



MEASUREMENT OF LABOUR TURNOVER

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- (i) **Replacement method**: This method takes into consideration actual replacement of labour irrespective of number of persons leaving

$$= \frac{\text{Number of employees replaced}}{\text{Average number of employees on roll}} \times 100$$

New labour appointed on account of expansion not to be included in number of replacements

- (ii) **Separation method**: In this method labour turnover is measured by dividing the total number of separations during the period by the average total number of workers on payroll during the same period

$$= \frac{\text{Number of employees separated during the year}}{\text{Average number of employees on roll during the period}} \times 100$$

- (iii) **Flux method**: This method takes into account both the number of replacements as well as the number of separations during the period

$$= \frac{\text{Number of employees separated} + \text{Number of employees replaced}}{\text{Average number of employees on roll during the period}} \times 100$$

Labour turnover due to new recruitment: Workers joining a business concern on account of its expansion do not account for labour turnover. But these newly recruited workers are certainly responsible for a change in the composition of labour force, due to this feature, some cost accountants measure workers to the extent of new (excluding replacements) joining the labour force as follows :

$$\Rightarrow \frac{\text{No. of new workers joining in a period (excluding replacements)}}{\text{Average number of workers on the roll in a period}} \times 100$$

The total number of workers joining, including replacements, is called accessions. The labour turnover rate, in such a case, may also be computed in respect of total number of workers joining (accessions) the business concern, during a given period both on account of replacements and because of expansion is as under:

$$\Rightarrow \frac{\text{No. of accessions in a period}}{\text{Average number of workers in a period}} \times 100$$

When number of accessions are considered for measuring labour turnover, the labour turnover rate by flux method may be computed by using any one of the following expressions:

Labour turnover rate (Flux method) =

$$\frac{\text{No. of separations} + \text{No. of replacements} + \text{No. of new recruitments}}{\text{Average number of workers}} \times 100$$

OR

$$\frac{\text{No. of separations} + \text{No. of accessions}}{\text{Average number of workers}} \times 100$$

The above rate of labour turnover indicates the total effect of number of workers separated, number of workers replaced and number of new workers recruited and joined the concern on account of its expansion, etc.

If in the above computations, the data given is for a period other than a year, the labour turnover rate so computed may be converted into equivalent annual labour turnover rate by the following formula:

$$\text{Equivalent annual labour turnover rate} = \frac{\text{Turnover rate for the period}}{\text{Number of days in the period}} \times 365$$

Practice Questions

- Yo industries gives the following information:
- Number of employees on 1-1-19 = 200
- Number of employees on 31-12-19 = 240
- Number of employees resigned = 20
- Number of employees discharged = 5
- Number of employees replaced = 18
- Calculate the net annual turnover rate ?

Solution

- Total separation = total number of employees resigned + discharged
 - $= 20+5$
 - $= 25$
- Number of employees replaced = 18
- Avg number of employees = no. of employees in the beginning+ end of the year
 - $= 200+240 = 440/2$
 - $= 220$
- Put the values in the respective formula & identify the rate?

Second Practical question

- The Cost Accountant of Y Ltd. has computed labour turnover rates for the quarter ended 31st March, 2019 as 10%, 5% and 3% respectively under 'Flux method', 'Replacement method' and 'Separation method' respectively. If the number of workers replaced during that quarter is 30, find out the number of:
 - (1) workers recruited and joined and
 - (2) workers left and discharged.

Cost of Labour Turnover

- **Preventive costs:**

- These include costs incurred to keep the labour turnover at a low level, *i.e.* cost of medical services, welfare schemes and pension schemes. If a company incurs high preventive costs, the rate of labour turnover is usually low.

- **Replacement costs:**

- These are the costs which arise due to high labour turnover. If men leave soon after they acquire the necessary training and experience of good work, additional costs will have to be incurred on new workers, *i.e.*, cost of employment, training and induction, abnormal breakage and scrap and extra wages and overheads due to the inefficiency of new workers.
- It is obvious that a company will incur very high replacement costs if the rate of labour turnover is high. Similarly, only adequate preventive costs can keep labour turnover at a low level. Each company must, therefore, work out the optimum level of labour turnover keeping in view its personnel policies and the behaviour of replacement cost and preventive costs at various levels of labour turnover rates.