Effects of Labour Costs on Corporate Strategies and Human Resource Decisions

Executive Summary

Labor, as the key factor of production, has been an organization's most significant driver of production costs. Accounting for up to 60% of a typical enterprise's operating expenses, organizations are constantly changing and developing their strategies to take advantage of opportunities for maximizing profits through cost reduction. Detailed studies and analyses into the history of capitalism and the development of wage labour shows a steady increase in labour costs since the 1200s in the western Europe. With the increase recently amplified by the impacts of the 2008 Financial Crisis, organizations are shifting their strategies and focus towards labour cost reduction initiatives.

In a study of how labour markets and prices impact organizations and their strategies, three reputable organizations were examined - 1) Wal-Mart Stores Incorporated, 2) Bayerische Motoren Werke AG (BMW), and 3) Netflix Incorporated. With each organization playing in contrastingly unique industries, analyses on their external and internal environments were conducted from the human capital management perspective to gain an understanding of how their structures and strategies provide leverage towards the sustainability of their own business.

Human capital is the most important asset that an organization has. It is also the largest expense for an organization which makes it an ideal candidate to cut down on for cost saving measures. There are three main strategies for human capital management that the modern organizations follow - 1) Structure Centric, 2) Development, and 3) Travel Light.

Structure Centric (Wal-Mart): Mainly used by traditional bureaucratic organizations which have a hierarchical structure and well defined job descriptions for the employee. This strategy produces a workforce which is poorly motivated because there is very less room to move up.

Development (BMW): Mostly used by organizations that adopt a high performance approach to management. This strategy focuses on building a stable and committed workforce.

Travel Light (Netflix): A relatively new strategy for managing human capital. It involves acquiring and discarding labor based on the need of the organization. Organizations make little or no commitment to long term employment.

A detailed comparison of the strategies above shows 1) the Structure Centric strategy as very stable for organizations with low-complexity products but lacking in flexibility and employee retention, 2) the Development strategy as driving very high employee engagements and performances but requiring substantial investments to training and slow on responding to business shifts, and 3) the Travel Light strategy as very flexible and productive but risking much into poor job security and high employee search/acquisition costs.