

Jacob Forcht

Professor Barker

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Appex Case 2 Analysis

The Issue:

Appex Corporation is in the cellphone market and provides management information systems and intercarrier network services to companies. The main issue Appex is facing is its inefficient organizational structure. Appex's new CEO Shikhar Ghosh has tried many different structures, he has tried using a circular structure, a horizontal structure, a hierarchical-functional structure, a product-team-based structure, and then a divisional structure. Even after trying all those, he has yet to find one that works long term for Appex Ghosh thought: "[Ghosh] believed that Appex's structure should be altered regularly: 'Every six months by design I change the organizational structure. (...) We're growing at 10 percent a month. I feel when a company has grown 50 percent, it is time to change.'" (Packet 131). The most recent structure is a divisional one and although it has been the most successful structure so far it could still be improved.

Appex has had a plethora of issues from its organizational structures such as lack of innovation, ignoring customer service calls, and inaccurate financial statements just to name a few. To make this issue even more stressful is the fact that Appex has just been acquired by Electronic Data Systems (EDS) so it is imperative to make Appex's organizational structure the best it can be and to align it with Electronic Data Systems for a successful future in the cellphone market.

Mission, Generic Strategy, Porter's 5, and Organizational Structure:

Appex's mission statement is "to support cellular companies achieve their potential in the emerging cellular market with information systems or intercarrier network services". Appex does this by using focus differentiation one of Porter's generic strategies. This strategy is about the company focusing on a specific industry and then differentiating itself from the competition by trying to meet the unique needs of customers. I believe Appex is using a focused differentiation strategy because they sell tailored information systems and specific network services only in one market, that being the cellular market. Porter's five forces are a good way to tell how healthy a company is, it consists of bargaining power of suppliers, bargaining power of customers, the threat of substitutes, threat of new entrants, and competitive rivalry. Appex's threat of suppliers' bargaining power is low because Appex isn't directly supplied with anything to make their product. Since Appex generates revenue by creating information systems and managing intercarrier services no supplier has a noticeable impact on the creation and maintenance of those products so they would have nothing to bargain with. Appex's customers' bargaining power is something that could be an issue because the cellular market is developing rapidly and there is a potential for them to have bargaining power when they have an opportunity to substitute Appex for another service. To mitigate this risk Appex must differentiate itself so the customer has higher switching cost, and this would make them less likely to try to bargain or switch to a substitution. Since the cellular market is new and increasing rapidly there will be substitutes for Appex's products. The threat of new entrants is also high since this is a new market that is growing rapidly. Appex is combating the threat of new entrants and threat of substitution effectively by differentiating itself in the market. Appex does this with its technological innovation and by bringing products to the market quickly and this allows the company to

compete against larger established organizations such as GTE. This differentiation has also made Appex fair well against competitive rivalry. As with any emerging market, there will be a large amount of competitive rivalry yet again, Appex's differentiation has kept it successful in this market. The only threat is that Appex needs to maintain this differentiation advantage as the market continues to grow and evolve and choosing the right organizational structure will help achieve this. Appex's current organizational structure is divisional. All divisions report to CEO Shikhar Ghosh and there are four divisions the Paul Gudonis ICS division, Bob Lentz ICS division, Ted Baker operations division, and the HR plus finance division. The first ICS division ran by Gudonis is focused on the ICS part of Appex and is comprised of ICS business, ICS marketing, and profit and loss responsibilities for ICS. Intercarrier services (ICS) was Appex's main source of revenue, accounting for 60% of Appex's total revenue. Appex's ICS business is an online high-volume transaction service that helped carriers provide their service to their customers and roamers using their cellular service. Appex's second ICS division was run by Lentz and was made up of information systems business, information systems marketing, and profit and loss responsibilities for the information systems. The information systems business was different than the ICS business, it was an information system designed to complete the primary functions that cellular companies needed in their home markets. Appex's information systems also developed a customer management information system (CMIS); this system managed nearly every aspect of the cellular company from customer billing to network engineering analysis. These information systems Appex sold were responsible for the other 40% of total revenue. The operations division oversaw a customer service data center and supporting the network services for the other divisions. The last division is HR and finance which provided administrative support to the other divisions. One issue with the current structure is that resource

management between divisions started to cause tension between them. Divisions did not want to share resources so most often personnel were hired multiple times so each division could have its own person in that position. For example, instead of hiring one database manager that helped each division, each division wanted its own database manager and three would have to be hired. Also, as each division grew it was hard to get accurate financial numbers which made it hard to plan for future events.

Key stakeholders:

The key stakeholders at Appex are the employees, the customers, and Electronic Data-Systems (EDS). A company's stakeholders are the people or groups that are impacted by the business. At Appex the employees will be affected if the company does well or is poor, they will be paid and hired based on how the company is performing. The customers will be impacted by Appex's performance. If Appex's software is better, then the customers' businesses will do better as well. If Appex delivers poor software, then the customers' businesses will do worse. EDS is impacted by Appex's performance as well. EDS has just bought Appex and if Appex performs poorly they will be impacted and could eventually sell Appex to another company or start making major changes to it. It is in Appex's best interest to keep performing well so all stakeholders will be positively impacted.

Alternatives and impacts:

Appex's has three main options for their organizational structure: don't change it, improve the current system, and change it to a matrix system. So, what would happen if Appex did nothing? Currently, under the divisional structure, there are issues but there are also things that this structure has improved. The improvements that the divisional structure brought were improved accountability, budgeting, and planning. According to Cash when talking about divisional

structures: “The divisional structure works well when coordinated action is required to develop innovative products, satisfy client expectations, or maintain a market segment.” (Cash 30). The cellular market is growing rapidly and to combat that Appex needs an organizational strategy that can handle that, and Cash says that the divisional structure is good at maintaining a market segment. Also not drastically changing the organizational structure has a positive impact on key stakeholders. An organizational structure switch puts additional stress on employees which would negatively impact them. Not switching the organization structure avoids this stress and in turn, helps employees by avoiding it. Also switching the structure is risky because each structure has tradeoffs and as far as we know this could be the best structure for Appex and switching it could cause negative tradeoffs that would impact customers. If customers were negatively impacted, they could use an alternative to Appex which would decrease our profits. This would also impact the employees at Appex, and EDS. Employees would not get paid as much and EDS’s profits are impacted by Appex’s because they own Appex. The second option is to improve our current divisional organizational structure. The main issues with Appex’s divisional structure are divisional resources competition and struggling sharing resources. According to Cash: “Coordination across divisions can also be difficult. Further, in pursuing their own goals, divisions may work at odds with one another. For example, salespersons from different divisions may compete for the attention of common customers.” (Cash 31) I think to improve the shortcomings of Appex’s division two things need to happen: a bonus system must be implemented, and A sales division should be added. A bonus system that focused on the entire company’s success would help employees focus on the entire company’s success and not just the success of their division. The bonus system would focus on the net profits of Appex at large if its net profits hit the projected amount employees would receive their “Appex Company Goal

Bonus”. Employees would be reminded about this regularly so that they will focus on the company’s success instead of divisions. If successful, the bonus policy would positively affect the employee’s stakeholders by increasing their pay. This would also have a ripple effect and cause employees to be more effective company-wide and could increase profits which would have a positive impact on EDS. This could also affect customers by employees giving them better service which would also positively impact them. The third option for Appex is to switch its organization structure again to a matrix structure. When talking about the matrix structure Cash says:

“The matrix is appropriate when the following conditions obtain. First, environmental pressures are from two or more critical dimensions, such as function and product or function and region. These pressures mean that a dual authority structure is needed to achieve a balance of power in reaction to environmental pressures. Second, the task environment of the firm is both complex and uncertain. Frequent external changes and high interdependence between units require extremely effective linkages in both vertical and horizontal directions.” (Cash 31)

So, I think that the environment does have two pressures the first one being two different technologies IS system vs CSI system and the next one being maintaining differentiation during rapid growth in the cellular market. For Appex to keep its self-differentiated in this market it needs to continue to innovate and bring new solutions to the market that brings new customers to Appex. A matrix structure has two categories that intersect the two categories that would be for Appex are the CSI division and the IS division and then the other side would be a profit and loss, marketing, customer service, network services, finance, research, and development and HR categories. The positive impacts from a matrix system are more flexibility and innovation and

this is needed to maintain differentiation in a rapidly growing market. According to Morgan: “In this form, it is like the adhocracy: The focus on an end product rather than on functional contributions encourages flexible, innovative, and adaptive behavior.” (Morgan 51) So Morgan is saying that a matrix organization is superior at adapting to the market. If Appex can adapt well to the emerging cellular market it would positively impact all stakeholders. Employees would get paid more because Appex is succeeding. Customers would get innovative quality products and services that would positively impact their businesses. EDS’s profits would increase from Appex, and it would then also positively impact them.

The best alternative and why:

In my opinion, I think Appex should go with the third option and use a matrix structure as its organizational structure. I think the matrix structure would be viable for Appex because they must maintain their market differentiation in this emerging cellular market. With the divisional organization structure, Appex’s employees are focusing on their divisions which is stifling innovation which is one of the key reasons Appex is chosen by customers over the competition. If Appex loses its differentiation advantage it will negatively impact all stakeholders. Employees will not get paid more and have increased pressure put on them due to profits decreasing. Customers will choose other companies to do business with since Appex is no longer better than the competition. EDS being Appex’s parent company will reflect Appex’s losses and put increased pressure on Appex to perform. The added pressure will increase stress in employees and will cause them to perform worse. I understand that it is risky and stressful to switch organizational structures but even Appex’s CEO Ghosh says “Every six months by design I change the organizational structure. I changed it in January 1991, and I’ll change it again in June 1991. We’re growing at 10 percent a month. I feel when a company has grown 50 percent, it is

time to change.’’ (Ghosh 52). So even the CEO knows that the divisional structure will need to be changed soon and which is why we can’t just keep using a divisional structure and which is why we can’t modify it. Also, regarding matrix organizations, Morgan says: “It is a form highly suited for the performance of complex and uncertain tasks in turbulent environments.” (Morgan 50) This is why it is perfect for Appex it is in the midst of an “uncertain” “turbulent environment” that being the emerging cellular market. I believe therefore the matrix structure will suit Appex well.

In conclusion, Appex should implement a matrix organizational system because it will help them maintain their differentiation focus generic strategy. This will help keep all stakeholders happy by keeping profits increasing. With increased profits employees will be paid more and get more benefits which will positively impact them. Customers will continue to get quality innovative solutions that will positively impact them by making their businesses perform better. EDS the parent company will also be able to report increased revenues from Appex which will make them happy and positively impact EDS’s stakeholders.

Sources:

“Chapter 2 Introduction to Organization Structure.” Building the Information-Age Organization: Structure, Control, and Information Technologies, by James I. Cash, Irwin, 1994.

“Chapter 4 Nature Intervenes Organizations as Organisms.” Images of Organization, by GARETH MORGAN, CORWIN PRESS INC, 2018.