

# Cost of Labor Turnover in Wood Processing Businesses

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**L**abor turnover is a matter of urgency now to wood processing businesses and others as well. High labor turnover rate in wood processing businesses is affecting development of the whole industry. Researching on causes of labor turnover of the industry is necessary to work out measures to reduce this rate and stabilize the work force of the industry and opportunity for employees.

Loss of employees takes four main forms: voluntary separations; layoffs, discharges and others. Of these forms, the voluntary separation causes most worries because it forces employers to spend more money and time to recruit and train substitutes. This will be a loss to companies because

they have to face competition on the labor market for good employees.

Theoretically, the labor turnover is the rate at which workers move into and out of employment with approval from the employer. In reality in Vietnam, especially in the wood processing industry, workers usually quit at will without approval from the employer. So in this article, the movement of employees means their voluntary separations without employer's approval.

In this approach, the voluntary separation is the first factor to be determined and taken into account when calculating the labor turnover rate of a company. This rate differs over organizations but it reflects characteristics of differ-

ent groups of employees, therefore it can help the employers determine basic causes of separations in their organizations.

The following formulas are usually used for estimating the labor turnover rate:

a. Net labor turnover: It is the ratio of replacements to the average working force per unit of time ( a year for example) in the company. The formula is  $T = 100R/W$  where:

T is net labor turnover;

R is separations and W is the average working force in a year

Because some separations are inevitable (pregnancies among female workers, promotion, better jobs, etc.), the formula could be adjusted and turned into  $T = [100(R-U)]/W$  with U being inevitable separations.

b. Labor stability rate: It is the ratio of the number of workers with one's year seniority to the present working force. This formula is based on the assumption that the worker gains enough experience after one year.

Cost of labor turnover also differs over companies. An example based on data from a HCMC-based wood processing company of medium size will be pre-

sented here because all companies in this industry are of small or medium sizes. PG Ltd was established in 2002 specializing in production of outdoor furniture for export. The work force for its annual business plan varies from 100 to 130 and its offices employ 10 laborers (10% of the work force). The number of regular laborers is about 50 and seasonal labor is 60-70 laborers. In the peak season (from December to April), the company needs some 100 laborers and this figure reduces to 50 in off-season months (May to September). As for makers of outdoor furniture the season runs from July of this year to May of the next. In June, there is not many goods left and the production stops in July as the summer vacation begins. Changes in the working force of the PG Ltd. are shown in the following table:

The table shows that the average working force of PG Ltd in the period from July 2004 to July 2005 comprised 48 laborers, including 10 in the management. There were 40 accessions and 47 separations. In September 2005, the working force comprised 39 laborers and 34 of them have one year's seniority. These facts show that changes in the

**Table 1: Changes in the PG Ltd working force in 2004-05**

Time	Working force	Accessions	Separations
July 2004	44	14	3
Aug. 2004	55	1	3
Sep. 2004	53		2
Oct. 2004	51	9	14
Nov. 2004	46	8	1
Dec. 2004	53	1	8
Jan. 2005	46		
Feb. 2005	46		9
March 2005	37	4	3
April 2005	38		3
May 2005	35		
June 2005	35	3	
July 2005	40		1



working force came from new laborers. They usually quit after some months if they feel tired or bored. Those who have some seniority have worked for the company for many years. From these data, we can calculate the net labor turnover:

$$T = 100R/W = (100 \cdot 47) / 48 = 98\%$$

And the labor stability rate is:  $(34 \cdot 100) / 40 = 85\%$

Cost of labor turnover includes expenses on procedures for separations and on training replacements, losses of productivity when skilled workers spend time training new apprentices; waste caused by production of more bad products by new laborers, etc. In most cases of separations in private companies, laborers quit without demanding any wage or allowance. Some companies require laborers to give one month's notice

before quitting and companies only pay them the wage for that month. Separations without notice will get no pay.

When the company needs more labor, they can place want ads or employ services offered by employment offices. As for manual labor, they have to service their apprenticeship for at least one month. In HCMC, no vocational center gives training courses in wood processing techniques and skills. This means that companies have to recruit untrained laborers and give them some training later. Laborers get VND20,000 per day during one month of their apprenticeship while trained workers have to work 15 days before their skills are fully estimated. After apprenticeship, laborers can sign contracts and the company pays contributions for them

that equal 19% of the payroll of each quarter. When laborers quit in that quarter, the contributions are considered as a loss and the company has to spend more money recruiting replacement. The cost of labor turnover is illustrated by the following example (in which hidden expenses are simplified because it is hard to convert them into cash.) and an average month is supposedly of 30 days.

Example: Calculations of the cost of labor turnover per laborer in the wood processing industry.

- Recruiting a laborer through services of an employment office: VND50,000

- Wage for a laborer during her/his apprenticeship: VND20,000 \* 30 days = VND600,000

- Loss caused by poor productivity of skilled laborers when they spend time training

new laborers: VND20,000 \* 30 days = VND600,000

- Contributions paid by employer: 19% \* 600,000 = VND114,000

Total cost: VND1,364,000

If PG Ltd. suffers 47 separations a year and recruits 40 new laborers, the cost of labor turnover in the PG Ltd. is:

40 laborers \* 1,364,000 = VND54,560,000

The cost of labor turnover in such a small company as PG Ltd can reach VND54.5 million (not including indirect and hidden expenses that couldn't be estimated exactly). This means that a bigger company will certainly suffer a bigger cost.

In 2004, the total sales by the PG Ltd. were VND2,085 million and its net profit was VND70 million, thus the cost of labor turnover equal:  $54.5 / 2,085 = 2.6\%$  of the sales or 77.8% of the net profit. This is not a small percentage and it affects badly the business performance of the company.

The cost of labor turnover doesn't usually raise much interest among employers but it really cause harm to their profit. Working out measures to reduce this cost can help employers maintain and develop their working forces, thereby improving their business performance and profit. ■

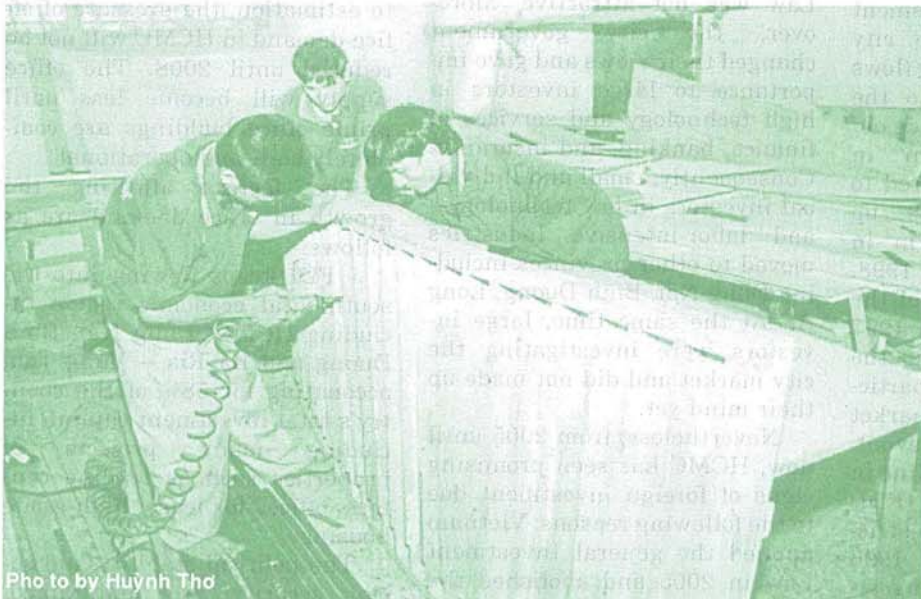


Photo by Huynh Tho