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Implications and Effectiveness of Half-Time Pay

for Salaried Employee Overtime

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Abstract

Half-time pay is an option for salaried employees to receive as an overtime benefit. Based on a fluctuating workweek schedule, employees with varying hours can be compensated for additional hours worked over 40, through the use of half-time pay. If an employee works less than 40 hours in a week, he/she will still receive the full salary compensation; however, any hours over 40 will receive a wage at half-time of normal pay. My research included examining current policies and analyzing the potentially positive and negative effects of half-time pay for salaried employee overtime. Factors such as retention, fairness, and equity were considered when evaluating the potential effectiveness of half-time pay. By considering different management techniques for motivating employees in the workplace and considering the pros and cons of using half-time pay as an overtime pay method, I make a recommendation of how and when half-time pay should be used. Executed in the right conditions, using half-time pay for a salaried employee's overtime can be an effective tool for increasing both employee motivation and morale.

Keywords: half-time, salaried employee, overtime, fluctuating workweek

Implications and Effectiveness of Half-Time Pay for Salaried Employee Overtime

Introduction

As a manager in an organization, it is important to be aware of factors that will affect employee behaviors and attitudes. One element of organizational life that can significantly alter employees' attitudes and behaviors is pay and rewards. According to a Society of Human Resource Management (SHRM) research report released in May 2014, 60% of employees rated compensation/pay "very important," and 36% rated it "important," meaning that 96% of those surveyed consider compensation and pay one of the most important contributors to their job satisfaction. In this survey, compensation and pay was the top contributor to overall employee job satisfaction (Miller, 2014). The same research report noted that compensation/pay was either the top or second-rated aspect of job satisfaction for four generations of employees (Traditionalists, Boomers, Gen X, and Millennials). This reaffirms other research that suggests extrinsic motivators, such as pay, are one of the most valued outcomes across all four generations currently in the workplace (Twenge, Campbell, Hoffman, & Lance, 2010), suggesting that pay matters to everyone. Considering compensation and pay can be easily changed and influenced by management, managers can use it as a helpful tool to motivate and increase employee satisfaction in the workplace.

When deciding what type of pay structure to use in an organization, it is vital for managers to understand current policies and how these along with other factors may influence employees' attitudes and behaviors. Perhaps the most well-known pay structure is an hourly rate, which includes compensation at an overtime rate once an employee exceeds 40 hours in a single workweek. In this situation, employees make a wage that directly correlates to hours worked. When an employee works over 40 hours in the workweek, then his or her compensation is raised

to a rate of time and one-half of his or her base rate (1.5 times the hourly wage). An hourly employee will have less consistency in his or her income from work, because his or her hours can vary week to week. However, these types of work schedules are more flexible for employers. Another common pay structure is salary, and in this pay structure the salaried employee works a consistent set of hours. Salaried employees work a regular schedule involving five days a week, which commonly is through of a typical 9am-5pm job, which each workday consisting of eight hours. In the typical salaried employee's situation of consistent 40-hour workweeks, overtime is a non-factor. But, many professions such as teaching are common under a salary pay structure. This is important to note because some professions, such as teaching, have a schedule that is different from a consistent 40-hour workweek. As a result, the employee will be paid under a salary pay structure, but may still work more than 40 hours in a week. When this happens, it is important to be aware of how overtime exemptions may influence the situation. An exempt employee is not entitled to overtime; however, a non-exempt employee will still receive overtime regardless of being salaried. Exemptions are based on position and pay. The previous example of a teacher, is a situation in which overtime is not a factor, because it is an exempt position. Each of these salary structures have benefits and drawbacks for both employers and employees.

A third, less commonly known pay structure is referred to as half-time pay, which is applicable for employees who regularly have fluctuating workweeks. Under a half-time pay structure, employers can pay employees a base salary and an overtime rate of one-half times the regular wage (0.5 times their "hourly" wage). Employers' ability to use a half-time pay structure is founded on whether their employees work fluctuating workweeks. A fluctuating workweek includes a schedule that is inconsistent and fluctuates both above and below 40 hours a week on a regular or predictable basis. The fluctuating workweek is critical to half-time pay, and it is

what prevents it from being applied to all salaried employees despite some of the advantages it creates for employers. An employee is paid at a salary rate regardless of the 40 hours being met in the week, which is an advantage for employees. However, if a week consists of more than 40 hours for a non-exempt employee, then overtime is compensated at a rate of one-half times the regular rate, which is an advantage for the employer. The combination of a salary wage with overtime pay allows for more consistent income for employees and a more consistent payroll expense for employers. In a way, the half-time pay structure has advantages for both employees and employers, if the circumstances of a job make it an option to use this type of pay structure.

Organizations need to carefully manage how pay is administered because it is such an important motivator for employees (Miller, 2014; Twenge et al., 2010). Research suggests that the way in which an individual is compensated (e.g., the process used) also has an impact on his or her satisfaction (McFarlin & Sweeny, 1992). As a result, factors such as justice, ethics, and trust need to be considered when deciding if the fluctuating workweek is the best decision for employers and employees. Our understanding of these concepts in the workplace is driven by research in the area of organizational behavior, which is the field of study devoted to understanding, explaining, and ultimately improving the attitudes and behaviors of individuals and groups in organizations (Colquitt, LePine, & Wesson, 2015). Research from this area can help managers understand when and how implementing a half-time pay structure is a good idea for an organization.

In this paper, I focus on how managers can apply half-time pay through the lenses of justice, ethics, and trust. Justice reflects the perceived fairness of an authority's decision making. When employees perceive high levels of justice, they believe that decision outcomes are fair (Colquitt, Conlon, Wesson, Porter, & Ng, 2001). Ethics reflects the degree to which the

behaviors of an authority are in accordance with generally accepted moral norms (Trevino, Weaver, & Reynolds, 2006) – an important factor when pay is involved. Trust defines itself, but it is important to understand how it can be built. Skills, competencies, and the areas of expertise can enable an authority to be viewed as more trustworthy (Mayer, Davis, & Schoorman, 1995). Applying theories from the field of organizational behavior helps us to understand how an organization using a half-time pay structure for overtime can affect both employees and employers. These theories help us to understand what we can expect in relation to employee attitudes and behaviors when administering a pay system. As managers consider the justice, ethical, and trust implications of half-time pay, they will be able to implement it more effectively in their organizations.

Employers should understand the benefits and drawbacks to different types of pay structures, as well as how to implement them correctly because pay can directly affect employee job satisfaction and increase job performance (Miller, 2014). As part of understanding these different types of pay structures, I overview the evolution of the typical workweek and the Fair Labor Standards Act, which was passed in 1938 (Grossman, 1978). This piece of legislation established laws about typical workweeks, as well as how employees would be compensated for time beyond the typical week. Additionally, current policies surrounding half-time pay and the fluctuating workweek are discussed, such as the requirements an organization must meet to pay an employee a half-time rate for overtime. Finally, drawing from research in the field of organizational behavior, specifically the areas of justice, trust, and ethics (Colquitt et al., 2015), possible employee responses to half-time pay structure are considered. Because an employee is motivated by both pay and the process through which he or she is paid, research from these areas can inform managers about how they can best implement a pay structure to realize increases in

both employee satisfaction and performance. This paper will address the link between pay and employee performance, the history of the 40-hour workweek, existing policies, effects of half-time pay, management issues, and make a recommendation on when and how to use half-time pay.

Performance and Pay

Pay is a critical part of work for many employees, and it has a large influence on their performance in their job, as well as their feelings of satisfaction about their job. While workers can be motivated in their jobs for a variety of reasons, such as intrinsic reasons like satisfaction of helping others (Grant, 2008), using a variety of skills (Hackman & Oldham, 1976), or extrinsic reasons such as good health insurance, vacation benefits, or retirement plans (Millar, 2014; Twenge et al., 2010), pay level is a very important factor. Indeed, pay is one of the most visible and salient factors that influences how employees feel about their jobs (Millar, 2014), and employees who are more satisfied with their jobs usually perform better (Norris & Neibuhr, 1984).

Other research has found that employees' feelings of satisfaction also influence how they perform in their jobs. In study after study, researchers have found a small but significant relationship between employees' feelings of satisfaction and how well these employees perform in their job. In 1985, Iaffaldano and Munchinsky looked at the results of 74 different studies and found a small, but positive relationship between satisfaction a performance. Over 15 years later, another set of researchers again examined the results of 312 studies in a meta-analysis and also found a positive relationship between employee performance and satisfaction (Judge, Thoresen, Bono, & Patton, 2001). Consequently, it is important for employers to have satisfied employees because this will help to increase their overall performance, and because pay is such an important

factor in employee satisfaction (Millar, 2014; Twenge et al., 2010), it is important that organizations manage employee pay in a thoughtful way.

History of the Workweek

A 40-hour workweek has not always been customary in the United States. Starting in 1890, the government began to track the hours of workers (Lebowitz, 2015). Workers such as manufacturing employees were found to have been working long, strenuous weeks. On average, a full-time manufacturing employee was working around 100 hours in a week (Lebowitz, 2015). However, even before the government started to officially track the hours of workers, employees and organizations were pushing for 40-hour workweeks. In 1866, the National Labor Union asked Congress to pass a law mandating the eight-hour workday (Lebowitz, 2015). Although efforts were denied, a movement was started.

Americans across the country started to support labor reform, which the 40-hour workweek was part of. The first notable progress was made in Illinois. The state legislature passed a law mandating an eight-hour workday on May 1, 1867. Due to a strike in Chicago, this day is now referred to as “May Day” by some individuals. Two years later, President Ulysses S. Grant issued Proclamation 182, guaranteeing a stable wage and eight-hour workday for United States Government employees (Lebowitz, 2015). Strikes continued to occur regularly on May 1, in a continuing push for the 40-hour workweek. Perhaps the most notable in this push occurred in 1926 (Lebowitz, 2015), when Ford Motor Companies adopted a five-day, 40-hour workweek. This made Ford the first large company to adopt the 40-hour workweek, which provided some legitimacy to the overall movement. In 1936, Franklin D. Roosevelt won the presidential election by 523 electoral votes to his opponent’s eight. His landslide victory is credited to his campaign promises to protect workers during the depressing times that the country was going through

(Grossman, 1978). Then in 1938, President Roosevelt worked to get the Fair Labor Standards Act (FLSA) passed, which established a minimum wage and maximum workweek of 44 hours. Congress passed the FLSA and President Franklin D. Roosevelt signed it into law on June 25, 1938 to be effective beginning October 24, 1938 (Grossman, 1978; Schwinn, 2012). Amended two years later, the workweek was limited to 40 hours. Since that time, the workweek maximum has stayed at 40 hours.

Existing Policies

Currently in the United States, employee working conditions are regulated by numerous laws, however the most important one remains the Fair Labor Standards Act. “The FLSA established minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in Federal, State, and local governments” (WHD). Both the minimum wage and overtime requirements are intended to raise the minimum standard of living and encourage employers to hire new workers rather than to continue working an existing employee beyond the statutory maximum hours. This encouragement to hire new employees comes in the form of the requirement to pay overtime to employees working over 40 hours (Schwinn, 2012). Focusing on minimum wage, it is required by law for employees and employers to follow FLSA regulations unless exemptions apply. “Employees covered by the Act must receive overtime pay for hours worked over 40 in a workweek at a rate not less than time and one-half their regular rates of pay” (DOL). Thus, as employers work to ensure they are in compliance with labor laws, the FLSA is one of the key pieces that they consider.

The now traditional 40-hour workweek, as outlined by the FLSA, is easily interpreted, but it does include some exceptions. For example, some positions such as executive, administrative, professional, computer, and outside sales employees may be exempt from overtime

requirements. Exemptions are usually determined by job titles and salary requirements. An employee defined as exempt will not be subject to overtime payments, meaning he or she may work beyond 40 hours, but not be compensated for it. In this way, an employer can benefit from having exempt employees, because even if they work more than 40 hours, the employer is not required to pay any additional compensation. A non-exempt employee, however, will be entitled to overtime for any hours worked over 40 in a week, regardless of pay structure. In this case, even if the employee is salaried and works more than 40 hours in a single workweek, the employer is required to pay overtime for all time over 40 hours.

Currently, there is a standard earnings level for salaried employees in order to be considered exempt. Right now, employees are required to make \$23,660 annually, which is the equivalent of \$455 per week, to be considered exempt employees (Bryniarski, 2016). At this time, there is some movement to change this standard earnings level. As of December 1, 2016, the standard salary level of full-time salaried workers was supposed to be raised to \$913 per week, or \$47,476 annually, according to the Department of Labor. This pending change is estimated to potentially affect over four million workers, by nearly doubling the salary threshold for exemption from overtime pay (Nagele-Piazza, 2016). However, in October of 2016, 21 states filed an emergency motion for a preliminary injunction to halt this rule. In their motion, the states claim the Department of Labor exceeded its authority by raising the salary threshold to the proposed level of \$47,476 annually (Nagele-Piazza, 2016). Judge Mazzant, who is a district court judge in the state of Texas, ruled on the motion and delayed the implementation of the new overtime rule until the existing challenges were resolved (Young, 2017). This means that the existing threshold required to be exempt from overtime will stay at \$23,660 annually until everything is resolved.

Less common than traditional overtime pay, which is pay at one and one-half times the regular rate of pay, half-time is also an overtime payment method that may be used under the FLSA. In order to use a half-time pay structure for salary employee overtime, the FLSA has some requirements that must be met. According to §778.114,

“An employee employed on a salary basis may have hours of work which fluctuate from week to week and the salary may be paid him pursuant to an understanding with his employer that he will receive such fixed amount as straight time pay for whatever hours he is called upon to work in a workweek, whether few or many. Where there is a clear mutual understanding of the parties that the fixed salary is compensation (apart from overtime premiums) for the hours worked each workweek, whatever their number, rather than for working 40 hours or some other fixed weekly work period, such a salary arrangement is permitted by the Act if the amount of the salary is sufficient to provide compensation to the employee at a rate not less than the applicable minimum wage rate for every hour worked in those workweeks in which the number of hours he works is greatest, and if he receives extra compensation, in addition to such salary, for all overtime hours worked at a rate not less than one-half his regular rate of pay. Since the salary in such a situation is intended to compensate the employee at straight time rates for whatever hours are worked in the workweek, the regular rate of the employee will vary from week to week and is determined by dividing the number of hours worked in the workweek into the amount of the salary to obtain the applicable hourly rate for the week. Payment for overtime hours at one-half such rate in addition to the salary satisfies the overtime pay requirement because such hours have already been compensated at the straight time regular rate, under the salary arrangement.”

In other words, employees in a half-time pay structure whose workweek fluctuates on a regular and/or predictable basis are paid a salary of a fixed amount for any number of hours worked, whether they work more or less than 40. Additionally, there needs to be a clear mutual understanding that the fixed salary is compensation for the hours worked for the week. Any additional compensation for overtime, as an example, will be at a rate of at least one-half the regular rate of pay, and this salary must be sufficient to provide compensation to the employee at a rate above minimum wage. Finally, any additional compensation for overtime must also be above minimum wage. Only when all five of these conditions have been met can employers use a half-time pay structure to compensate their employees.

Simply put, five criteria must be met:

1. The fixed salary must be paid each week and does not vary based on the number of hours worked.
2. There is a clear, mutual understanding between employee and employer that the fluctuating workweek method is being used.
3. The employee will be paid the fixed salary regardless of hours worked.
4. The fixed salary must be sufficient to provide compensation above minimum wage.
5. The employee's hours must fluctuate from week to week both above and below 40 hours (Hass, 2015).

If these criteria are met, a fluctuating workweek agreement is made, and salary employees can receive overtime for hours worked over 40 in a week at a rate of half the hourly rate. If an employee's salary was \$1,000 a week and worked 50 hours, then he/she would be making \$20/hr ($\$1,000/50 = \20). After calculating overtime payments ($\$20/2 = \10 , $50\text{hr}-40\text{hr} = 10\text{hr}$, $\$10*10\text{hr} = \100) then total compensation would be \$1,100, or \$1,000 (salary) +\$100 (overtime compensation). On the other hand, if an employee's salary is \$1,000 a week and works 30 hours, total compensation for the week will still be the full \$1,000.

Effects of Half-Time Pay

At first glance, half-time pay appears to be a method an employer can use to avoid overtime expenses to a non-exempt salaried employee. When used correctly, this overtime method has the potential to be both employer and employee friendly. As mentioned, hours must truly fluctuate (#5 above). Because there must be evidence of fluctuation—both in favor of the employee and employer—in order to use half-time as an overtime pay method, the situation

should be a mutual win (Hass, 2015). In the case that the employee works less than 40 hours in the week, he or she will still be compensated at the full salary for the week, which is a positive for the employee. However, the organization also benefits, because when the employee does work over 40 hours, the expense is reduced as a result of the half-time pay agreement. Thus, the employee benefits by receiving a full salary during weeks when there are less than 40 hours of work, and the organization pays less when the employee works over 40 in a single-workweek. Additionally, the employee is able to better plan financially, because his or her income does not fluctuate according the hours he or she works. Indeed, the half-time pay can be seen as a “bonus” of sorts for the salaried employee.

Important to note with the fluctuating workweek and paying half-time overtime is that there must be a clear, mutual understanding between employee and employer that the fluctuating workweek method is being used (#2 above). If an employer misclassifies an employee as exempt, the fluctuating workweek method will not be available to fall back on (Hass, 2015). This is due to not making a “clear, mutual understanding” of the fluctuating workweek. In the case of an employee being misclassified as exempt, it is not probable an employee and employer will have made an agreement to use a fluctuating workweek pay structure. As a result, an employer would be required to compensate the employee for all the unpaid overtime at the standard rate of one and one-half times the regular rate. Considering the pending raise from \$455 to \$913 a week in order to be qualified as an exempt employee (Nagele-Piazza, 2016), it is important for employers to correctly classify employees as exempt and nonexempt. If they are not exempt, then it may be beneficial to utilize a fluctuating workweek for overtime if all requirements are met.

Management Issues

When deciding if half-time pay should be used in the workforce, it is helpful to consider how this less well known pay structure may be perceived by employees, as well as how it can be effectively implemented. In an effort to understand how employees may respond to half-time pay, I will examine this pay structure from the perspective of three concepts from the area of organizational behavior, which is the field of study devoted to understanding, explaining, and ultimately improving the attitudes and behaviors of individuals and groups in organizations (Colquitt, LePine, & Wesson, 2015). Looking through the lens of organizational behavior helps to understand how half-time pay for overtime can affect employees and how employers can best implement it.

As described previously, compensation and satisfaction with pay are important determinants of employees' attitudes and behaviors. As such it is important that when organizations administer pay, they do it in a way that contributes to employee satisfaction, rather than in a manner that distracts from the positive benefit that pay generally provides. In a series of four studies, McFarlin, Sweeney, and Inderrieden (1990) found that employees who compare their salaries to others end up feeling deprived and less satisfied. Another study found that when managers perceived unfairness in the amount of a reward given for their effort, their satisfaction would be decreased (Janssen, 2001). Because satisfaction with pay is so important, and because employees are so sensitive about the topic, it is important for employers to properly explain and implement a half-time pay structure, if they want it to be successful.

Justice

One important concept in organization behavior is organizational justice, which reflects the perceived fairness of an authority's decision making. This captures how fairly the employee feels he or she has been treated by the organization (Colquitt et al., 2001). When employees perceive high levels of justice, they believe that decision outcomes are fair and that decision-making processes are designed and implemented in a fair manner. Justice concepts can be used to explain why employees judge some authorities to be more trustworthy than others. More specific, distributive justice reflects the perceived fairness of decision making outcomes. Employees gauge distributive justice by asking whether decision outcomes such as pay and rewards are allocated using proper norms. (Colquitt et al., 2015). If a fluctuating workweek is implemented in a manner aligned with proper norms and perceived as fair, perceived justice will be higher for an employee, resulting in the employer being perceived as more trustworthy from an employee point of view.

Ethics

Employers also need to consider whether or not the use of a half-time pay structure is ethical and will be viewed as ethical by their employees. Ethics reflects the degree to which the behaviors of an authority are in accordance with generally accepted moral norms. When employees perceive high levels of ethics, they believe that things are being done the way they "should be" or "ought to be" done (Treviño et al., 2006). Ethics concepts can be used to explain why authorities decide to act in a trustworthy or untrustworthy manner (Colquitt et al., 2015). Depending on the level of ethics and justice, an organization will develop a reputation. A reputation is an intangible asset that can take a long time to build but can be damaged easily if an organization behaves in an unethical manner. While individuals may view specific things

differently in terms of ethics, organizations should work to abide by ethical norms that are generally accepted. By following ethical norms in the use and implementation of a fluctuating workweek, employers can enhance their reputation and attract better talent.

Trust

When building trust with employees, three different trust dimensions must be considered—disposition, cognition, and affect. Disposition-based trust is personality traits including general propensity to trust others. General trust propensity is a general expectation that the words, promises, and statements of individuals and groups can be relied upon (Colquitt et al., 2015). Disposition-based trust is important to understand, but will not be affected by overtime pay methods. Additionally, affect-based trust depends on feelings toward the authority that go beyond any rational assessment (Colquitt et al., 2015). Similar to disposition-based trust, this is important to consider, but will be less affected by the half-time pay structure. Lastly, cognition-based trust means it is rooted in a rational assessment of the authority's trustworthiness. Cognition-based will be the most emphasized because it will be directly influenced by the perception of using a fluctuating workweek and half-time pay for overtime hours. This is the type of trust that may be influenced by the type of pay structure an organization uses.

The first dimension of trustworthiness is ability, defined as the skills, competencies, and the areas of expertise that enable an authority to be successful in some specific area (Colquitt et al., 2015). Because half-time pay is not commonly known, employers may be able to increase ability through the correct understanding and execution of the overtime pay method. Second, benevolence is the belief that the authority wants to do good for the trustor, apart from any selfish or profit-centered motives. When authorities are perceived as benevolent, it means that they care for employees, are concerned about their well-being, and feel a sense of loyalty to them

(Colquitt et al., 2015). If it appears the fluctuating workweek is mutually beneficial to the employee and employer, benevolence is likely to be high. On the contrary, benevolence will be low if an employee perceives that half-time pay is being used with a profit-centered motive. Third, integrity is the perception that the authority adheres to a set of values and principles that the trustor finds acceptable. When authorities have integrity, they are of sound character—they have good intentions and strong moral discipline (Colquitt et al., 2015). Integrity is an important factor for employers who want to implement half-time pay. Low integrity will create individuals that are more susceptible to abuse the overtime pay method for personal monetary gain. Combined with high integrity, half-time pay may be the most beneficial pay structure for the organization.

Recommendations

Practical Implications

Initially from an employee point of view, it is hard to think of a perspective that it would be preferable to receive half-time wages for overtime. One instance that the fluctuating workweek would be preferred is when an hourly employee would like a more stable and consistent income. If hours fluctuate above and below 40 hours, income will be inconsistent for an employee receiving wages at an hourly rate. It would be beneficial to change the pay structure to the fluctuating workweek, and place the employee on salary, with the understanding that overtime will be paid at a half-time rate. In this instance, an employee would be sacrificing the traditional one and one-half times regular overtime rate for a consistent salary that contains less overtime at the half-time rate. Individuals who like to plan or are risk adverse may prefer an option such as this.

From an employer perspective, it would make sense to pay employees on a fluctuating workweek agreement whenever applicable. First, payroll will be more a predictable expense. Instead of having hours fluctuate for employees and not being able to very accurately predict the payroll expense, employers will be paying the same amount in salary more consistently. The only fluctuation will be overtime payments, however even these will be lower because of the half-time rate. Additionally, the half-time pay structure is sensible for employers from a money saving perspective. The choice seems simple when a salaried employee whose hours fluctuate can be paid at a rate of one and one-half times or just half-time.

In short, “The fluctuating workweek ideally should be a win-win for employers and employees. It provides a guaranteed salary despite uncertain hours, a clear perk for employees, whether used for retention or as part of a promotion or other career advancement. For employers, it simplifies overtime calculations and can eliminate some of the peaks and valleys in weekly payrolls. On occasion, it might even save some payroll expense, but that should not be a primary goal” (Hass, 2015).

Implementation Recommendations

By using concepts from organizational behavior to analyze half-time pay, we anticipate what types of employee behaviors may be influenced by using this pay structure. To start, a manager or employer runs the risk of being viewed as having low distributive justice. If the use for the fluctuating workweek is rooted in monetary gain, an employee is bound to gauge decision outcomes of pay and rewards to be allocated in an unfair manner. The low level of justice will result in an organization developing an undesirable reputation. It will be harder to recruit and retain qualified candidates. By attempting to save money through the fluctuating workweek, an organization might actually incur additional costs such as expenses associated with turnover.

It is recommended that the fluctuating workweek pay method also benefit employees, and not be implemented only as a result of a profit motives. It is imperative for integrity to be high for individuals in the position to make decisions concerning pay structure. First, an employer's ability is going to be higher when correctly implementing a fluctuating workweek. If an employee desired more consistent pay and the fluctuating workweek was offered, cognition-based trust is going to be higher. In part, employers will be viewed as more benevolent and employees will feel a higher sense of loyalty. The fluctuating workweek can be used as a helpful tool in unique situations, but should never be used with the primary objective of saving money in mind.

One example of a situation that the fluctuating workweek may be helpful comes from the National Golf Course Owners Association (Smith, n.d.). A golf course deals with seasonal hours and a situation where an employee might work over 50 hours during the summer but only 30 hours during the winter. The half-time pay structure that incorporates the fluctuating workweek would be ideal to find a solution for both the employee and employer in this type of situation. The employer would prefer to not pay a salary rate to employees that will not be working full time on a consistent rate. An employee may not enjoy the inconsistent pay correlated to an hourly wage. To please both parties, the fluctuating workweek would allow for more consistency in pay but also not cost the organization significantly more than an hourly substitute. The same situation could be applied to any seasonal business such as a ski resort.

Another example of a situation that a fluctuating workweek could be used effectively is a business that deals with unique projects and jobs. Some jobs may require more hours for an employee to complete, and therefore involve overtime at the half-time rate. In the instance that a particular job is less strenuous, a worker might be able to complete it in less than 40 hours for the

week and still receive a full week's salary. In a similar situation that an employee is paid on an hourly rate, he/she may be more likely to stretch a 30-hour job to 40 or even 50 hours in order to receive more pay for the week. An employee receiving pay on a fluctuating workweek structure is less motivated to stretch a job than an hourly employee because overtime pay is at a rate less than the regular rate, opposed to time and one-half for hourly employees or non-exempt salary employees.

After identifying situations in which a fluctuating workweek should be used, it is important to understand how to correctly implement the unique pay structure. A fixed salary must be paid each week and does not vary based on the number of hours worked (#1 above). Not only should this be understood, but it needs to be followed. Tying into the organizational behavior above, integrity must be high for a manager implementing the fluctuating workweek. If an employee receives lower pay for hours worked under 40, but still only receives half-time for overtime hours, employee satisfaction will be low. As a result, turnover will be higher, employees will be less motivated, and the organization will overall be negatively impacted by the managers low-integrity decision. If the decision is made from ignorance and not low-integrity, it does not change the fact that it would be illegal and employees could pursue monetary relief for damages. In the situation mentioned that an employee receives a lower salary for hours worked under 40, it would equate to an hourly wage. An hourly pay structure involves a time and one-half overtime pay structure, meaning the employee could argue for the full week's salary or additional overtime.

When implementing the fluctuating workweek, there must be a clear and mutual understanding between the employee and employer that the method involving half-time for overtime is being used (#2 above). Considering pay can significantly alter employee behavior

(Miller, 2014), discussing pay structure should be carefully approached. By taking the time to educate an employee on the advantages of a fluctuating workweek such as consistency in pay, distributive justice and cognition-based trust will be high. Mentioned earlier, factors such as benevolence and ability raise cognition based trust. Through effective communication and educating an employee on the fluctuating workweek pay structure, a win-win situation is created for employees and employers.

Relating to the first point, an employee being paid under the fluctuating workweek must be paid the fixed salary regardless of hours worked (#3 above). There is not a required number of hours to be worked in a week to “earn” the salary. For example, in the situation that an employee works 12 hours for the week, a full salary will still be paid. Keeping in mind the requirement for an employee’s hours to fluctuate from week to week both above and below 40 hours, an employee will not always be able to work less than 40 hours and receive a full salary. Because of the requirement to fluctuate both above and below 40 hours, a situation is created that an employee and employer both need to act in an ethical manner. Employees cannot consistently work below 40 hours and expect a full week’s salary, because the fluctuating workweek rules will not have been followed. Vice versa, an employer cannot consistently work an employee above 40 hours and pay a half-time rate; a fluctuating workweek will not be applicable. Ideally, a clear and mutual understanding has been made, creating an environment where neither employee or employer abuses this rule.

Included in the fluctuating workweek, the fixed salary must be sufficient to provide compensation above minimum wage (#4 above). When implementing this pay structure, it is vital to know that this includes the overtime rate may not be less than minimum wage. This being

said, the regular rate is therefore required to be at least double minimum wage since overtime is calculated at one-half times the regular rate.

Conclusion

In the end, this paper addressed the link between pay and employee performance, the history of the 40-hour workweek, existing policies, effects of half-time pay, management issues, and made a recommendation on when and how to use half-time pay. Pay and rewards can have a significant impact on employee behaviors and attitudes. Pay can be utilized to increase employee satisfaction and performance. Before the Fair Labor Standards Act, workweek hours were not regulated and overtime pay was not a factor. Following the implementation of the FLSA, a workweek is limited to 40 hours before overtime is required for some employees. The act includes some exemptions to the overtime rule, including position and a wage requirement. When considered exempt, an employee is not entitled to overtime compensation. On the other hand, a non-exempt employee must be paid overtime. For salary and hourly employees, overtime is paid at a rate of one and one-half times the regular rate. In many situations, these pay structures are ideal and serve both the employer and employee well.

For the situation of a fluctuating workweek, overtime can be paid at a rate of one-half times the regular rate, and this can be helpful to both the employer and employee. When employers want to use a half-time pay structure, they need to be sure that five conditions are met. The fixed salary must be paid each week and cannot vary based on the number of hours worked, a clear mutual understanding that the fluctuating workweek method is being used must be made between employee and employer, the employee will be paid the fixed salary regardless of hours worked, the fixed salary must be sufficient to provide compensation above minimum wage, and the employee's hours must fluctuate from week to week both above and below 40 hours. If these

conditions are met, a half-time rate can be used for overtime. When an employee works less than 40 hours, the employee benefits and receives the full week's fixed salary. When an employee works more than 40 hours in a week, an employer can benefit by paying a lower half-time rate. When considering if a fluctuating workweek pay method should be used, factors such as ethics, justice, and trust need to be considered. Employees' satisfaction and performance will be largely influenced depending on how the fluctuating workweek is used. After looking at current policies, the effects of half-time pay, and management issues, it is recommended to use the fluctuating workweek and half-time pay with high integrity. It should be used in situations that are mutually beneficial for employers and employees. The fluctuating workweek should never be implemented because of monetary and personal-gain motives. The unique pay structure provides a guaranteed salary for employees despite uncertain hours, a clear perk for employees. For employers, it simplifies overtime calculations and can eliminate some of the peaks and valleys in weekly payrolls.

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