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Companies Pressured to Pay More in Overtime Wonder If It's Worth It

When companies rely on regular employees to work extra hours, tasks tend to take longer; others refuse overtime shifts

By Rachel Feintzeig and Lauren Weber April 13, 2018

Companies are paying millions more dollars in overtime wages as they struggle to make new hires in an economy that's near full employment. Sales were up 15% in February compared with the prior year at Weifield Group Contracting Inc., which installs electrical systems. But applications for open jobs are dwindling at the Centennial, Colo., company. The firm asked workers to put in 4,500 hours of overtime in January and February to fill the labor gap, 50% more than the 3,000 hours of overtime in the same period a year earlier. In all, Weifield spent $588,000 on overtime for its 400-odd employees last year.

Seth Anderson, chief executive of Weifield, said overtime has diminishing benefits. After a couple of 50-hour weeks, workers don't install wires and fixtures as fast, and some people start refusing extra shifts.

"There are some guys that will not work overtime. You can't pay 'em enough to work overtime," he said.

For companies shelling out more pay, the wage drain cuts into profits and can affect new investments. For workers who qualify for overtime, the extra hours can be a boon and a burden.

Randy Green, a foreman at Saunders Construction Inc., has been working 55 to 60 hours a week to help build a 24-story apartment tower in Denver. He says it has been hard to balance his work schedule and time with his family, including his 11-month-old son, but the money is hard to pass up.

In a typical week, Mr. Green earns $500 to $600 in overtime, which sometimes nearly doubles his regular paycheck. “I’ll probably do it for as long as I can,” the 37-year-old said of his six-day workweeks.

The Labor Department tracks overtime hours in U.S. manufacturing, where the average weekly overtime amount claimed by a nonmanagement employee rose to 4.8 hours in February, its highest point since April 2000. It ticked down slightly to 4.6 hours in March.

“When the reservoir of unemployed and underemployed workers shrinks, then you are going to have to ask your existing workforce to put in extra hours, and we’re seeing that across the board,” says **Bernard Baumohl, chief global economist at the Economic Outlook Group**, a forecasting group in Princeton, N.J. The unemployment rate stood at 4.1% in March.

“Full employment” doesn’t necessarily mean every American who wants a job has one. Economists use the term to describe the point where unemployment can’t go lower without generating price and wage pressures. They are split on where that exact unemployment rate is, but earlier this year nine in 10 forecasters said the U.S. economy was at or close to full employment.

Some employers are trying to mitigate worker shortages by putting money into labor-saving equipment.

Wabash National Corp. makes commercial trucking equipment at one of its plants in Lafayette, Ind., where overtime pay pinched the bottom line in the third quarter last year.

Wabash is investing in automation in part to reduce demand for labor. It expects to save 560 labor hours a day when more of its operations are automated by year-end. The company will “get the productivity savings and then redeploy those workers to reduce overtime within the business,” Chief Operating Officer Brent Yeagy told investors in November last year, noting overtime pay had led to higher costs per unit in its commercial-trailer products division.

New machinery and software can take six months to three years to deploy, making such investments a risky proposition this late in the economic recovery, according to **Mr. Baumohl**. If demand drops, the investments may not pay off, the economist said.

Paying overtime to existing employees may be a safer route for now, **Mr. Baumohl** says, but it puts a strain on employers as well as workers. Companies are supplementing their workforces with temporary employees—but even they have been asked to work overtime, said Becky Frankiewicz, president of staffing company Manpower Group's North America division. Overtime for Manpower workers rose 10% in March compared with a year ago.

Last year was a wake-up call for the North American division of Saint-Gobain, a French building-materials supplier. At two of its plants in Worcester, Mass., which make tools for automotive manufacturers—28% of all hours worked in 2017 came with at least time-and-a-half pay. Overtime use also requires more lead time because orders can take longer.
Rising demand from aerospace and oil-and-gas customers forced Saint-Gobain to add weekend shifts. “We’re trying to staff the machines essentially 24/7,” said Kip Paterson, a human-resources director at the company. Job seekers are applying for plant work, he said, but many don’t have the digital skills that Saint-Gobain requires as it adds robotics to its operations.

As the company tries to boost its head count and cut down on overtime, it has widened the search for workers to surrounding towns and extended benefits to more of its employees to improve retention. The share of total labor hours that are overtime has ticked down by three percentage points this year as a result, Mr. Paterson said. “We’re going in the right direction.”

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