



# Restaurant tipping in a field experiment: How do customers tip when they receive too much change?



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## ABSTRACT

Tipping behavior is analyzed in a field experiment where restaurant customers received excessive change, either 10 or 40 Shekels (about \$3 versus \$12). One third of the tables reported the extra change to the server and returned it. Tips were higher with the higher level of extra change. Returning the extra change was negatively correlated with tips. The interaction between the level of extra change and whether it was returned had no effect. Possible explanations that tips are higher when the excessive change is not returned due to a positive income effect or perceiving paying a tip out of excessive change as less costly because it is a forgone gain and not a loss, are not supported by the data. Subjects may have exhibited moral licensing and moral cleansing effects. These effects, however, were possibly mitigated by a self-selection effect going in the opposite direction: those who are more generous or altruistic by their nature are more likely to return the extra change and also more likely to tip generously. Receiving the larger amount of extra change may result in feelings of good mood, perceived luckiness, or individuation and unconscious fear of being observed, which increase tips. Interestingly, these feelings seem to remain even if the extra change was returned.

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## 1. Introduction

In recent years the economics literature has given increased attention to behavior that does not conform to the traditional assumption of a perfectly-rational and egoistic economic agent. Phenomena like heuristics and biases in economic decision making, other-regarding preferences, social norms, voluntary market payments and other behaviors that emphasize the psychological and social motivations in economic behavior constitute a much larger share of the economics literature today than a few decades ago. One of the topics in this area is tipping, which is related to the literatures both on social norms and on voluntary market payments (because giving a tip is voluntary and not a legal obligation).

Tipping is an interesting social norm from an economic perspective for several reasons. First, as opposed to many other social norms, it is an economic activity. The customer receives service and pays for it. Consequently, tipping also has various

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business implications.<sup>1</sup> Second, the monetary magnitude of tipping is large. Azar (2011) estimates, for example, that annual tipping in the US food industry alone is over \$46 billion, and tips are given in dozens of industries and countries (Lynn, Zinkhan, & Harris, 1993; Star, 1988).<sup>2</sup> Third, tips have significant impact on the lives of millions of workers who obtain much of their income, or even most of it, from tips.<sup>3</sup> Fourth, as opposed to some other social norms, tips can be measured accurately. Consequently, it is easier to analyze tipping behavior than to analyze many other social norms both empirically and theoretically (see for example Azar, 2004). Finally, as opposed to social norms that following them can have also a rational explanation (e.g., following good table manners or etiquette in order to have better chances to make profitable business with the others who observe you in the future), tipping by a customer who dines alone in a restaurant that he does not plan to return to (e.g., in another city or a foreign country) is hard to reconcile with a rational and selfish customer (who does not have social or psychological motivations).

In this article we analyze how tipping behavior was affected in a field experiment that we conducted, where customers who dined in an Israeli restaurant and paid with cash received too much change.<sup>4</sup> The level of extra change given varied between treatments (10 versus 40 Shekels, equal to about \$3 versus \$12) and we know whether customers reported the extra change and returned it or not. This allows us to analyze how these variables affected tipping. We hypothesized that for customers who do not return the extra change the unexpected gain they get may result in higher tips (compared to those who returned the extra change). This can be due to a good mood<sup>5</sup> or a self-perceived feeling of luckiness or good-fortune, which follow from the unexpected gain. Higher tips when customers do not return the extra change can also result from a positive income effect and having additional monetary resources from which to pay the tip.<sup>6</sup> Alternatively, it can result from customers treating the increased tip as a small contribution out of the extra change they received, which may be perceived as less costly than increasing the tip in regular occasions. For example, applying prospect-theory (Kahneman & Tversky, 1979) in this context suggests that normally increasing the tip could be perceived as a larger loss, but when the increased tip is given from erroneous extra change, it is just a reduction of a gain and is therefore less costly (due to the asymmetry between losses and gains according to prospect theory).

Additional reasons that may affect the interaction between the decision whether to return the extra change and the tipping behavior are the ideas of moral cleansing and moral licensing. Sachdeva, Ilic, and Medin (2009) suggest that affirming a moral identity leads people to feel licensed to act immorally (moral licensing), and on the other hand, when moral identity is threatened, a person may regain some lost self-worth by adopting moral behavior (moral cleansing). A prior expression that helps to establish a certain self-concept (e.g., being moral or non-prejudiced) then liberates an individual to make choices that are inconsistent with that expression (Kouchaki, 2011). These ideas apply to our context because subjects in our experiment faced two subsequent decisions: whether to return the extra change they received and how much to tip.<sup>7</sup> A subject who returned the extra change should feel moral due to his honest behavior and then according to moral licensing may feel less need to tip generously, thus lowering his tip. One who did not return the extra change, on the other hand, may want to correct the dishonest self-image that results from it by tipping generously, according to the moral cleansing idea. The result in both cases is that returning the extra change will be associated with lower tips.

However, while moral licensing and more cleansing suggest that one form of prosocial behavior may crowd out another prosocial behavior, there is some evidence that this does not always happen. Greenberg (2014), for example, examines seasonal differences in within-customer restaurant tipping behavior and finds that during the holiday season (i.e., around Christmas) when there is a prosocial norm to be more generous, tipping rates are also higher, suggesting that two prosocial norms may be complementary rather than competing. A reason that may create in our experiment an effect in opposite direction to that of moral licensing and moral cleansing is the subject's personality and self-selection. If some people are more generous or altruistic than others, we may see them returning the extra change more often and also tipping more,

<sup>1</sup> Azar (2011) discusses the implications of tipping for business strategy, asking questions such as whether firms are better off imposing a compulsory service charge in lieu of tipping, and can some industries use voluntary prices determined by the customers as a business model? Lynn and Wang (2013) ask why service firms allow their employees to be paid by tips despite the associated risks, such as collusion between employees and customers against the firm.

<sup>2</sup> Some examples of tipping are well known and are even mentioned in travel guides (to educate the tourist about the customs in the country he visits), such as tipping in restaurants, taxis or hotels. Other examples are less familiar and may be country specific. For example, Saunders and Lynn (2010) study tipping car guards in South Africa.

<sup>3</sup> Wessels (1997) suggests that over two million US workers are servers as their primary occupation, in addition to many others who are servers as their secondary occupation, and servers earn most of their income from tips.

<sup>4</sup> In this article we analyze the tipping behavior in this experiment. In another article we analyze what affected the customer's decision whether to return the extra change (Azar, Yosef, & Bar-Eli, 2013).

<sup>5</sup> Gueguen and Legoherel (2000), for example, find that drawing the sun on the bill increased both the frequency and size of tips in bars, possibly due to creating a more positive frame of mind.

<sup>6</sup> The positive income effect also implies that among customers who do not return the extra change, those who receive 40 extra Shekels will tip more than those who receive 10 extra Shekels.

<sup>7</sup> Diners in Israeli restaurants almost always tip with cash and not a credit card. In any case, our experiment was limited to customers paying by cash (because we could not give too much change to someone paying with a credit card), and then tips are given when the customer leaves some cash on the table when exiting the restaurant. This means that the customer can decide on the tip after knowing that he received too much change and after deciding whether to return the extra change (even if he decided how much he wants to tip before that, he can easily update his decision about the tip afterwards). Therefore we assume that the decision whether to return the extra change is made before the decision about the tip. Moral licensing and moral cleansing then imply that returning the extra change should be associated with lower tips. This prediction, however, remains the same also if the decision about the tip was first and the decision whether to return the extra change was second.

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