

Why Overtime?

Four valid reasons for using overtime are: (1) 24/7 coverage, (2) workload fluctuations, (3) staff variations, and (4) labor market considerations.

24/7 Coverage

The simplest and most common way to provide 24/7 coverage is with four crews. If the crews work 40 hours a week, that provides 160 hours of coverage (4 crews * 40 hours = 160 hours). The problem is that there are 168 hours in a week (24 hours * 7 days = 168 hours). There are three ways to fill this 8-hour gap in the weekly coverage:

1. **Hire part-time employees.** Finding and retaining good part-time employees is always challenging. Part-time positions tend to have higher turnover rates, so more management time will be spent keeping the positions filled. Many part-time employees have limited availability, making it more difficult to fit them into the schedule. In larger organizations, it is rarely practical to use part-timers.
2. **Employ an additional crew.** This is the most expensive solution, since you have to pay them for 40 hours when they are only needed for eight hours. You can schedule the remaining 32 hours for other purposes such as absence coverage (relief), training, or maintenance. If these other functions are not needed on a regular basis, this is not an efficient solution for providing 24/7 coverage.
3. **Use overtime.** The most popular option is to schedule the four crews to work an average of 42 hours a week. Although this requires paying a small amount of overtime (5%) to each employee, this is usually easier and less expensive than the other two options.

Workload Fluctuations

In many organizations, demand for the products or services is not constant throughout the year. There may be seasonal or periodic variations. As long as the changes are not "permanent," there are four ways to handle the busy periods:

1. **Stockpile product during slow periods.** Stockpiling only works for companies whose products have sufficiently long shelf lives. Even then, having sufficient inventory

available to meet every surge in demand is not always possible. Stockpiling is not an option for companies that provide services rather than products.

2. **Hire temporary employees during the busy periods.** Using temps is a good solution if the jobs are low-skilled and don't require lengthy training. It is costly to invest training resources on workers who are not going to stay with the company.
3. **Maintain enough full-time staff to cover the peak workload periods.** Hiring permanent employees to meet the peak workload periods can result in overstaffing when the workload declines. Unless you lay off excess personnel during the slower periods, you must pay them throughout the year. The cost of their idle time adds up quickly, making this option the most expensive of the four.
4. **Use overtime.** This is the most popular choice because it gives employers immediate access to a pool of workers with the skills and training to do the job, and it's not as expensive as it first appears. Even though overtime has a 50% premium, it is not much more expensive than the fully-loaded cost of straight time for new employees. Benefits such as insurance, vacations, and pensions are usually paid based on straight time hours worked. This can increase the average wage by 30% to 40% or more. There is also the cost of hiring and training new staff. With highly-skilled workers, these expenses can be substantial. In contrast with the other options, overtime offers the most flexibility to match the workload variations at a reasonable price.

Staff Variations

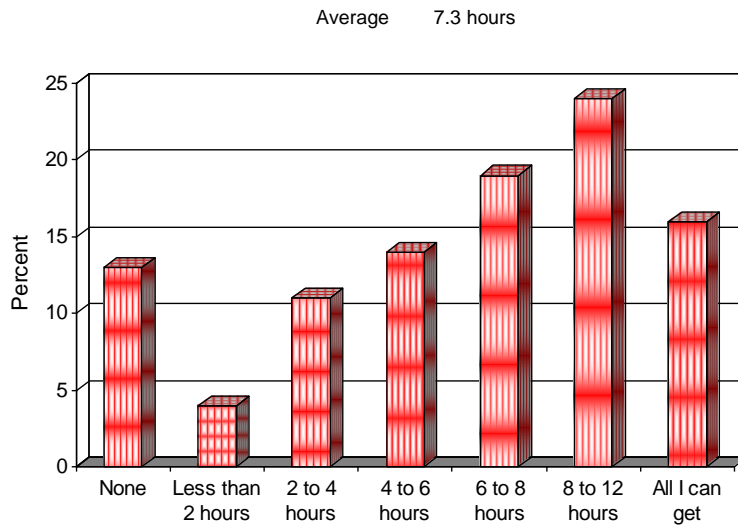
Even when the workload is constant, there may be occasions when not enough staff is available to do the work. Short-term personnel shortages can occur as a result of employee turnover or absences such as vacation, illness, jury duty, military leave, bereavement, or disability. If the turnover and absence rates are fairly consistent, hiring full-time relief personnel may help. In most cases, turnover and absences do not occur regularly, so the relief capacity may not be needed at all times. Paying for their idle time can be costly. Filling the short-term vacancies by using overtime is usually the best choice. As with workload variations, using overtime to address staff variations allows employers to draw from a skilled pool of workers, but only having to pay them when they are needed.

Labor Market Considerations

Many companies find it necessary to offer overtime to attract and retain employees. Offering overtime boosts the employer's attractiveness because so many people want the additional

earnings from overtime. As shown in the graph below, almost three fourths of the shiftworkers we have surveyed want some overtime (up to 12 hours a week). More than half want the overtime infrequently or occasionally. The rest either don't want any or they want all they can get. Employers that offer modest amounts of overtime will not only satisfy a majority of their employees, but also will improve their competitive position in the local labor market.

How much overtime would you like every week?



Source: Shiftwork Solutions LLC database of shiftworker surveys