

Analysis of Wal-Mart and Costco in context of Organizational Design and Structure

Author Details: Kaneez Fatima

MA International Human Resource Management from University of Bedfordshire UK

EMBA from SZABIST, Karachi Pakistan

Abstract

Retail industry is one of the dominant players in U.S economy, generating almost \$966 billion a year, which contribute for approximately 5.7% of the U.S GDP annually, with employment to 5 million people. Moreover, since retailing provides a way for products to get to consumers, it also supports the \$1.08 trillion wholesaling industry of the U.S. as per Euro monitor, 2017. Wal-Mart Inc. and Costco Wholesaler Corporation are both retail merchandising multinational companies operating domestically and internationally. Through descriptive research this paper is an effort towards analysis of both the companies in terms of their organizational design and structure. The study discusses how the companies managing their organizational structure-culture and business strategy to achieve competitive advantage by focusing on 1) Transaction Cost 2) Differentiation and Integration 3) Centralization and Decentralization 4) Standardization and Mutual Adjustments 5) Organic and Mechanistic Structure

Keywords: Wal-Mart, Costco, Organizational Design

I. Background

Wal-Mart – Company Overview	Costco –Company overview
<p>According to Company Annual Report (2017), Wal-Mart Stores Inc. incorporated in 1969 in U.S as a small discount store with an idea of ‘selling more for less’, grown over last 50 years into the largest retailer in the world, ranked 1 in 500 fortune companies in 2016. Furthermore, Wal-Mart expanded internationally and is serving 260 million customers in 116, 95 stores under 63 banners in 28 countries with 16 e-commerce website in 11 countries. In fiscal year 2017, the company reported revenue of \$485.9 billion, with approximately 2.3 million employees globally – 1.5 million in the U.S alone. The main competitors of Wal-Mart in the market are <i>Costco Wholesale Corporation and Target Corporation</i>. The Wal-Mart business consists in three reportable segments: Wal-Mart U.S., Wal-Mart International and Sam’s Club.</p> <p>Wal-Mart U.S is the largest retail with three primary store formats as well as digital retail with highest gross profit as a percentage of net sales. Moreover, historically, also highly contributed to company’s net sales and operating income.</p> <p>Wal-Mart International, second largest segment operates outside the U.S including retail, wholesale and other businesses. These businesses further consist of supermarkets, supercentres, hypermarkets and warehouse clubs which include Sam’s Club, Cash & Carry, home improvement, electronics, drug stores, apparel stores, convenience stores and digital retail. Overall gross profit from international business reported lower as compare to U.S operations due to its merchandise mix.</p> <p>Sam’s Club consists of digital retail and membership-only warehouse club. The company earning membership income which is a significant component of the segment’s operating income; however, this segment operates with lower gross profit as a percentage of net sales than other segments.</p>	<p>According to Company Annual Report (2016), Costco Wholesale Corporation started its operation in 1983 in Seattle Washington, USA. In October, 1993, Costco merged with a pioneer company ‘The Price’ which had the concept of warehouse membership in 1976, and later established Price/Costco Inc., Delaware Corporation. In 1999, company again reincorporated from Delaware to Washington and changed its name to Costco Wholesaler Corporation. The company offer merchandise i.e. Foods, Sundries, Hard-lines, Fresh Food, Soft-lines, and others. <i>Wal-Mart Inc. and Target Corporation are its main competitors in the market</i>. The company reported annual sales of \$250 million in fiscal year 2016 generated by each 715 warehouses and net income also remained strong i.e. \$2.3 Billion or \$5.33 per share.</p> <p>The company operates in a chain of 723 warehouses in 44 states as by December 2016, Washington D.C and Puerto Rico (506), Canadian provinces (94), Mexico (36), UK (28), Japan (25), Korea (12), and Taiwan (12), Australia (8), Spain (2) locations. Moreover, the company’s online retail business website operates in U.S, Canada, Mexico, Korea and Taiwan. Company is also calling for 31 more new openings in fiscal year 2017 and extending business globally in two more regions i.e. Iceland and France which altogether account for 750 warehouses worldwide.</p>

1.1 Importance and Estimates of Global and U.S Retail Industry

The retail, wholesale and distribution industry is gaining a significant growth in the market and is being transformed continuously. Similarly, according to National Retail Federation (2016), the net sales growth reported to be 3.1% in 2016 which is higher than the average of 10 years of 2.7% respectively. However, as illustrated by Euromonitor (2017), the growth in global retail industry is expected to be 15% from 2016, mostly driven by Asia Pacific which contributes to 40% of the increase in upcoming five years. Thus, the increasing retail industry performance and growth now pushed many retail companies to find efficient ways to minimize cost, increase profitability and market share and expand growth.

Similarly, according to the U.S Census Bureau, an estimated two-thirds of the U.S. gross domestic product (GDP) is derived from retail consumption and thus annual U.S. retail sales have increased an average of 4.5% between 1993 and 2015. The US retail industry will report total sales of slightly more than \$3.2 trillion in 2020. As U.S retail industry operates in a competitive environment with giant rivals such as Wal-Mart and Costco Corporation, the companies must anticipate the uncertainties by evaluating the potential risk and threats along with opportunities to design overall strategy of the business (Euromonitor, 2017). The Wal-Mart and Costco Corporation are U.S top most retailers with annual sales more than \$100 billion and are competitors in search of ways to acquire resources for themselves. Therefore, now, the evolution is consumer centric and companies evolve to meet the customer's needs along with advance technology, intense competition, innovation, and consumer mindset which demand companies to adopt and change to manage uncertainties in internal and external environment (World Economic Forum, 2017).

Hence, finding the right strategy that can effectively respond to changes encompassing the environment such as the changing needs of customers and close attention to the competitor's actions is considered a complex issue faced by managers.

Therefore, organizational members must develop their core competencies, value creation skills and abilities to manage interrelationships of strategy at all levels, organizational design, structure and culture in order to maximize, expand and protect their business domains to create value to satisfy all stakeholders (Jones, 2013).

II. Organizational Structure

As explained by (Katsikea et al., 2011), organizational structure is a control mechanism used by organization to control and direct organizational members which affect employees' work outcomes ensuring that required tasks are effectively and efficiently accomplished which assist in attainment of company goals. As further argued by (Jones, 2013), "*Organizational Structure is the formal system of task and authority relationship that control how people coordinate their actions and use resources to achieve organizational goals*". The definitions imply that organizational structure is used to achieve organizational terminal values (such as maximized profits, innovation, and sustainability) through instrumental values i.e. (empowerment, coordination, motivation, collaborative culture). Noticeably, as organizations grow, expand and differentiate, it is likely encounter motivation and coordination problems, therefore, for an organization; the appropriate structure alleviates those problems. Moreover, the organizational structure evolves during organizations' life cycle and can be effectively managed through the process of organizational design and change (Dessler 2011; Jones 2013). Now, the study will take further step to analyse the organizational structure of Wal-Mart Inc. and Costco Corporation to better understand the impact of organizational structure on performance of these companies.

Organizational Structures of Wal-Mart Inc. and Costco Wholesale Corporation

- **Divisional Structure: Multidivisional Structures**

According to the (Wal-Mart leadership, 2017) and Costco Annual Report (2016), the operation of merchandise business of both the companies is divided into different divisions; For example Wal-Mart U.S, Wal-Mart International, Sam's Club, and Wal-Mart e-commerce and in the same manner Costco it has local U.S divisions i.e. Southern, Northern, Eastern and Western in U.S and further expanded into international regions such as Canada, Taiwan, Australia, France and so on. Evidently, both the companies operate in different divisions creating a multidivisional structure – geographically dispersed units which functions according to the specific demands of products, customers and market built from standard units of megastores, supercentres, express stores, supermarkets, hypermarkets, warehouses and many membership stores. The units are further aggregated into larger geographic grouping such as districts, regions and divisions. Furthermore, each division independently has its own support functions to control value creation activities such as marketing and human resource (self-contained divisions). Multidivisional firms for Example, Wal-Mart and Costco consists of a corporate centre or headquarters in U.S responsible for the overall management of the organization, number of semi-autonomous divisions in U.S and worldwide,, subsidiaries or business units, each responsible for its own region, industry, or product-market combination. Thus, the multidivisional organization resembles a collection of single-business firms operating under corporate management (Chandler, 1991). Similarly, organizations like Wal-Mart and Costco that sells different kind of products to different sets of customers in different regions worldwide require an organizational structure that will 1) increase manager's control in different individual division so that divisions better meet product, market and customer need 2) in order to ensure all divisions are meeting organizational goals, it will allow managers to control and integrate the overall company's operation (Tran and Tian, 2013).

- **Multidivisional Units: Product, Geographic and Market Structures**

Under the multidivisional units, Wal-Mart's and Costco's International segment adopted geographical structure in which each geographical division are organized according to the requirement of the different locations worldwide such as Wal-Mart's international stores in Mexico, Canada, India, ASDA in united Kingdom etc (Wal-Mart Annual Report, 2016) and Costco International Stores in Korea, Taiwan, Japan, Australia, Spain and other international locations. Similarly, as illustrated by (Morgan 2007), due to business expansion at different geographical locations a key issue encountered by these organizations is internalization of their businesses strategies and operations is balancing the pressure for globally standardized practices and different national business systems. The need is to be responsive to national (local) conditions which include legal, institutional, and cultural cross national differences. Both the companies have different national customer base and the core competencies need to be aligned with needs of different geographic regions. As in merchandise industry intense competition focused on customized products to suit different customers' needs therefore, to manage these environmental uncertainties and prevailing competition it has become important for retail companies to reduce the time needed to bring required product in market and focused on **Product Division Structure** to specialize in particular kind of product such as food, clothing, appliances, furniture etc. Moreover, operating in different markets divisions such as north and south demands different products according to market requirements and specifications thus a **Market Structure** can quickly respond to changes in its market and transfer skills and resource to the changing demands of its vital stakeholders group (Jones, 2013).

- **E-commerce**

E-commerce is **an electronic** trade between companies and individuals customers by the use of IT and internet. Wal-Mart and Costco both are using e-commerce platform to be efficient, innovative and reduce cost. According to (Jones, 2013), B2B (business-to-business) commerce takes place between two companies; it is industry specific which connects buyers and sellers using the internet to coordinate the value chains of Wal-Mart and Costco with its suppliers and bulk customers. Moreover, in B2B marketplace companies agree to use network software standard which enable them to share the information with each other which in return reduce operating cost and transaction cost between companies. B2C (business-to-consumer) is a trade that takes place between the companies and individual customers using IT, mobile phones, and internet. The narrow focus on each division allows these retail companies to perform more effectively that enable them to identify specific areas that need to be changed or addressed appropriately. As exchanges occur in inter and intra organizational divisions, it also brings cost to it. Therefore, organizations should find mechanism to manage inter-organizational transaction relatively more efficient which is called 'transaction cost' (Wal-Mart Annual Report 2016; Costco Annual Report, 2016).

III. Transaction Cost

Transaction Cost (Institutional cost) can be defined as a cost incurred by an institution participating in activities such as negotiating, monitoring, governing exchange between people (Cheung, 1987). The definition leads to Resource Dependence Theory (RDT) which emphasize that in order to survive and thrive, the organizations must acquire resources from its environment, therefore, according to RDT theory; the goal of an organization is to minimize its dependence on other organization in acquisition of scarce resources from environment and must find efficient ways to influence them to make resources available for the firm (Jones, 2013). Such as in retail industry in case of Wal-Mart and Costco, the merchandise, human labour, suppliers, distribution network, customers, specific assets, technology are important resources to gain competitive advantage.

- **How Wal-Mart and Costco Managing and reducing Transaction Cost?**

Wal-Mart that has acquired many big companies i.e. Sam's West, Inc., ASDA Stores Ltd (UK), Seiyu Retail Stores (Japan) and Massmart (South Africa) to manage competitive and symbiotic interdependency to achieve company's terminal value (Low price strategy) in the form of Acquisition which also enabled Wal-Mart to enlarge its domain that minimizes its transaction cost geographically and improves profitability (Carpenter, 2015). Furthermore by acquiring Jet.com (E-commerce Company) Wal-Mart introduced innovative ways by integrating technology in its operations which increased its business growth to 107% in past four years. Online Grocery, Mobile apps and Wal-Mart Pay Delivery which is saving customer time and money that allowed Wal-Mart to increase control of its network which implies that Wal-Mart can use its own marketing and supply chain functions and do not require intermediary and middlemen (Wholesaler and distribution) which reduce its transaction costs and also bureaucratic cost by replacing technology with human resource. Now, through e-commerce customers can order and pay for products online and pick them up at the store. In return, it requires less retail space to market its merchandise when the Internet serves a similar role. Such innovation became Wal-Mart core competency as it the cost-effective strategy that bring the buyer and seller together to transact and reduce operating cost (Wal-Mart Annual Report, 2016).

Similarly, According to (Costco Annual Report 2016), despite the Costco e-commerce increased by 15% in 2016 with approximately \$4 Billion in Sales, still Costco is generally behind in developing its e-commerce as compare to Wal-Mart. Costco partnered with Google Express and with Instacart and further planned with Google Express to launch nationwide delivery and partnership with Shipt, that will not require shoppers to have a Costco membership, makes Costco's first with that rapidly expanding third-party delivery provider (Hamstra, 2017). In addition, Costco and Citi and VISA have reached an agreement on a new co-branded credit card program, replacing a similar deal with American Express which will further reduce its cost and attract more customers (Isidore 2015, CNN).

Therefore, according to transaction cost perspective, organizations can simply reduce the costs associated with a process through a streamlining or internet technology based procedures which allow them to gain increased profits. If environment become poor and uncertainty increases it will make organization to trust less on other organization for resources and thus, the above mentioned more formal linkages and long-term contracts should be used to minimize uncertainty in acquiring scarce resources (Jones, 2013)

IV. Differentiation and Integration

Since, both the companies Wal-Mart which employees 2.3 million and Costco with 1.8 million employees worldwide providing evidence that the companies have high division of labour that require high level of integration. The managers on all levels specialize which allow organizational members to develop their individual abilities, skills and knowledge which become ultimate core competencies of the firms. Furthermore, as organizations become large and complex such as Wal-Mart and Costco with millions of employees, communication and coordination often becomes cumbersome barrier. Therefore corporate headquarter staff composed of corporate managers who perform integrating role to oversee each division inside and outside U.S enhancing vertical differentiation and creating reporting relationships in terms of authority each role possess called hierarchy (Kantar Retail, 2017). Similarly, the corporate headquarter staff is functionally organized which coordinate activities of different division and promote sharing of information and increase flexibility. However, differentiation and integration both are costly to operate and can increase bureaucratic cost if not efficiently managed; therefore, this vertical differentiation in return should enable organization to build core competencies to gain competitive advantage (Jones, 2013)

Likewise, organizational roles and tasks are divided into sub-units such as functions within divisions creating more specialized workforce such as Marketing, Sales and Human Resource and result in Horizontal Differentiation. However, the integration mechanism from division to division may differ depending upon the business level strategy of the firm especially in multi-division. Therefore, the integrating mechanism very much depends upon the corporate strategy the firm is pursuing. This mechanism not only effect integrating mechanism but also on the type of incentive and control. Ultimately, due to the rapidly changing environment and customer demand, there is a need of communication between highly specialized sub-units and from division to division creating liaison roles and task as in case of retail companies (Wal-Mart and Costco) the sub-units work together which make in-depth relations and this interaction reduce barriers between subunits in local and international market (Hatch, 1997). As horizontal differentiation increase, communication become more complex, therefore, in order to connect sales force, divisions, subunits and suppliers, Wal-Mart is increasingly using Advanced IT platforms (Wal-Mart WOO Commerce Integration, Wal-Mart Marketplace, Wal-Mart Electrode, Wal-Mart Labs: a platform server and tech division to update Wal-Mart website and work as open source platforms to connect to Sam's Club and other segments) that enable different divisions and sub-units to coordinate, communicate and share information such as database, inventory handling, teleconferencing, reports, memos, and also using Enterprise Management System to bring different functions together on real time basis. For Example, different buyers at Wal-Mart's home office using the television linkups showing each individual store as how appropriately to display products for sale (Jones 2013, pp. 121). Not surprisingly, such advanced IT systems are efficient ways to integrate and share information even globally by reducing response time and enhance flexibility to adapt and change that reduce transaction and bureaucratic cost and enable Wal-Mart to sell even in low price to remain competitive.

Furthermore, Wal-Mart uses its intranet to communicate and coordinate ideas about merchandizing and retailing strategy between different stores located in different countries. Tactics include rotating and sending managers through various subunits regularly so they build their own informal network and using management education programs to bring managers of different divisions and subunits together so they can become acquainted (Gereffi and Christian, 2009).

In a similar manner, Costco launched CRX in 2004, the state-of-the-art Costco CRX technology platform called 'Collaborative Retail Exchange' to integrate Costco and its manufacturers and provide a detailed solution. Rather than relying on several distinct data sources to gather information, manufacturers are using this single, central overarching tool to obtain a full view of Costco's global business which in return enhance Costco's supply chain management and reduce its bureaucratic cost and transaction cost and further both companies can work as synergies (Business Wire, 2013).

Both the companies Wal-Mart and Costco make use of teams and task force in areas of research and development, marketing and sales, training and development and human resource to combat the problems of horizontal differentiation and vertical differentiation because numerous sub-units allow the organization to remain flat. Furthermore, when the tasks tend to be complex and inter-related, the use of teams and task force provides a way to keep the managers' span of control small which reduce bureaucratic cost and give birth to informal relationships within teams and functions. Formal relationships unlike informal relationships are having set of rules and regulations that define relationships between people and tasks while the informal relationships are not govern by rules but are formed by people in organization who have certain things in common. Informal relationships can only thrive if there of strong formal structure which communicate the social values and norms of organizational culture (Jones, 2013). Thus, communication and coordination become challenge for organization as the reporting relationships and hierarchy become taller and the number of manager increases especially in Wal-Mart and Costco with millions of employees working globally. Therefore, the problem can be managed by balancing centralization and decentralization.

V. Centralization and Decentralization

The function of reporting relationship and hierarchy defines the area of authority each person's posses within an organization to improve the way it perform tasks and achieve organizational goals, however, it also raise the issue of accountability which means authority gives power to one person to hold other people accountable for their actions, the right to make decisions and use organizational resources (Jones, 2013). When the authority of making important decision is retained by top managers at hierarchy, the authority is called 'centralization', while decentralization is the transfer and delegation of authority to make important decision to all levels of managers in the hierarchy (Holtzhausen, 2002).

It further stir the issue that desired extent of decentralization and centralization heavily depend on the types of strategy pursued by the firm, the types of functional authority provided, resources and skills possessed as well as the country and industry it serves and market in which it competes (Sheth, 2001). In addition, According to (Barrlet & Goshal, 1989), the global diffusion of headquarters and resources of multinational firms which build on the notion that the best strategy for operating internationally is through autonomous and self-directing operations in major world markets, because most resources, staff and decision making are controlled within independent geographic affiliates with little flows or exchanges among dispersed operations. It further highlights the point that different worldwide regions are responsible for aligning their value creating functions such as marketing, sales and human resource in alignment with the country specific business strategies. Therefore, in other words, decentralization encourages initiative and change, responsibility, and development of personnel, fact-based decision-making and flexibility; in short, all the qualities necessary to adapt to new conditions to achieve organization terminal values (O'Donnel, 2000). In accordance with aforesaid arguments, Wal-Mart and Costco as being two multinational retail companies with local and international presence having multidivisional structure raise the question '*as how much authority to centralize at corporate levels and how much authority to decentralize to the operating divisions?*'. For this reason, according to (Chang et al., 2000), the firm specific strategies discuss this important issue arguing that a store's performance in terms of attracting customers and profits depends on how its current set of operating practices matches up with what is desired by its consumers. Store profits are defined over the store practice which forms a landscape over which the store manager can search for better practices through a hill-climbing rule. Moreover, if store manager has authority, a store manager thinks up new ideas and identifies the ways to improve store profit and those ideas are adopted and it brings innovation due to movement and change in consumers' preferences. Similarly, the district manager observes newly adopted practices or the store manager informs his any new ideas that have not been implemented. Then further, the information is communicated to the corporate staffs, which refine the ideas they like and then either informs stores of these ideas or instructs them to adopt them. It also highlights a point of **decentralization of authority** on regional and local store operations that it allows each store to tailor its practices according to its market and remain flexible. There is a significant short-term benefits to the uniformity induced under centralization as it and having a decentralized structure ensures that ideas adopted and implemented for a store are well suited to a store's market, however, this comes at the cost of impeded inter-store learning (Holtzhausen, 2002). Nevertheless, managers achieve their goals through their sub-ordinates and motivation; empowerment will enhance the store operation due to coordination and communication. Moreover, since each division is close to its internal and external environment and is in the best position to develop plans, so decentralization is a rationale choice in Wal-Mart and Costco. However, geographic organizational structure allows Wal-Mart and Costco to centralize at headquarter location in U.S and others to be decentralized at a regional level. In addition, individual Wal-Mart and Costco stores are under the direction of regional offices that are responsible for coordinating the specific product needs and regional offices further communicate the specific products need of customers back to headquarter in U.S where centralized purchasing functions make decision for overall company as a whole. The geographical structure allows Wal-Mart's regional offices to operate individually and autonomously while adhering to company policies and values (Appendix 1 and 2, Jones, 2013). While on the other hand, too much decentralization can stimulate the problem of freedom that they lose control of divisions and financial budgets, therefore corporate headquarters' staffs integrates with divisional heads to

control and monitor their activities which is a form of centralization on corporate level. Nevertheless, further corporate level managers' activities on operational level are decentralized while they are answerable to CEO and vice presidents (Chang et al., 2000).

VI. Standardization and Mutual Adjustments

Standardization is defined as conformity to rules, SOPs (standard operating procedures) and regulations while Mutual Adjustment is the evolving process through which people can use their judgements of events to address and solve problems, direct decision making and promote coordination (Jones, 2013). Wal-Mart and Costco both use written rules, standard operating procedures (SOPs) and unwritten rules (Values and Norms) to shape the behaviour of employees. Formalization is in the form of written rules employment policies, safety and food programs, guidelines and standard for suppliers', ethical codes and governance mechanism which are also mentioned in their annual reports are procedures to standardize operations. Rules are formal written statements that specify how to perform various tasks, job descriptions, reporting relationships with strict implementation to control and predict behavioural outcomes. For example, in Sales Wal-Mart and Costco using same strategy to control the sales work force by pre-determine sales quotas which are expected from them to achieve and written reports are required from them to be submitted. It reduces the bureaucratic cost to monitor sales force and can easily evaluate their performance through standard rules and approaches (Companies Annual Reports, 2016). However, as the Wal-Mart and Costco operating geographically, national business systems of all countries vary which demands MNCs to adopt Hybrid Transnational Strategies and practices through mutual adjustments, localization rather than standardization to enter into new region or location (Yahiaoui, 2014). Wal-Mart presence in 28 countries and Costco in 8 countries justify that company must understand the local and international market dynamics and local adaptation is necessary as to which business model to adapt and which strategy to change according to requirement of the national business systems. For example, demographics, political, economic, technological, socio-economic environment, employment laws, safety and procedure laws, ethical standard and governance mechanism and role of financial institutions determine how to design organizational structure and reporting relationships. According to Hofstede's cultural dimensions, power distance, uncertainty avoidance, masculinity/femininity, individualism, pragmatism provides a cultural framework of the countries which serve as guidelines for the MNCs to adopt and change for successful business outcomes. Therefore, standardization of parent company practices to host country subsidiaries doesn't provide any rationale as keeping in view Wal-Mart failure in Germany due to cultural mismatch and lack of understanding of national business system of Germany. As a result it led to frustration from employees and customers that played a major role in Wal-Mart's downfall in Germany (Nazeer et al., 2014). So, far, however, Costco seems to have succeeded in ways that Target, Walmart, and Tesco have failed in international and local ventures which raise question as '*what is Costco right strategy that other global retailers are doing wrong when they start business in foreign territory*'? To understand this, Costco expansion in Australian market provide some grounding for discussion. Costco transformed its business practices with strong analysis of demographics habits, understanding national business systems and intuitionism, local marketing practices of Australia by not investing in marketing, because of word of mouth trend as American and Australian travel a lot between countries. Unlike the Wal-Mart's ethnocentric approach in Germany, Costco analysed the situation carefully in Australia and adapted itself to the demands of the local market and practices. Paying attention to local demands, change and adaptation is where the true value of Costco's lesson lies (Minhan et al., 2012).

VII. Organic or Mechanistic Structures

Wal-Mart and Costco

According to contingency theory, which emphasize that the organizational structure of the firm evolve by the uncertainties and complexities the organizations confront and in order to manage organization environment, the firm must design the internal structure to control its external environment, a failure will occur due to poor fit between structure and environment, however a close fit will lead to success (Jones, 2013). Uncertainty in retail industry tends to be high due to intense competition in terms of acquiring resources, giant rivals in the market, rapid pace of technological advancement, consumer awareness and other factors. Not surprisingly, both retail MNCs, Wal-Mart and Costco (market leaders in retail chain offering low price merchandising products), affected by environmental complexity and pressures i.e. political, technological, economical and other factors that are surrounded the firm's specific, general and international environment. Therefore, unstable and complex environment demands greater differentiation, adaptation, complex integration mechanism to response to environmental changes.

Wal-Mart core values established by its founder Sam's Walton that institute its concrete *organizational mechanism* that valued change, experimentation, and constant improvement which in return stimulated change. Walton gave departments' managers autonomy and to run each department as if it were their own business. He also concentrated on creating an organization that evolve and change if its own, leaders dictated all changes from above and empowered store managers (Collins and Porras 1994, pp. 36-37). However, industrial and employment relations in Wal-Mart shows discrimination which raise principal-agent concern and also increase agency cost.

Likewise, Costco culture and values inherited by its founder Jim Senegal and co-founder Jeffery Brotzman that highly emphasized on shareholders and its employees, respect for its supplier and strict implementation on ethical standard codes, which is prevalent in its business strategies and overseas operations. According to company's mission the success of the company solely relies on its employee's wellbeing in career advancement, wages, empowerment and more importantly consider their employees as synergies in accomplish organizational goals.

According to Burns and Stalker, companies adopted structures to control activities depending on environmental conditions to adapt, remain responsive and change and it is found that companies that confront unstable environment with myriad forces i.e. intense competition, changing demands of consumers and markets, employment practices, technological advancement etc. In such situation, authority is distributed to all levels in hierarchy which provide low level managers to take on the spot decision, information sharing and organizational learning, rapid communication and complex integration mechanism is required to respond to customer needs to gain competitive advantage. The retail industry is highly volatile which force Wal-Mart and Costco to adapt and change constantly (Jones, 2013).

Therefore, Wal-Mart and Costco success and being market leader in retail industry in U.S and other overseas ventures due to their **organic structures** to promote flexibility, adapt, change and innovate according to changing demands of consumers and market. Moreover, the multidivisional structure allowed firms to exploit opportunities of learning and sharing information on regional, divisional and functional levels with high specialized units working in teams and task force.

I. Discussion and Conclusion

The rising GDP growth, increasing global population, greater disposable income, increasing consumer spending and technological advancement in e-commerce are the combining drive to the global retail industry with intense competition, opportunities and threats for large retail companies such as Wal-Mart and Costco. The companies identified the sources of uncertainties and strived to minimize the dependency on other organization and established long-term contracts, agreements, merged and acquired companies (discussed in the transaction cost section of report) created synergies which are prevalent in case of Wal-Mart and Costco (Companies Annual Report). The changing demands of customers, markets and environmental uncertainties force companies to change and adapt to gain competitive advantage, for example economies of scale enable organization to attract customers and minimize transaction cost. This change and adaptation is possible when organizational structure and business strategy are aligned and support each other (Jones, 2013). Wal-Mart and Costco constantly adapt and change their organizational structure due to changing conditions of the market and consumers globally. Nevertheless, when it comes to labour relations, the two competitors adopt noticeably opposed philosophies.

However, there could be some important lessons to be learned from the competition between Costco and Wal-Mart when it comes to employee compensation and its relationship to business profitability. Over a period of years, attracting a more talented workforce and keeping employees incentivized has undeniable benefits for productivity and customer service, among many other business aspects, and this is probably one reason why Costco shareholders are receiving superior returns than investors in Wal-Mart. Ultimately, Wal-Mart is unethical in terms of its poor policies for employees and shareholders. Employees are assets and should not be regarded as expense as dissatisfies workforce and can be the reason for lost customers (Gerefi et., 2009; Hoffman, 2017).

Furthermore, opposite continuum is apparent in the industrial relations and employment relations practices between both the companies which reveals less concerned business ethics dimension by Wal-Mart, yet isomorphism is present. Isomorphism is defined as the 'similarity in the process and structure of organization'. The isomorphism is apparent in Wal-Mart and Costco's in organizational structure, global presence, e-commerce and advanced IT based integration systems, however, size of Wal-Mart domestic and global subsidiaries are larger in number than Costco. Both companies adopted multidivisional structure to coordinate, control and motivate people and this structure enabled them to adapt and change constantly. As both competitors in the warehouse club industry, Sam's Club and Costco membership club share the core strategy of off-setting low prices with high volume inventory turnover to create profit flow.

In addition, Costco has a strong customer following and loyal employees and the average per employee is \$20 and most employees are also covered with company's benefit plans. In contrast to Costco, in Wal-Mart employee wage average is \$10 with prominent lack of employee benefits plan. Therefore, Wal-Mart has a multi-billion plan to enter in Costco territory, and paying its staff higher wages and improving customer service (investopedia, 2017). Ultimately, the Wal-Mart is replicating the Costco business strategy and raising concern on ethical dimension to be more productive and gain Costco customer base.

Consequently, the contingency approach explains the Wal-Mart's and Costco's organic organizational structure as it is tailored according to sources of uncertainty as the environment is rapidly changing and spontaneous decision are to be made, employees are authorized to take initiative and the flow of information is top to bottom and vice versa. The instrumental values are part of their corporate collaborative culture which defines their business strategy.

II. Recommendations

E-Commerce

The most important growth catalyst for big retail companies is e-commerce. Significant investment is observed in Costco and Wal-Mart e-commerce platforms. Wal-Mart online sales grew 29% over year during the fiscal fourth quarter ended Jan. 27, while the overall goods sold on its e-commerce site increased to 36.1% over the year 2016. Moreover, acquisition of Jet.Com is yielding positive result in e-commerce, demanding Wal-Mart to pay more attention to e-commerce business (Linder, 2017). In contrast to Wal-Mart, in Costco, e-commerce represents about 4% of sales and is growing at a rate of 12%. (Digital Commerce, 2017)

With increasing profits in e-commerce industry, which highlights an important point, that capital investment to be more towards e-commerce rather than opening new stores due to advanced IT integrated network that are already adopted by both companies. It will reduce the transaction cost and human labour; increase the use of Just in Time inventory and also boost economies of scale.

Business Ethics

The human-welfare department in Wal-Mart appears to be lagging such as paying low wages, poor healthcare and unsafe environment for employees, discrimination against disable and elderly workers, underpay to women, using child labour in foreign countries. However, Wal-Mart took initiatives to combat some of the problems, such as increment in wage to \$13.5 as compared to previous \$9 per hour. Wal-Mart also implemented new short-term disability and simplified paid time off (PTO) programs (Company Website, 2017). Costco on the other hand, is even able to beat Walmart's prices while paying workers more than \$11 - \$22 an hour and providing generous benefits (PayScale, 2017) The Costco is more appealing in attracting human labour which will have adverse impact on Wal-Mart. Therefore, as being low priced merchandisers, the companies should focus on employment and industrial relations to comply with business ethics to reduce agency cost and improve business performance and goodwill of the company.

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