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## ORGANIZATION AND MANAGEMENT: AN EXTENSIVE ANALYSIS ON MICROSOFT AND COSTCO

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### ABSTRACT

The branches of organization and management from the tree of commerce resemble essential ingredients in understanding a business, be it large or small. Skills in performing critical analysis and evaluation in this genre becomes imperative for strategic decision-making. Thus, this research paper features the selection of two large companies namely, Microsoft Corporation and Costco Wholesale Corporation – which are brought to table for an extensive yet logical comparison in terms of their organizational structure, organizational charts, chain of command, span of control, departmentalization, centralization, decentralization, the role of management and the power of leadership. The comparison shall lead to a similarities-differences portal that shall clarify the analysis and evaluation whilst reemphasizing that regardless of the differences, the companies are soaring at unbeatable success.

**Keywords: Organization, Management, Comparison, Success.**



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## 1.0 Introduction

The following paragraphs will give insights on the **background** and **origins** of Microsoft Corporation and COSTCO Wholesale Corporation. Following that, there is a brief introduction of organizational structure with definitions of the four chosen **elements** of **organizational design**.

### 1.1 Background of MICROSOFT CORPORATION

Microsoft Corporations stands as an **American multinational company of technology** and is believed to be one of the largest and most influential company in the personal ‘**software and computer**’ industry. It has been founded by the well-known **Bill Gates** (World’s youngest billionaire in 1987) and **Paul Allen** in the 1975s. The name “Microsoft” originally came from the terms ‘*Microprocessors*’ and ‘*Software*’ thus becoming, “Micro-soft”.

Microsoft, got incorporated in 1981 and went public in March 1986. Bill Gates was the CEO of Microsoft from 1975- 2000, then came Steve Ballmer (who had been with Microsoft since 1980) taking the position of CEO from 2000-2014 and from then till date, Satya Nadella stands as the current CEO of Microsoft Corporations.

Today, Microsoft Corporation is a **leading global vendor** of computer software and hardware (such as Microsoft Mouse, Windows, Microsoft Office, Internet Explorer, Xbox, and Microsoft Surface), mobile, gaming systems and cloud services with offices in more than **60 countries** and its headquarters stationed at **Redmond, Washington**.

## 1.2 Background of COSTCO WHOLESALE CORPORATIONS

Costco Wholesale Corporation is a **multi-billion-dollar global retailer** engaged in the operation of an **internationally famous chain of membership-only warehouse clubs**, under the name of “**Costco Wholesale**”.

In 1975, **Jim Sinegal** improved marketing strategies of “Price Club” and seven years later, in 1983, Jim Sinegal channelled his expertise with **Jeff Brotman** into co-founding Costco Wholesale by opening the first warehouse club in **Seattle, Washington**. Exactly ten years later, both Price Club and Costco Wholesale **merged** becoming ‘**PriceCostco**’ which in future they decided to maintain the name, ‘**Costco Wholesale**’.

Today, Costco Wholesale is not only the **largest American membership-only warehouse club** but also the **world’s largest warehouse club chain** (based on sales volume) and the **second largest global retailer** after Walmart, generating approximately ‘**\$116 billion of annual business out of its 728 locations**’, (Demitrious Kalogeropoulos, 2017) while having its headquarters in Issaquah, Washington, United States.

The 2 main concepts of Costco is “to set prices tremendously lower” than its rivals and “to sell fewer items” (as few as 4000 as opposed to Walmart’s 150,000)

### 1.3 Organization Structure

A firm's organizational structure is the **configuration** used to **interconnect** different organizational components to address business needs (Andrew Thompson, 2017). It is often presented in the form of an **organisational chart** which is required to be changed from time to time, so as to be able to **adapt** towards environmental changes. The act of performing this is known as, '**organisational design**'.

The elements that build the structure of the organisational chart are the elements that need to be adjusted during the process of redesigning. These four important elements are:

**Span of control** is the number of subordinates working directly under a manager. It can be 'wide' or 'narrow'.

**Chain of command** is the structure in an organisation which allows instructions to be passed down from the senior to the lower levels of management. It stems from two basic principles, 'unity of command' and 'scalar principle'.

**Departmentalization** is division of departments according to their specialisation. The functional, divisional and matrix are traditional approaches that rely on the chain of command to define departmental groupings and reporting relationships along the hierarchy.

**Centralization** is the degree to which decision making takes place at the upper levels of organization (more input from managers). **Decentralization** is when lower levels employees provide input or make decisions.

## 2.0 The 4 Elements

The following paragraphs will identify, explain, elaborate and justify on the four crucial elements of organisational design for Microsoft and Costco.

### 2.1 MICROSOFT CORPORATION

Microsoft Corporation operates on a “**product type divisional**” organizational structure. This structure implies divisions based on certain computer hardware and software products, or organizational outputs.

The characteristics of Microsoft’s organizational structure are, “Product type divisions” (most dominant structural feature), “Global corporate groups” and “Geographic segments”. However, the main insinuation of Microsoft Corporation’s organizational structure is the ability to focus on product development.

#### 2.1.1 CHAIN OF COMMAND

Initially, Microsoft operated in a “**horizontal management structure**” (flat organizational structure) where there were no levels of management between management and staff level employees as Microsoft had only three original employees and Bill gates wanted to create a family work environment. Thus, it was a ‘**short chain of command**’.

As **expansion** approached, Microsoft started having ‘**tall structure**’ with ‘**longer chain of command**’ where Bill Gates and Paul Allen sat on the top of the organization structure as co-

Then, Microsoft incorporated ‘**departmentalization**’ that changed the organizational structure and so the chain of command. Initially, the chain of command was known as ‘**Functional**’ in terms of defining the departmental groupings and reporting relationships along the hierarchy of Microsoft. However, in 2010, under Steve Ballmer, Microsoft adopted the ‘product type **divisional** organizational structure’ where each division focuses on a specific line of goods and services with their own research and development, Sales and Customer Service Staff.

Despite the change, it still allowed Microsoft’s business sectors to operate independently with one another while still reporting to a **central command**.

### 2.1.2 SPAN OF CONTROL

In the beginning, Microsoft only had **3 original employees** under Bill Gates as the aim was to create a family environment business. However, expansion caused more people to be employed, thus increasing the **height** of organizational structure which eventually got broken into departments based on **product divisions**.

As a result, Microsoft's organizational structure appears to have a '**wider span-of-control**' where there are comparatively more number of subordinates under a manager. However, despite wider span of control and **longer chain of command**, the concept of command is still central where the top-level managers take main decisions compared to the people in divisions. The number of Microsoft employees increased from 61,000 in 2005 to 118,000 in 2015 (Statista 2016).

### 2.1.3 DEPARTMENTALISATION

Microsoft incorporated 2 different forms of departmentalisation, each at different stage of its business life.

The 2 forms are, '**Functional Structure**' and '**Divisional Structure**'.

In the early 1975s, Bill Gates adapted the Functional Structure where sections under the CEO perform tasks it specialises in despite co-operating towards the same project. Microsoft had eleven positions with the major department being the programming department. At that point of time, this was a good move as Microsoft was a programming company and thus having programming department to be prominent was sensible.

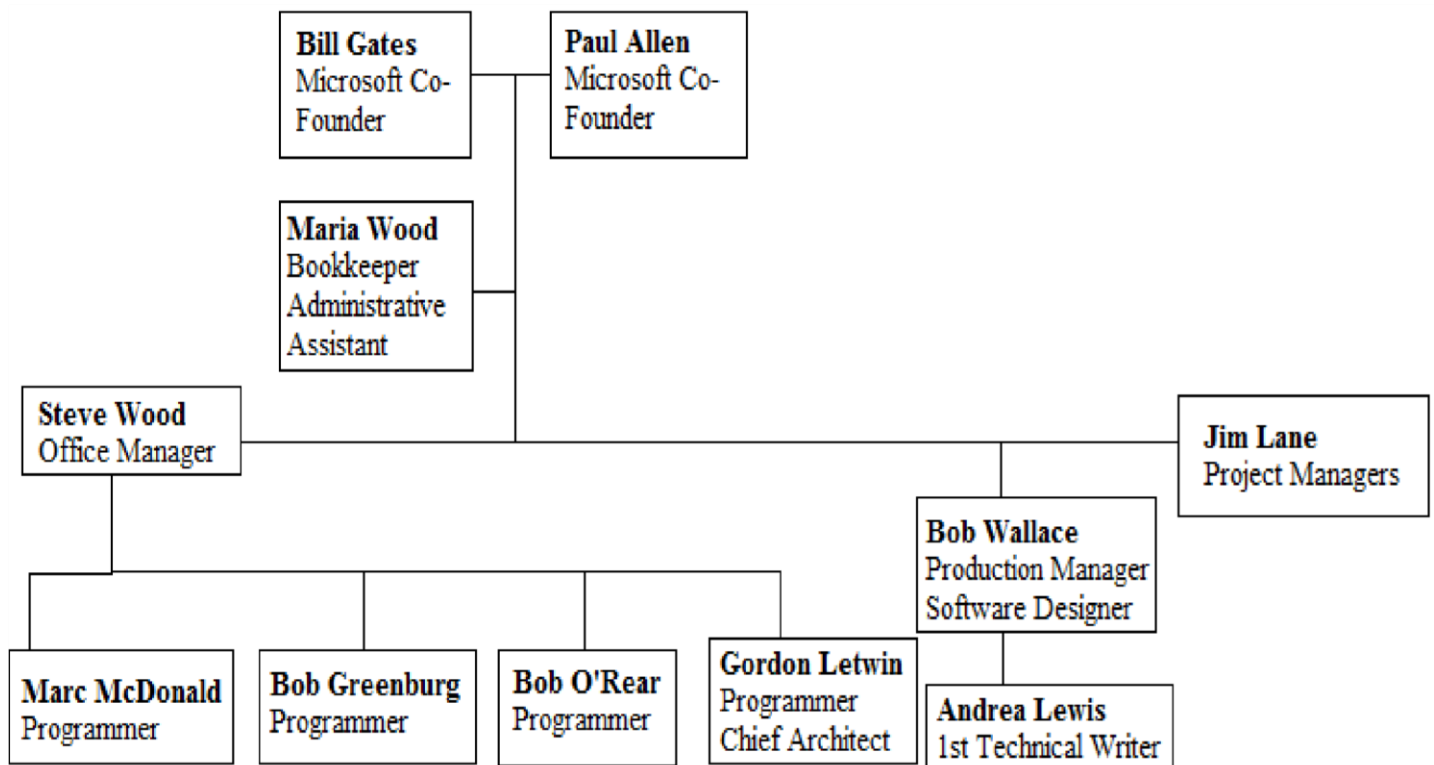


Diagram : Microsoft's Functional Structure

(Image Source: [https://prezi.com/nyq\\_r5tcjjyz/organizational-structure-of-microsoft/](https://prezi.com/nyq_r5tcjjyz/organizational-structure-of-microsoft/))

However, in 2010, as **expansion** approached, Steve Ballmer changed the **Functional** to **Divisional** Structure with each division, or product group focusing on specific line of goods and services while having its own research and development (R&D), sales, and customer service staff. This was how Microsoft managed their products diversity.

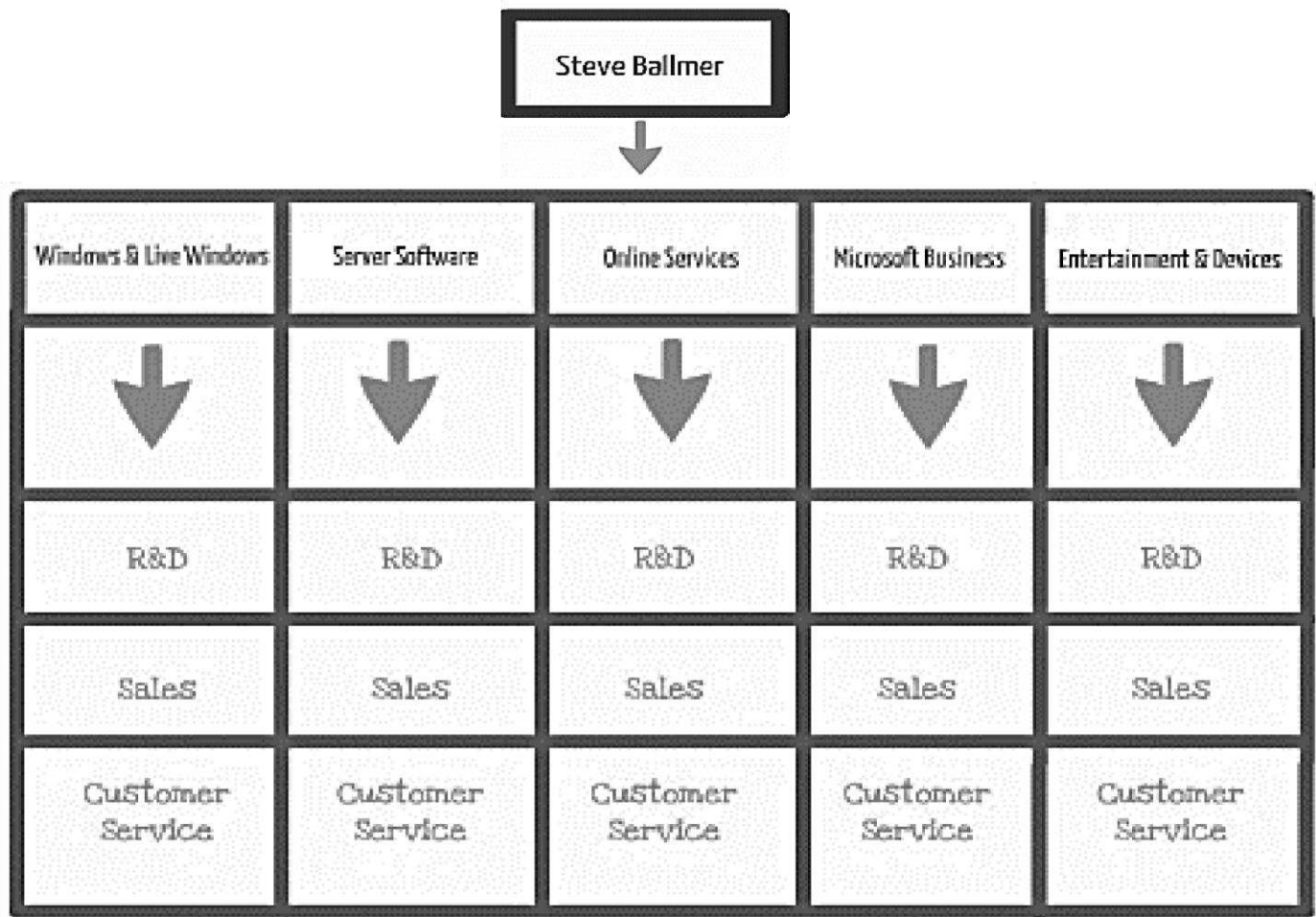


Diagram: Microsoft’s Divisional Structure

(<http://billgatesroadtoleadership.blogspot.sg/2013/11/microsofts-organization-structure-from.html>)



### 2.1.4 CENTRALISATION/DECENTRALISATION

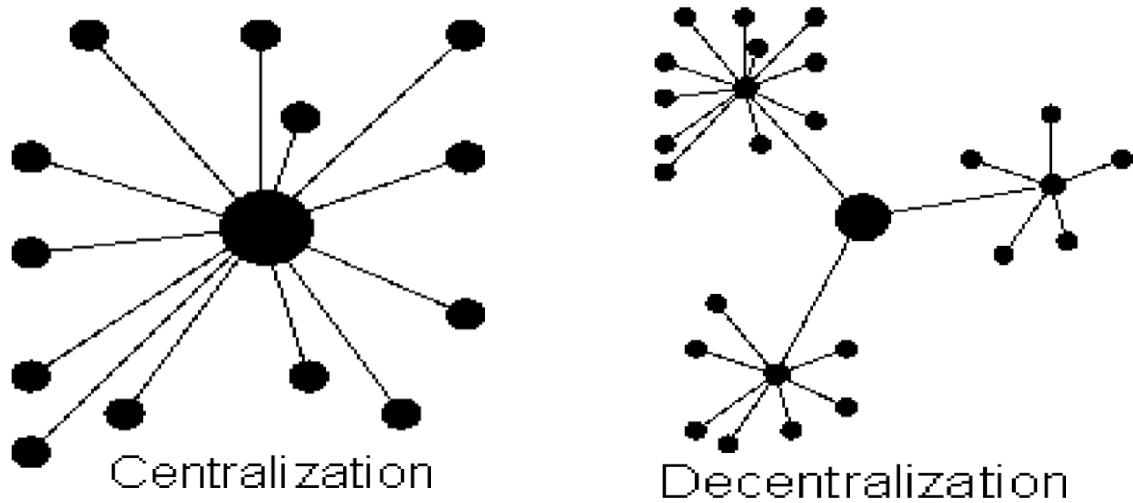


Diagram: Centralization & Decentralization

(Image source: [http://www.12manage.com/methods\\_centralization\\_decentralization.html](http://www.12manage.com/methods_centralization_decentralization.html))

In the 1975s, Microsoft corporation was a **small-scale business** with long chain of command and narrow span of control. Thus, '**Centralization**' became the ideal structure of the organizational chart, as a small company was believed to have lesser people and therefore having one person to take control was agreed to be adequate. (It is a one- way communication technique)

However, Microsoft realised, this concept was appropriate for a **short term** as in long run, Microsoft experienced employees being unhappy due to being ruled and controlled by one person. (This was evident in the testimonies of Ex-Microsoft workers). Also, one of Microsoft **main competitor, Apple Inc** started using decentralization structure where decision making was made at all levels of management. (It is a two-way communication technique).

Despite knowing these two factors Microsoft still operated and is operating under **centralisation**. This is because, centralisation-decentralisation **is relative, not absolute**. This means, 'an organisation is never completely centralised or decentralised' due to some very important factors.

The **factors** can be when, Bill Gates prioritises in taking control of the organisation as he feels they operate in a stable environment; lower level managers are not as capable or experienced as making decision in comparison to him; lower levels managers may not want a say in decision making due to decisions relatively being minor, and due to the company being large that may be depending on him to retain say over what occurs.

## Interactive Organisational Chart of Microsoft

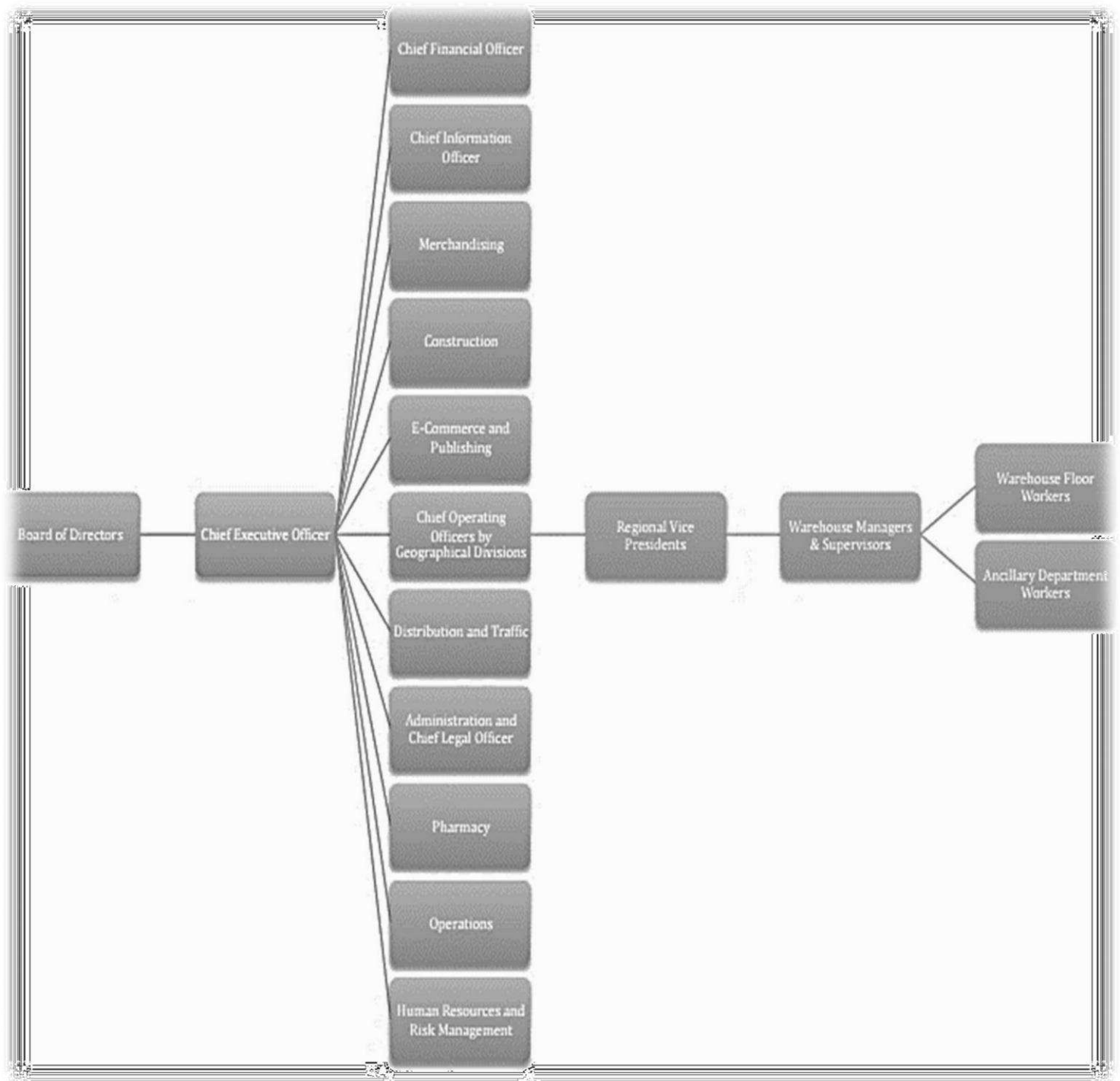


Diagram: Interactive Organization Chart for Microsoft

(Image Source: <https://www.theofficialboard.com/org-chart/microsoft>)

## **2.2 COSTCO WHOLESALE CORPORATION**

The design of Costco's organizational structure incorporates its business functions, current operations and locations that enables Costco to **reflect its current market presence** regardless of whether it is in the U.S. or overseas. However, **strategies of globally expanding** its warehouses and stores leaves Costco in the need of changing and further developing the structure of its organizational chart.



Organization Chart Of Costco Management (Rotamai, 2012)

### 2.2.1 CHAIN OF COMMAND

Costco practises '**Managerial Chain of Command**' where authority and power flows in a '**Top-Down Structure**' and there is '**unity of command**' where one individual should only report to one manager at a time and "**Scalar Principle**" which states that there should be a **clear line of authority**.

However, expansion made Costco's organisational structure to follow departmentalization. This made chain of command to either be '**functional**', '**divisional**' or '**matrix**' to define departmental groupings and reporting relationships along the hierarchy.

It was the "**Weak Matrix**" approach (Goes against unity of command) where employees have **dual reporting relationships** that is to 'Functional Manager' (controls the project budget) and 'Project Manager' (only part-time role like a coordinator). Since it is 'weak', it resembles **strong functional structure**.

In this concept, Costco **benefits from the functional advantages**, at the same time being able to **eliminate disadvantages of matrix**. For example, Costco's employees are managed by people in functional department experienced in the same speciality, thus being able to adequately understand and review the employees work. And, on the other hand, employees no need report to two managers at a time (because it is weak), reducing conflicts and confusion.

### 2.2.2 SPAN OF CONTROL

The two factors that affect Costco's span of control are “**similarity of functions**” and “**geographic location**” which is also named as ‘**physical proximity**’.

Costco has many functional groups with each group having different functions and tasks to perform to ensure the organization operates well. For example, the main functional groups at Costco are human resources, accounting, operations and merchandising. As a result, there are many managerial posts too. Thus, Costco has less similarity of functions in the organization, proving that the **span of control is narrow**.

Not only that, Costco also expands its business in Europe and Asian countries. In that case, the span of control becomes **narrow** as the business has become wider after having more warehouse in various locations and it may become difficult in taking control of all of the warehouses due to reasons like different time zone, misunderstanding of informationn and communication problems.

As a result, “less similarity of functions” and “many geographic locations” are the main factors that lead to a narrow span of control of Costco Wholesale Corporation.

### 2.2.3 DEPARTMENTALIZATION

Costco incorporates the aspect of departmentalization in the form of a ‘Weak Matrix organisational structure’ which involves “**Functional grouping**” (primary feature) *that groups employees according to business functions* and “**Geographic divisions**” (secondary feature) *that groups business components according to location or market*.

However, the functional characteristic for Costco applies to all the geographic divisions. For example, the Finance group affects all the geographic divisions of Costco worldwide regardless of U.S. having more geographic divisions than in other markets or Costco deriving most of its revenues from the American market (Andrew Thompson, 2017).

Thus, it can be evaluated that the functional grouping characteristic supports Costco’s organizationwide control where new policies and strategies can be easily implemented to influence geographic divisions. Not only that, the essence of having a geographical division gives Costco the ability and willingness to adapt and adjust towards regional market conditions, thereby harnessing flexibility.

### 2.2.4 CENTRALIZATION/DECENTRALIZATION

Costco Wholesale Corporation is a **decentralized** company where all functional group managers have authority to make decisions. It is ideal, as Costco’s **has many warehouses worldwide**.

For example, the Senior Vice President of human resources and risk management department, John Matthews, have the right to draw up rules for interviews and choose the right employee to employ. Regional Vice President is also given the authority to draw up new policies which is helpful for the company in a certain region.

Thus, decentralization allow leaders to adapt towards changes in the local market which indirectly helps Costco to meet local demand and be profitable. ‘Under decentralization, each store can, in the longrun, more effectively tailor its practices to its own market and thereby this organizational form eventually outperforms a more centralized organization.’ (Myong-Hun Chang and Joseph E. Harrington, Jr., 1999)



## ORGANIZATION AND MANAGEMENT: AN EXTENSIVE ANALYSIS ON MICROSOFT & COSTO WHOLESALE

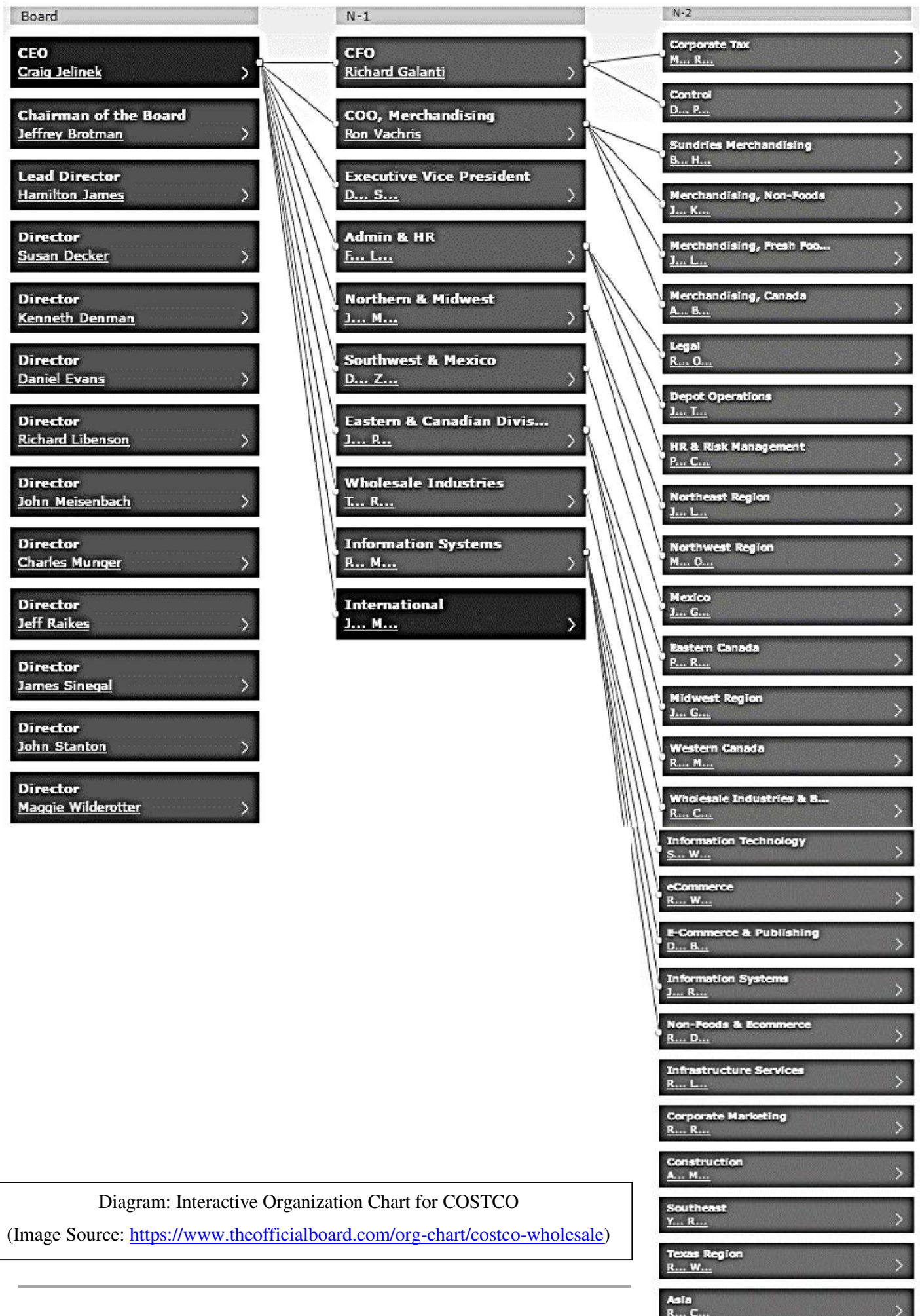


Diagram: Interactive Organization Chart for COSTCO

(Image Source: <https://www.theofficialboard.com/org-chart/costco-wholesale>)



### 3.0 Similarities & Differences

Microsoft and Costco operate in different industries, yet both are successful. This is because the design of their organisational structure follows their individual business type and experiences changes in the structure from time to time according to the environmental changes, making adaption easier.

Microsoft followed the **horizontal chain (flat) of command** with *wider span of control* because Bill Gates started with a very small company and wanted quicker decision making, whereas Costco followed the **vertical managerial (tall) chain of command** with *narrow span of control* as they had large staff of middle managers between the CEO and the front line.

The main similarity is that Microsoft and Costco **incorporated departmentalisation** due to expansion. However, the type of departmentalisation differed.

Microsoft switched from **functional** to **product divisional** (each division, one product type) as the variety of products they produced were growing. However, the divisions did not have managers, but each had their own R&D, sales and customer service staff (as main aim was to manage the product). As a result, all employees from their respective divisions only report to one person; the top management. This proves why Microsoft is **centralised**.

Costco follows the **weak matrix structure** (strong functional, weak project) with **functional** *primary feature* but also incorporates **divisional** *secondary feature* for geographical diversity. (getting a balanced vertical and horizontal chain of command). Thus, Functional; helps maintain retail, at the same time, it connects to all geographic division, in terms of, policies and strategies.(as shown in diagram). Due to this, it is **decentralized**.



## 4.0 Effectiveness of Organisational Structure

The effectiveness of Microsoft's structure is that **employees are specialised and expert** in their own areas increasing focus on product development. Also, the idea of division allows **quick response to customer needs**, leading to greater satisfied and loyal customers.

Due to **focus and attention** on product performance and quality, **quicker decision** making develops **eliminating time wastage** and thereby improving **product competitiveness**.

The aspect of centralisation by Bill Gates **erases biasness** in work allocation between divisions and individual employees, thereby harnessing **greater unity**. **Standardization** of work creates equality of behavior that guarantees unvarying judgment and standardized progression.

The effectiveness of Costco's structure not only benefits from functional and divisional but gets to eliminate drawbacks of the matrix structure (due to it being weak matrix). Functionality allows **specialisation** that benefits units and company through the **expertise and experience**. Confusion reduces and **task clarity** improves amongst employees as functional manager has a higher say.

Also, employees **stop getting over exhausted** as they only need to prioritise more on functional responsibilities compared to project. This **reduces mistakes** and **boosts confidence**.

Decentralization (extension of delegation) due to large geographical diversity **reduces top management's burden** allowing them to concentrate on other vital factors and eliminates time wastage of decision making (each division can make their own decisions).

As a result, **motivation increases** amongst divisional managers and employees creating greater **sense of belonging** and **loyalty** towards Costco.

## 5.0 Recommendation and Conclusion

Microsoft gives **minimal consideration** for regional market differences. Thus, a recommendation is: **integrate regional market differences** in its organizational structural design. This is because regions have varying preferences about Microsoft's computer hardware and software features; in the case of smartphones. Also, divisional structure tends to be **largely self-sufficient**.

Thus, Microsoft should ensure there is **no communication barrier**. This can be done by giving a project that needs all divisions to be involved. The centralisation aspect of **dictatorship** causes physical reluctance, disloyalty and motivation and sense of belonging fall. Thus, it may be better if Microsoft adapts a **democratic leadership style** in future even if centralisation is practised or not.

Costco has its functional aspect **dictating** its divisional aspect. Thus, for management's awareness, **maintaining control** and **managing functional departments** can be **challenging** for any future geographical expansion as **more decision-making responsibilities** will need to be delegated to functional areas.

Also, the matrix structure is **expensive** as Costco must pay extra to keep resources because not all resources will be occupied at all times. Some resources are needed only for a short duration. Since it is a weak structure, a recommendation would be to **stop operating on matrix**. Instead, *maintain on functional and divisional features only*.

In a nutshell, Microsoft and Costco are already successful in their own industries. Thus, the recommendations suggested may be very small, but it is the small things in an organisation, that if rectified, can make large positive difference in terms of survival, profits, shares, employee turnover, business image, sales and profit.

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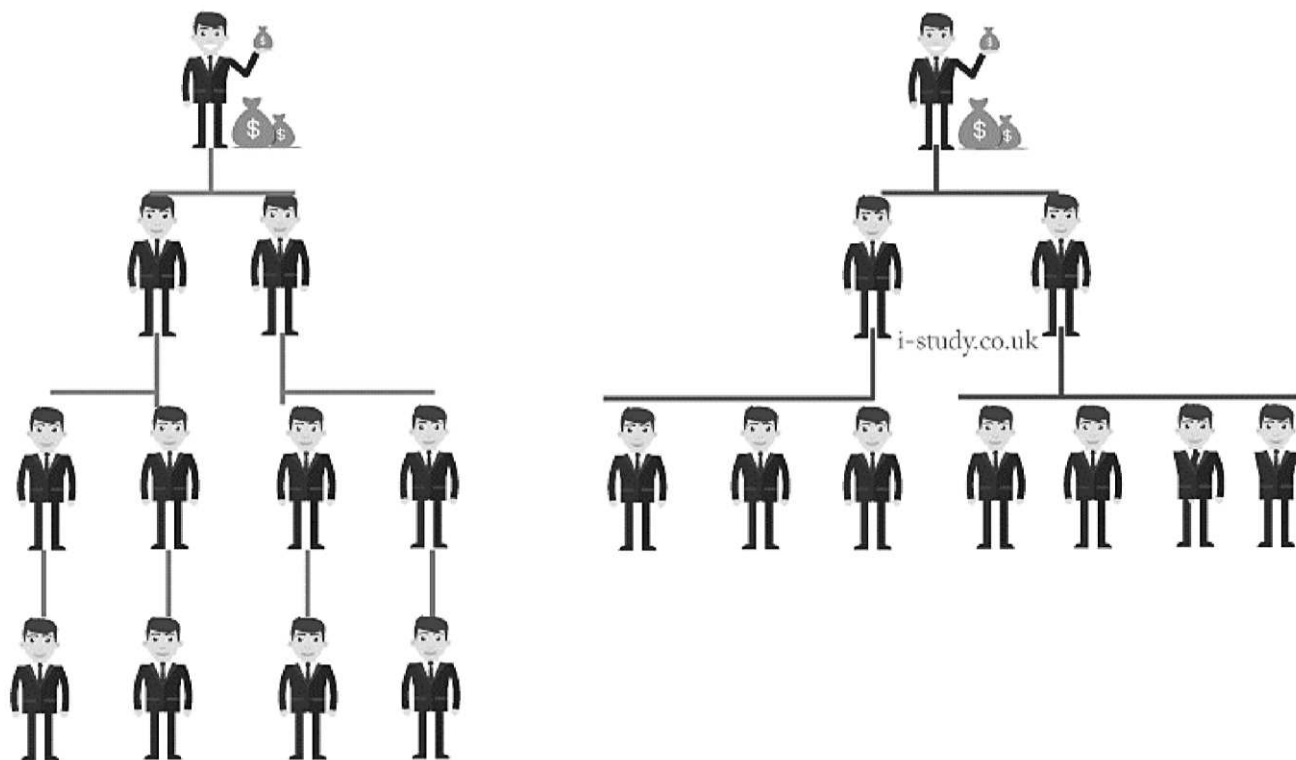
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# APPENDIX

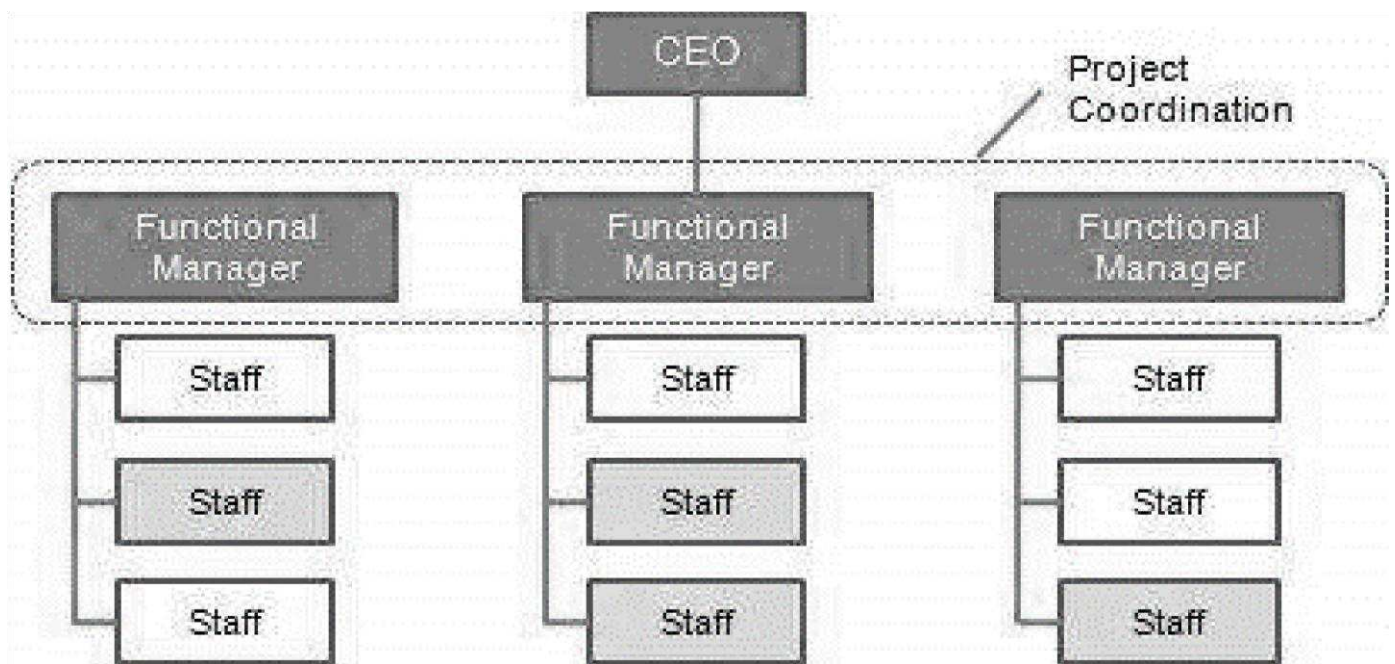
## FUNCTIONAL STRUCTURE

Tall/Vertical vs Flat/Horizontal Organizational Structures



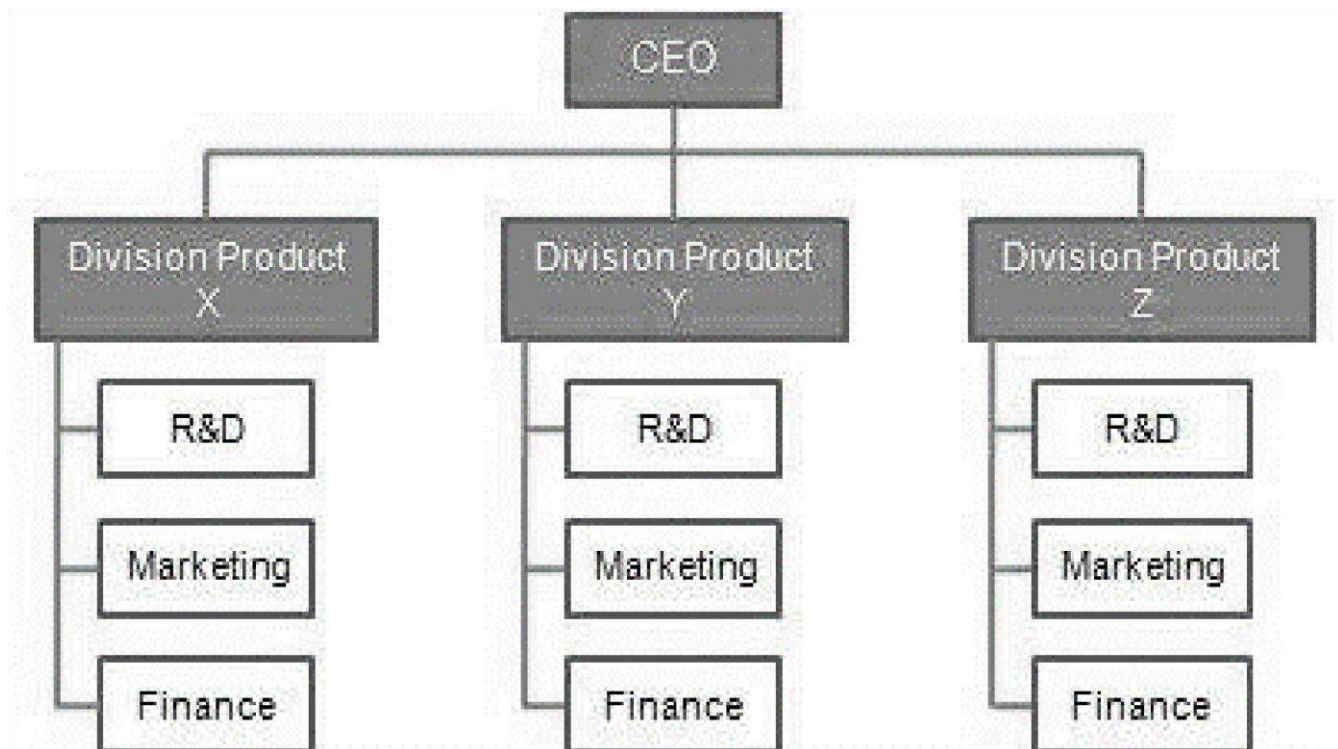
(Image source

: [https://www.google.com/search?biw=1366&bih=662&tbm=isch&sa=1&q=tall+structure+vs+flat&oq=tall+structure+vs+flat&gs\\_l=img.3](https://www.google.com/search?biw=1366&bih=662&tbm=isch&sa=1&q=tall+structure+vs+flat&oq=tall+structure+vs+flat&gs_l=img.3))



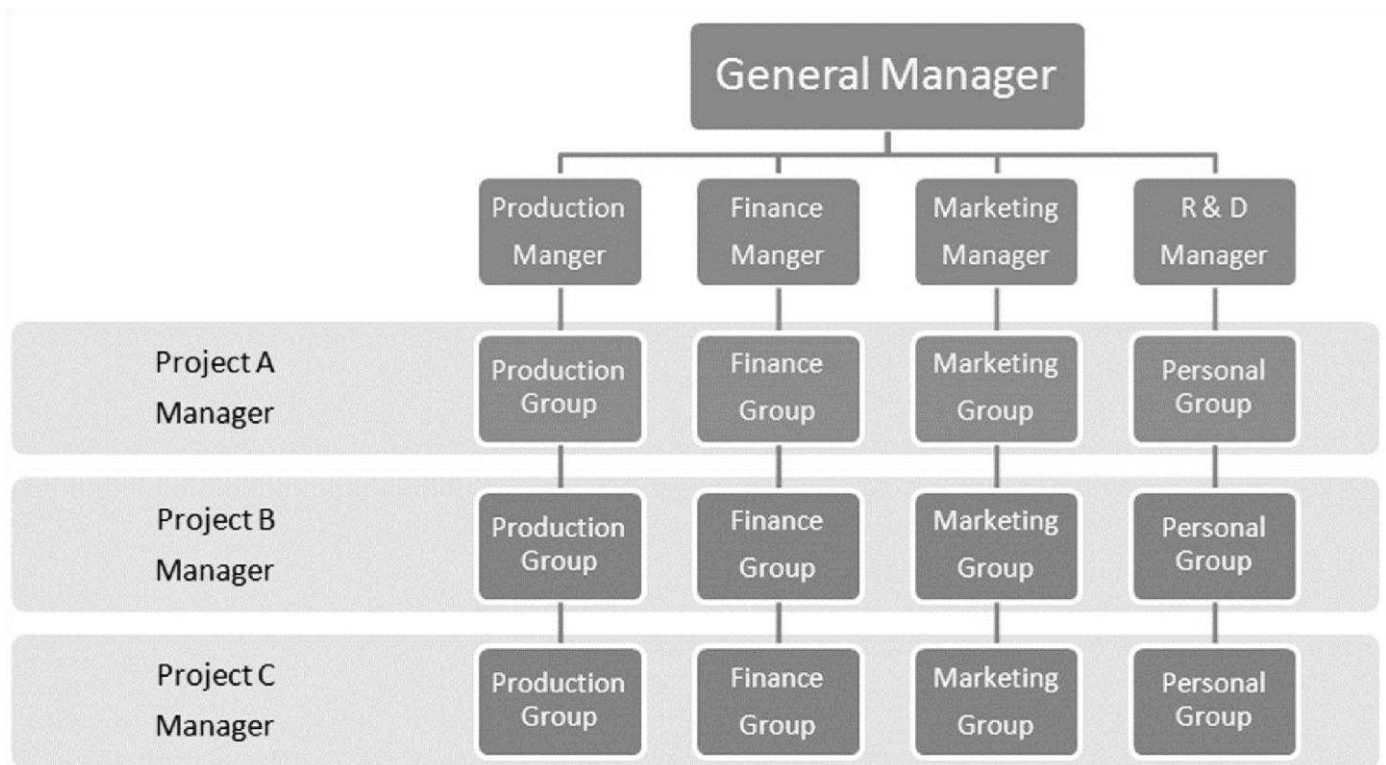
(Image Source: [https://www.tutorialspoint.com/management\\_concepts/organizational\\_structures.htm](https://www.tutorialspoint.com/management_concepts/organizational_structures.htm))

## DIVISIONAL STRUCTURE

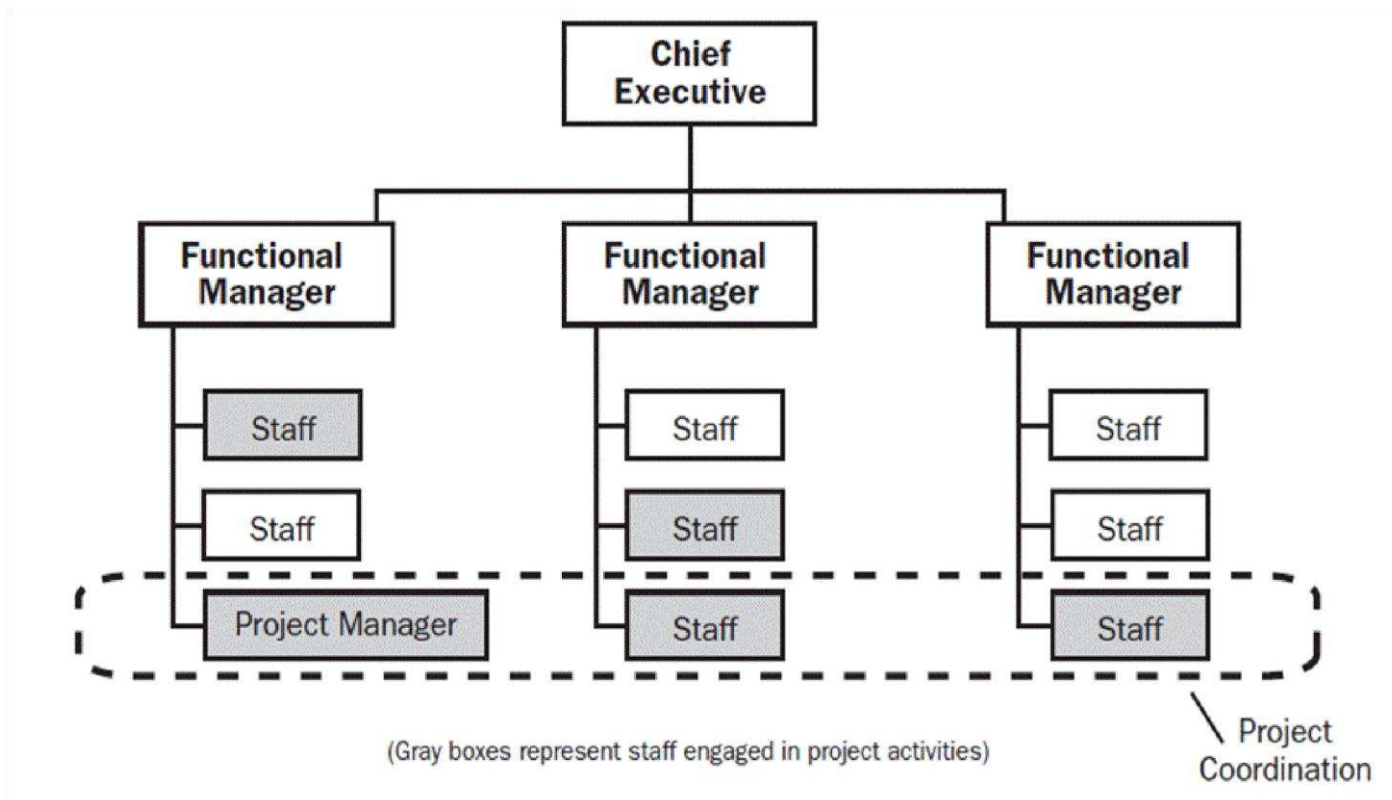


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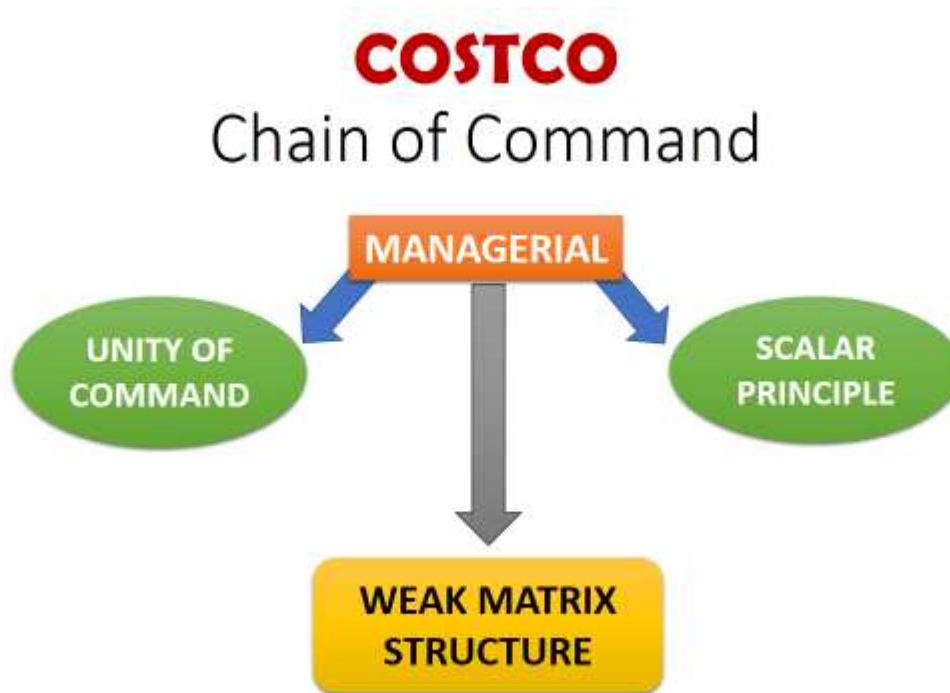
## MATRIX Organisational Structure



## WEAK Matrix Organisational Structure

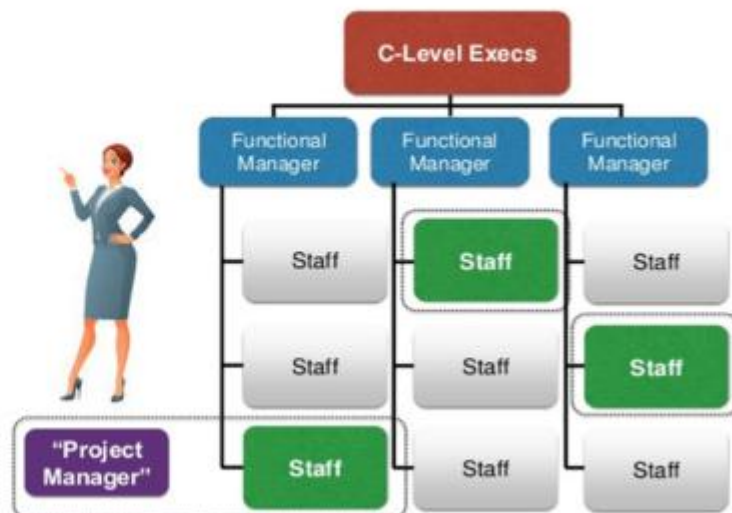


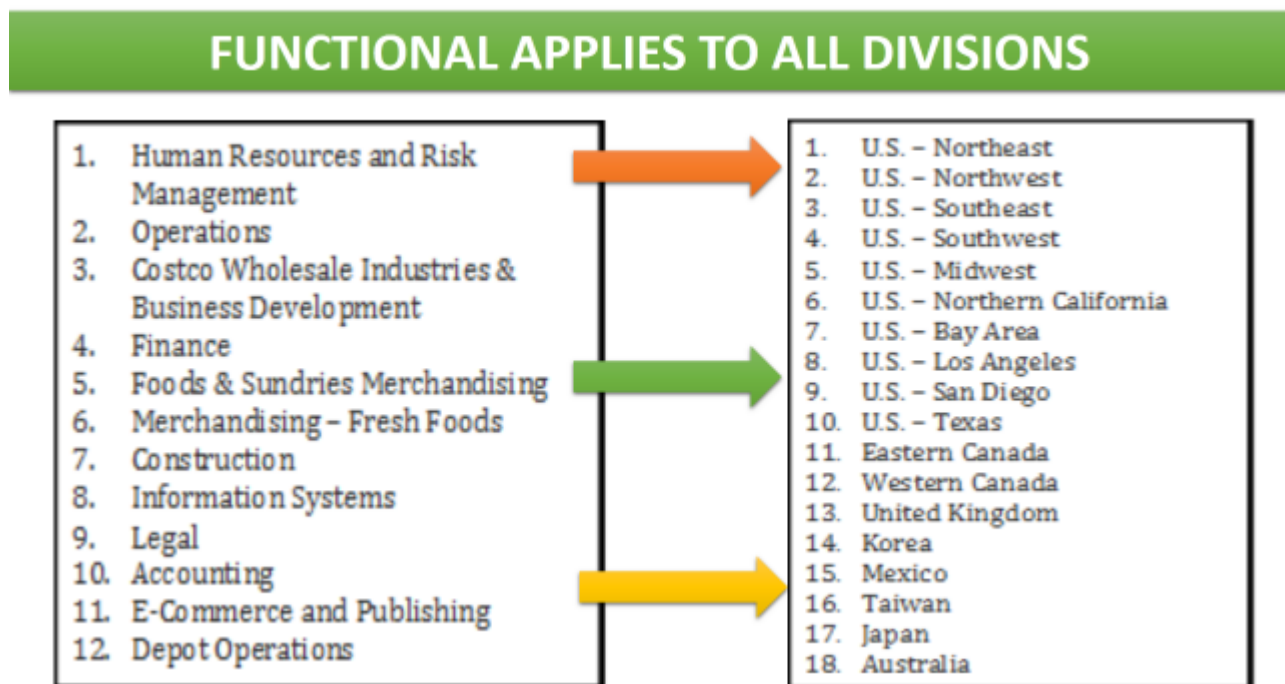
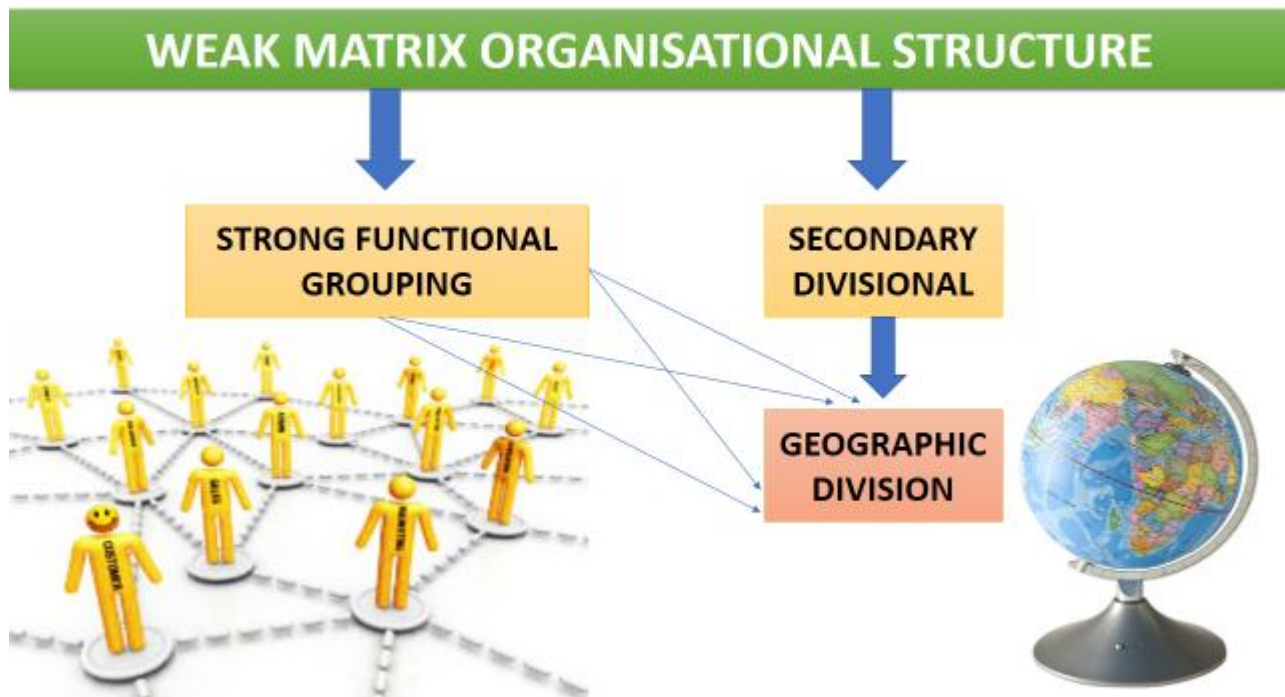




## WEAK MATRIX CHAIN OF COMMAND

- ☐ Against **unity of command**
- ☐ **Dual** reporting relationships
- ☐ **WEAK** Project Structure
- ☐ **STRONG** Functional Structure
- ☐ **Benefit** from functional aspect
- ☐ Eliminate **disadvantages** of Matrix







## SIMILARITIES & DIFFERENCES

### Microsoft

### COSTCO

#### Departmentalization

- ☐ Horizontal (flat) Chain of Command
- ☐ Wider Span of Control
- ☐ Functional to Product Divisional
- ☐ Centralization

- ☐ Vertical (tall) Managerial Chain of Command
- ☐ Narrow Span of Control
- ☐ Weak Matrix Structure
- ☐ Strong Functional
- ☐ Secondary Divisional
- ☐ Vertical and Horizontal Chain of Command
- ☐ Decentralization

## EFFECTIVENESS OF ORGANISATIONAL STRUCTURE



Microsoft

- ☐ Specialized and expert
- ☐ Quicker response to customer needs-Division
- ☐ Focus and attention on product performance
- ☐ Quicker **decision making**
- ☐ Eliminate **time wastage**
- ☐ Improving product **competitiveness**
- ☐ Erases **biasness**-centralization
- ☐ Equality of behavior
- ☐ Greater **unity**



- ☐ Benefits functional and divisional
- ☐ Eliminate Matrix disadvantages
- ☐ **Specialization**
- ☐ Lesser **confusion**
- ☐ Reduce **mistakes**
- ☐ Boost **confidence**
- ☐ Task **Clarity**
- ☐ Not over exhausted
- ☐ Reduce top-management **burden**
- ☐ Increase **motivation**

## NOTES

