

The Pro's and Con's of Working for Tips

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Abstract

Despite its prevalence and importance in the hospitality, personal care, and travel industries, tipping is a form of compensation that does not appeal to all workers. Furthermore, liking of this form of compensation is associated with satisfaction and tenure in tipped occupations, so there is value in correctly anticipating who will and will not like working for tips. Although research into the causes and predictors of worker attitudes toward working for tips is limited, it is possible to identify numerous pros and cons of tip compensation from a worker perspective. A greater upfront understanding of those pros and cons of working for tips would obviously benefit prospective workers by helping them to make better decisions about whether or not to seek and accept offers of tipped work. A more complete understanding of those pros and cons would also benefit managers of tipped workers who could use it to better evaluate the suitability of applicants for tipped work and/or could share it with job applicants to improve their self-selection into and out of the job. Accordingly, the current managerial perspectives article seeks to help managers by enumerating and discussing the major pros and cons of working for tips.

The Pro's and Con's of Working for Tips

Over 4 million workers in the United States depend on voluntary gifts of money (called “tips”) from their customers for a portion of their compensation and incomes (Allegretto and Cooper, 2014). A majority of these workers are waiters and waitresses, but tip recipients also work as automobile detailers, baristas, bartenders, casino dealers, concierges, chauffeurs, doormen, furniture/house movers, golf caddies, hair cutters, hotel maids, masseuses, musicians, nail technicians, parking valets, pizza delivery drivers, porters, restaurant hosts/hostesses, sommeliers, taxi drivers, and tour guides among other occupations (Allegretto and Cooper, 2014; Lynn, 2016). The amount of these workers’ incomes coming from tips varies by occupation, but can exceed 50 percent (see Table 1.1). Notable in this regard are waiters and waitresses, who not only outnumber all other tip recipients together, but who often depend on tips for 100 percent of their take-home pay because all of their hourly wages are withheld for taxes (Walansky, 2020).

Although millions of people in the United States work for tips, doing so is not for everyone. When I asked a sample of over 1,000 current or former restaurant servers if they would prefer working for tips or an 18% automatic gratuity, only half preferred working for tips. Twenty percent strongly preferred the non-tipping option! Furthermore, preference for tip over service charge compensation was positively related to both job satisfaction and tenure in tipped occupations (Lynn, 2017). Although research into the causes of worker attitudes toward working for tips is limited, it is possible to identify numerous pros and cons of tip compensation from a worker perspective. A greater upfront understanding of those pros and cons of working for tips would obviously benefit prospective workers by helping them to make better decisions about whether or not to seek and accept offers of tipped work. A more complete understanding of those

pros and cons would also benefit managers of tipped workers who could use it to better evaluate the suitability of applicants for tipped work and/or could share it with job applicants to improve their self-selection into and out of the job. The current managerial perspectives article seeks to help managers achieve this benefit by enumerating and discussing the pros and cons of working for tips.

Table 1.1. Workers in many occupations receive tips, which often make-up a substantial portion of their incomes.

Occupation	Sample Size	Percentage of Workers Reporting Tip Income	Percentage of Total Hourly Income from Tips ^a
Waiter/Waitress	1726	70%	68%
Gaming Dealer	235	73%	67%
Bartender	1296	70%	57%
Baggage Porter or Bellhop	114	47%	45%
Pizza Delivery Driver	466	70%	43%
Sommelier	131	31%	38%
Busboy/Girl	102	38%	36%
Dining Room and Cafeteria Attendant	104	32%	35%
Hotel Room Service Attendant	108	26%	34%
Doorman	101	39%	32%
Tour Guide	118	27%	24%
Parking Attendant	162	30%	23%
Cosmetologist	412	51%	23%
Taxi Driver	150	38%	22%
Chauffeur	257	27%	21%
Esthetician (Non-Medical)	518	45%	21%
Hairdresser / Hairstylist	1460	57%	21%
Nail Technician	347	44%	21%
Restaurant Host/Hostess	739	18%	19%
Barber	139	42%	18%
Butler	102	36%	17%
Sushi Chef	102	58%	16%
Massage Therapist	1887	42%	16%
Chauffeur Motorbus Coach Operator	104	35%	15%
Disc Jockey (DJ)	118	31%	15%
Automobile Detailer	463	10%	12%
Barista	1038	53%	11%
Gaming Change Person / Booth Cashier	120	33%	11%

Concierge	891	21%	10%
Counter Attendant	127	23%	8%
Dog Groomer	181	43%	8%
Musician or Singer	335	13%	8%
Tattoo Artist	132	41%	7%
Hotel Housekeeper	694	15%	5%
Tow Truck Driver	460	15%	4%

Source: Results from online compensation surveys conducted by Payscale and provided to me in 2009.

^a (Median hourly tips/(median hourly tips + median hourly base pay)) x 100, where median hourly tips are only from among those reporting some tip income

Benefits of Working for Tips

Among the benefits to workers of tip compensation are that tipping: (a) pays more per hour than most other jobs requiring comparable qualifications, (b) allows workers to hide much of that income from tax authorities, (c) gives workers unusual control over their own incomes, and (d) provides immediate feedback about job performance that can help workers get better and that is satisfying when they do well. Each of these benefits is discussed below.

High Income Levels

Many people believe that working for tips contributes to low worker incomes. Supporting this belief, Sylvia Allegretto and David Cooper (2014) analyzed data from the U.S. government's Current Population Survey and found that the median hourly wage for tipped workers is only about 60 percent of that for all workers (\$10.22 vs \$16.48) and that the percentage of tipped workers whose family incomes fall below the poverty level is twice that of other workers (12.8% vs. 6.5%). However, these statistics are misleading, because tipped workers are more likely than others to be members of demographic groups that typically earn less per hour even for non-tipped work – i.e., to be young, female, non-white, non-college graduates, and part-time employees (Allegretto and Cooper, 2014). In addition, tipped work requires less training and skill than does much non-tipped work and low training/skill jobs typically pay less than higher

training/skill jobs even if both are non-tipped (Newmark and Yen, 2021). Moreover, even if appropriate comparison groups of tipped and non-tipped workers were obtained, these data rely on self-reports to the government of workers' wages and incomes. As will be discussed more below, tipped income is easy to hide and an estimated half of it is never reported to the IRS (Department of Treasury, 2018). It seems unlikely that tipped workers would be substantially more forthcoming in reports of their incomes to other government offices, so it is almost certain that this data significantly understates the incomes of tipped workers compared to those of similar non-tipped workers.

My own experiences as a tipped worker while in college and graduate school were that I earned more in tip income than I could possibly have made in wages for any other job I was qualified to do. Furthermore, several studies suggest that my experiences were not unusual – tipped workers often make more than similarly situated non-tipped workers. First, a 2015 compensation and benefits survey of NYC restaurant companies conducted by a local industry association found that the median hourly income (including tips) of bartenders and waiters/waitresses exceeded that of all other non-tipped hourly employees of those companies (NY Hospitality Alliance, 2015). For example, waiters/waitresses' median hourly income exceeded that of porters by 175 percent, of cashiers by 129 percent, of line cooks by 112 percent, of hosts/hostesses by 99 percent, of reservationists by 83 percent, of office managers by 62 percent, and of accounting clerks by 10 percent (see Figure 1.1). These hourly income differences were not limited to fine-dining restaurants but were also observed at casual-dining restaurants.

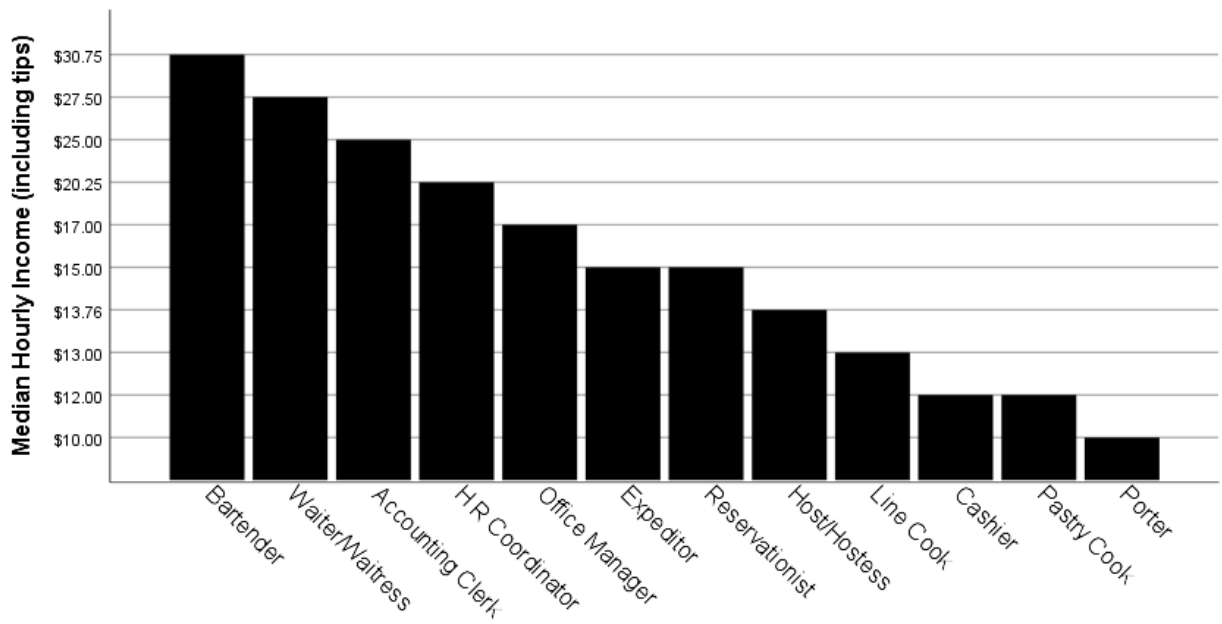


Figure 1.1. Bartenders and waiters/waitresses make more per hour than their non-tipped, hourly-wage, co-workers in NYC restaurants. Source: NYC Hospitality Alliance’s 2015 NYC Restaurant Industry Compensation & Benefits Report.

Second, a 2014 survey of over 1,000 restaurant managers from large metro areas across the U.S. conducted by Cornell and the Ohio State University researchers found that median weekly wages (including tips) of front-of-house employees (who typically receive tips) exceeded that of back-of-house employees (who typically do not receive tips) (Batt, Lee and Lakhani, 2014). This income difference was greater at upscale fine-dining restaurants where F-O-H workers earned a median of \$792 per week and B-O-H workers earned a median of \$441 per week, but it was also observed at moderately priced restaurants where F-O-H workers earned a median of \$464 per week and B-O-H workers earned a median of \$360 per week.

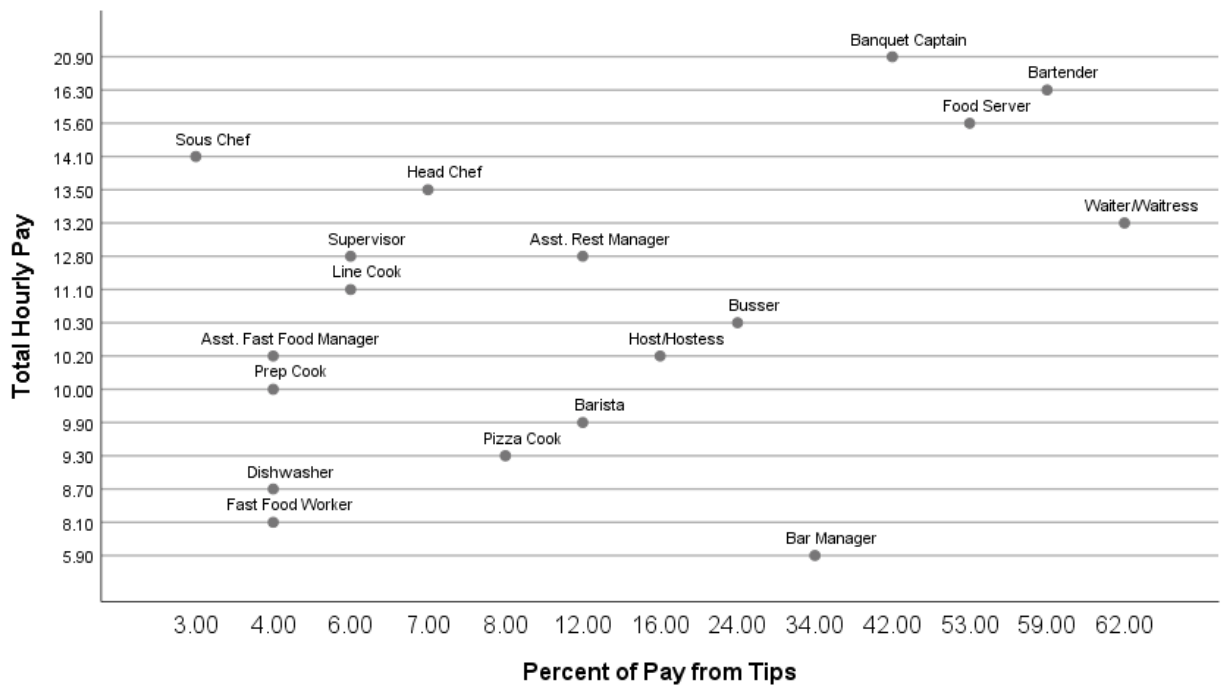


Figure 1.2. Across the U.S., restaurant workers with a high percentage of their pay coming from tips make more than those with a low percentage of their pay coming from tips. Source of graphed data: Payscale’s Restaurant Report.

Finally, a 2013-2014 survey of 15,000 restaurant workers across the U.S., conducted by the compensation company Payscale (2014), found that restaurant jobs getting higher percentages of their pay from tips paid more per hour (including tips) than did jobs getting lower percentages of their pay from tips (see Figure 1.2).

The data from all three of the surveys described above involved unverified income information, but the respondents had less motivation to lie to the surveyors than they would to lie to the government, so these data are more trustworthy than government data on tip incomes. This more trustworthy data consistently supports my own experiences and indicates that most

tipped restaurant workers earn substantially more, not less, than non-tipped workers with comparable training and skills.

Tax Evasion

All tip income is taxable (IRS, 2021). Evading payment of those taxes is unlawful and I do NOT recommend that anyone attempt or encourage it. Nevertheless, cash tips are easy to hide from the government and many servers view this opportunity to unlawfully evade taxes as a perk of tipped work. In fact, the IRS estimates that less than half of all tip income is reported (Department of Treasury, 2018), so many servers do take advantage of that perk.

Personal Control Over Income

Many workers have little control over the incomes their jobs provide. If workers want to make more money they must typically work more hours (which is not always possible) or find other, better paying jobs. However, the compensation for some jobs is structured so that workers who produce or sell more get paid more. Tipping is one of those compensation systems; it allows workers to make more money not only by working more hours, but also by working smarter and getting customers to leave larger tips. Although how much a consumer tips is largely determined by his or her own characteristics, service workers can still influence those decisions. What is more, that ability to influence tips extends beyond simply providing better service, though that does help too. Researchers have identified dozens of specific, easy to perform behaviors that service workers can use to increase their tips (Lynn, 2018, 2011). Many of those behaviors have been proven to increase tips by 20 percent or more! Interested readers can find those tip enhancing techniques in one of my Cornell Center for Hospitality Research Reports (Lynn, 2018). The point here is that tipping gives workers many more opportunities to increase their incomes than do other compensation methods. Furthermore, servers do not have to wait until

their next paychecks to see the increased compensation – they take it home with them after each work shift! Thus, people who value the opportunity to personally control their earnings (and are willing to engage in the behaviors that increase tips), should find working for tips more appealing than do others.

Performance Feedback

While the primary motive for working is to make money, that is not the only motive. Most people take pride in their work and want to do as good a job as possible. In order to become the best they can be and to maximize their intrinsic job satisfaction, workers need meaningful feedback on their job performance. As Peter Drucker is often mistakenly quoted as saying, “You can’t manage what you can’t measure.” (Zak, 2013). The job of service workers is to satisfy customers while also conforming to organizational policies and expectations. The latter goal is usually pretty straightforward and often explicitly spelled out in training documents. For example, it is clear that good servers or bartenders should usually refrain from giving customers free drinks even though it would please those customers. However, the former goal is more abstract and vague. What does it take to satisfy customers? How do servers know if they are satisfying their customers? How do they know if their performance is getting better or worse over time and how their performance compares to that of co-workers?

Customers’ verbal and non-verbal behaviors are certainly a clue about servers’ performances. For example, rarely do dissatisfied customers smile at or verbally thank workers for poor service. On the other hand, words are cheap and sometimes customers say everything is okay when it isn’t. Furthermore, not all customers are verbally or non-verbally expressive, so reading their statements and expressions is difficult and error prone. Most importantly, it is virtually impossible to quantify the sentiments expressed in customers’ naturally occurring

verbal statements and non-verbal expressions, so they cannot be meaningfully compared across time and people.

Servers could look to their managers for feedback about their performance. After all, monitoring and motivating worker performance is part of a manager's job. However, not all managers are observant, insightful, objective, and articulate enough to provide good feedback. Furthermore, even the best managers have a hard time telling if service workers have done a good job, because services are fleeting, intangible, and customized. Monitoring the many short, inter-personal interactions involved in providing most services would require too many watchers. Moreover, differences in customers' desires mean that those watchers would have a difficult time telling if a particular service behavior was wanted by the customer or not. For example, is a waiter who rarely visits a table ignoring the table or giving them the space and privacy they want? These issues make managers a relatively poor source of feedback to servers about their performance (Azar, 2004).

Where other sources fall short, tips can help fill servers' needs for meaningful feedback on their performances, because tips come from the customers that servers are supposed to satisfy and are supposed to reflect those customers' satisfaction with the service. In fact, many economists believe that this is why tipping exists in the first place – because it is easier and more efficient for customers than for managers to monitor and reward service worker performance (Azar, 2004; Jacob and Page, 1980). While there is reason to question how good tips are at measuring performance on some aspects of service, research has made it clear that they do reflect service workers' social connection with customers as well as customers' overall affective reactions to service encounters. Furthermore, tips are easily quantified and compared across time and workers. This means that servers can compare their tips with those of co-workers to see how

much room for improvement in their performance there is and to get ideas about how to improve by trying to identify behaviors that differentiate those who get good and bad tips. They can also compare their tips across customers and time periods to discover what behaviors seem to make their customers' happiest. Thus, tips are a valuable source of feedback to servers about their own performance and about ways to get better at their jobs. For those workers who take pride in their work and want to maximize their performance for intrinsic reasons, the feedback provided by tipping should add to the attractiveness of working for tips above and beyond that attributable to its financial benefits.

The Downsides of Working for Tips

Among the downsides of working for tips are the following: (e) tip income brings social pressure from co-workers to under-report that income, (f) tip income is less stable and certain than wages, (g) tipped wages are lower than regular minimum wages, (h) control over tips empowers some consumers to be abusive, and (i) managerial control over tip income is greater and easier to abuse than is managerial control over wages. Each of these costs is discussed below.

Pressure to Break the Law

We have already noted that cash tips are easy to hide from the government and that many find this opportunity to unlawfully evade taxes to be a perk of tipped work. However, it can also put social pressure to break the law on workers who do not want to. Servers and their employers financially benefit from under-reporting tip income, so many do under-report it. Remember, the IRS estimates that less than half of all tip income is reported (Department of Treasury, 2018). Unfortunately, that under-reporting becomes more obvious if other servers at the establishment

fully report their tips, so there is likely to be pressure from co-workers, and sometimes even employers, to get on board and under-report tip income like everyone else. For those with less flexible morals, this social pressure to break the law is a reason to avoid tipped employment.

Income Instability and Uncertainty

Although tip income often exceeds what workers can make in non-tipped jobs, that income depends on how many customers a server has and how much those customers decide to tip, both of which can vary from day to day even when work hours are stable. These unique sources of variability in tip income mean that tipped workers face much more income instability and uncertainty than do other workers. The greater instability of tipped income makes it harder for tipped workers to plan and secure loans for major purchases such as cars and houses, but those difficulties can be overcome with proper records. More problematic for some people is the psychological toll of income uncertainty and/or the emotional ups and downs accompanying frequent rises and falls in tip income.

To help get an idea of just how big those rises and falls in tip income typically are, I turn to data provided to me by Upserve (a point-of-sale or payment systems company) on the total daily charge tip amounts for each of 164 servers from seven, casual-dining, California restaurants who worked and received charge tips on at least 21 days over the course of the year in 2017. Figure 1.3 plots those servers by the top and bottom quartile of their daily charge tip totals. Although this data does not include cash tips and, therefore, understates the servers' tip incomes, it does illustrate how much tips can vary across work shifts.

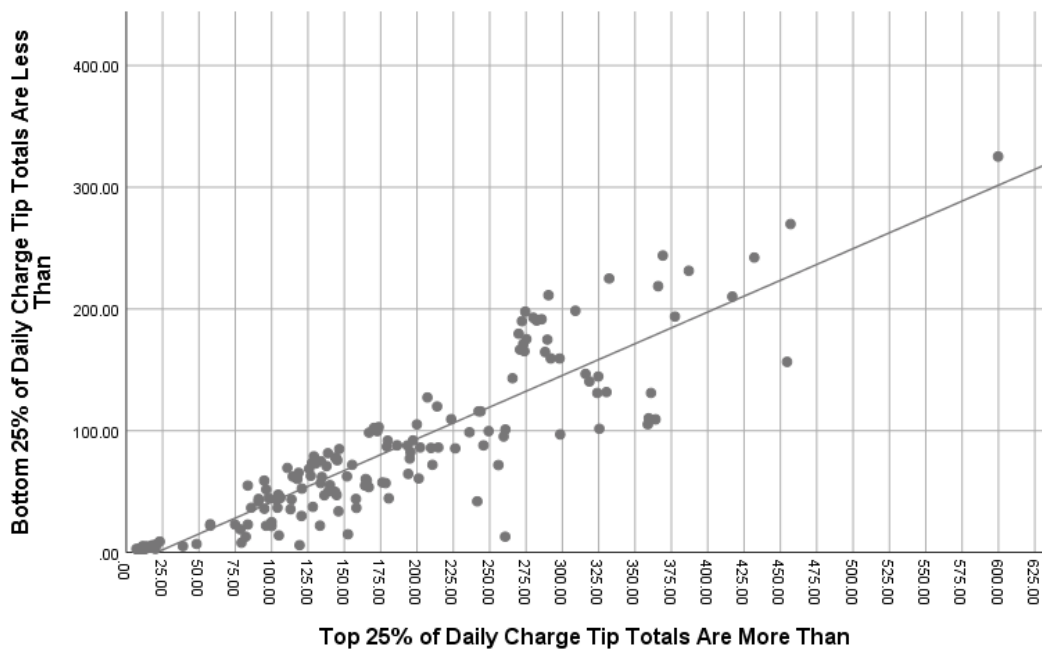


Figure 1.3. The bottom quarter of servers' daily tip totals were typically half or less of the amounts they got on the top quarter of days. Each dot represents a server whose 25th and 75th percentile of daily charge tip totals are shown on the corresponding axes.

Typically, the bottom quarter of these servers' daily tip totals were half or less of the amounts they got on the top fourth of days. Some servers saw less variability in their daily tip totals (those above the line in Figure 1.3), but others saw more (those below the line) and none had the income stability provided by traditional wages or salaries. Though not representative of all servers, these data illustrate the kind and extent of income variability that working for tips can entail.

Sub-Minimum Wages for Tipped Workers

In addition to income uncertainty, tipped workers must also cope with substandard hourly wages. In the United States, federal law stipulates the minimum wage an employer can pay workers. However, within their own jurisdictions, states and cities can mandate higher minimum

wages than are required by federal law and many (though not all) do so. Thus, the minimum legal wage varies across cities and states within the U.S.. Most of these minimum wage laws allow employers to pay tipped workers less than non-tipped workers as long as the employees' tip earnings amount to at least \$30 a month and bring the total compensation of tips plus wages to the regular minimum wage level. Only the states of Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington require employers to pay the same minimum wage to tipped and untipped employees. The difference between the regular and tipped minimum wages allowed by federal and most state laws is known as the tip-credit and it varies across states (see Figure 1.4).

These sub-minimum wages for tipped workers are usually not a problem for the employees. As previously discussed, most tipped workers earn more than the regular minimum wage when their tips are taken into account. Nevertheless, tip amounts, which vary across employers, workers and shifts, sometimes fail to cover the tip credit and bring total compensation to the regular minimum wage level. Employers are required by federal law to make-up any such shortfalls in tips for a given work week with higher wages for that week, but this requirement is difficult to enforce - as acknowledged in a White House (2014) report on the minimum wage. As a result, some tipped employees find themselves working for less than the regular minimum wage on a given week, even though this is unlawful.

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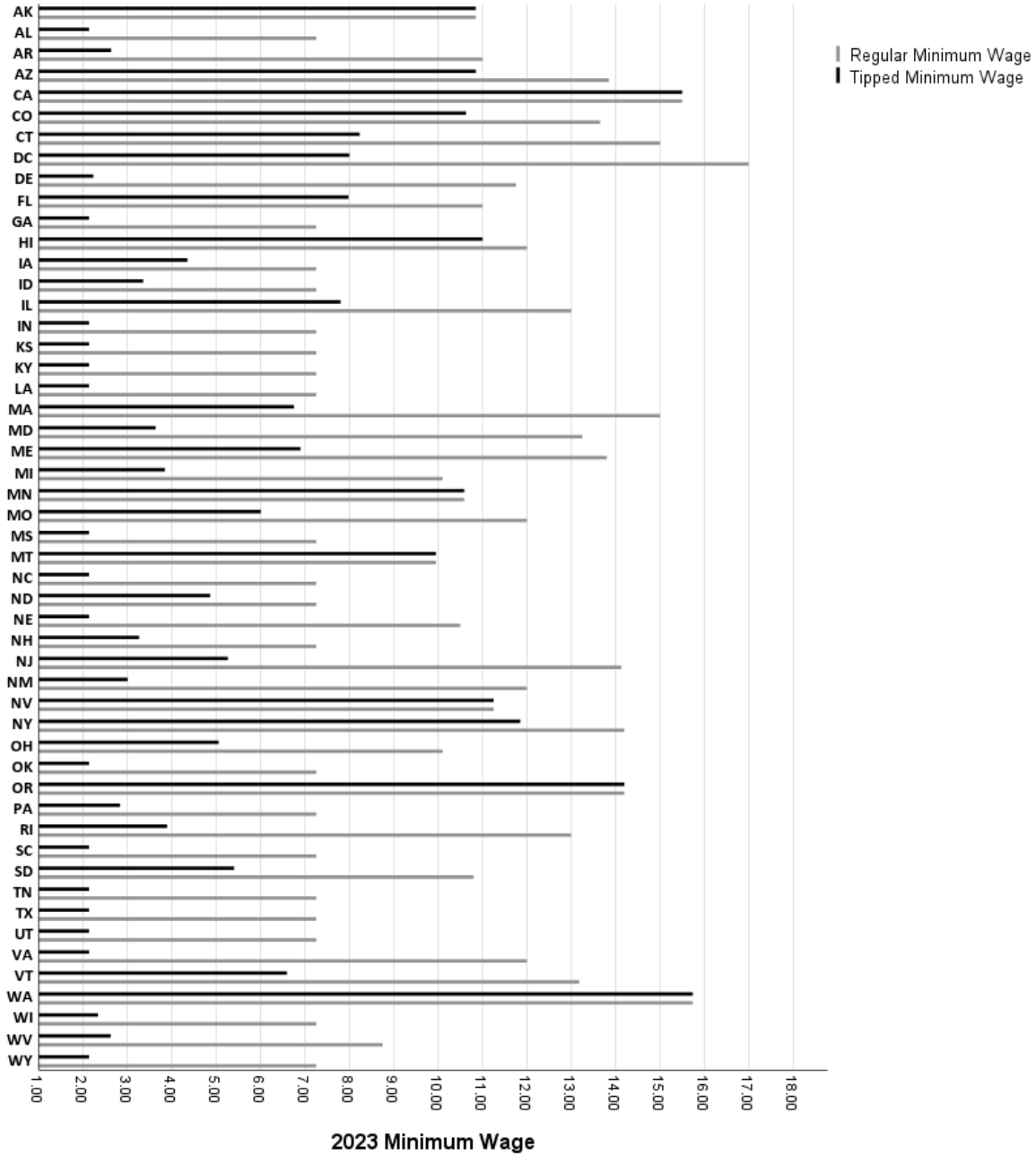


Figure 1.4. Effective minimum wages for tipped and non-tipped workers, and the differences between those minimum wages, vary across states in the United States. Source: <https://www.dol.gov/agencies/whd/state/minimum-wage/tipped>

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No one knows for sure how often these violations of tipped minimum wage laws occur, but the available evidence suggests that they are not rare. The U.S. Department of Labor's Current Population Surveys have found that over 10 percent of workers in predominately tipped occupations reported total compensation (tips plus wages) that falls below the federal minimum wage when that compensation was converted to hourly wages by dividing by the respondent's reported number of hours usually worked. Problems with self-reports of income and work hours mean that this 10 percent number cannot be taken at face value. However, it is more than twice the percentage of all surveyed workers whose similarly calculated total compensation falls below the federal minimum wage, so it is clear that tipped workers are much more likely than others to be paid unlawfully low wages (Allegretto and Cooper, 2014).

Furthermore, tip totals vary more from shift to shift than from week to week, because there are fewer tips in a shift than in a week and chance affects small samples more than large ones. This means that tipped workers are more likely to find themselves working for less than the regular minimum wage on a given work-shift than on a given work-week. Such shortfalls on shifts are legally acceptable and do not have to be made-up by the employer as long as surplus tips on other shifts mean that the tip credit is covered for the week. Thus, even tipped workers with law abiding employers may find themselves occasionally working shifts for compensation that it is below the federal minimum wage. To be sure, those bad days are made up by good days, but some people have a hard time looking at the big picture and resent having to work shifts for which they are poorly paid. To be happy working for tips, workers need to be able to keep the big picture in mind and not be bothered by occasional work shifts that are under-compensated.

Consumer Control over Income

Tips are voluntary – meaning that consumers can tip large or small amounts or even nothing at all as they see fit. This discretionary nature of tipping gives customers power over workers who depend on those tips for a portion of their incomes and some customers abuse that power. This abuse takes many forms.

Often customers are merely inconsiderate. For example, they may wait until the last minute to ask for things they should have foreseen but now urgently need – necessitating the temporary abandonment of other tables as you run back into the kitchen to fulfill their request. Other times customers are excessively picky, demanding, messy, and/or rude and servers quietly put up with all of it for the sake of their tips.

Not infrequently, customer rudeness can reach levels that are truly offensive. For example, I still feel angry when I think about one customer I waited on during a New Year's Eve party many years ago. This customer put a generous stack of \$5 bills on the table and told me that stack was my tip, but that he would remove a bill anytime his or his dining companions' glasses became empty during the evening. He then left the stack on the table and ostentatiously removed a bill on each of the few instances that I did not refill someone's glass quickly enough. Although I ended up getting a good tip from this customer, I hated waiting on him because he rubbed his power in my face and because he insulted my professionalism by assuming I would not do a good job without the incentive of losing tips. [Note: There was a scene like this on the television comedy show *Third Rock from the Sun*, but it actually happened to me.]

As distasteful as I found the experience of waiting on the customer described above, I am a white, male and had it easy compared to the treatment that many female servers and servers of

color must endure. For example, female servers routinely put up with sexual innuendo, requests for dates (or their phone numbers), and inappropriate touching from the people they need to tip them. One survey of restaurant workers in 2014 found that about 80% of women experienced some form of sexual harassment from customers with 33% experiencing such sexual harassment on a weekly basis (ROC United, 2014). Men were sexually harassed by customers too, but at a lower rate than were women. Furthermore, rates of sexual harassment were higher for tipped than for non-tipped restaurant workers and were higher in states where servers were more dependent on tip income due to tip credits than in states without a tip credit (ROC United, 2015).

Except in the most egregious cases, management is unlikely to risk the ire of customers by calling the customer out and stopping their inappropriate behavior, so workers must usually deal with that unwanted behavior on their own. In the case of tipped workers, fear of getting a smaller tip adds to the fears all employees have that customers who are called out on their inappropriate behavior will try to humiliate the worker or will complain to management about the worker. As a result, most servers simply ignore and endure the customer misbehavior (ROC United, 2015). Thus, working for tips requires a relatively thick skin and a greater tolerance for mistreatment by customers than does other work.

Managerial Control Over Income

Managers determine their employees' work shifts and hours as well as their wages or salaries and this gives them a fair amount of power over those workers. Managers can abuse this power – for example, by favoring employees who resemble them in terms of sex and race or who come across as more “friendly and compliant” to their wishes. Fortunately, employment laws prohibiting sexual harassment and discrimination provide some protection against such abuse,

but enforcement of these laws is difficult, costly, and uncertain and this is particularly true for tipped jobs. Tipped work tends to be part-time, which gives managers more latitude in the assignment of hours and shifts. In addition, shift assignments matter more for tipped work because tips (unlike wages) vary considerably with how busy the establishment is. This means that managers can affect tipped employees pay in a way that is harder to complain about and get redress for than is simple wage or salary discrimination.

Further heightening managers' extraordinary control over tipped workers' incomes is their ability to determine how many and which customers a worker serves in any given shift. In restaurants, for example, servers are assigned to sections comprised of different numbers and configurations of tables (e.g., tables for 2 vs 4 vs 6) and this assignment decision alone can affect a server's tip-take for a shift. Add to that the impact of having groups of diners known to be good (or bad) tippers assigned to their sections or not and managerial control over the incomes of waiters and waitresses is considerably greater and easier to hide than their control over the incomes of non-tipped employees. This extraordinary managerial control over tipped workers' incomes and its potential abuse are downsides of tipped work that managers may be reluctant to acknowledge or share with their prospective employees. However, revelations of this managerial control coupled with credible assurances that it is not abused could benefit managers by giving applicants a reason to prefer working for the disclosing manager over others at different establishments.

Summary and Conclusions

Many of the pros and cons of working for tips discussed above are widely known, but others are not, and some are even questioned. Moreover, even if particular benefits or downsides of working for tips are known in the abstract, their quantification and ramifications are not

known or fully appreciated. Hopefully, this Managerial Perspectives article has addressed those gaps in knowledge and left the reader with a broader and deeper knowledge and appreciation of the benefits and downsides of working for tips. Managers can use that knowledge to hire workers whose characteristics they believe signal a stronger potential liking for tipping's benefits and a stronger potential tolerance of tipping's downsides. Of course, many managers will find it difficult to identify reliable predictors of these attitudes toward working for tips. In that case, they can, and I believe should, share this information about the pros and cons of working for tips with job applicants, so that those applicants can more appropriately self-select into and out of tipped jobs. Enabling such informed self-selection should benefit the applicant and manager alike by increasing new hires' job satisfaction and tenure.

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