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# From Gratuity to Compensation Interface: The Managerial Transformation of Tipping in the United States, 1880–2026

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**Abstract:** This article examines how tipping in the United States evolved from a contested interpersonal gratuity into an organizationally designed component of worker compensation. Using a historical-interpretive approach, the study integrates contemporaneous newspapers, legislation, congressional hearings, judicial decisions, administrative rules, occupational evidence, point-of-sale documentation, transaction data, and employer experiments. The analysis traces five periods from pre-1966 normalization through contemporary expansion and contestation. Tipping evolved from an anticipated supplement to wages into a legally institutionalized, technologically observable, and managerially configurable compensation mechanism. Digital technologies did not originate customer participation in worker compensation; rather, they increased its visibility, measurability, and organizational control. Contemporary "tipflation" therefore reflects the diffusion of tipping across transactions as well as changes in gratuity amounts. The article develops the concept of the compensation interface to explain how organizations allocate, administer, and structure customer participation in worker compensation across changing legal and technological environments. The findings imply that tipping policies, suggested gratuities, and service charges should be treated as compensation-system design choices that allocate responsibility and risk among firms, workers, and customers.

**Keywords:** tipping, compensation, tip credit, service work, point-of-sale technology, organizational design

## INTRODUCTION

Tipping is frequently described as a voluntary transfer from a customer to a service worker. That description is legally significant, but historically incomplete. It locates the transaction at the moment when the customer gives money to the worker and obscures the organizational arrangements that make the transfer expected, measurable, and economically important. Employers determine whether positions are designed around anticipated gratuities, whether a tip credit is claimed, how tip pools operate, which suggested amounts appear on payment screens, and whether discretionary tips are replaced with mandatory service charges. Tipping therefore operates not only as a social custom but also as a managerial institution.

Contemporary concern about tipflation makes this distinction especially important. In a nationally representative 2023 survey of 11,945 U.S. adults, 72 per cent of respondents said tipping was expected in more places than it had been five years earlier. Only 34 per cent found it extremely or very easy to determine whether to tip, and 33 per cent found it similarly easy to decide how much to leave [1]. These findings document perceived

expansion and uncertainty, but they do not explain how the expectation to tip spread across transactions or why organizations came to place the customer so prominently within their compensation systems.

Transaction evidence also complicates a simple escalation account. Toast reported average card and digital tips of 19.1 per cent at full-service restaurants and 15.8 per cent at quick-service restaurants in the second quarter of 2026. Its full-service averages had remained within a comparatively narrow 19.1-19.4 per cent range during the previous two years [2]. Square, meanwhile, reported both decreases and later modest increases in food-and-beverage tip percentages during 2025-2026 [3, 4]. The contemporary controversy thus appears to concern the widening incidence and increasing visibility of the tip request at least as much as a uniform increase in restaurant tip percentages.

This article explains that development historically. Its central argument is that tipping evolved through five connected transformations:

- Normalization: employers came to anticipate customer gratuities within service employment.
- Legal institutionalization: government formally incorporated tips into employer wage compliance.
- Managerial digitization: restaurant information systems made gratuities measurable and administratively useful.
- Interface management: firms and platforms began structuring the customer tipping decision.
- Expansion and contestation: tip requests spread while firms experimented with service charges, inclusive pricing, and alternative compensation arrangements.

The article defines the resulting arrangement as a compensation interface: an organizationally designed mechanism through which customers are invited, prompted or required to fund part of worker compensation. The construct encompasses legal rules, wage systems, point-of-sale software, platform interfaces, service charges and related managerial practices. It therefore shifts attention from the gratuity as an isolated transfer to the organizational architecture through which customer participation in compensation is structured. The contribution is not a comprehensive cultural history of gratuity customs. Rather, the article explains how American organizations progressively transformed a customer-worker transfer into an instrument of compensation design and control, linking institutional change to contemporary decisions about pay, pricing, and digital customer experience.

## LITERATURE REVIEW AND RESEARCH GAP

Tipping has attracted sustained scholarly attention, but the dominant literatures ask questions different from those developed here. Social and historical accounts have reconstructed the emergence, diffusion and controversy surrounding gratuities in the United States. Segrave [5] provides a book-length social history of American tipping, while Azar [6] traces the custom from early modern England through its establishment in the United States and uses that history to examine the changing social and economic motives for tipping.

These works establish that gratuities are historically contingent rather than natural features of service exchange. They also document recurring controversies over status, democracy, labor dependence and the social obligation to reward service.

Economic and behavioral research has concentrated more strongly on why customers tip, how tipping norms persist, whether tipping improves service quality and how tips influence welfare and distribution. Azar [7], for example, synthesizes evidence on tipping as a voluntary payment, a social norm, a source of worker income and a setting in which service quality, rent distribution, discrimination and employment institutions intersect. That literature makes clear that gratuities cannot be explained by a simple spot-market exchange: customers commonly pay after service has been rendered and without a legally enforceable obligation. The analytical puzzle has therefore usually been the customer's motivation to tip rather than the organization's role in designing the institutional setting in which the tip is requested, observed and incorporated into compensation.

A parallel service-management literature treats customers as participants or co-producers in organizational processes. Research on customer participation emphasizes that customers can perform activities that affect service production even though firms lack the formal authority over customers that they possess over employees. Later work distinguishes mandatory, replaceable and voluntary forms of customer participation and asks how firms design and manage those roles [8, 9]. This literature is helpful because tipping also requires customer participation, but it does not fully capture the compensation problem examined here. A diner selecting a gratuity is not merely helping to produce the service. The customer is participating in the allocation of economic returns from the service encounter.

The gap is therefore not the absence of histories of tipping or theories of customer participation. It is the limited attention paid to the historical development of the organizational mechanisms through which firms make customer payments part of compensation design.

Existing scholarship explains the diffusion of tipping, the social norms supporting it, its behavioral determinants and its consequences for workers. The present article shifts the unit of analysis from the tip as an individual payment to the interface through which organizations allocate, administer and present customer participation in compensation. This permits historical evidence on wage regulation, POS systems, platform design and service charges to be interpreted as related changes in organizational control rather than as separate legal, technological or cultural episodes.

This distinction also clarifies the paper's organizational contribution. The argument is not that employers created the social norm of tipping or that management exercises complete control over gratuities. Customers retain discretion in conventional tipping arrangements, workers influence service encounters, and law constrains employer appropriation.

Rather, organizations increasingly determine the architecture around that discretion: which jobs are designed around expected tips, whether customer payments count toward wage compliance, how gratuities are recorded and pooled, and which options appear when the customer pays. The historical object of interest is therefore the evolving organizational interface that coordinates these actors.

## HISTORICAL APPROACH AND SOURCE BASE

The analysis follows a historical-interpretive method. It reconstructs changes in the allocation of compensation responsibility using evidence produced close to the events under examination. The source base includes contemporaneous newspaper commentary, statutory text, judicial decisions, congressional hearings, federal administrative rules, occupational evidence, point-of-sale manuals, vendor release documentation, customer-interface instructions, merchant support exchanges, national survey evidence, platform transaction data, and employer experiments. Methodologically, the study follows an analytically structured historical strategy in which periodization is derived from changes in institutional authority and managerial capability rather than imposed as equal chronological blocks. This approach is consistent with organizational-history scholarship emphasizing documentary verification, explicit periodization, and the use of historical narrative to develop theoretical explanation [10]. The analysis therefore uses history to theory: the compensation-interface construct is developed from recurring mechanisms observed across changing historical settings rather than applied as an ahistorical category.

The evidence is organized around pivotal changes in managerial capability and legal authority rather than equal chronological intervals. The pre-1966 evidence establishes that employers and observers understood tipping as a compensation problem before federal law formally addressed it. The 1966-1996 period traces institutionalization through the Fair Labor Standards Act. The 1996-2010 period examines the incorporation of tips into restaurant information systems. The 2010-2020 evidence captures the movement of tipping onto customer-facing digital interfaces. Finally, the 2020-2026 period examines expansion, regulatory conflict, and employer attempts to redesign or replace tipping.

The sources have limitations. Early newspaper databases contain incomplete or unreliable optical character recognition. Some trade publications remain inaccessible at article level. Vendor documentation sometimes establishes functionality more reliably than the date of its first introduction. Platform transaction data exclude cash and represent transactions processed within the vendor system rather than a probability sample of all American restaurants. These limitations favor a cautious interpretation based on institutional mechanisms and documented cases rather than an attempt to estimate the historical prevalence of every practice.

## CONCEPTUALIZING THE COMPENSATION INTERFACE

A conventional gratuity appears to be a bilateral exchange: customer to worker. The organizational history reveals a more complex structure: employer-designed job, worker service, customer gratuity, and employer recording, allocation, or wage credit. When an employer claims a tip credit, configures suggested percentages, imposes a service charge, establishes a tip pool, or uses tip data to monitor employee transactions, the customer payment becomes part of an organizational compensation architecture.

### Allocation

The interface allocates responsibility for compensation among the employer, worker, and customer. A conventional wage places responsibility primarily on the employer. A tip-credit

arrangement assigns part of the expected payment to the customer while retaining an employer obligation to ensure statutory minimum pay. A service charge returns the payment to the firm, which then determines its distribution.

**Administration**

The interface establishes how compensation is recorded, attributed, pooled, reported, and monitored. Cash tips may remain partly outside direct management observation. Digitized tips become employee-linked transaction data that can be aggregated by shift, revenue center, location, or enterprise.

**Presentation**

The interface determines how the customer encounters the payment decision. A blank line on a paper receipt, a screen offering 15, 20, and 25 per cent, a post-ride menu of predetermined amounts, and a mandatory 22 per cent service charge impose materially different choice structures.

These dimensions allow the history of tipping to be interpreted as a history of organizational design rather than only etiquette.

**Theoretical Contribution of the Compensation Interface**

The compensation-interface construct advances the historical analysis by specifying what changes as tipping becomes organizationally designed. Three propositions organize the evidence that follows.

Proposition 1: Compensation allocation. Compensation interfaces allocate responsibility for worker compensation among firms, workers and customers. The relevant historical change is not simply whether tips exist, but how organizational and legal arrangements determine the portion of compensation that can be expected from customers, the residual obligation retained by the employer and the variability borne by workers. Anti-tipping statutes, the federal tip credit and modern service charges represent different allocations of the same underlying compensation responsibility.

Proposition 2: Managerial observability and control. As gratuities become administratively and technologically integrated into organizational systems, firms gain greater observability and control over customer-financed compensation. Cash gratuities are comparatively difficult for organizations to observe. Statutory reporting requirements, credit-card processing and POS systems progressively make tips recordable, attributable and comparable. Observability does not imply ownership of the tip, but it expands the organization’s ability to administer, monitor and incorporate gratuity information into managerial processes.

Proposition 3: Interface-mediated participation. Digital interfaces transform customer participation from an informal social practice into an organizationally structured compensation decision. A blank line on a receipt leaves substantial discretion over both participation and amount. A screen containing predefined percentages, a visible no-tip option, or a mandatory service charge alters the architecture of the decision. Firms need

not dictate the customer's choice to exercise managerial influence; they can determine when the decision appears, which options are salient and how the resulting payment enters the organization's information and compensation systems.

The propositions are cumulative rather than mutually exclusive stages. Later technologies do not eliminate earlier legal or occupational arrangements. A contemporary restaurant may simultaneously operate under the federal tip-credit framework, use a POS system to record gratuities and configure a customer-facing tip screen. Figure 1 therefore depicts accumulated layers of organizational design through which customers participate in compensation.

Figure 1 summarizes the article's historical argument. The numbered eras indicate when each layer became historically salient, while the underlying layers persist and overlap. Regulatory institutionalization begins in 1966 and continues alongside digital interface management after 2010. The lower panels distinguish the enabling technology layer from shifts in the allocation of compensation responsibility between firms and customers.

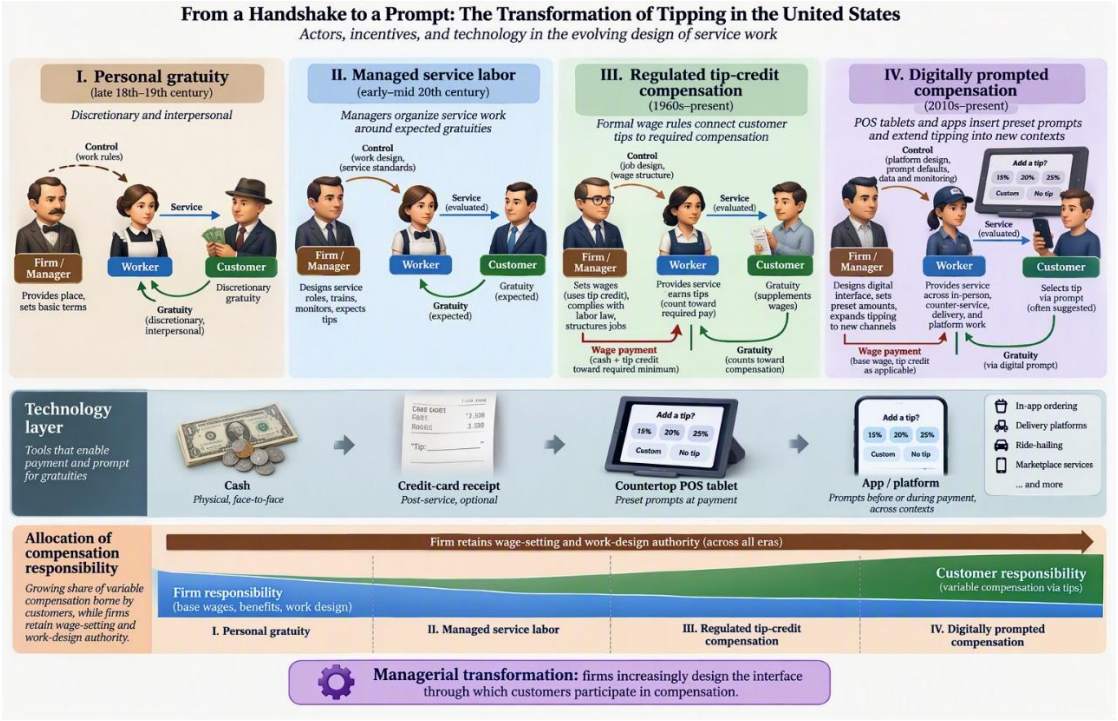



**Figure 1: From a handshake to a prompt: cumulative layers in the transformation of tipping in the United States**

Source: Author-created conceptual synthesis of the historical evidence developed in this article. Visual created with assistance from Microsoft Copilot (GPT-5.6).

## NORMALIZATION: FROM CONTESTED GRATUITY TO ANTICIPATED COMPENSATION

### Pullman Porters and Employer Cost Shifting

By the 1880s, observers were already identifying gratuities as a substitute for adequate employer wages. A letter published as "Tipping Pullman Porters" in the Chicago Tribune in

1882 accused the Pullman Palace-Car Company of paying porters a salary inadequate for subsistence and relying upon passengers to make up the balance. A second Chicago Tribune item in 1887 described sleeping-car porters as members of the "tip-seeking class" and indicated that the practice had attracted sustained criticism [11, 12].

These sources matter because they shift the analytical focus from whether passengers voluntarily rewarded porters to whether the employer designed the occupation around predictable passenger payments. Tipping became economically consequential when organizations could offer low fixed compensation while workers and customers understood that gratuities would provide supplementary income.

By 1916, William R. Scott devoted an entire chapter of The Itching Palm to "the sleeping-car phase" of tipping. Scott's contemporary critique repeatedly framed gratuities as payments that relieved firms of compensation obligations. An editorial from the St. Louis Republic, reproduced by Scott, argued that other corporations had underpaid employees but that Pullman had discovered how to induce the public to compensate for the company's failure to pay a living wage [13, pp. 111–112].

The significance of this criticism lies less in its hostility toward tipping than in its early recognition of a three-party compensation relationship. The passenger's gratuity was not represented as independent generosity. It was portrayed as completing an employer-created wage arrangement.

**Anti-tipping Statutes as Failed Institutional Resistance**

Progressive-era anti-tipping laws attempted to prevent this form of customer-funded compensation. Washington's 1909 criminal code prohibited both covered employees from soliciting or receiving gratuities and customers from giving them. The law sought to sever the direct customer-worker payment relationship in public houses and public-service corporations [14].

Iowa adopted a comparable measure in 1915 that applied to employees of hotels, restaurants, barber shops, public places, and passenger-transportation businesses. Enforcement against barber T.J. Dunahoo exposed the law's organizational logic. Dunahoo reportedly received a weekly payment plus a percentage of receipts and tips. The case therefore preserved a rare picture of gratuities operating alongside wages and revenue sharing [15, § 5028-u].

In Dunahoo v. Huber, the Iowa Supreme Court invalidated the statute because it prohibited employees from accepting gratuities while permitting proprietors to receive comparable payments. The decision revealed an unresolved distinction between payment to a worker and payment to an owner. Once tipping had become embedded in ordinary service transactions, suppressing it through criminal prohibition proved politically and legally difficult [16].

The statutes nevertheless provide important evidence. Legislatures were not treating tipping solely as impolite behavior. They recognized it as an employment and compensation issue spanning hospitality, transportation, personal service, and public accommodations.

### Contemporary Analysis of Tipping as an Economic System

Scott's 1916 study catalogued a broad range of tipped occupations, examined the economics of tipping, considered governmental restrictions, discussed sleeping-car workers, and presented organized labor's opposition. It also reproduced a New York Times employment advertisement offering a guaranteed weekly amount while requiring that "tips must be turned in" [13, p. 86].

The advertisement is historically significant because it shows an employer treating tips as predictable and controllable revenue. Tips did not always remain the private property of the worker who received them. Employers could incorporate anticipated gratuities into recruitment, compensation, or revenue arrangements.

By the early twentieth century, tipping had consequently moved beyond an aristocratic custom imported into American society. It had acquired three organizational characteristics. Employers could anticipate it, occupations could become economically dependent upon it, and management could assert control over its receipt or disposition. The institutional arrangement existed before federal law recognized it.

These cases should not be read as evidence that employer reliance on gratuities was equally prevalent across American service industries. Rather, they establish the narrower historical point required for the argument: well before federal law formally recognized tipped employment, contemporaries identified customer-funded compensation as an organizational problem involving employer wages, occupational dependence and managerial control over gratuities.

## LEGAL INSTITUTIONALIZATION, 1966–1996

### Congressional Recognition of the Compensation Problem

The Fair Labor Standards Act of 1938 established the federal wage framework within which tipped employment would later be addressed explicitly [17].

The Fair Labor Standards Amendments of 1966 marked the decisive legal turning point. Congress extended minimum-wage protection to additional restaurant and hotel employees while allowing employers to count customer tips toward part of the statutory obligation [18].

The policy was contested. During 1965 hearings, Benjamin Gettler, general counsel of the Hotel and Restaurant Employees and Bartenders International Union, testified before the House labor subcommittee, confirming organized labor's direct participation in the debate [19, pp. 1048 et seq.].

The 1966 House Rules hearings make the institutional problem explicit. Representative Alphonzo Bell acknowledged that "the coverage of tipped employees posed a great deal in difficulty for the committee" [20, p. 56]. Chairman Howard W. Smith similarly argued that bringing restaurants within federal coverage required Congress to "deal with the question of tips" and make an "arbitrary provision relative to tips" [20, p. 58].

The exchange shows that the tip credit was more than a technical adjustment. Ordinary minimum-wage regulation presumed employer-funded wages; restaurant coverage

required Congress to address an industry in which customers already supplied a significant and expected portion of worker earnings.

### The 1966 Settlement

Section 101 of the Fair Labor Standards Amendments of 1966 authorized an employer to treat wages as increased by customer tips, initially up to 50 per cent of the applicable minimum wage. It defined a tipped employee as someone customarily and regularly receiving more than $20 per month in tips [18].

The statute created a distinctive compensation arrangement. Tips remained payments from customers to workers, yet the employer could use them to satisfy part of a public wage obligation. The customer therefore became an implicit participant in statutory wage compliance.

The U.S. Department of Labor operationalized the settlement through regulations addressing what constituted a tip, the distinction between voluntary tips and compulsory service charges, credit-card gratuities, tip pooling, and work performed in tipped and non-tipped occupations. These rules transformed an informal social practice into an administratively recognizable wage category.

The distinction between tips and service charges was particularly important. A voluntary tip belonged to the employee, subject to lawful pooling and credit rules. A compulsory service charge was an employer-controlled receipt that could be used to pay wages. This legal distinction later became central to restaurant experiments that replaced optional gratuities with mandatory charges.

Contemporary federal wage surveys also documented restaurant wages and employment practices during implementation of the amendments [21].

### Changing Allocations of Responsibility

Congress recalibrated the arrangement several times. The 1974 amendments reduced the maximum tip credit from 50 to 45 per cent of the minimum wage, increasing the required employer cash contribution. The 1977 amendments reduced the maximum credit to 40 per cent. These changes partially shifted payment responsibility from customers back toward employers [22–24].

The percentage-based system later returned to a 50 per cent division. When the general federal minimum wage reached $4.25, the employer cash contribution for qualifying tipped employees became $2.13 after rounding. At that stage, the tipped cash wage remained linked to the standard minimum through a percentage formula.

The Small Business Job Protection Act of 1996 decisively altered this relationship. Rather than retaining an automatically adjusting percentage, Congress fixed the federal employer cash-wage obligation at the amount required on August 20, 1996, which was $2.13. Subsequent increases in the general minimum wage would no longer generate proportional increases in the tipped cash wage [25].

The 1996 legislation consequently decoupled employer cash responsibility from future increases in the general minimum wage. As the minimum rose, a larger potential

share of the statutory wage had to be supplied through tips, subject to the employer's obligation to cover any shortfall. The same legislative period also offered qualifying food-and-beverage employers a tax credit for employer payroll taxes paid on employee tips under Internal Revenue Code §45B [25].

The 1970s amendments are significant because they reveal that the customer-funded share was politically adjustable. Reducing the maximum tip credit did not abolish the three-party structure established in 1966. It changed the boundary within that structure by requiring employers to supply a larger share of the statutory minimum directly. The tip credit was therefore already functioning as an allocation mechanism through which Congress could redistribute compensation responsibility between the employer and anticipated customer payments.

The 1996 change altered that mechanism more fundamentally. Under a percentage formula, increases in the general federal minimum wage automatically increased the cash amount that a qualifying employer had to pay. Freezing the direct cash requirement at $2.13 severed that automatic linkage. When Congress later increased the general minimum wage, the nominal employer cash floor no longer increased in parallel. The potential contribution supplied by customer tips consequently became a larger share of the statutory minimum, while the employer retained the legal obligation to make up any shortfall. The managerial importance of the change lies in this asymmetry: the employer's minimum direct cash contribution became fixed, while the amount of customer-funded compensation recognized within wage compliance could expand.

The federal treatment of tips also extended beyond the minimum-wage calculation. Tip reporting connected gratuities to payroll administration and tax compliance, while the FICA tip credit under Internal Revenue Code §45B reduced qualifying food-and-beverage employers' federal tax burden for employer payroll taxes attributable to certain employee tips. By the end of the period, gratuities were thus embedded not only in the employee's wage calculation but also in the employer's accounting, reporting and tax environment. The compensation interface had become an administrative institution.

By 1996, customer gratuities were integrated into wage compliance, payroll taxation, recordkeeping, and business tax policy. Tipping had become a formal employment institution.

## MANAGERIAL DIGITIZATION, 1996–2010

Legal institutionalization established what employers could count. Restaurant point-of-sale systems subsequently expanded what management could observe and administer.

### From Cash Transaction to Management Information

The MICROS 3700 Restaurant Enterprise Series provides unusually clear primary evidence. Its documentation history identifies a first-edition user manual in September 1996 and a second edition in April 1998. The system represented restaurant-specific, networked management infrastructure rather than a conventional cash register [26].

The 2000 MICROS 3700 Reports Manual contained detailed sales-and-tip profiles, employee sales-and-tip totals, tip reporting by employee, tip reporting by revenue center, consolidated employee tip totals, consolidated revenue-center totals, and consolidated system tip totals [27].

By 2000, tipping could therefore be monitored through the same information infrastructure used to manage restaurant sales and operations. The gratuity became an employee-linked and location-linked data field.

This development changed the managerial character of tipping in several ways. First, it increased visibility. Management could aggregate gratuities across workers, shifts, revenue centers, and the broader system. Second, it supported compliance with wage and tax requirements. Third, it enabled comparisons between tip outcomes and sales activity. Finally, it made gratuities more readily available for performance monitoring, scheduling decisions, and internal allocation.

### Administrative Control

Later documentation for the competing Aloha POS platform shows the direction in which such capabilities developed. The system supports tip-declaration thresholds based on sales percentages, fixed amounts, time worked, and charged tips. Tip declaration can be incorporated into the employee clock-out process. Declarations falling outside management's configured threshold may trigger re-entry or require manager approval [28].

Because the surviving documentation is more recent, it should not be used to assign these precise functions to a specific pre-2010 date without an earlier manual. Functionally, however, it illustrates how restaurant point-of-sale systems connected tips to timekeeping, sales, tax compliance, reporting, and managerial authorization [28, 29].

The historically defensible conclusion is narrower but important: by 2000, restaurant POS systems clearly treated gratuities as management information. The organization no longer merely anticipated or legally credited tips. It could record, aggregate, and evaluate them. This development marked the transition from legal institutionalization to managerial digitization.

## INTERFACE MANAGEMENT, 2010–2020

### Square and the Customer-facing Tip Screen

The early 2010s introduced another transformation. Payment technology began structuring the customer's decision directly.

Square Register, launched in 2011, placed tipping on a customer-facing device. Contemporary 2013 merchant instructions show that operators could enable "Collect Tips," use default "Smart Tip Amounts," permit custom tips, or configure three percentage choices. Transactions of $10 or more could present No Tip, 15%, 20%, and 25%. For smaller transactions, the interface could present fixed-dollar choices. Tips were then incorporated into the merchant's electronic sales history [30].

The managerial importance of this feature was not that electronic systems made tipping possible. Credit-card receipts had long contained blank gratuity lines. The innovation

was that the firm could define a structured menu of suggested amounts and place that menu at a visible point in the payment sequence.

Contemporary reporting documented actual adoption. A 2013 Fast Company account described a clerk at Big Gay Ice Cream rotating an iPad toward the customer after swiping the card. The customer then encountered the tip interface and selected a percentage. At the time, Square reported that merchants had generated more than $70 million in tips during one quarter and that almost half of transactions configured as tippable produced a gratuity, compared with 37 per cent a year earlier [31].

The findings do not establish that interface design alone caused the increase. Merchant composition, consumer familiarity, transaction growth, and changing social expectations may also have contributed. They do establish that tip prompting had become a widespread, observable element of digital payment.

**Merchant Configuration as Managerial Action**

A 2019 Square Seller Community exchange demonstrates that operators actively modified the interface. A restaurant merchant reported presenting 10, 15, and 20 per cent options and asked how to change those amounts. Square personnel directed the merchant to the point-of-sale dashboard's "Set percentage amounts" and "Customize your tip percentages" controls [32].

This exchange is important because it moves the argument beyond vendor capability. A merchant had selected one group of suggested percentages and wanted to replace it with another. The gratuity menu facing the customer was therefore the product of managerial configuration.

The interface linked several processes: manager selects options, customer encounters options, customer chooses, system records the tip, and the firm reports and administers the payment. The digital tip screen was consequently a compensation interface in a literal and conceptual sense.

**Social Visibility and Customer Pressure**

The customer-facing screen also changed the social setting of the gratuity decision. In a paper-based restaurant transaction, customers often complete the tip line after the server has moved away. At a rotating tablet, an employee may remain nearby while the customer selects among visible alternatives.

By 2018, the Wall Street Journal was documenting the awkwardness of being presented with a 20 per cent option for a brief counter-service interaction. The concern was not merely the amount requested. It was that the organization had made the request more visible, immediate, and difficult to avoid [33].

The 2023 Pew Research Center survey later confirmed substantial public resistance to this development. Forty per cent of adults opposed businesses suggesting tip amounts on bills or checkout screens, while only 24 per cent favored the practice [1].

### Uber and Platform-controlled Availability

The Uber case provides a clear platform example. The company initially designed tipping out of its cashless ride-hailing interface. In June 2017, it reversed that position and introduced in-app gratuities, initially in Seattle, Minneapolis, and Houston before expanding to additional cities [34]. The system presented predetermined post-ride tipping options together with a custom amount. The presence of the tipping function, its timing and the available choices were determined centrally by the platform [34].

The case demonstrates that tipping itself can be an organizational design variable. A platform can exclude the practice, introduce it, select the options, determine when customers see the request, and integrate the resulting payment into the broader transaction.

Driver organizations also linked the feature to compensation. Contemporary reporting described drivers as having requested in-app tipping and connected the change to concerns over driver pay. The historical pattern therefore persisted in a new organizational form. Customer payments supplemented worker earnings, but a digital intermediary controlled the mechanism through which the gratuity could occur [34].

## EXPANSION AND CONTESTATION, 2020–2026

### Perceived Expansion without Uniform Percentage Escalation

By the early 2020s, consumers perceived tipping expectations to be spreading into more situations. The 2023 Pew Research Center survey found that 72 per cent of adults believed tipping was expected in more places than five years earlier. Respondents also reported uncertainty about the applicable rules, and the largest group said whether tipping was a choice or obligation depended upon the situation [1].

This evidence should not be interpreted as proof that standard restaurant percentages increased dramatically. Toast reported relatively stable full-service and quick-service averages during the two years preceding the second quarter of 2026. Its data covered aggregated card and digital-tip transactions on a platform serving roughly 180,000 locations as of June 30, 2026, and excluded cash tips [2].

Square similarly reported both decreases and increases over shorter periods. Overall food-and-beverage tips declined from 15.17 per cent in the first quarter of 2025 to 14.99 per cent in the second quarter. They later increased from 14.85 per cent in the third quarter of 2025 to 14.99 per cent in the first quarter of 2026 [3, 4].

The combined evidence suggests that tipflation encompasses at least two analytically distinct developments: the expansion of tipping expectations into a wider range of transactions, and changes in the percentage or amount tipped within established contexts. The evidence for perceived expansion is strong. The evidence for a uniform, dramatic increase in traditional restaurant percentages is considerably weaker.

### The Continuing Regulatory Boundary

Federal policy during the early 2020s shows that the employer-customer allocation problem remained unresolved.

In 2021, the U.S. Department of Labor amended its regulations to clarify when an employer could claim the tip credit for work included within a tipped occupation. Directly supporting activities became excessive when they exceeded 20 per cent of the employee's tip-credit workweek or continued for more than 30 consecutive minutes [35].

The rule sought to distinguish work legitimately supported by anticipated customer gratuities from work for which the employer should pay the full minimum wage directly. The distinction reproduced the central historical question visible since the pre-1966 debates: which portion of service work may an employer finance through customer payments?

In Restaurant Law Center v. U.S. Department of Labor, the U.S. Court of Appeals for the Fifth Circuit held the 2021 rule inconsistent with the statutory text and arbitrary and capricious. The court rejected its line-drawing regime as one Congress had not authorized. The Department subsequently restored the pre-2021 regulatory language in December 2024 [36, 37]. Nearly six decades after the federal tip credit emerged, regulators and courts were still addressing the boundary between customer-financed and employer-financed labor.

**Employer Experimentation at Kachka**

Some employers responded to tipping's inequalities and variability by replacing discretionary gratuities with mandatory service charges.

In January 2022, Kachka, a Portland restaurant owned by Bonnie Morales and Israel Morales, adopted a 22 per cent service charge in place of optional tipping. The restaurant connected the change to a compensation plan providing a minimum hourly wage of $25, health coverage, profit sharing, and a more equitable distribution of compensation between front-of-house and back-of-house employees [38].

The policy was a deliberate managerial experiment rather than a spontaneous pricing change. Bonnie Morales reported that the restaurant had run parallel payrolls beginning the previous September to model the financial effects. The restaurant selected 22 per cent because that approximated the amount customers had previously tipped on average [38].

The change altered the direction of organizational control. Under conventional tipping, the customer determined the gratuity and the payment belonged to the worker, subject to lawful pooling. Under the mandatory-charge model, the customer paid the firm, which incorporated the revenue into an employer-designed wage and benefit system.

The example reveals that replacing tipping does not necessarily eliminate customer participation in compensation. Customers may still supply the additional revenue. What changes is whether the payment is discretionary, whether it belongs initially to a worker or the firm, and how management distributes it.

Public attitudes indicate that this alternative is not necessarily popular. Pew Research Center found that 72 per cent of Americans opposed automatic service charges, while only 10 per cent favored them. Employers experimenting with service charges therefore confront a trade-off between compensation predictability and customer acceptance [1].

## DISCUSSION

### From Social Custom to Organizational Institution

The historical evidence reveals that tipping did not become organizationally important at the moment digital screens appeared. Its managerial transformation began much earlier.

By the 1880s, critics accused sleeping-car companies of relying on customers to supplement worker wages. Early twentieth-century anti-tipping laws attempted to separate customer payments from employment compensation but proved difficult to sustain. In 1966, Congress formally integrated gratuities into minimum-wage compliance. By 2000, restaurant point-of-sale systems treated tips as structured management data. In the 2010s, customer-facing payment systems allowed firms to configure the alternatives through which gratuities were solicited. In the 2020s, employers experimented with reclaiming control over the funds through service charges and redesigning compensation around them.

The resulting trajectory is: acceptance, anticipation, legal incorporation, measurement, digital solicitation, and organizational redesign.

This pattern demonstrates that the boundary between wage and gratuity has been continually reconstructed through managerial decisions, public policy, and technology.

### Customers as Compensation Participants

The central organizational change is the progressive recruitment of customers into compensation. The customer's role differs across arrangements, as summarized in Table 1.

**Table 1: Allocation of compensation responsibility across tipping arrangements**

| Arrangement | Customer role | Employer role | Worker risk | Customer discretion | Managerial observability |
|---|---|---|---|---|---|
| Employer-paid wage | Purchases service/product | Sets and pays compensation | Low | None as separate pay decision | High |
| Conventional cash tip | Voluntarily supplements income | Anticipates; limited direct observation | High | High | Low |
| Federal tip credit | Supplies amount counted toward compliance | Pays cash wage; covers shortfall | High | High | Moderate |
| Digitized tipping | Selects from configured options | Designs interface; records payment | High | High but structured | High |
| Mandatory service charge | Pays compulsory charge to firm | Allocates revenue through compensation system | Potentially lower | Low | High |
| Inclusive pricing | Pays labor cost within posted price | Bears formal wage-design responsibility | Lower | No separate decision | High |

Table 1 makes the compensation-interface dimensions explicit. The historical movement involves not only shifts in who funds compensation but also changes in customer discretion and managerial observability. Cash tipping combines high discretion with comparatively low organizational observability; digitized tipping preserves discretion while making payments highly observable and configurable; mandatory service charges reduce customer discretion while increasing managerial control over allocation.

**The Compensation Interface**

The compensation-interface concept contributes to organizational and compensation research in three ways.

First, it identifies customers as organizational participants without classifying them as employees or managers. Customers perform a limited compensation role designed by the organization.

Second, it integrates legal, technological, and managerial developments. The statutory tip credit, the POS reporting field, the suggested-percentage screen, and the service charge are different mechanisms serving a related organizational function.

Third, it explains why digital tipping feels different even when customers leave similar percentages. The contemporary interface converts a loosely structured social expectation into an explicit decision architecture. It determines when the request appears, which options are salient, whether "No Tip" is visible, whether percentages are calculated before or after tax, and whether the employee observes the choice.

The firm has moved from accepting a gratuity outside the formal transaction to designing the environment in which the gratuity is requested.

**Continuity Beneath Technological Change**

Technology changed the visibility and administration of tipping, but not the underlying allocation problem.

The Pullman controversy asked whether passengers should compensate for low employer wages. The 1966 hearings asked how restaurant tips should interact with statutory minimum wages. The 2021 rule asked how much supporting work could be financed through the tip credit. Contemporary service-charge experiments ask whether management should replace variable customer payments with predictable employer-administered compensation.

Each controversy concerns the same fundamental question: How should responsibility for compensating service labor be allocated among employer, worker, and customer?

The historical continuity strengthens the article's interpretation of digital tipping. Tip screens did not create customer participation in compensation. They made that participation more visible, configurable, measurable, and transferable across settings.

## IMPLICATIONS FOR ORGANIZATIONAL AND COMPENSATION RESEARCH

### Compensation Systems Extend Beyond Payroll

Organizational and compensation research often locates compensation within formal wages, incentives, benefits, and internal labor markets. Tipping demonstrates that firms can organize compensation partly through actors outside the employment relationship. Customers become a source of employee income, while firms influence the amount without always paying it directly.

### Technology Can Formalize Rather than Originate a Management Practice

Digital tipping is sometimes described as a technological disruption. The historical evidence instead suggests a process of formalization. POS technologies did not create employer reliance upon customer payments. They rendered that reliance more observable and administratively tractable. Customer-facing screens subsequently transformed an existing practice into configurable choice architecture.

### Regulation Can Institutionalize Contested Practices

The federal tip credit did not merely regulate tipping. It formally incorporated an existing three-party compensation structure into federal wage administration. Once customer payments could satisfy part of an employer's wage obligation, tipping became embedded in compliance systems, payroll practices, tax policy, and administrative classifications.

### Managerial Experiments can Reclaim Responsibility while Preserving Customer Funding

Service-charge models appear to restore managerial responsibility because the firm controls the funds and determines compensation. Yet the customer still supplies the revenue through an additional charge. These arrangements therefore do not remove customers from compensation. They replace customer discretion with managerial allocation.

## PRACTICAL IMPLICATIONS

Managers should treat tipping policy as compensation-system design rather than as a payment-screen setting. Suggested percentages affect customer experience, while mandatory charges alter the legal and managerial path through which customer funds reach workers. Evidence showing resistance to suggested amounts and automatic service charges indicates that compensation predictability can create customer-acceptance trade-offs [1].

POS data can improve administration and compliance, but managerial observability should not be confused with definitive evidence of individual underreporting or performance. Employers must account for job assignments, customer mix, shift conditions, and applicable federal, state, and local rules. Operators considering a service-charge or no-tip model should model payroll effects, occupational distribution, benefits, and customer communication before implementation, as illustrated by Kachka [38].

A practical compensation-interface review should examine four decisions together: the employer-funded cash wage, the customer-funded component, the rules used to pool or distribute payments, and the design of the customer-facing request. Changing only the screen prompt can alter customer behavior without addressing worker income volatility or occupational wage gaps. Conversely, replacing tips with a service charge can increase predictability but may reduce customer discretion and require clearer disclosure of how the charge supports wages and benefits.

Managers should also evaluate outcomes after implementation. Relevant indicators include average hourly earnings by occupational group, variation in weekly employee income, turnover, customer complaints, average check size, no-tip frequency, service-charge disputes, and the share of compensation funded through discretionary customer payments. This monitoring converts tipping policy from an inherited convention into an explicit, reviewable element of compensation and customer-experience strategy.

## LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The article's evidence base is strongest at major legal and technological turning points. Additional archival research could deepen several periods.

First, restaurant and hotel trade publications from 1966-1996 should be examined systematically. Early issues of Nation's Restaurant News, Restaurant Business, and association publications may reveal how operators interpreted the tip credit and subsequent reductions in the permitted credit.

Second, earlier manuals from Aloha POS, PAR Technology, Radiant Systems, and other vendors could clarify when tip-declaration thresholds, pool distribution, and customer-facing suggestions became standard.

Third, historical transaction data could test whether new interfaces altered tipping amounts or mainly expanded the number of customers asked to tip.

Fourth, comparative international research could examine societies in which service charges, inclusive prices, or collective wage systems limited the institutional role of gratuities.

Finally, employment outcomes from service-charge and inclusive-price experiments deserve longitudinal analysis. Relevant outcomes include worker retention, compensation variance, occupational wage gaps, customer reaction, posted-price perception, and restaurant survival.

## CONCLUSION

The history of tipping in the United States is not merely a history of changing etiquette. It is also a history of changing organizational control.

Employers initially accommodated and anticipated customer gratuities. Legislatures attempted, unsuccessfully, to suppress them. Congress later incorporated them into minimum-wage compliance. POS systems transformed them into managerial information. Digital payment firms converted them into customer-facing choice architecture. Platforms

made the availability and structure of tipping a centrally controlled design decision. Some contemporary restaurants have responded by replacing discretionary gratuities with employer-administered charges.

What customers now experience as tipflation is therefore the visible surface of a longer institutional development. Firms have progressively moved from accepting tips to accounting for them, managing them, designing the tip ask, and reconsidering whether the underlying payment should remain discretionary.

The central historical transformation is from gratuity to compensation interface. Tipping has become a mechanism through which organizations distribute the responsibility, uncertainty, and visibility of worker compensation among employers, workers, and customers. Digital technology did not create that arrangement. It made the arrangement more systematic and more difficult to overlook.

## USE OF GENERATIVE AI

Microsoft Copilot (GPT-5.6) was used during development of this manuscript to assist with source discovery, citation and reference checking, manuscript organization, drafting and revision of prose, copy-editing, formatting, and development of the conceptual visualization in Figure 1. The author retains full responsibility for the scholarly argument, interpretation of the historical evidence, accuracy of the manuscript, and compliance with research and publication ethics.

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