

The tipping point

Gratuity customs vary from culture to culture, but there is usually a general consensus on tipping norms in any given city. In Hong Kong, however, there is widespread confusion over whether we should even tip at all. **Patrick Brzeski** talks to service industry veterans to gauge their views, and asks why your 'service charge' almost never goes where you might think



AT SOME POINT in our globe-hopping lives, we've all been there. You're fresh off the plane – a tourist, business traveler, or temporary resident in a big foreign city. You were remiss on the pre-trip research and now suddenly the bill arrives at your table, or the taxi driver drops you at the hotel door and stretches back a hand... unbidden, anxiety washes over you. Do people tip here? How much? You want to do the right thing and worry about giving too little, yet you also don't want to be the culturally obtuse boob who weirdly offers cash where nothing is expected.

Surprisingly, it's not uncommon for Hongkongers to be wracked by these same anxieties at home. With its sizeable multinational expat population, long complicated colonial history, and ongoing identity crisis about the proper relationship with the Mainland, Hong Kong is a city more culturally complex than nearly any other. And this mixed-up confluence of cultural factors manifests in a service industry that can oftentimes perplex locals, expats and interlopers alike. Consider the range of service scenarios found in just the food and beverage industry alone: there are dai pai dongs, cha chaan tengs, local and international fast food chains, Michelin-starred celebrity restaurants, Western-style bars, coffee shops, private kitchens... At which of these establishments are you expected to tip? How much? Why here and why not there? And what about the 10 per cent "service charge" usually added to the bill? Is that a tip?

For most of us these questions tend to go unresolved. We do our best, and at some point we each sketch out our own little everyday tipping policies based on hearsay from friends and the customs of our home countries. We pay the service charge, perhaps tip a little extra, and simply try to enjoy our evenings. But as Clayton Parker, a lifetime veteran of the F&B industry and Managing Director of Eclipse, a restaurant group that runs Delaney's, Coyote and McSorley's among others, told us: "Even people who have been here a very long time, when it comes to tipping, nobody knows what they're really supposed to do."

A GREAT MANY ECONOMISTS and social scientists have studied the tipping practices of restaurant goers in the United States – where, according to American economist Ofer Azar, the total tips paid out in the food industry alone amounts to US\$42 billion annually – but very few have investigated the tipping habits of Asian societies. Looking to improve this disparity, to the potential benefit of Chinese policy-makers, in 2008 professors Vincent Heung and Manson Chung of Hong Kong Polytechnic University surveyed 611 patrons at four popular upscale Chinese restaurants in Wan Chai, Causeway Bay, Tsim Sha Tsui and Mong Kok, asking them a variety of

questions to determine their tipping habits and motivations.

Having worked in the local hotel and restaurant industry for many years before becoming a professor, Heung has a comprehensive understanding of the ins and outs of the business from the point of view of an operator. For example, he has long known, as many diners do not, that the 10 per cent service charge added to the bill at most mid- to upscale restaurants in Hong Kong is usually kept by the restaurant as revenue instead of distributed among the staff as a gratuity.

"Basically, from what we found, the main concern is that the restaurant treats the service charge as income," says Heung, "but the customer is normally not aware that the charge goes to the restaurant instead of the service staff." Ninety-two per cent of the study's 611 respondents were Hong Kong residents, but incredibly, just 5.8 per cent of them knew that the 10 per cent service charge they pay on top of nearly every nice meal eaten out in the city goes to the restaurant, not the staff. "So therefore, we found the tipping from the patron is usually very small – on average just 2.1 per cent – because they think that the 10 per cent

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added to their bill has already been allocated to the servers. It's a serious misunderstanding. In Western countries, when you see a service charge, it always goes directly to the service staff, but that's not the case in Hong Kong."

Heung and Chung concluded that the industry was in immediate need of greater transparency. "I think this is part of the business culture of Hong Kong. In Western countries they talk about corporate social responsibility, they talk about business ethics, but this isn't popular in Hong Kong yet," Heung says. "The local market dictates a set price range for food, but naturally the restaurant operators want to earn as much as possible, so they add 10 per cent at the end. In a way, it's a kind of marketing trick. The customer needs to be made aware of this."

Not surprisingly, Heung and Chung haven't seen the restaurants they surveyed adopt their potentially profit-impinging policy suggestions. But over the course of the past year, while unaware of the professors' findings, two Western restaurateurs have been busy stirring up a controversy in Soho by taking vocal action on the same line of thinking.

TODD DARLING, American proprietor of Posto Pubblico on Elgin Street, gives off the brusque, busy air of successful restaurant managers the world over. Quick to size you up, and seemingly always on the job, he's the type of guy to whom you'd never want to offer a lame excuse for showing up late for a shift. "The first thing that really got me going on the service charge issue was a conversation I had with my father. He's been visiting Hong Kong for over 20 years," Darling explains. "I remember saying to him one day shortly after I arrived here, 'It's bizarre, but did you know that the service charge you pay on the bill at most restaurants in Hong Kong doesn't go to the staff?' He didn't and was actually shocked and really angry to find out that for all those years, eating in all those nice restaurants, he'd been misled by the system and hadn't been leaving anything substantial for his servers."

When Posto Pubblico opened its doors last January, Darling was adamant about not imposing a mandatory service charge. "I really believe that the service charge is one of the main reasons the food and beverage industry is so stagnant in our city. If you have businesses that are able to rely on such a thing instead of relying on running a real business based on integrity, with honest prices and great systems and decent tips to incentivise the workers, well then, what you get is a stagnant market place."

Joining Darling in the anti-service charge cause is Toby Cooper of the Soho gastropub The Globe. Proud, stentorian, with near perfect posture, Cooper exudes a palpable intensity of purpose similar to Darling's. Originally from England, Cooper has been working in restaurants around the world for the past 30 years, 14 of them in Hong Kong. "It surprises me that in Hong Kong the service charge is allowed to continue the way that it is," he says. "There's no reason for it being there. It's not a tax. It's just there to make the menu appear cheaper. And it's just accepted." Cooper says that when The Globe moved from Hollywood Road at the end of last year to their new, much expanded Graham Street location, there was a great deal of discussion among the investors as to whether or not to institute a service charge. "But the best reason that anyone could come up with was 'everyone else does it.' And yeah, ok, I probably could make 10 per cent more, but I just wasn't comfortable doing it. I've worked in this industry so long, and I've been exploited all over the place. I'd rather not do it with my staff and my customers."

In April of this year, the *South China Morning Post* picked up on Darling and Cooper's outspoken views and ran a pair of stories declaring the service charge "one of the biggest rip-offs in Hong Kong" and making a number of not particularly well-founded claims suggesting that some restaurant groups were also garnishing the credit card tips left for ►

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their servers in addition to the service charge. The stories ignited controversy within the industry, with many going on the defensive or feeling unfairly singled out. "At the start, we got all kinds of snide remarks from competitors about how no one cares about the service charge, or that we were going to fail without it," says Darling. "And after the story ran, I even had it out with a competitor in the street." In researching this story, we reached out to most of the city's major restaurant groups, both expat and local, but our requests for basic information regarding how and why they use the service charge and process credit card tips were generally met with silence, opaque PR speak, or dubious evasions. Emails went unanswered, phone calls unreturned, sudden emergencies arose at scheduled interview times, and some even called back asking that previously divulged information be stricken from the record. Those who did speak with us tended to be skeptical of Darling and Cooper's motivations. "My personal view is that it's all a bit of a PR stunt, frankly speaking," says the gregarious Executive Chef of Café Deco Group, Martin Kniss. "It's not sincere." Clayton Parker of Eclipse is inclined to agree. "I do think this has all been a bit of a promotional thing for those guys, which is totally fine, but that's part of what's behind it." When I mentioned these suggestions to Cooper his jaw clenched and his eyes went a little wild. "So I'm voluntarily losing out on 100k-150k a month just for a PR stunt? Surely it would be cheaper to take out ads."

Regardless of how much positive press Darling and Cooper have garnered from the controversy, they make an undeniably salient point about the duplicitous nature of the service charge. Why is it called a "service charge", after all, if the money it generates goes straight into the restaurant's revenue stream and is in no way

allocated towards the servers? There is no "cutlery charge" or "air conditioning charge", so why a "service charge"? Considering that Hong Kong was built upon a complex collision of Western and Asian customs, and that in the present day a great many deep-pocketed new arrivals from all over the world continue to land here with myriad home-culture assumptions about how tipping and service charges usually work, it becomes hard not to view the service charge system with cynicism, as a bit of industry-wide legerdemain designed to exploit the cultural expectations and goodwill of all who dine in the city. As Darling says, "Maybe 10 per cent doesn't seem like that much money, but the truth is, when you're walking down the street looking at lunch prices and everyone's competing on these \$10 or \$20 differences, it is actually a really significant marketing point."

ALL OF WHICH BEGS THE QUESTION of how Hong Kong ended up with this practice in the first place. "In traditional Chinese culture, we don't have the concept of service charges or restaurant tipping," says Professor Heung. Indeed, traditional Cantonese cha chaan tengs do not now and have never employed service charges. "So it must have been imported sometime during the colonial days. I'm not certain exactly when or how it arrived, but I remember when I was in primary school and my parents took me to nice Western and Chinese restaurants, they were already charging 10 per cent." Several industry insiders who requested to remain anonymous because of the issue's sensitivity told us that they believe the service charge was first introduced to Hong Kong by the city's big Western hotels. James Lu, Executive Director of the Hong Kong Hotel Association concurs. "Some smart cookie must have come up with the idea of adding 10 per cent who knows how many years ago", he says, laughing. "But from what I understand, it was brought into Hong Kong by the big hotels a long, long time ago." One retired restaurateur remembers it being in place as far back as the 1950s.

The service charge is so deeply entrenched in the restaurant business of Hong Kong that even those who personally abhor the practice have

found it difficult to excise it from their business models. "It's always been a bone of contention to me as a customer and as an operator", says Eclipse's Parker. "I personally don't like it, but when we tried to give it up, it didn't really have any impact." Parker experimented with removing the service charge from one of his Lan Kwai Fong pubs several years ago, but eventually felt forced by financial incentives to return to the old system. "When we dropped the service charge we had to up the cost of the pint a little bit to offset the lost revenue, but then everyone complained about the price, and no one did the math to, you know, work out that if you compared our prices to the prices after the service charge, it was actually probably a little bit less." As the owner of a large restaurant group, Parker says he feels somewhat stuck within the current system despite his personal misgivings (A representative of another group who insisted on remaining anonymous recounted a similar story of trying to remove the service charge but giving up due to complaints over prices). "I'd love to see us go to a full tipping culture, because ultimately you get better service with the tipping incentive and a better industry all around", says Parker. "But how do you say to every other operator in town, hey guys, this will be good for the industry, this will be good for the city, let's drop the service charge and just print the net price? I think the only way to eradicate it and bring Hong Kong into a full tipping society is through legislation."

ACCORDING TO THE CONSUMER COUNCIL, unlike most developed countries around the world, Hong Kong has no specific laws to regulate how restaurants bill their customers or distribute tips and service charges. But imagine for a moment that, against the odds, the Hong Kong government did intervene. Exactly what new billing, tipping or service charge arrangement would best serve Hong Kong diners, servers and operators?

When it comes to billing customers and paying service staff, all restaurants around the world shuffle more or less the same set of variables, the individual weights of which are assigned according to the operator's preferences and the tipping customs of the local market. In Japan, for example, there is no tipping culture whatsoever (try tipping in Tokyo and you will be followed to the door by a confused and seriously distressed waitress, arms outstretched, money in hand, apologising profusely), so most Japanese restaurants pay their servers relatively high salaries and price their menus to cover all staffing costs and assorted expenses (raw ingredients, utilities, rent, advertising, etc), plus profit margin. At the opposite end of the spectrum sits the US, where tips are huge, and wait staff salaries and menu prices are correspondingly low (most states have two minimum wages, one for tipped workers and a second for every other industry). There were even times in both Europe and the US, when upscale restaurants charged their skilled waiters for the opportunity to work and earn tips at their establishments.

So it's worth noting that Darling and Parker are both American and very much products of the US restaurant business in terms of their service philosophies. They're charismatic guys who got their start in the industry working at minimum wage, serving American diners who are accustomed to tipping around 20 per cent for average service and a good deal more when they take a special shine to their waiter. At Posto Pubblico, Darling has largely succeeded in establishing a tipping system based ▶

THE SNEAKY EATERY

5/F, 8124 ELGIN STREET,
CENTRAL, H.K.
TEL: 9997 6841

TABLE: 69

NO OF GUEST : 2
ORDER NO : 167
STAFF : EVA
START TIME : 2010/06/14 02:19

1 STEWED PORK BELLY	98.00
1 THREE CUP CHICKEN BENTOS	88.00
2 ICE LEMON TEA	40.00

SUBTOTAL	226.00
SERVICE CHARGE 10%	23.00

TOTAL:	249.00
GUEST AVG.	124.5

Do you need to pay for bad service?

What's the worst restaurant service you've ever received? Wrong entrée, fly in the soup, waitress flatus added to the ambience? And now they're asking you to pay a 10 per cent "service charge"? Contrary to what most restaurant managers may say, you do have options.

"Whenever you place an order at a restaurant, you're essentially entering into a verbal contract," says Chris Dundon, an HKSAR-qualified solicitor of 20 years, best known for his work representing the food and beverage industry. "And the same goes for the service charge. Assuming it is printed on the menu or otherwise clearly posted somewhere in the restaurant, by ordering food you've agreed to pay it." But if the service turns out to be truly atrocious, Dundon says you can make the case that the restaurant has violated its side of the agreement.

"You can say, look, I agreed to pay the service charge, but you didn't deliver the standard of service that one would reasonably expect from a restaurant of your type and class. The service was so poor that it amounts to a breach of contract and I don't have to pay for it." If the situation gets threatening, hold your ground.

"If the police are called, just tell them, I'm sorry, this is a contractual matter, I ordered service and they breached the contract. If they want to sue me for that, he's my name and address. And realistically, what are they going to do? In contract law, things like this happen all the time, it's just usually on a much larger scale." Patrick Brazski

"In Western countries, when you see a service charge, it always goes directly to the service staff, but that's not the case in Hong Kong"

on the American model. He's careful to employ experienced and personable wait staff, and has made a point of notifying his customers, both on the menu and via word of mouth, that he doesn't impose a service charge. We spoke with a couple of his waitresses and they were effusive in their love of the new system. They report that, on average, they're making about 8 per cent tips, which they split partially with the bartender, busser and host; and at the end of the day, they have been taking home more than double what they would at a similar eatery in Soho. The difference between Posto Pubblico's system and the one found in most of the US – aside from the more modest tip percentages – is that Darling has not reduced his wait staff's base salary. "We couldn't come in there and just say we're gonna pay you a bare minimum wage like they do in the States, but trust me you're going to make another \$25,000 in tips anyways. They'd have looked at us like we were crazy". Darling hopes to promote his current crew up through the company and expects he'll be able to start the next group on an adjusted salary, assuming the tips stay consistent.

From the regularly full tables and always-buzzing atmosphere, one can reasonably infer that Posto Pubblico and The Globe have benefitted from a positive relationship between their regular customers and well-remunerated staff. But there's a sizable body of research to suggest that these restaurants' high standard of service is more likely a function of the proprietors' managerial brio than the intrinsic virtue of the pseudo US-style tipping system they employ.

TIPPING HAS LONG STYMIED economists as a difficult-to-explain, black-box sort of economic phenomenon. True tips come voluntarily, after the service has already been rendered. Yet as behavioral economist Ofer Azar writes, "Using the rational and selfish agent of modern economics to explain tipping, one reaches the conclusion that the agent should never tip if he does not intend to visit the establishment again." Why tip if you've already gotten what you wanted and have no plans to return? Clearly feelings and social conventions – anathema to the austere models of modern economics – play a vital role in people's tipping decisions.

Everyone we spoke with, even those who staunchly support the service charge, expressed some variation on the everyday idea that tipping provides an incentive that probably results in better service quality across the board. In surveys, Americans overwhelmingly prefer their system of discretionary tipping to service charge alternatives, primarily because of this assumption about a connection between the incentive of tips and superior service. But Michael Lynn, a professor of consumer behaviour at Cornell University who has

published more than 100 papers on the subject, has found that the correlation between tip percentages and customers' evaluations of service quality is shockingly slight – less than 2 per cent. Lynn has also found that in addition to the time-tested waiter strategy known as "upselling" (whereby your New York waiter just happens to recommend the most expensive entrée paired with the priciest bottle of wine, from which he's all but sure to get a 20 per cent tip), waiters can also significantly boost their tips simply by using non-verbal cues that express affection, such as touching the customer casually, squatting beside the table while taking the order, or writing smiley faces on the bill. And no one needs a double-blind research experiment to know that physically attractive servers consistently receive better tips than their homely but equally hard-working colleagues.

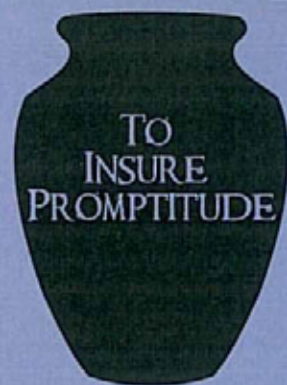
REGARDLESS OF THE EMPIRICAL

unreliability of tipping as a measure and incentive for good service, there's the fact that a great many people around the world find the US approach disagreeable and confusing. "I personally feel intimidated when I go to the States where there's a silent rule that says I have to remember to pay at least 10-20 per cent," says Chef Martin Kniss. "At least the service charge is on the menu; I prefer that to the American system where, you know, I'm expected to pay more. If I'm expected to pay something, then I want it written down."

Patrice Grilbet, the French Executive Director of restaurant group Elite Concepts, shares a similar sentiment. "Listen, the price is always right. I'm neutral. I'm not for or against tipping or service charges, but if we do switch to a tipping culture, the operators are just going to add 10 per cent to their prices overnight, and then we might end up with a situation where tips steadily creep upwards, like what happened in America [where average tips have virtually doubled since 1900], and then we're going to be paying more than we do now." While Grilbet is defiant in his conviction that the service charge is innocuous, he agrees that government regulation could help eliminate what's become a media albatross for the industry and a regular source of animus among customers in the know.

You are now one of those customers. Knowing that the service charge seldom reaches the hardworking wait staff and serves no apparent function other than as a marketing boon for operators, what will you do? In an ideal industry, Hongkongers would see the net price of their meal upfront, with no surprises, and could express appreciation to their servers without worrying about nefarious restaurant owner interference. But until that day arrives, the onus, regrettably, will continue to weigh on the consumer's shoulders. So ask questions, enjoy your meal... and tip as you see fit.

A brief history of tipping



The exact origins of tipping are unknown. Some scholars argue that it was established as far back as the Roman era, others suggest it first emerged in the days of feudal lords, when masters would fling a few coins at the servants out of gratitude or fleeting compassion. Others still locate the origins in the time of the Tudors, when tip-like customs first became firmly established in England.

In the 16th century, overnight houseguests at English country homes were expected to pay parcels of coins – known as "vails" – to the host's servants. The custom eventually grew out of control, with expected tip sums escalating to such an extent that some masters were known to hold weekend social gatherings simply as a means of supplementing their income. By the 17th century, servant class gratuities had somehow made the leap to coffee houses and pubs, where brass urns with the words "To Insure Promptitude" were installed on the counters. Gentry would drop a few coins in the jug upon entering the house to ensure speedy service throughout their stay. Eventually the urns' labels were abbreviated to "T.I.P." The newly coined custom of "tipping" spread quickly throughout Europe, but was slow to flourish in the New World. Throughout the 1700s, European travelers wrote home with astonishment about how they weren't obliged to tip in America.

Yet, by the late 19th century, tipping had taken a hold in America. In 1895, the average tip was 5 per cent of the bill in European restaurants and 10 per cent in the United States. Realising their staff were earning high wages from tips, owners of expensive upscale restaurants in the US and France soon began charging their waiters for the privilege to work. This practice led French wait staff to fight to abolish the tipping custom in France, with much of Europe soon following suit.

Because of employer abuses and the perception that tipping was an aristocratic "un-American" custom, shortly after the turn of the century, The Anti-Tipping Society of America formed and successfully lobbied eight states to outlaw tipping. Finding the laws impossible to enforce, by 1926 all of the anti-tipping laws had been repealed. *Patrick Brzeski*