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**NAAC ACCREDITED 'A' GRADE**



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## **Labour Turnover: Definition, Causes and Effects:**

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**In this study material, I will discuss about:-**

- 1. Definition of Labour Turnover**
- 2 . Causes of labour Turnover**
- 3. Effects of Labour Turnover**
- 4. Measurement of Labour Turnover**

### **Contents:**

1. Definition of Labour Turnover
2. Causes of labour Turnover
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### ***1. Definition of Labour Turnover:***

Labour turnover refers to the rate at which employees leave employment. Labour turnover can be evaluated by relating the number of employees leaving their employment during a period of time to the total or average numbers employed in that period.

It may also be defined as engagements and losses in the working force as related to the total number of employees who were on the pay roll at the beginning of the period in question.

### **Example:**

Let us assume that in a factory there were 4,000 employees on an average during the year 1999 and 100 persons left the company during this period. So, the labour turnover will be  
 $100 \times 100 / 4000 = 2.5\%$

### **2. Causes of labour Turnover:**

#### **Avoidable causes are:**

- (i) Lower wages;
- (ii) Bad working conditions;

- (iii) Unsympathetic attitude of the management;
- (iv) Lack of opportunities for promotion;
- (v) Lack of proper training;
- (vi) Improper manpower planning;
- (vii) Lack of proper incentives;
- (viii) Bitter relationship between management and workers;
- (ix) Lack of conveyance, accommodation, medical and educational facilities and recreational amenities etc.

**Unavoidable causes:**

Sometimes workers have to leave the organisation because of management requirements and administrative actions. They also leave their employment at their own will, that is, on personal reasons. In the latter case the management can do nothing but remains a helpless onlooker. So, unavoidable causes may be administrative or personal.

**(1) Administrative causes:**

- (i) Termination of service due to indiscipline, insubordination, bad conduct etc.
- (ii) Retrenchment or lay-off due to shortage of resources, low demand for recession.

**(2) Personal causes:**

- (i) Change for better job;
- (ii) Death;
- (iii) Retirement due to old age;
- (iv) Change for better working conditions, better environment;
- (v) Change for secured job;
- (vi) Marriage, especially of women workers;

(vii) Illness and accident rendering the worker permanently incapable of doing any work;

(viii) Domestic need and responsibility etc.

**Effects of Labour Turnover:**

Labour turnover is harmful and costly. It results in increased cost of production due to the following reasons:

(i) With frequent changes in labour force, production planning cannot be properly executed resulting in substantial loss in production.

(ii) Since the new workers have no previous experience in production there is loss arising out of defective work, increased spoilage and wastage resulting in high cost of production.

(iii) Newly recruited workers are likely to mishandle tools and equipment which results in breakages.

(iv) The organisation has to incur extra cost for workers' training.

(v) Labour turnover causes increased replacement cost.

(vi) Labour cost increases because of lower productivity of newly recruited workers as they do not possess the same expertise as the old workers who have left the organisation.

**4. Measurement of Labour Turnover:**

**Labour turnover rate can be measured by the application of any one of the following three methods:**

**(i) Separation method:**

**(ii) Replacement method:**

**(iii) Flux method:**

**Methods of Calculating Labour Turnover**

The following are the main methods of measuring labour turnover.

### 1. Calculation of Labour Turnover by Separation Method:

Under the Separation Method, the relationship between the number of workers separated or left from the organization and average number of workers of the organization in the period is expressed in terms of percentage.

A worker may be left or separated from the organization due to surplus workers, poor working conditions and wages, less chance for promotion and the like.

The following formula is used to measure the labour turnover by Separation method.

$$\text{Labour Turnover} = \frac{\text{No. of workers left or separated during a period}}{\text{Average number of workers on role during that period}} \times 100$$
$$\text{Average No.of. Workers} = \frac{\text{No. of workers at the beginning of the period} + \text{No. of workers at the end of the period}}{2}$$

### 2. Calculation of Labour Turnover by Replacement Method

There is no need of replacement if the surplus workers left from the organization. The workers whose services are required by the organization are to be replaced by new appointments if they leave.

Hence, the relationship between the number of workers replaced and average number of workers of the organization in a period is expressed in terms of percentage under the replacement method.

Generally, the replacement of labour is followed by the organization if skilled labourers are left from the organization. The following formula is used to measure the labour turnover by replacement method.

$$\text{Labour Turnover} = \frac{\text{No. of workers replaced during a period}}{\text{Average number of workers on role during that period}} \times 100$$

### 3. Calculation of Labour Turnover by Flux Method:

This is the combination of separation method and replacement method. Both separation and replacement are taken into consideration to calculate labour turnover in Flux method.

Hence, the relationship between both separation and replacement of labour force of the organization in a period and average number of workers on roll during that period is expressed in terms of percentage. The following formula is used to calculate labour turnover by flux method.

$$\text{Labour Turnover} = \frac{\text{No.of workers separated in a period} + \text{No. of workers replaced in the same period}}{\text{Average number of workers on role during that period}} \times 100$$

**Problem 1:**

From the following data given by the Personnel Department of XYZ Ltd, calculate the labour turnover rate by the application of above three methods:

No. of workers on the Pay Roll:

At the beginning of the month 900

At the end of the month 1,100

During the month, 5 workers left, 35 persons were discharged and 100 workers were required during the month. Of these, 60 workers were recruited in the vacancies created.

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**Answer:**

Average number of workers during the month= $900+1100/2=1000$

**Labour turnover under separation method**=(number of workers left +number of workers discharged) $\times 100$ /average number of workers

= $(5+35)\times 100/1000=4\%$

**Labour turnover under replacement method**= number of workers replaced) $\times 100$ / average number of workers= $60\times 100/1000=6\%$

**Labour turnover under Flux method**=(number of separation +number of replacement) $\times 100$ /Average number of workers= $(40+60) \times 100/1000=10\%$

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