

Overtime

Should it be vilified any longer?

Editor's note: This new column features two seasoned industry experts debating different views on a topic. We invite you to suggest future topics for this column by emailing me at vizza@nationalclub.org.

Bob's Point of View:

Nothing is more demonized in modern management than overtime, a phenomenon created by the 1938 Fair Labor Standards Act, "New Deal" legislation. The intent was to put more people to work. Today, with our low levels of unemployment, both employers and employees might mutually benefit by some overtime!

Many businesses, particularly private clubs are too often run by the numbers, or more so, by percentages and policies—"no overtime" being one of them. Working within the rules and hitting the numbers brings comfort and confidence, but often-times, not the most effective and efficient operation. Overtime is less expensive than you think, and I'd like to make a case for why some might be good for your club operation.

There are both economic and noneconomic reasons for overtime, although even the noneconomic are arguably economic:

- Regardless of what the early industrial psychiatrist had been saying, in my experience working with thousands of low-wage earners, *money* is a great motivator; particularly with subsistence level wage earners. Overtime = more money!
- In today's economy, many workers must work second jobs to make ends meet but would much prefer to work overtime with their first employer. If you offer overtime as a recruitment strategy, you'll have a leg up on most competitors who don't admit they do; and you'll retain your employees longer.
- The hospitality industry has a turnover rate exceeding 70% annually (with an average tenure of 1.42 years), and according to the Center for American Progress, the cost to replace an employee making less than \$50,000 annually is 20% of their annual wages.

Therefore, when the average employee only stays 1.42 years, the cost of that person's turnover rate to the employer is 14% of their annual wage (20%/1.42 years). We're starting to chip away at the 50% premium paid for overtime.

- According to the U.S. Bureau of Labor Statistics, in 2017 the average public sector employee earned \$24.49 per hour and an additional \$11.38 in benefits (31.7% of wages). This includes all the insurances, taxes and costs of vacation, sick and holiday (VSH) pay. Clubs don't generally break out VSH from base pay and as such, that raises the base pay and lowers the benefits cost percentages. If VSH were reported properly as benefits costs, clubs' benefits costs would be more like the 31.7% national average. Although taxes and some of the benefits costs are directly tied into total wages and will rise with the addition of overtime pay, many do not.
- In 2018, the cost for a single employee's health insurance averaged \$6,251 per year, \$3 per hour, or 12.3% of a \$24.49 hourly rate (at \$15 per hour that's 20%). Insurance costs are fixed and do not increase with extra hours. Deduct another 12% to 20% from the 50% premium cost of overtime and the cost is down from 50% premium to less than 24%.
- Minimum shift regulations in many states require that employees receive a minimum of four-hour shifts. If you only need a couple hours more coverage, overtime can save some labor costs, especially considering that you've already fed and outfitted the employee under regular time for that day. There are other, less quantifiable values:
 - Overtime means fewer but more satisfied employees and less shifts to manage. HR and management can

spend more time on advanced training of tenured staff and less on new candidate onboarding and training.

- Employees working longer shifts get to know their jobs and the members faster than their newer counterparts. Members receive a more consistent product and service from more experienced and motivated staff.

As you can see, the actual premium cost of overtime is considerably less than 50% and when considering the benefits of having a more stable and motivated employee base, the nominal additional cost of overtime is outweighed by the benefits.

Dan's Point of View:

While you may be able to justify that overtime is somewhat less costly than a full 50% premium, the larger issue is about controlling labor costs as it represents in excess of 55% of clubs' operating costs. National figures may be useful to drive home a point, but in actuality, wages for entry level employees at most clubs around the country are significantly less than the \$24.49 national average and many clubs do not offer rich benefit packages. In order to remain competitive, clubs need to tailor their compensation and benefits packages to attract and retain employees at each stage in their career life cycle and relative to the club's geographic location.

Most clubs already have overtime—it's almost unavoidable—to keep the course conditioned on a six- or seven-day schedule, to keep the bar open until Mr. Snodgrass finally moseys on home and sometimes, clubs need to keep an employee on to cover an absentee issue. There are numerous other examples:

- Certain labor shortages can be anticipated, and some cannot, but we don't always need to cover the gaps and overtime should not be a crutch for lack of planning or inattentive management. Management should establish firm policies for overtime and hold supervisors accountable. For example, early punch

ins or late punchouts usually incur overtime and are akin to stealing from the club. Not acceptable!

- Overtime doesn't necessarily solve for reducing staffing. Sure, it would be more economical to keep an employee on for a couple extra hours to get a necessary job done, but in most cases, such as prime service time, you simply need the bodies to cook and serve the meals. Planning and budgeting for overtime should be a rigorous process.
- Money may motivate some employees, and many of our entry level employees of whom Bob referred are millennials and Gen Z's. It is generally agreed that these two generations value training, job autonomy, flexible hours and a portable 401K above money. They are typically willing to work long and extra hours, but they'd be just as happy working four 10-hour shifts with a three-day weekend, rather than work occasional extra hours for overtime.
- Long before the arrival of the millennials, those industrial psychiatrists referred to earlier, determined that employees at all stages of their careers value recognition and being appreciated. Training is one form of those which benefits both the employer and employee. Clubs' funds would be better spent on training than overtime if you're trying to build a loyal, professional and tenured team.

Both Bob and I agree that some level of overtime is necessary and desirable, but unless scrutinized and monitored closely it can lead to runaway payroll costs. **CD**



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PRO

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