

3MT Project Outline

Tatum Wallace

School of Sport, Tourism and Hospitality Management, Temple University

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Professor Lindsey Lee

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Define Problem and Identify Strategies

In the tourism and hospitality industry, we face many unique challenges. There are many jobs in the industry that rely on the generosity of others for payment, rather than their organization. While many would argue that it is an incentive for staff to perform to the best of their ability, the reality is that relying on tips can quickly lead to inequality and inconsistent wages (Torres, 2024, p. 5). This is an issue as it can affect the overall morale of your staff, leaving them in a position where they are not satisfied by their work, causing them to become less committed to their organization.

Another issue about tipping in this industry is that not all job positions receive tips, even within the same organization. For example, "While some—like servers and bartenders at high-end restaurants, for example—do manage to make good money off tips, someone else always suffers; deprived of that same opportunity, back-of-house kitchen workers like dishwashers and cooks, who are already at a financial disadvantage, fall even further behind." (Kelly, 2024). This can lead to feelings of insignificance, anger, jealousy, and carelessness resorting to several withdrawal behaviors.

I have experienced this firsthand, working as a hostess receiving tips plus an hourly wage. Later, I was moved to work in the kitchen, making only an hourly wage, forgoing tips, to do more difficult work. This dichotomy created a jealous relationship between kitchen staff and the front of house. This is because the kitchen workers do the bulk of the labor, while front of house workers reap the rewards through tips. This situation ultimately led me to quit my job, as I felt my employer did not care about my personal wants and goals. This shows how this topic can negatively impact an employee's emotions and overall job satisfaction, and commitment to an organization, until it is nothing. When this happens it can cause turnover to occur at much

quicker rates, overall, costing the organization more, trying to find workers to replace those who left.

The origins of tipping in America are problematic and continue to perpetuate these issues of economic inequality. Tipping came about in the antebellum period, “rooted in the exploitation of formerly enslaved Black workers following emancipation.” (Mast, 2024). After the civil war, it was most common for African Americans to work service jobs, reliant on small tips and no other pay. This led to obvious discriminatory treatment in terms of pay.

We continue to see racial bias in tipping. In a table referenced in “*The Economics of Tipping*” it shows an example of taxi drivers, their race, and their average tip percentages. In the table we see that Caucasian drivers make the most at 21.6%, then Asian drivers at 16.2%, Hispanic drivers at 12%, other drivers at 10.7%, and lastly Black drivers at 9.2% (Azar, 2020, p. 230). This gives physical data to the prejudice minorities face in this industry, which is unfair and can be avoided. The topic of race further affects our industry as back of house workers are commonly of marginalized groups and undocumented, who work for low hourly fees, forgoing tips. The pay disparities further set them behind in the socioeconomic climate they are already challenged by.

The umbrella of tipping biases can include much more than just race. Tipping bias is the idea that the consumer tips the worker based on their internal bias instead of the quality of service provided. For example, young attractive female servers commonly make more in tips than say, an older male server. This is not because one performs better than the other, but because the consumer holds an innate bias between the two (Neilbendle, 2022).

Today we still see unequal pay for tipped workers versus wage workers, “The federal minimum wage has been stuck at \$7.25 since 2009, while the tipped minimum wage remains

\$2.13 per hour. As a result, employers of tipped workers can rely on customers to pay \$5.12 per hour—roughly 70%—of the business’ wage obligation to tipped staff.” (Mast, 2024). While of course there are days when workers make quite a lot of money from tips, the issue is that tips large enough to live off collectively, are not guaranteed. This leaves tipped workers financially vulnerable, in a way most wage workers in other industries do not worry about.

In an industry that runs 365 days a year, this can really take a toll on your staff. They often work untraditional schedules and take time away from friends and family during weekends, holidays, and other busy seasons. Despite what they sacrifice for their organization, they do not feel that their labor is seen or rewarded. This makes a worker feel undervalued and overworked causing burnout. All these issues outline a clear disadvantage for those working in our industry. Overall, creating unnecessary economic injustice for both front of house workers and back of house workers in our space.

Solutions

There are many different types or even combinations of solutions to combat the issues that result from tipping. The potential solutions I want to focus on are added service charges, and inflating menu prices to compensate servers. “Instead of tipping, some hospitality operators have instituted service charges or service-inclusive pricing as a method of remunerating their servers.” (Lynn, 2006, p. 7). Service charges meaning there is already a charge included in the customer’s check in addition to what was already purchased that goes to the server(s), like added in gratuity or tax. This is a very transparent way to compensate your staff through consumer spending. With this solution, consumers see exactly how much of their bill is going to the service staff. This also cuts out the issue of unconscious consumer bias in tipping, as the charge is standardized as opposed to being left up to the consumer to determine.

The other solution, service-inclusive pricing means to inflate nominal prices so with the additional profit, the employer can pay a livable wage to their employees (Lynn, 2006, p. 9). For example; increasing prices for food and drinks on a restaurant menu, although the items themselves may not cost what is being charged, with the addition of service provided, it is the fair price. This solution tackles the challenge of pay disparities within back of house workers, who do not typically receive tips. This solution raises wages for all workers in tipping and service-based jobs within the front of house and back of house, ensuring livable wages for both entities alike. This would be a major improvement from the tipping model we are used to seeing. Because in current tipping culture, back of house workers are forgotten and suffer from low wages.

This is a major problem for those working in our industries because this means that under the same organization, back of house workers make less, while completing more difficult tasks within their position, compared to front of house workers, who can make much more. This will improve attitude and behavior amongst staff and drive a new sense of motivation, specifically for back of house workers. This results in an overall elevated sense of employee satisfaction which directly benefits the organization, like a symbiotic relationship. This is because when workers feel valued by their employer, they see more value in their work, driving productivity. This will strengthen an organization because having a passionate, committed, and motivated staff results in higher customer satisfaction and positive experiences. This will further drive the demand of the establishment, creating more sales for the organization, increasing profits.

“In my opinion, the best solution should be paying every staff member a fair salary, and then let customers tip if they truly believe they have received a top service.” (Torres, 2024). Combining this with the inflated menu prices solution, still gives an incentive for employees to

deliver their best service to earn optional tips. This solution also holds the organization accountable for paying their staff, instead of guests paying staff. Having the employer pay the staff their wages this way, will show the employee their employer does care to ensure their financial stability. This will show employees their organizations commitment to them, further driving the employee's commitment to the organization. The increase in an employee's organizational commitment can result in a decline of turnover rates, saving the organization the costs associated with high turnover rates.

Implementation and Evaluation of the Work Context

This is specific to the hospitality industry, as majority of other industries do not rely on tips for a livable wage. For example, doctors provide a service, but you are not expected to tip them, even in life saving circumstances, because of the high-paying salary associated with their line of work and industry. This can be applied to many other fields, which shows this issue is what makes tourism and hospitality unique to other industries.

Tipping presents many benefits and challenges in our industry. While there are many days or busy seasons where tipped workers make more than average wage workers in other industries, there are many days they do not. The inconsistency of good pay days to bad pay days leave room for extreme pay disparities in service industries like hospitality. The pay disparities of non-tipped workers in a tipped-worker environment (i.e. back of house vs front of house) is another leading challenge effecting our industry.

The challenge associated with taking away such a common social norm in the U.S. like tipping, is that consumers may perceive non-tipping establishments as expensive, cutting demand in certain consumer segments, like low-income consumers (Lynn, 2016). This idea is developed around the nature of U.S. tipping culture, where diners can choose just how much or how little

they tip, having greater control over their spending. The idea in this model is that there will be two kinds of tippers: high tippers and low tippers. The hope is higher tippers will offset low tippers to create an equilibrium in wages for servers, which we know in practice is inconsistent (Lynn, 2016.)

This perception can make implementing such solutions difficult, as there is a fear of alienating lower income customers. Taking the risk and implementing can benefit your organization with lots of positive change both internally and externally. The initial thought for the benefit of tipping, is that it saves the organization on payroll. But by spending more in payroll with these solutions in mind, you can greatly increase your profits. This is because these solutions can affect your teams' overall moods and emotions drastically in the long term. This equips them with the best tools to deliver their most productive and authentic services, increasing customer satisfaction, which can increase customer loyalty. The sense of loyalty to the establishment ensures they will come back time and time again. When a fulfilled pleasant staff makes meaningful connections with customers, your brand image and visibility will greatly improve through word of mouth of consumers sharing positive experiences.

Outcome Assessments

There are many organizations who have abandoned typical tipping practices for automatic service charges, higher menu prices, and employee wages. Some of those establishments being Ivar's Seafood in Seattle, Bar Marco in Pittsburgh, Coi in San Francisco, and the Radler in Chicago (Lynn, 2016). Research has found that extrinsic rewards lead to a decline in intrinsic motivation. This alludes to the idea of surface acting, where tipped workers put on an act to earn a tip, leading to the idea that tipping can reduce service authenticity. This

can result in a downturn in customer satisfaction, as they can tell the difference between real authentic interactions and forced ones.

A table in the study shows the behavior of servers under different tipping practices. We see that servers who receive automatic service charges have the highest sales-oriented behavior at frequency over 5, and customer-oriented service at a frequency of 4.4. On wages alone we see the frequency of customer-oriented behavior at 4, and sales-oriented behavior at 2.75 (Lynn, 2016, p. 14). These tables show us the differences in behavior of servers when you change the circumstances of their pay. You see how their pay changes their overall behavior and the quality of service they provide. This creates a trickle-down effect. When an organization shows greater care for their employees, employees show greater care for their customers, which makes the consumer more likely to visit your establishment again.

On the consumer side in this report, we see a table that states 51% of consumers like the idea of higher menu item prices to compensate servers with a choice of additional tip. In the same table, we see that 53% of consumers like the idea of higher priced menu items to compensate servers where no tips are permitted (Lynn, 2016, p. 12). This shows us the willingness of consumers to dine at non-tipping establishments, or establishments with alternative tipping models. The majority in percentage shows us, that these alternatives models may be worth implementing, countering the fear of an expensive perception from consumers.

In conclusion, there can be positives and negatives that come with tipping culture, that we should be thinking about as leaders in our industry. While the social norm of tipping in America is extremely popular, it's not the norm all over the globe, so it is not the only model available to us. Referencing the symbiotic relationship between organizations, employees, and consumers, it is important to recognize that the current model is not the most beneficial for workers, which in

turn could mean it is not the best model for an organization. There are many other alternative models for tipping and solutions to tipping entirely to choose from. These other models presented can be better used to bridge the gap of opportunity for service workers in our space and provide more financial security for hospitality workers.

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