

# SERVICE CHARGES AND TIPPING: A CASE STUDY OF THE CHINESE HOSPITALITY INDUSTRY

**Ben Dewald\***

*The Collins College of Hospitality Management, California State Polytechnic University, USA*

*Received 18 October 2020; Revised 18 November 2020; Accepted 05 January 2021*

## ABSTRACT

*The American hospitality industry is looking at service charges instead of gratuities. This case study looked at the tipping and service charges in the hospitality industry in greater China. Even though there is a ten percent service charge added to most luxury hotel and restaurant bills in China, some guests still leave an additional tip. Service charges seem to be accepted in China and foreigners are leaving less voluntary tips.*

**Keywords:** Service Charge, Tipping, Gratuity, Hotels, Restaurants, China.

## INTRODUCTION

With this influx of foreign travelers, tipping and service charges in the Chinese hospitality industry have changed. According to tourism information websites: Tipping is acceptable in China, though it is not mandatory in tradition. But with the foreign visitors influence in China came the practice of tipping (Shrestha, 2010).

Shanghai, Beijing, Hong Kong and Macau are some of the most important hotel markets in China. Foreign travelers and expatriates have contributed immensely to the development of the Chinese hospitality industry. This extends from serviced apartments to five-star hotels and restaurants serving great food and beverages. Although there is a ten percent service charge added to most luxury hotel and restaurant bills, some people still leave an additional tip.

Service standards in Asia are often considered superior since a higher staff/customer ratio makes this possible. However, service-oriented jobs are not highly regarded in the Chinese society. Having to serve someone is to be reduced to servitude, which ultimately leads to a person feeling to lose 'face' – pride or respect from society (Tse, 1996). Service in Chinese is 'fuwu', the character, 'fu' means submission. In addition, the persons paying the bill may 'lose face' from their fellow guests, if no tip is left.

---

\*Correspondence to: Ben Dewald, The Collins College of Hospitality Management, California State Polytechnic University, Pomona 3801 West Temple Ave. Pomona, CA91768, USA, Tel: 909-869-2960; E-mail: bdewald@cpp.edu

## Dewald

In many parts of the world, especially the United States of America, gratuities have become an expected part of a service employee's income (Star, 1988). Tipping is an important global trend, involving about \$47 billion a year in the USA food service industry alone (Azar, 2011). Customers in United States restaurants in general do tip. Worldwide studies on tipping have identified many variables that affect tip size. Bill size seems to be the prominent variable affecting the tip amount left by the customer; according to numerous North American studies, not the quality of the service or food, but the amount of the checks dictates the amount (Lynn, 2001). According to Lynn, 2003, "a recent review of research on tipping found that check size was twice as powerful as all other factors combined in determining the size of tips left by different dining parties". As a consequence, the better salesperson will make more money, which equates the gratuity to a commission for restaurants servers in the United States of America.

### LITERATURE REVIEW

The history of tipping is as clouded in mystery as the tacit rules that currently govern it. Some evidence suggests that tipping had its roots in the Roman Empire (Templeton, 1996). An often repeated story is that tipping became common in the coffeehouses, also known as "penny universities," of 16<sup>th</sup> century England (May, 1980). Another explanation is that horse-bound feudal lords threw "tips" of gold to the unsavory peasants in the streets as payment for safe passage. English etymology would support this theory in its suggestion that the word was originally medieval street talk for "hand it over" (Templeton, 1996).

Although the English term "to tip" is believed to stand for "To Insure Promptness", the French "*pourboire*" and the German "*trinkgeld*" mean money given "for a drink". The idea is the same behind the Russian "*chayeviyе*", literally "for tea" (Danilova, 2003). Hospitality patrons around the world must decide daily how much to tip their server to provide him or her with a drink.

According to (Segrave, 1998), "Industrial capitalism brought with it an increase in commercial eating and drinking establishments, hotels, and mass transportation, wherein those who received tips –maids, valets, waiters and so forth, were found in large numbers". Although tipping made vast inroads, it has not always been universally approved and has sometimes been met with hostility. One historical example occurred in the United States of America. From 1905 to 1919, a group of more than 100,000 salesmen travelling the US organized the Anti-Tipping Society of America and managed to have tipping abolished in seven states in (Fullen, 2005). This proved short-lived, as these anti-tipping laws were later found to be unconstitutional in 1919.

Research findings show that gratuities can be influenced by service quality, food quality and likelihood of return (Azar, 2005; Bodvarsson & Gibson, 1999; Liu, 2008; Lynn, 2003; Mok & Hansen, 1999; Parrett, 2006). In theory, customers reward good service with money: the perceived quality of service received by the guest should be a reasonable prediction of the decision to tip and the amount. According to Azar (2004), "the main justification for tipping is that it promotes better service by giving the workers an incentive to do their best to satisfy the customer's needs" (p. 761). Therefore, tipping serves as an instrument for restaurant guests to reward service quality. Bodvarsson, Luksetich & McDermott (2003) found that "service quality significantly affects tip size and when servers expect higher tips, customers rank service higher" (1659). Restaurant guests leave

a gratuity based on their impression of the level of service quality. However, because it is an intangible concept, customers have different interpretations of service quality.

Past research shows that many controllable and uncontrollable attributes affect the tip size in restaurants. In the controllable category, some factors seem to be related to service quality, such as servers introducing themselves to guests by name, smiling at guests and repeating the food order (Lynn, 1996).

Although the contribution of the following encounters to service quality is questionable, they still resulted in increased tips. Casually touching guests in the United States of America not only resulted in better tips but also increased the customer's overall impression of the restaurant. The cultural aspect of touching is important here; the physical act of touch would offend Chinese customers. Squatting at the table by servers resulted in larger tips. Credit-card insignia on tip trays increased tips even when paying cash and writing "Thank You" on checks also resulted in larger tips in (Lynn, 1996).

Some actions are gender-specific. Waitress's tips increased by drawing a happy face on checks but did the opposite for waiters; flowers in a waitress's hair increased her tips, and good-looking waiters made more tips in (Lynn, 1996).

Studies relating tipping to cultural values using Hofstede's (1983). Dimensions of Cultural Divergence (Lynn, 1997) found that tipping is more common in countries with higher power distance, lower uncertainty avoidance, lower individualism, and higher masculinity.

What servers think of the customers' tipping behavior has been studied as well (Gatta, 2009; Lin & Namasivayam, 2011; Liu, 2008; McCall & Lynn, 2009). According to a study based on 1,189 surveys completed by United States restaurant servers, foreign customers were deemed to tip the least after teenagers, whereas whites were the biggest tippers (McCall & Lynn, 2009). Similarly, Asians, Hispanics and African Americans were considered poor tippers, according to American restaurant servers and the food and beverage industry (Lynn, 2004; Lynn & Haysbert, 2003).

Predictors of restaurant tip size in Hong Kong include the friendliness of the server (Dewald, 2003; Liu, 2008; Chung & Heung, 2007) and emphasized the food quality as a significant predictors of the tip size in upscale Chinese Restaurants in Hong Kong.

According to Rose (2013), tipping is viewed as an insult by older Chinese workers but is accepted by youngsters, who have been influenced by social media. Many luxury hotel chains in Hong Kong and China add a ten percent service charge to the total hotel bill.

Researchers have found that restaurant patrons truly believe they use service received as a tipping guideline. However, Lynn's (2001) research found little correlation between tip size and service quality. A meta-analysis study showed that tip amounts increased with quality of service; "however, the correlation between tips and evaluations of the service or dining experience has a mean of only .11" (Lynn, 2001). Additionally, "consumers will leave 5 percent (or less) and tips of 20 percent or more at any level of service" according to Lynn (2001).

Consumers' decisions about whom and how to tip are largely determined by custom. However, service industry executives and managers need not passively

## **Dewald**

accept the dictates of custom. They can encourage tipping by allowing employees to accept tips, placing tip jars in visible locations and posting messages like “Gratuities appreciated” on menus, table tents, checks and/or public signs. Conversely, they can discourage tipping by prohibiting employees from accepting tips, adding automatic service charges to bills, and posting messages like “Tipping not necessary” on menus, table tents, checks and/or public signs. In fact, many cruise lines (Engle, 2004), resorts (Evans & Dinesh, 1999) and private clubs (Club Managers Association of America, 1996), as well as some hotels (Richards & Rosato, 1995) and restaurants (Ortega, 1998) have used these or similar practices to actively manage the tipping behavior at their establishments. In 2004, for example, chef/owner Thomas Keller replaced tipping with an automatic 20 percent service charge at Per Se – a highly regarded French restaurant in New York City (Shaw, 2005). The year before that, Holland America Line abandoned its decades old tipping policy in favor of daily service charges (Engle, 2004). Danny Meyer, the man whose name is synonymous with the Union Square Hospitality Group, is eliminating all tipping at his restaurants and significantly raising prices to make up the difference, a move that will raise wages, save the hospitality industry, and forever change how diners dine (Sutton, 2015).

### **METHODS**

Because this is a case study of attitudes and practices of key people involved in the hospitality industry in Shanghai, this study employed qualitative research methods. We analyzed 34 informal conversations with hotel and restaurant managers, supervisors and staff in Shanghai, Beijing, Hong Kong and Macau regarding the tipping behavior of both local and foreign guests. The hotels were mainly 5-star international properties, the restaurants ranged from Quick service American chains, independent and chain casual and fine dining restaurants serving Chinese, Japanese, Thai, and Korean ethnic foods serving both locals and tourists. The information presented here is based on those interviews, a literature review, and personal experience of the Chinese hotel and restaurant sector.

### **FINDINGS**

Nowadays, luxury hotels in China charge an additional ten percent service charge to the whole hotel bill changed from the previous 10-15 percent in May 2017. The ten percent service charge is now included in the price and a six percent tax has been added in Mainland China to hospitality charges.

These service charges “belong” to the hotel; hence they are not shared with the hotel staff. We heard of only one five star hotel chain that gave back one (1) percent of the service charge to its staff. However, hospitality staff in China are paid a monthly salary, compared to an hourly rate in America.

On the other hand, some hotel guests leave extra tips in addition to the service charge. Hotel staff do not “expect” nor “solicit” tips, yet it does happen. These tipping guests are mainly tourists, as most locals tend not to leave additional gratuities. These additional tips are split in food and beverage outlets; according to position and ranking (following a point system), but outlet managers does not get involved in this.

According to a former event coordinator from a five star American hotel chain, 2005-06 were the good old tipping days. The positions that most likely would receive tips were the concierge, bellman and the room-service servers; one

of her friends who served as a bellman would be able to make more than RMB 10,000 (US\$1,500) tips per month at that time (sometimes guests tipped him RMB 100 for carrying luggage) while their salary was a little bit more than RMB 2,000 (US\$300). Making the take home tips five times their base salary.

Concierge staff pooled their tips, but would often hide their tips in order not to share them with their colleagues. Most uniforms had no pockets, so hiding places were used, but money sometimes vanished.

According to our findings most of the tippers were foreign guests; even though there was a 15 percent service charge added to the hotel bill, these foreign guests still tipped as they might assume the 15 percent was some sort of tax. These foreign hotel guests were used to tipping servers in hotels and restaurants in their home countries and continued while traveling.

As the event coordinator in a hotel, our interviewee received tips as well from event organizers and other clients using their meeting rooms and other venues; what she usually received were gifts/souvenirs rather than cash tips, though there were cash tips here and there. Average amount of tip or value of the gift or souvenirs was about RMB 500 (US\$75) each time.

Hotel staff got used to the additional income and started to expect tips. Hotel staff focused their efforts on certain types of guests in order to maximize their tipping opportunity and amounts. They started to judge by appearance as they preferred guests, from Europe, America, and particularly from the Middle East, countries like Saudi Arabia.

During 2007-2009, especially in 2009, there were fewer tip opportunities for servers the RMB 10,000 (US\$1,500) tips per month had gone forever.

The former hotel supervisors believe more guests, particularly foreigners, realized that the 15 percent service charge was a substitute for tipping; when they saw that other guests were not tipping. Furthermore, the hotel service levels have dropped over the years, due to the continuous increase of labor costs of hotel staff. As a result, guests do not tip employees who do not provide adequate service. Not reduce labor costs, most hospitality staff are being sourced from less developed areas in China and are paid less than former experienced local staff members.

One of the supervisors from a full-service dining restaurant chain told us that one or two out of every ten local restaurant patrons would tip servers RMB 50 – 200 (US\$8-30) in cash. Salary for an average server at this restaurant is RMB 2,500-2,800 (US\$380-430) per month and servers would be able to get approximately RMB 500-1,000 additional tips per month. At a Japanese restaurant in an expensive neighborhood, a senior server shared that best tippers were American and European diners, followed by Hong Kong and Taiwanese diners; mainland Chinese were the least likely to tip. Servers did not expect tips and their monthly salary is about RMB 3,000-4,000 (US\$460-610).

One out of ten tables would tip RMB 50 (US\$8) in cash in Casual dining restaurants according to the servers and supervisors we talked to.

Fast food outlets collected no tips and only an American coffee chain had an empty tipping jar for those willing to tip. The infamous sticker “Tipping is not a city in China” was not seen in person.

## IMPLICATIONS

This study looked at how automatic service charges changed the voluntary tipping and service levels of hotels and restaurants in China.

The parties that would benefit from these findings are business travelers and tourists visiting China. Local and international hotel and restaurant operators expanding in China would be able to use these findings as well.

Because the service charges in China's hotels are going directly to the bottom line and are not shared with the hotel staff, service levels have decreased over the years according to many of the hotel and restaurant managers, supervisors and staff.

However, China pays its hospitality staff monthly salaries compared to being paid by the hour in America, where hospitality staff do not know the number of hours; they might work each week. Resulting in many hourly employees in America having to work several jobs to have a stable income.

The ability to actively manage customers' tipping behavior raises questions about how tipping policy decisions should be made. What are the business functions of tipping? When should tipping be allowed and when not? If tipping is abandoned, should it be replaced with service charges or with all-inclusive prices? Unfortunately, executives and managers in the service industry have few places to go for the answers to these questions.

Some renowned fine dining restaurants in the United States of America moved towards service charges, called "hospitality charges" by Danny Meyer, owner of several high-end restaurants in New York City, instead of voluntary tipping. Danny Meyer gradually introduced "hospitality charges", included within the menu prices in his high-end restaurants (Sutton, 2015). When re-opening his Union Square Hospitality restaurant for outdoor dining during the pandemic, Danny Meyer reversed back to tipping in July 2020 (Moskin, 2020). Thomas Keller replaced tipping with an automatic twenty percent service charge and discourages additional tipping at Per Se – a highly regarded French restaurant in New York City. The collected service charges in American restaurants; are to be divided amongst its entire staff. However, according to Sutton (2015), "Thomas Keller's Per Se, whose adoption of European-style pricing policies in 2005 eliminated the need for diners to tip, paving the way for the espousal of similar policies at tasting menu venues across America, has agreed to pay \$500,000 to current and former waiters after an investigation found that it broke [New York] state wage and tipping laws."

International tipping practices change over time, but the cultural habit of rewarding service staff seems to be practiced in different degrees in greater China as compared to North America.

## REFERENCES

- Azar, O. (2004). The history of tipping from sixteenth-century England to the United States in the 1910's. *Journal of Socio-Economics*, 33(6), 745-764.
- Azar, O. (2005). The social norm of tipping Does it improve social welfare. *Journal of Economics*, 85(2), 141-173.
- Azar, O. (2007). Why pay extra Tipping and the importance of social norms and feelings in economic theory. *Journal of Socio-Economics*, 36(2), 250-265.

- Azar, O. (2011). Business strategy and the social norm of tipping. *Journal of Economic Psychology*, 32, 515-525.
- Bodvarsson, O. & Gibson, W. (1999). An economic approach to tips and service quality Results of a survey. *The Social Science Journal*, 36(1), 137-147.
- Bodvarsson, O., Luksetich, W. & McDermott, S. (2003). Why do diners tip Rule of thumb or valuation of service. *Applied Economics*, 35(15), 1659-1665.
- Chung, M.K. & Heung, V.C. (2007). Tipping behavior of diners in three upscale Chinese restaurants in Hong-Kong. *Asia Pacific Journal of Tourism Research*, 12(3), 169-180.
- Club Managers of America (1996). Report on the operations and financial data survey. Club Managers of America Washington DC.
- Danilova, M. (2003). Tipping is not yet Russia's cup of tea. *The Moscow Times* 9.
- Dewald, B. (2003). Tipping in Hong Kong restaurants. *International Journal of Hospitality Management*, 22, 307-319.
- Engle, J. (2004). Is a mandatory gratuity still a tip. *The Ithaca Journal*, 11, 11A.
- Evans, M. & Dinesh, D. (1999). The thorny question of automatic service charges. *Cornell Hotel and Restaurant Administration Quarterly*, 40(4), 78-83.
- Fullen, S (2005). The complete guide to tips gratuities A guide for employees who earn tips & employers who manage tipped employees and their accountants. Ocala FL Atlantic publishing group Inc.
- Gatta, M. (2009). Restaurant servers tipping and resistance. *Qualitative Research in Accounting and Management*, 6(1/2), 70-82.
- Hofstede, G. (1983). National cultures in four dimensions a researchbased theory of cultural differences among nations. *International Studies of Management and Organizations*, 8, 46-74.
- Lin, I.Y. & Namasivayam, K. (2011). Understanding restaurant tipping systems: A human resources perspective. *International Journal of Contemporary Hospitality Management*, 23(7), 923-940.
- Liu, C.M. (2008). The perceptions of waiters and customers on restaurant tipping. *Journal of Services & Marketing*, 22(2), 95-103.
- Lynn, M. (1996). Seven ways to increase servers tips. *Cornell Hotel and Restaurant Administration Quarterly*, 37(3), 24-29.
- Lynn, M. (1997). Tipping customs and status seeking: A crosscountry study. *International Journal of Hospitality Management*, 16(2), 221-224.
- Lynn, M. (2001). Restaurant tipping and service quality: A tenuous relationship. *Cornell Hotel and Restaurant Administration Quarterly*, 42(14), 14-20.
- Lynn, M. (2003). Tip levels and service An update extension and reconciliation. *Cornell Hotel and Restaurant Administration Quarterly*, 44(5/6), 139-148.
- Lynn, M. (2004). Ethnic differences in tipping: A master of familiarity with tipping norms. *Cornell Hotel and Restaurant Administration Quarterly*, 45(1), 12-22.
- Lynn, M. & Haysbert, T.C. (2003). Ethnic differences in tipping Evidence explanations and implications. *Journal of Applied Social Psychology*, 33, 1747-1772.
- May, J. (1980). Looking for tips: An empirical perspective on restaurant tipping. *Cornell Hotel and Restaurant Administration Quarterly*, 4(20), 6-13.
- McCall, M. & Lynn, A. (2009). Restaurant servers perceptions of customer tipping intentions. *International Journal of Hospitality Management*, 28(4), 594-596.
- Mok, C. & Hansen, S. (1999). A study of factors affecting tip size in restaurants. *Journal of Restaurant & Food Service Marketing*, 3(3/4), 49.
- Moskin, J. (2020). Danny Meyers Restaurants Will End Their NoTipping Policy. Available online at: <https://www.nytimes.com/2020/07/20/dining/danny-meyer-no-tips.html>
- Ortega, B. (1998). Restaurants: No tips please just pay the service fee. *Wall Street Journal*, Sept 4B1.
- Parrett, M. (2006). An analysis of the determinants of tipping behavior: A laboratory experiment and evidence from restaurant tipping. *Southern Economic Journal*, 73(2), 489.
- Richards, R. & Rosato, D. (1995). Hotel bans gratuities after tip from guest. *USA Today* Oct 3 B9.
- Rose, V. (2013). China: An expatriates discovery of cultures and customs. *Journal of Diversity Management*, 8(2), 73-76.
- Segrave, K. (1998). Tipping: An American social history of gratuities. Jefferson NCMcFarland.
- Shaw, S. (2005). Tipped off *The New York Times* Aug 10 A1.

## Dewald

- Shrestha, J. (2010). Tipping differences of domestic and foreign customers in casual dining restaurants: An investigation of customers and servers perception. Unpublished Master Dissertation. Oklahoma State University, Stillwater OK, USA.
- Star, N. (1988). *The International Guide to Tipping*, NY Berkeley.
- Sutton, R. (2015). Thomas Keller Agrees to Pay \$500,000 to Settle Per Se Tipping Allegations. Available online at: <https://ny.eater.com/2015/7/2/8885279/thomas-keller-agrees-to-pay-500000-to-settle-per-se-tipping>.
- Sutton, R. (2015). Danny Meyer is eliminating all tipping at his restaurants. Available online at: <http://ny.eater.com/2015/10/14/9517747/danny-meyer-no-tipping-restaurants> .
- Tse, D.K. (1996). *The Handbook for Chinese Psychology*. Hong Kong Oxford University Press.
- Templeton, D. (1996). Is it service or custom that tips the scales Sonoma Independent, 24-30.