

Costco: join the club essay



**ASSIGN
BUSTER**

1. Describe the culture at Costco.

Organizational culture has been described as shared values and beliefs that underline a company's identity. A strong culture that encourages employees from the top to the bottom in adaptation and change can increase organizational performance by energizing and motivating employees, shape behaviors, unify personnel in the goals / objectives and align employee's actions with the priorities of the company (Daft, R., 2013). Creating a constructive culture should be a manager's top priority because the right culture will propel a company into a top performer in its industry.

Costco's culture is one where the customer and employee come first. Customers enjoy a 15% markup where most retail stores increase by as much as 40%. Costco accepts returns sold items without a receipt and a "no questions" policy on the return. For the employee, Costco offers generous salary and health benefits, which critics pursue Costco to cut in order to reduce labor costs. Costco's culture is rich and successful because it is supported by five "axioms", the company's adopted values, which is the second layer of organizational culture:

- Obey the law

- Value your customers

- Value your employees

- Respect suppliers

- Reward shareholders

There are four categories of culture associated with two dimensions: the competitive environment and an organizations strategic focus and strength. The four categories include adaptability, mission, clan and bureaucratic. These classifications relate to correlation between cultural values, strategy, structure and the environment (Daft, R., 2013). Adaptability Culture – Characterized by the focus on the external environment through change to meet a customer’s needs. This culture encourages entrepreneurial values, norms and beliefs. Mission Culture – The idea of serving specific customers in an external environment, but without a need for change.

Identifies with an emphasis on clear vision of the company’s purpose and achievement of goals, such as growth in sales, profitability, or market share.

Clan Culture – The primary focus is on involvement and participation of all of the company’s members; rapidly changing expectations from the external environment involving a customer base. This culture looks to meet the needs of employees as a route to high performance and achievement. Bureaucratic Culture – This culture focusses internally on consistency orientation to create a stable environment. It supports a consistent approach to conducting business and to achieve goals there are established policies and practices to reference.

Costco is described as a company that values their employees and their customers first in order to reduce turnover of employees and increase their “regular” customer base. They encourage autonomy by local managers so long as the idea or change follows the key guidelines of the culture of the company. In addition, they increase opportunities and pay for employees that think “outside the box” and can implement ideas that save the

company money or the amount of regular shoppers that will most likely return. These are all factors that define a clan type culture where taking care of the employees to ensure their productivity is valued. This motivates employees to work towards the company's goals and objectives and provides for promotional opportunities based on performance.

2. How does Costco motivate its employees? First, we must ask what motivation is and how it affects employees. I believe that motivation is an inner source of energy that drives an individual to accomplish his/her personal or professional goals. Motivation instills a sense of accomplishment within a person to work towards certain achievements either professionally or personally that satisfy a need within oneself. A culture that is strong and encourages adaptation and change increases organizational performance by energizing and motivating employees, bringing employees together through shared goals and guiding behavior towards the company's priorities (Daft, R., 2013).

Costco believes that their success lies in their well-compensated workforce and minimal profit margin in pricing. Upper management does not have the normal frills of personal secretaries, luxury offices and company paid cars. These perks are not part of the management style from the president of the company on down. Additionally, most managers wear casual attire, wear name tags and work the store floor a good portion of their shifts. Although unorthodox from the " typical" large profit company, Costco's organizational philosophy is a teamwork approach where employees feel comfortable around store managers and upper management.

A study completed by the University of Michigan revealed that as employee motivation improved, the a company's stock reached higher subsequent returns the following year, spanning times both good and bad. As an example, in 2002 the Standard & Poor's 500 returned negative 22%. Yet the study found that for every five points added onto a firm's Employee Motivation Index-how the study kept score-it returned an additional 2% in stock price the following year (Serchuk, D. n. d.). Costco subscribes to this type of belief in that a satisfied employee that enjoys higher wages, potential for bonuses, job security and full appreciation for their work is not only recognized by management, but taken into consideration when promotions for other positions are considered.

Cultures that do not encourage constructive adaptation can possibly hurt an organization if a company fails to acclimate as the environment changes (Daft, R., 2013). Costco encourages their employees to think outside of the box for new and innovative ideas that will benefit the customers with time-saving ideas; individual employees can be rewarded with up to 150 shares of company stock. Upper management recognizes that the whole system, including upper management, local management and all employees, make up the whole system and that all members' actions affect the other components and organization. This "teamwork" approach reduces the unseen borders between the groups and allows for better communication both horizontally and vertically.

Costco also places a high value on trusting their employees and care for one another; the president of the company goes to over 200 stores each year to work the floor not to "check up" on how employees are working, but to

Speak to them about how things are working and if improvements are needed. This demonstrates to the employee(s) how much he cares and he is willing to do the same work they are doing; this reinforces the company philosophy of teamwork (Daft, R., 2013).

3. What environmental issues does Costco face?

An organizational environment is defined as being everything that exists outside of the realm of a company, but has the potential to influence change in all or part of what the organization is doing (Daft, R., 2013). A company's domain, or chosen field of action, can be broken down into several different sectors or divisions, but usually there are ten areas a company will be influenced by: industry, raw materials, human resources, financial resources, market, technology, economic conditions, government, sociocultural and international.

Costco is one of the biggest organizations in the retail industry, which operates at the global level. The company was founded by James Sinegal and Jeffrey Brotman (Costco Wholesale Corporation, 2013). On the basis of the sales volume, the company is considered among the world's largest membership warehouses. The company has taken the position of the five largest companies in the United States in retail industry. Costco runs its operations at the international level within different segments and covers about 60-70 billion US dollars as revenue (Costco: About Company, 2013).

In 1993, Costco and Price Club merged and went from just over 100 stores to almost 200 stores. Although both companies are similar in design and customer base, the philosophy each company stressed was different. The

environmental challenges, both internally and externally, were tasking as Price Club employees were unionized and the Costco style was to focus on both employees and customers. Environmental change depends on two essential influences for an organization: the need for information about the environment and the need for resources from the environment (Daft, R., 2013). For Costco, the environmental change was the rapid growth by which the company altered its size, which caused a flex in how many people were involved, the various vendors that the company deals with and the change in international business.

Framework for assessing environmental uncertainty can be seen through and X-Y axis whereby environmental change (either stable or unstable) is graphed with environmental complexity (stable/unstable). Costco's complexity is low to moderate in complexity due to the needs of its customer base does not change rapidly; wholesale food products is fairly consistent and will always be advantageous in bulk. Some complexity can be seen with its other services such as optical, vacation planning, gasoline sales and pharmacy. Environmental change would be viewed as low to low-medium because the environmental domain has been somewhat stable over the last few years and has not change dramatically. Overall, Costco has adapted well to the changing internal environment by adding positions to increase communications both horizontally and vertically, while maintaining an employee-friendly atmosphere that offers above average wages and benefits to reduce turnover.

4. How is Costco a socially responsible company?

Corporate social responsibility is an extension of managerial ethics and references managements obligation to make choices in order for the organization is a contributor to the betterment of all stakeholders, such as employees, customers, shareholders, the community and society in general (Daft, R., 2013). As early as five years ago, most large scale corporations were doing much less to contribute to the betterment of these stakeholders, but now most giant companies have announced or are participating in environmentally responsible goals.

Costco has been a leader in moral leadership and has subscribed to this philosophy since its inception years ago. Most decisions by upper management are based not on the financial considerations (which most for-profit companies use as a priority), but on a broader sense of morality. Consideration for if there is greater value for the customer, employees and other stakeholders are key questions when considering a change to their environment or implementation of new policy. This is a way for management to stay grounded when considering new issues or trends that are shaping the future of business.

Many business analysts have argued that Costco's focus on corporate social responsibility is what sets them apart from other retailers such as Sam's Club or BJ's Warehouse. Their focus on doing social responsibility for all of their stakeholders, as well as a vision that aims for long-term success, is a unique business model that has interesting implications for many debates within the business world today (H. C., 2012).

Costco is well known for resisting the pressures of Wall Street to drive more profitability by cutting employee health care and other costs, even when many other retailers have done such things. Along those lines, Costco CEO Jim Sinegal has stood strong for building the kind of long-term business that cares about communities and workers. In 2008, he told Fast Company: “We’re trying to build a company that’s going to be here 50 and 60 years from now. We owe that to the communities where we do business. We owe that to our employees that they can count on us for security.” By providing low prices for shoppers it is arguably a socially responsible endeavor, especially when many of those shoppers are small businesses. Those businesses are a main component of the lifeblood of our economic engine, and Costco’s low prices help them in their ongoing struggle to survive and thrive (Moore, R., 2010).

Long-term organizational success relies on social capital, which signifies that organizations must build a reputation for honesty, fairness, integrity, and doing the right thing for their stakeholders. Evidence shows that employees prefer to work for companies that demonstrate high levels of ethical behavior and social responsibility. Customers pay close attention to a company’s ethics and social responsibility too; a recent study showed that consumers would pay slightly more for products that were made using high ethical standards (Daft, R., 2013).