

# Labour turnover

In this new series, **Nigel Watson** looks at a key measurement of people management

Labour turnover measures the percentage of a firm's workforce that leaves and that has to be replaced each year.

$$\text{Labour turnover} = \frac{\text{Number of workers that have left in the last year}}{\text{Total workforce}} \times 100$$

For example, imagine a school that employs 90 teachers and administrators. Over the last year, 18 members of staff leave, which the school replaces with the same number of new staff. In this case the school's labour turnover will be:

$$\frac{18}{90} \times 100 = 20\%$$

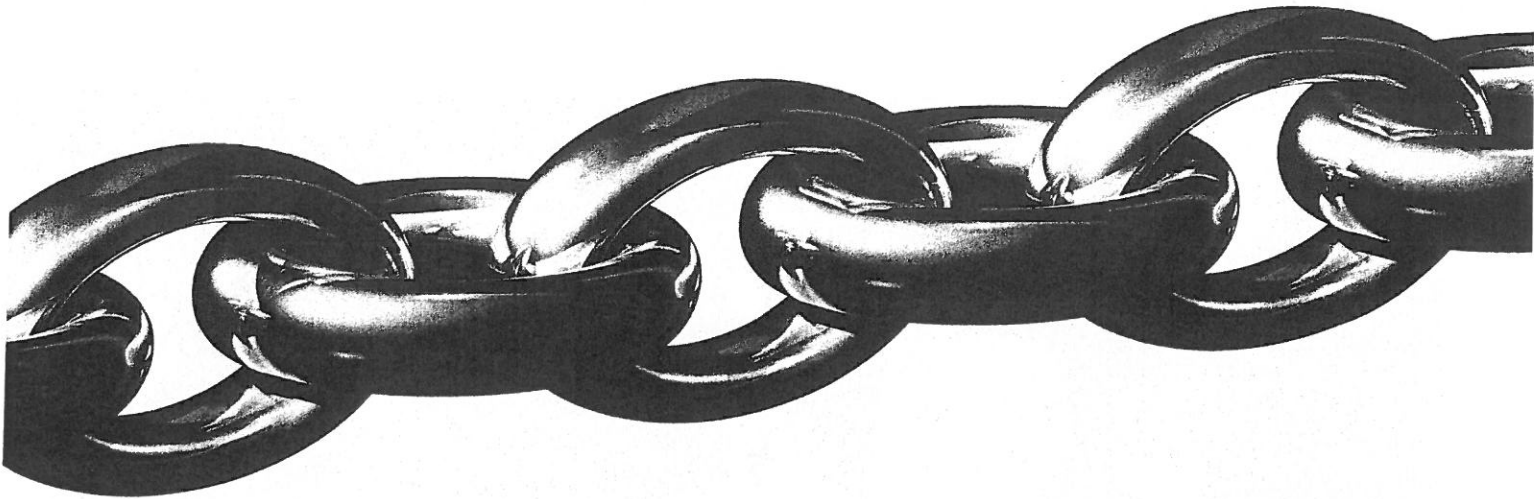
A labour turnover of 20% means that, on average, one in every five members of staff leave each year.

## Why does it matter?

Labour turnover is an important indicator of managerial performance. In the long run, companies that suffer from a high level of labour turnover find it difficult to compete against firms operating in the same industry with a low labour turnover. What problems can a high labour turnover create?

## Recruitment costs

In most cases, when workers leave they will have to be replaced in order to maintain output and/or service levels. As a result, businesses that suffer from high labour turnover will hire more workers each year than firms that have lower levels of labour turnover. Hiring new recruits can be an expensive business. For example, job advertisements might have to be paid for in newspapers and magazines to publicise vacancies.



Recruiting new members of staff also takes time, which creates an opportunity cost. The time spent by managers interviewing staff could have been spent doing something else. For example, in a school suffering from a high level of labour turnover the senior management will end up spending too much of their time on staffing issues, which will reduce the amount of time that they have available for creating the type of environment needed to foster effective teaching and learning.

### Training costs

A regular influx of new workers created by high labour turnover will almost certainly lead to increased expenditure on training. In most organisations new employees receive induction training. This is designed to familiarise new recruits with policies and procedures unique to the organisation. Younger, less experienced recruits might also require specific technical training to impart the skills and knowledge needed to perform their roles effectively. In some cases this training can be carried out off the job. For example an employer might pay for a new employee to attend college to study a work-related qualification on a day-release scheme. This type of training can be very expensive.

In some organisations the bulk of the training received by new employees takes place within the business and is delivered by



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High labour turnover can lead to communication problems

experienced members of staff who act as mentors. Mentors train new recruits in a practical manner by initially demonstrating the methods and techniques they use to complete tasks. The mentor then observes and coaches the new recruit until they are proficient. In organisations that have a labour turnover problem some mentors might become disillusioned about the number of new members of staff that they are expected to train, as most mentors have other responsibilities.

### Low productivity

Productivity is calculated by dividing a firm's output by the number of employees. In other words productivity is output per worker. In businesses that have high levels of labour turnover productivity can be below par. This is because it takes time for new workers to settle in and learn all about the unique systems, policies and procedures that apply in their new workplace. Until work becomes second nature, production is likely to be slow, reducing the employees' productivity.

Some companies try to reduce their wage bill by hiring young and inexperienced workers who will accept low rates of pay. Hiring on the cheap can work provided that the new employee stays for a reasonable period after they have been trained. As experience builds, productivity will lift to a competitive level from a low base. Unfortunately, if most of the new recruits leave within a year or two of being trained productivity will stay low. Any skills developed will walk out of the door when the employee leaves, probably to join a competitor.



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Many organisations use mentors to train new workers



Labour turnover increased when British soldiers were ordered into Iraq and Afghanistan. The army has been forced to increase pay in an attempt to boost retention

### Poor quality and service

In organisations with a high labour turnover the average length of service is inevitably quite low. This matters because inexperienced workers are more likely to make mistakes than their longer-serving counterparts, and in service-sector businesses customers tend to value a familiar face.

Take hairdressing as an example. Most people find it easier to repeat purchase this service from the same stylist, rather than swapping and changing. There are several reasons why this is the case. First, most people enjoy going to the same hairdresser again and again because they no longer have to explain exactly the type of cut they want. Second, over time most hairdressers try to forge a relationship with their clients because they realise that most customers enjoy 'banter'. In salons that have a high labour turnover these relationships between stylist and customer never develop because the stylists never stay long enough to get to know

their customers. This could adversely affect customer service and hence customer retention.

### Communication problems

In firms where labour turnover has been low for a long period of time, most staff will know each other well. This should make communication easier. People will also get to know each others' strengths and weaknesses. In stable organisations mistakes and friction between members of staff, caused by misunderstandings, will be less likely to occur.

### Causes

Employees leave for various reasons. Some labour turnover is inevitable, for example there will always be employees who leave their current employer due to illness, retirement or because of a need to relocate. However, high levels of labour turnover are rarely down to external factors that are beyond the management's control.

### Low wages

Firms that underpay their workers are more likely to suffer from high labour turnover than employers that offer better rates of pay. According to the American psychologist Frederick Herzberg, pay has the potential to cause employee dissatisfaction if the employee feels that the pay they are receiving is unfairly low. The dissatisfaction caused by low pay will cause some employees to find a new employer that will pay them fairly.

### Poor or unsafe working conditions

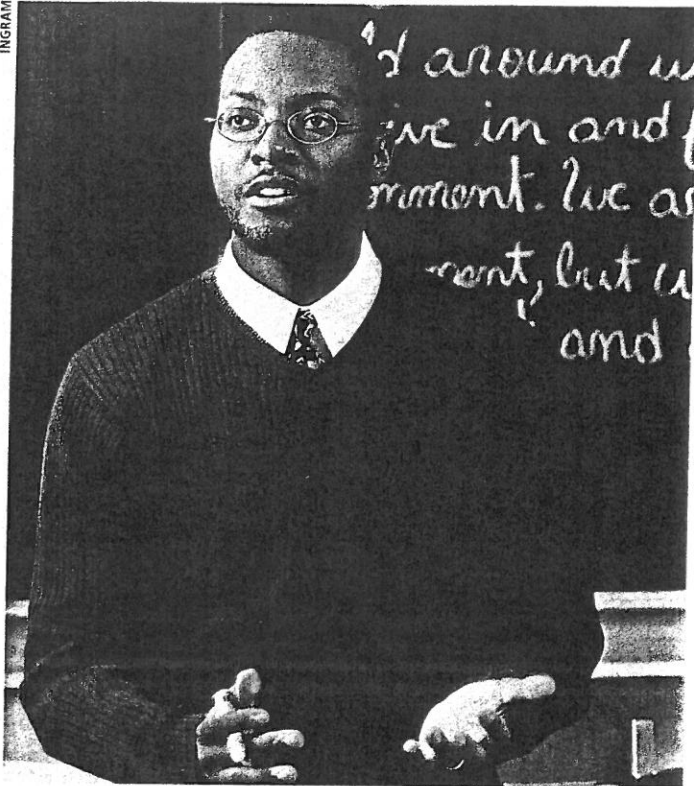
Employers have a moral and legal responsibility to provide safe working conditions for their employees. Unfortunately, some employers fail to live up to these responsibilities and chase short-term profit by economising on staff training, or by failing to invest in the machinery and equipment needed to create a working environment that does not compromise employee safety. Labour turnover is likely to be high for employers that put profit before safety.

### Incompetent recruitment

From time to time, firms may have to dismiss underperforming employees because the management recruited somebody unable to perform their role well enough. In well-run organisations this rarely happens because those doing the recruiting are careful. Prospective employees are carefully screened and only those that possess the skills and/or potential needed to be successful will be offered a job. In poorly managed organisations labour turnover can often be high because the rate of dismissal is too high.

### Can it be a strength?

Some managers try to explain away a labour turnover problem by redefining high labour turnover as a strength. They argue that they have a high turnover of staff because they hire young and ambitious people who leave in search of promotion. This argument does not stand up to close scrutiny. Successful businesses should want to retain their most talented employees, and well-run organisations hold on to their talent by paying close attention to the career paths of their employees. If opportunities



Should labour turnover be taken into account by school inspectors?

are made available internally there will no longer be a reason to look for promotion elsewhere.

On the other hand, organisations that lack the financial resources needed to pay the very highest rates of pay can struggle to retain their best talents for entirely valid reasons. Take football for example: in 2009 Manchester United was forced to wave goodbye to its star player, Cristiano Ronaldo, because, saddled by debt, the club was unable to match the £180,000 weekly wage offered by Real Madrid.

### Can it be too low?

Despite all the advantages previously explained, low labour turnover can also create some disadvantages. In organisations where nobody ever leaves the working environment can become too cosy and a degree of complacency can creep in, which could drive up costs. In addition, a low level of staff turnover could have adverse consequences for innovation because new staff can often bring in new ideas and ways of doing things. New recruits can also bring new clients with them, boosting the firm's revenue.

Labour turnover is important to organisations because it can be measured. This makes it possible to see that one store manager is doing a great job, while another is driving staff away. Just as students hate it when a respected teacher leaves, so a company may lose customers as a result of excessive labour turnover.

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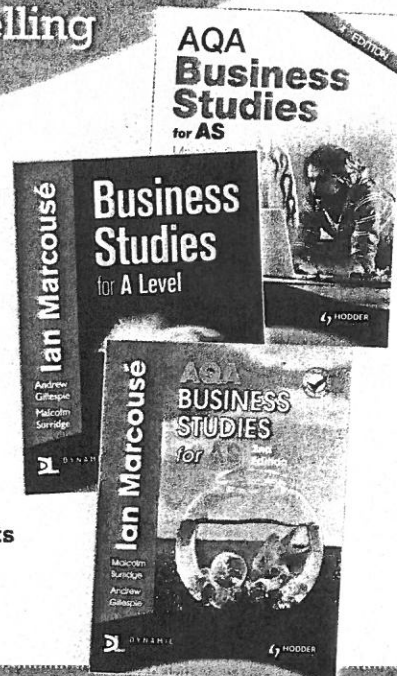
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