

Listening to workers : the overtime versus hiring dilemma

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Abstract

To reach a certain production level, firms sometimes allow overtime and/or adjust the number of their personnel. Under some circumstances, workers can decide to work overtime to gain additional compensation, even though the firm might not need that time. This type of overtime exists because of an information asymmetry that favors workers: they know better than management the everyday routines, the temporary bottlenecks, and the malfunctions in the workplace. This study models this situation as an infinitely repeated game. In each stage-game the workers decide whether to work overtime, and the firm decides whether to adjust the amount of personnel. The game characterizes the conditions of the Nash equilibriums, some of which might lead to collaborative communication between the workers and the firm. The study empirically tests two propositions with data from a Chilean smelting plant. The results identify under which circumstances the firm should “listen” to the workers (i.e., take into account how much overtime they incur) when making personnel decisions..

Keywords

Overtime hours, Headcount, Information asymmetry.