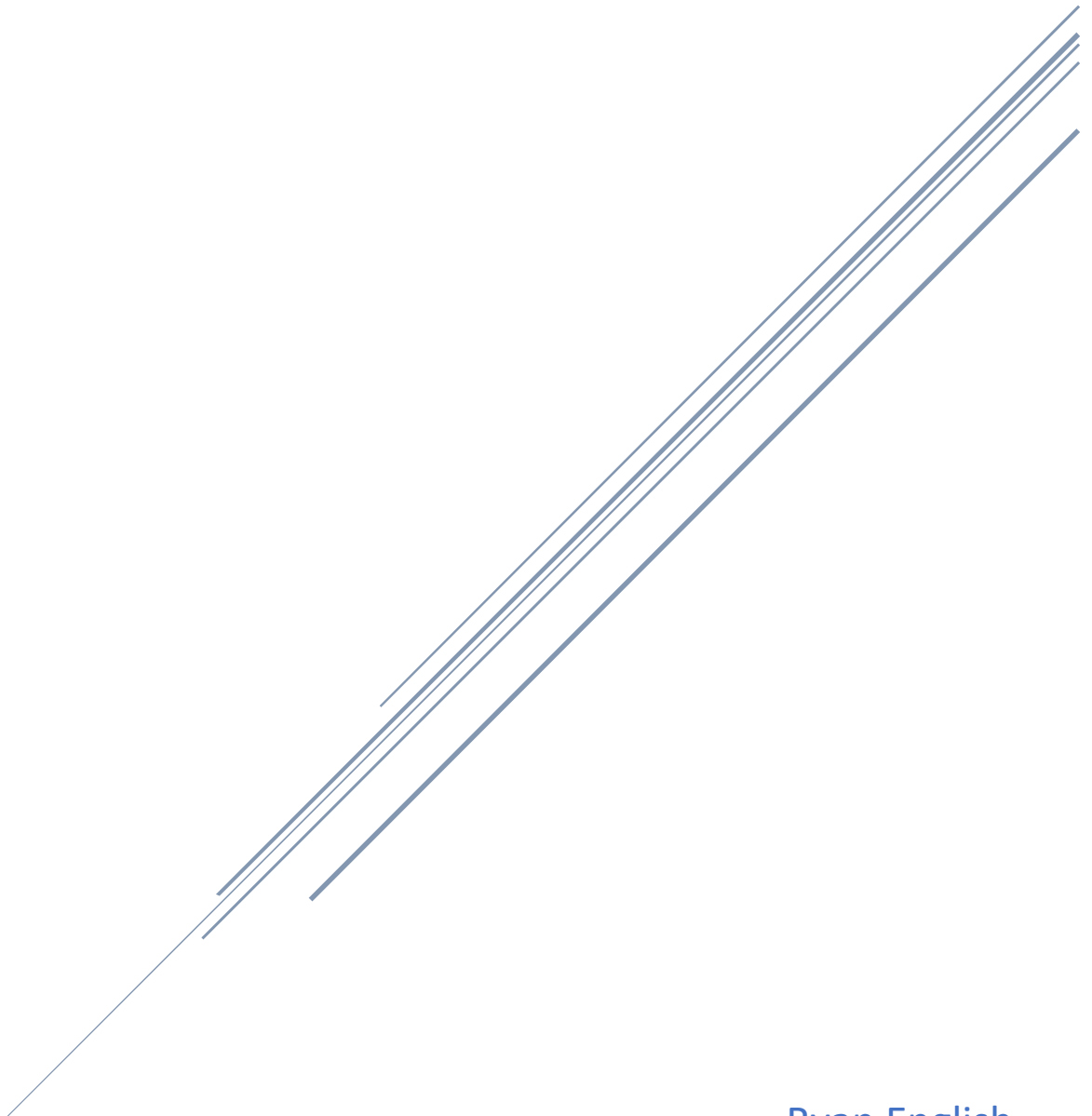


CASE TWO

Appex Corporation



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Executive Summary

The Appex Corporation is a new cellular based company that has seen rapid growth in the last few years. This market growth was not met with organizational growth, Appex still operated as entrepreneurial startup. Employees started when they wished and customers saw long wait times. The Appex Corporation's investors hired Shikhar Ghosh to thwart haphazard spending and grow the corporation to match the market growth.

Shikhar Ghosh implemented a few organizational structures over the next few years; but each were met with their own issues causing Ghosh to try another structure. Ghosh attempted a few different types of structures: Circular structure, Hierarchical structure, functional structure, Divisional structure, and Divisional product team structures. Ghosh determined that each six months Appex would need to implement a new organizational structure in order to effectively continue operations.

It is recommended that Ghosh implement the matrix structure instead. The matrix structure allows for the Appex Corporation to inhibit both the benefits of the functional structure and the divisional structure; giving them the innovative advantage of the technology industry. The matrix structure would have employees separated by certain functions, but each function would also report to the product dimension. This will allow for function managers and product managers to make a meaningful impact on the products and ideas of the Appex Corporation.

In order for the matrix structure to work properly, Ghosh will have to create an environment that promotes communication and collaboration. With the communication and collaboration, the employees of the Appex Corporation don't become solely encapsulated in their function or division.

It is not recommended that Ghosh attempt to change the organizational structure every six months, due to the difficulties involved with change in an organization. Employees must be unfrozen, changed, and then refrozen. Valuable resources would be utilized in this process, rather than innovating new ideas.

It is not recommended that Ghosh attempt to reimplement the functional or divisional organizational structure. The matrix structure implements the best of both worlds of functional and divisional, all while promoting innovation through the means of communication and collaboration.

Background

Appex Corporation, a company formed by a merger between Appex Inc. and Lunayach Communications Consultants in May of 1986, provides software services to cellular business to manage their customers and their information. Appex sold two distinct products: intercarrier services (ICS) and cellular management information systems (IS). ICS handled the information required to determine if the cellular customer was a roaming customer or not; and the ICS handled billing, accounts receivable, and ect.

Issue

Shikhar Ghosh was recruited in May of 1988 in an effort by investors to thwart haphazardly spending and increase control within the company. Ghosh determined that the current structure of project-based looseness was unproductive and needed to be addressed. Over the next few years, Ghosh implemented a handful of organizational structure (circular, hierarchical, functional, divisional, product-divisional), but ultimately, they all faced issues that caused

Ghosh to move on to the next structure. By the end of 1991, Ghosh had determined that the best plan of action for the Appex Corporation was to implement a new structure every six months.

What was the best organizational structure for the Appex Corporation based on the information gathered by Ghosh?

Forces

Threat of new entrants

Threat of new entrants is high due to the low barrier of entry. 40% of Appex profits are generated from the services provided by the integrated software (CMIS). Software based businesses have a lower starting capital therefore the barrier is low for entry.

Threat of substitutes

The cellular industry is currently at its infancy during this case in 1986-1991, therefore the threat of substitutes is rather low. Assuming there are a few companies that provide similar software, the customers switching cost will be high, due to the uncertainty of the software being provided and lack of historical data.

Bargaining power of customers

Bargaining power of Appex's customers is high. Based on the information presented in the case, Appex has 75 customers with very large accounts ranging from \$100,000 to over \$2 million. Based on the services being sold, Appex's customers have a high switching cost; but this is negated with such a small amount of large customers. Appex's customers are also companies in the cellular industry, making them educated on the services Appex is providing; and their sales are affected by any faults of Appex. All these factors give Appex's customers a high bargaining power.

Bargaining power of suppliers

Based on the information in the case, Appex lacks any suppliers. The products they sell are software-based copy built entirely inhouse.

Competitive rivalry

Based on the information in the case, competitive rivalry is low due to low amount of firms and high market growth. Apex also currently services 230 markets in the United States across 75 large business customers.

Stakeholders

CEO Shikar Ghosh

As standing CEO of Appex Shikar Ghosh function is to lead the Appex Corporation into the future successfully and effectively.

Appex Employees

Appex employees are affected based on the decision of which organizational structure; it affects their day to day.

Appex Customers

Appex customers benefit with lower costs and better services.

Appex Customers' Customers

Appex provides a service to handle and manage their customers' customers; and due to this they through the grapevine benefit from the decisions Appex makes.

Proposed Solution

Implement Matrix Corporation Structure

It is recommended that Ghosh implement the matrix organizational structure within the Appex Corporation. For an organization to adopt the matrix structure three criteria must be met (per Cash):

- 1) Environmental pressures are from two or more critical dimensions
- 2) Task environment of the firm is both complex and uncertain
- 3) Economics of scale in the use of internal resources

The Appex Corporation meets all the preceding requirements necessary to adopt the matrix structure. On previous attempts at adopting an organizational structure one of the common issues was the power struggle between product and function. Employees lacked a clear definition of who to report to, the expertise of the product or their immediate superior. With implementing the matrix structure, employees will still have a difficult time determining who has the right to make the decision; but, with collaboration and discussion when conflicting direction arises the company can be adaptive and innovative. Product and managerial staff can both make meaningful impact on the development of Appex's products.

This cross between product and managers is effectively taking the benefits of both functional and divisional organizational structures. Functional benefits are the expertise gained by organizing resources based on the function they perform, and division structure benefits are the increased coordination amongst functions within a division. When we combine these benefits, we get the matrix organizational structure. Effectively we move the weight of communication off the General Manager in a functional organizational structure and move it to the product division – like in the divisional structure. Also, we blur the lines of divisional and functional investment of the resources. This way resources cross pollinate and promote ideas that are capable of benefiting cross boundaries.

In order for the matrix structure to work Ghosh would need to reinstate the original functional structure; but this time pull out product (IS and ICS) into the other dimension. This allows “...improved coordination between function specialisms, and makes good use of human resources.” (*Images of an Organization* page 53) As stated previously, Appex in other structural implementations had a tremendous problem with allocating its human resources. With the matrix structure implemented employees can be part of a project and a department, allowing for more distributed employees.

In order for the matrix structure to be successful, Ghosh must insure that the environment promotes collaboration amongst the product team and the managerial staff. Once implemented and functioning the matrix structure will allow Appex to be more efficient with resource allocation and promote innovation in the company keeping Appex at the cutting edge of the cellular industry.

Alternative Solutions

Do Nothing

“Do Nothing” in this particular case would mean Ghosh continuing with his plans of implementing a new organizational structure every six months. This is not a recommended solution. Change in an organization is difficult, the company must unfreeze its employees, implement the change and refreeze their employees. This is not ideal since it creates an uncertainty in the employee’s day to day and according to Morgan: “The greater the uncertainty, the more difficult it is to program and routinize activity by preplanning a response.” (*Images of an Organization* page 77) In other words, employees will spend most of their efforts learning and relearning job functions and reporting structures; rather than spend time innovating and promoting Appex market growth.

Re-Implement Functional Corporation Structure

Ghosh attempted functional organizational structure before back in the early '90s but was met with its own issues. Teams began to become polarized and lacked healthy collaboration and communication amongst the different divisions. Standards of the individual were overriding company policies. Overall functional structure was not successful for Ghosh and the Appex Corporation.

Re-implementing the functional structure is not recommended. Functional structure allows for core company functions to function hierarchical, allowing for that function to operate effectively and efficiently; but makes horizontal communication and collaboration more difficult. In the technology industry "...where the need to innovate [is] an essential condition for survival..." (*Images of an Organization* page 46) cross collaboration is absolutely necessary. Functional structure "is weak when the firm must respond rapidly to environmental changes." (Cash 29) In order for Appex to be more innovative and on the cutting edge of the cellular industry, it must adopt a structure that promotes collaboration.

Re-Implement Divisional Corporation Structure

Divisional, albeit not recommended, was the best structure implemented by Ghosh. The divisional structure of ICS and IS improved accountability and planning. Unfortunately, cross divisional communication and resource allocation were not properly handled and caused issues within the organization.

Re-implementing divisional structure is not recommended. The benefits gained by implementing the divisional structure are also implemented in the matrix organization; but with the matrix organization there will be no divisional walls holding back cross communication. The divisional structure, similarly, to the functional structure, is too narrow minded for the technology industry where innovation is key. Ghosh himself even stated that under divisional

some products did not get developed because they did not meet the criteria of the narrow divisional markets.

Re-implementing divisional structure also is not an effective way for Appex to utilize its resources. In order for innovation the skills of the employees must be met with an environment that promotes communication and collaboration in order to produce new ideas. Divisional pulls employees into their own division and cross pollination of ideas is hindered since employees are fully invested in their own division.

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