main issues surrounding the practice of tipping and determine whether or not tipping helps the restaurant operation. More specifically, to determine whether tipping helps improve customer service and decrease staff turnover in Auckland fine-dining restaurants furthermore to enquire whether another style of tipping would be beneficial.

The research questions that this report sought to answer were:

- RQ1: What is the manager's conception of good service?
- RQ2: Does tipping help improve customer service?
- RQ3: Does tipping help retain service personnel?
- RQ4: Does tipping help improve team spirit?
- RQ5: Would an American style of service and tipping be beneficial to the restaurant?

RQ1: What is the manager's conception of good service?

When asked for their definition of 'good customer service' the response was varied from the managers, most gave general comments. One could be forgiven for thinking that their explanations were weak, but belying understated definition was the fact that all managers had an intuitive appreciation of exactly what was practically required to meet and exceed customers, expectations.

Conlin et al. (2003) noted five server characteristics: speed of service, appearance, friendliness, knowledge, and attentiveness. Of the five characteristics, the managers referred to three of them: friendliness, knowledge, and attentiveness. While they did not mention speed of service or appearance, they would need to apply both characteristics if they wanted to remain competitive. The managers, through their

years of experience, had a clear understanding of what is required to meet customer expectations at this level of dining.

RQ2: Does tipping help improve customer service?

The literature states that the link between customer service and tipping is weak, although some say it is the measure that is weak (Azar, 2004). The data shows that as far as the managers are concerned, there is a strong link between customer service and tipping. Satisfied customers showed their appreciation by tipping. However, it is noted that a number of managers used the expression, "total dining experience" (Rest. 06 & 08) to describe what they are selling to the customer. A non-tipping customer commenting favourably on the experience was an equally valued as a tipping customer. This meant there was a good chance the customer would return, and this was more important to the business than whether or not the customer tipped the waiter.

The study was based in New Zealand's biggest city, Auckland, which has a large corporate/business sector. It is this group spending that affects the viability of a restaurant. The lowest percentage of corporate diners among the restaurants was 20%; this indicates that for an operation to be successful at the top end of restaurant operations it would need to have a similar corporate client base. It is probably one of the reasons such restaurants are not readily found outside the main centres of New Zealand. It is acknowledged that it is not the individual managers of the corporate diner who pay, but the companies. Corporate clients tip in appreciation for good service and this supports the evidence from the managers that there is a causal link between tipping and customer service.

RQ3: Does tipping help retain service personnel?

The hospitality industry around the world suffers from high staff turnover (Enz, 2004; Iverson, 1997), and New Zealand is no different (Poulston, 2008). In 2008, the restaurant trade showed an average of 28% annual turnover of staff (refer Table 3.1). The literature reflected that poor training and job routinisation were factors that

contributed to a negative effect on organisational commitment by staff (Deery & Shaw, 2009; Poulston, 2008). One factor which helped reduce that turnover of staff at the restaurants was the implementation of training sessions. All managers expressed a commitment to having regular training programmes and thought it was essential in maintaining a high performance business. The research shows that incentive in the form of a tip appears to be enough to encourage staff to stay on in their roles. Coupled with training and staff development programmes, the restaurant thus spends less time on recruitment, induction, and the socialisation of new personnel into the restaurant. Staff turnover at the restaurants in this study was very low and below the national average, therefore staff turnover is reduced by tipping. Furthermore, loyal experienced staff members boost the intangible factors that help to create a competitive advantage (Lashley, 1995; Tucci and Talaga, 2000). The managers said, staff members were loyal, long serving, and treated their job professionally. Most worked full-time at the restaurant; and it was their main source of income. A number of restaurants had runners supporting the waiters; however, these were often part-time as opposed to full-time positions. Therefore, it can be concluded that tipping does help retain service personnel.

RQ4: Does tipping help improve team spirit?

There were many comments from the managers about their faith in teamwork and that tipping helped the staff bond. The managers had reliable, long serving staff, who they trusted and depended upon to perform as a coherent organisation. Even though one of the two operators did not pool waiter's tips, he did give 25% of the tip to the kitchen and bar staff, engendering a team culture. One comment from a manager relating to team spirit was "I can't stand greed, and I don't like waiters checking the account to see if there are tips" (Rest. 08). This statement reflected what many managers said, that tipping related to improved team spirit.

RQ5: Would an American style of service and tipping be beneficial to the restaurant?

With the exception of one restaurant, all participants did not want an American style tipping system in New Zealand. One manager thought that such a move would be a backward step, which would destroy the unique Kiwi way of running a restaurant operation.

> Our system is a very New Zealand system; giving people the option to tip is very nice. I think that the level of service would change if it were expected (Rest.08)

This view is supported by research on tipping carried out by Casey (2001). The managers have built a team culture within their organisation, and the team underpinned the concept of providing a holistic 'total dining experience'. The dining experience is put together by all of the staff and therefore management should reflect that by apportioning tips to all staff. The frontline, customer contact person, represented the whole organisation, but it was the whole team that supported that person. As Lashley (1995) notes, the team exemplifies and embodies a service driven culture. Overall the majority thought that American style tipping would not be beneficial for New Zealand.

4.5 Summary

In summary, there is no doubt in the minds of the managers that the link between tipping and customer service is an important connection and from their perspective is the main reason why customers tip. The managers' views were based on their experience, observations and customer feedback, which may differ from what the customers think. Therefore, what is required to complete the picture is hard data from the customers regarding the reasons on why they tip.

Evidence from this study shows that there is low staff turnover in the restaurants sampled; that the restaurant managers had good relations with their staff and put resources into training and development. The depth of experience resulting from

many years of operating a restaurant has enabled the managers to meet and exceed their customers' expectations.

 A manager, operating a top restaurant, is faced with customer issues and management issues when delivering top quality dining experience. Tipping helps them deal with these issues through the provision of good service by rewarding the personnel involved and by creating a team based establishment which is operated by a group of core professional, loyal, waiting staff.

5 Conclusion

5.1 Introduction

In this chapter I review the research completed and discuss the limitations and directions for future research. The implications of the findings from both perspectives of theory and management are noted, and the chapter finishes with a section on final thoughts. This dissertation is based upon research on how tipping helps fine-dining Auckland restaurants. The findings infer that there is a causal link between tipping and customer service. Furthermore, the restaurants relied on tips to keep staff for a longer period of time than is normal in the hospitality industry. The tips helped to complement a package of intangible factors that combined together to create a competitive advantage. The findings were drawn from primary data and in certain conditions could have wider application to the restaurant industry.

5.2 Limitations

Three limitations have been identified. Firstly, the research was based on a sample of ten fine-dining Auckland restaurants. The respondents, while representative of particular restaurant businesses, were not speaking on behalf of anyone else except themselves. The sample is not representative of New Zealand restaurants, and therefore no conclusion can be drawn about how widespread the practice of tipping is in restaurants. More research is needed that would cover all styles of restaurants, not just fine-dining operations, to find out just how wide-spread the practice is.

Secondly, the customers of the restaurants were not asked why they tip. The reasons given as to why customers tip are from the manager's point of view only. These views could be at odds with what the research literature says, as customers may have an entirely different set of examples (Maynard, 2009). The focus of this research was on getting the opinions on tipping from the restaurant managers. Lastly, wait-staff were not interviewed about tips, because their input would have been beyond the scope of this dissertation. Obtaining data from customers and wait-staff would make this a large project, beyond the objective of this research. Although getting customer

feedback would be very helpful, the logistics for doing that would be tricky and seeking approval to contact customers of particular restaurants could present access problems. However, it could be a project for future research.

5.3 Implication for theory

From a theoretical perspective, this research has one finding. This dissertation is the only study conducted in New Zealand which sampled stand-alone restaurant operations that relied upon their own core competencies to successfully compete in business. They all have top quality reputations, and are consistent in delivering service which exceeds customers' expectations.

Because tipping is not the custom in New Zealand and food service is included in the price of the food or beverage listed on the menu, the only reason for customers to tip is due to customer satisfaction and customer value. In other words, in response to the customer's expectation being exceeded for their total dining experience, they are more than likely to tip as an appreciation of the services they have received. This research finding supports the viewpoint that customers in Auckland fine-dining restaurants tip for good service.

5.4 Implications for management practice

During the research process, it became clear that in order to support the core competency of good service, all the managers stated that they put resources into ongoing training and staff development. Research suggests that training, although expensive, time consuming and at times seemingly wasteful because of high staff turnover (Poulston, 2008), is essential for maintaining a successful business (Pratten, 2003). Service personnel need continual training on technical skills, product knowledge, and interpersonal skills so that they can meet and exceed customer expectations (Ma et al., 2009). Based on what the managers practised and on what the literature stated, hospitality managers should not cut back on training and staff development. The research suggests that good service is rewarded, in this study it is repeat loyal customers and tipping. However, in non fine-dining operations, where tipping is not common practice, the return may manifest itself by other means.

5.5 Future research

One question that is beyond the scope of this study is whether or not the industry as a whole should adopt a service charge similar to that used in Europe and other countries including Singapore (Dewald, 2003). The managers acknowledged that adding on service charges would be risky business because this would put prices up. It has been noted that a number of countries have service charges automatically added to the bill. In the United Kingdom, there is strong call for tipping to be dropped in favour of service charges. In the USA, there are some who are also calling for an introduction of the European type service charge. Further research could be conducted on the issue of service charges. Whether or not service charges, if adopted in New Zealand, would benefit the hospitality industry as well as improve customer service. Would the extra monies be channelled back into training and service improvement? Supporting arguments put forward include that such a charge would eliminate confusion about whether or not to tip, further, that it would mean transparency when applied as all staff would know the percentages received, and that it would also remove complexities with regards to tax. However such a service charge would need to show up in improved customer service feedback. As has been shown by studies from the UK, the service charges belong to the restaurant owner, so there is no guarantee that the monies would go to improving service.

The chosen restaurants provided very good service and the managers were very conscientious about maintaining their reputations. Manager comments such as; "…the customer is made to feel special… we give a fantastic dining experience" (Rest. 08), and "we offer an exceptional package; the whole is greater than the sum of the parts" (Rest. 06), capture the passion they have for the industry. While it is not the custom to tip in New Zealand, tipping does occur and a link has been established between tipping and good customer service.

5.6 Final thoughts

On revisiting the title, "Tipping in Top Auckland Restaurants: Does it help?" the answer, as far as the managers are concerned, is 'yes, it does help'. Firstly, it has been found to help with customer issues, such as customer service and customer

value where tips improve the service. Also, it is an essential component of the whole package; the total dining experience. It reflects on the building of a team culture, an ethic that most managers strived to maintain. Secondly, it helps with management issues in that it retains the services of experienced restaurant staff, thereby stopping them from moving to other occupations, thus giving loyal service. Tipping also helps with having clarity in management practice,in allocating gratuities, because procedures are laid down on who gets what percentage. It is tipping that joins together the management concepts and operational issues into one holistic construct that allows the restaurant operation to deliver consistency of purpose over time.

The managers I interviewed have a successful strategy for running their restaurants as they continue to operate in a very competitive environment year after year, providing top quality service and fine cuisine. Their views on tipping were that the practice is essential for them to maintain high standards in the pursuit of exceeding customer expectations. They were all passionate about the restaurants they managed and displayed very high professional standards.

Therefore, in one respect customers should tip in those places where their expectations have been exceeded, to show appreciation for something special. The downside to not tipping at all could be the loss of fine-dining restaurants to Auckland, because talented service staff would leave the industry for other vocations with better wages.

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Appendix 1   Cuisine styles

Cuisine theme	Restaurants (20) names	Suggested interview sample
French	01	08
	02	
	03	
	04	
	05	
New Zealand	06	10
	07	02
	08	
	09	
Pacific Rim	10	07
	11	01
	12	
	13	
European/Italian	14	05
	15	03
	16	06
	17	
Seafood	18	09
	19	04
	20	

The restaurant names have been removed so as to protect confidentiality.

The interview number allocation was based on the order in which I interviewed the managers. This number is used in the dissertation.

Appendix 2   Indicative questions

Interview questions
Introduction
Restaurant size
Is there a service charge
Average check
Personal history

Tipping practices in the restaurant
Is it a percentage of the bill- how much
Or is it cash - how much
What percentage of customers tip?
What is the percentage of your customers, local or tourist?
What percentages of tippers are:
Male   Female
Business/ Corporate   Casual
Credit card   Cash

How are the tips distributed?
     1- Pooled, who shares in it, what is the percentage?
     2- Individuals own
     3- When are tips paid out?

Staff turnover issues in the restaurant
Is it a problem?   Why?
On average how long are wait-staff employed?
Are waiters trained on the job?
Do experienced waiters apply to work here?
Do waiters apply knowing that tips are part of the scene?
Does some staff generate more tips than others?
How is this reconciled between staff?
How many covers per waiter?

Management philosophy regarding tipping
A manager's view point.
Concepts of good service
Tipping-service-turnover, point of view of the manager
Why do customers tip?
Views on American style of tipping

Appendix 3   Invitation to participate and consent forms

Invitation to Participate in Hospitality Research

AUT
UNIVERSITY
TE WĀNANGA ARONUI O TAMAKI MAKAU RAU

Project Title

Tipping in Auckland Restaurants

An Invitation

I would like to invite you to participate in research on tipping in Auckland restaurants. Your expert opinion and experiences are valuable to this research. The information and data gained will enable me to paint a picture how evident tipping is in the local industry.

Research Purpose and Aims

This research focuses on exploring employer's views and perceptions of tipping in Auckland restaurants. It seeks to identify the management processes that are in place to handle the tipping phenomen

How do you participate in the Research?

I will be contacting you in the next few days to follow up on this invitation and to personally introduce myself, answer any initial questions that you may have and to provide you with more in-depth information on how you can take part in, and support this research.

Thank you for your time.

Regards,

Marcus Pearson

Participant Information Sheet

AUT UNIVERSITY
TE WĀNANGA ARONUI O TAMAKI MAKAU RAU

Date Information Sheet Produced:

17th October 2008

Project Title

Should we tip in top Auckland restaurants?

An Invitation

Dear (Owner/ manager)

My name is Marcus Pearson and I am undertaking research which will contribute to my Masters qualification. The purpose of this research is to explore tipping practices in top Auckland restaurants and your expert opinion and experiences will be valuable to this research.

I am inviting you to participate in research on tipping in Auckland restaurants, however participation is completely voluntary and you are free to withdraw at any time prior to the completion of data collection.

What is the purpose of this research?

The purpose of this research is twofold; firstly, it is contributing to my Masters of International Hospitality Management degree. Secondly, it is to gain an understanding of the tipping phenomenon in Auckland restaurants.

The objectives of the dissertation are to determine whether tipping would (1) improve customer service and increase customer satisfaction; (2) decrease rates of staff turnover. The primary question is to establish whether "we should tip".

The research output may also be used for publication of articles in hospitality magazines, academic journals and conference presentations.

How was I chosen for this invitation?

Selection for your participation in this research is based on the following criteria:

- You are an owner or manager of a top Auckland restaurant.
- Your restaurant is high class and offers a fine dining experience.
- Your restaurant will be expensive and tipping occurs.

What will happen in this research?

Your participation will involve one interview of approximately one-half hour, which will be held at a time that is convenient to you. The interview will be recorded and then written up. You will receive a copy of the transcript to look through and make adjustments to if required. Once this is complete this information will be used for the study.

How will my privacy be protected?

You have my assurance that neither you nor your restaurant or any other individuals named will be identified in any write of this research. Confidentiality will be preserved at all times

What are the discomforts and risks?

This research seeks information on potentially contentious issues; therefore there may be some aspects which might cause you to feel uncomfortable. However you do not have to answer any questions that make you feel uncomfortable.

What are the costs of participating in this research?

The only costs would be your time for the interview. The timing of the interview will be done at off peak, in between service times, causing as little disruption as possible to your routine.

What opportunity do I have to consider this invitation?

If you have any further questions regarding this research and your participation please contact me (details below). Your participation is voluntary and you are no obligation and can withdraw from this research at anytime without any consequences.

How do I agree to participate in this research?

I will be contacting you in the next few days to follow up on this invitation and to personally introduce myself, answer any initial questions that you may have and to provide you with more in-depth information on how you can take part in, and support this research. If you agree to participate please fill the consent form and return within seven days.

Will I receive feedback on the results of this research?

On completion of the research a summary of the findings will be mailed to you if you wish (remember to mark this area of the consent form).

What do I do if I have concerns about this research?

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, Dr Charles Johnston, Charles.johnston@aut.ac.nz 921 9999 ext 5120

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTEC, Madeline Banda, *madeline.banda@aut.ac.nz* , 921 9999 ext 8044.

Whom do I contact for further information about this research?

Researcher Contact Details:

Marcus Pearson.
Marcus.pearson@aut.ac.nz
Ph: 09 921 9999 ext 8015
School of Hospitality and Tourism
Faculty of Applied Humanities
Auckland University of Technology
Private Bag 92006

Project Supervisor Contact Details

Dr Charles Johnston
Charles.johnston@aut.ac.nz
Ph: 09 921 9999 ext 5120
Auckland University of Technology

Approved by the AUT University Ethics Committee on 17 November 2008

AUTEC Reference number: 08/272

Consent Form

Project title: ***Tipping***
Project Supervisors: ***Charles Johnston***
Researcher: ***Marcus Pearson***

○ I have read and understood the information provided about this research project in the Information Sheet dated 17th October 2008

○ I have had an opportunity to ask questions and to have them answered.

○ I understand that the interviews will be audio-taped and transcribed.

○ I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.

○ If I withdraw, I understand that all relevant information including tapes and transcripts, or parts thereof, will be destroyed.

○ I am 20 years of age or older.

○ I agree to take part in this research.

Participant's signature:
....

Participant's name:
....

Participant's Contact Details:

Home Phone number :
....

Mobile number :
....

Postal address :
....

Date: ....

Approved by the AUT University Ethics Committee on 17 November 2008
AUTEC Reference number: 08/272
Note: The Participant should retain a copy of this form.