

Case 2.1 Appex Corporation

Nicholas Gay

The Problem

Appex Corporation was a rapidly growing firm in the cellphone industry. As it grew, it became very loosely managed and bore no semblance to a firm with any type of existing organizational structure. The problem is centered around this lack of structure and the decisions that the new CEO, Shikhar Ghosh, must make when implementing structural changes. As the firm evolves, Ghosh must repeatedly change the organizational structure to make sure it survives, and each change also brings along its own fair share of new problems. Should Ghosh have made all of the structural changes, or did better alternatives to his actions exist? This is the main problem that is being addressed by this case study.

Industry Competitive Analysis

Mission Statement

The mission of Appex Corporation is that they are a service provider in the cellphone industry that provides management information systems and intercarrier network services to cellular phone companies using a differentiation strategy.

Organizational Structure

When Ghosh took over, Appex had a very loose, disorganized structure, and as the firm evolved, the organizational structure changed as well. First, Ghosh tried to implement a non-traditional circular structure, which was a bit too ambitious, because it failed. As a reaction to the non-tradition structure, he followed up with the more traditional and well-known functional structure. According to chapter two of the book, *Building the Information Age Organization* by James Cash, an organization has functional form when it “grows beyond the affairs that can be handled by a single group of people and one boss”, and management has decided to form very basic divisions of labor. Common activities are grouped together, and their activities are coordinated through hierarchical supervision. The problem with implementing a formal structure at

Appex, however, was that they were already well beyond what a functional structure could handle, and the environment was much too volatile. Managers at Appex were already complaining about “decision overload”, and a functional structure does not work well in situations like that, so once again, the structure failed.

Ghosh then took some advice from one of his managers and decided to implement a product team structure. Like the previous two, it had its “ups and downs”, and eventually it had to be changed too. The product team structure was expanded into the product/business team structure, and then Ghosh finally settled on a divisional structure. In the same chapter, Cash states that an organization has divisional form when “diverse functions, such as manufacturing, research and development, and marketing are grouped together within each division.” This was the last change that Ghosh would make regarding the organizational structure since Appex became a division of Electronic Data Systems in 1990, meaning that the current organizational structure of Appex is divisional.

Business Model

The business model of Appex is a value shop because they are a service provider, not a manufacturer.

Generic Strategy

The generic strategy of Appex is differentiation because they offer multiple products to many different customers on an economy of scope, which means that they provided their services in a way that they could be sold anywhere in the world. Appex also associated specific needs, managing the cellphone companies’ customers within their “home” and “roam” territories, with specific products, management information systems and intercarrier network services.

Analysis of Porter's Five Forces

1. **Intra-Industry Competition: Low Risk** because Appex's competitors were weakened by Boyle's solution to their service problem
2. **Threat of new entrants: High Risk** because it was a new industry and there weren't many barriers to entry
3. **Customers: Low Risk** because Appex's customers needed this service and had high switching costs
4. **Suppliers: High Risk** because Appex's suppliers were the workforce and they did have trouble finding qualified managers
5. **Threat of Substitutes: Low Risk** because Appex provided different services and produced many new products

Stakeholders

The stakeholders involved in this case are:

- Ghosh
- Appex Shareholders
- Appex Employees
- Appex Customers

Ghosh is a stakeholder because he's the main actor of the case. He makes the final decision on what organizational structure to implement, and his decisions affect each of the other stakeholders. The shareholders are a stakeholder because they appointed Ghosh to his decision, and it's their money that's being used to fund Appex. As such, they are greatly affected by the decisions that Ghosh makes on the organizational structure. The employees are a stakeholder because changes in the organizational structure directly affect their standing within the organization, and more importantly, their jobs. Finally, the customers are a

stakeholder because decisions regarding the organizational structure affect the quality of service that they receive. Those are all the stakeholders within the case, and how the decisions made within the case affect them.

Alternatives

The alternative solutions to Ghosh's decisions are:

- Do nothing
- Include managers and employees
- Implement a network structure

1. Do Nothing

The main alternative to Ghosh's decisions and the problem presented by this case is to do nothing. Ghosh could have ignored the problems already present at Appex and left the organizational structure alone. The pros of this alternative are that the Appex employees get to continue with their careless, easy-going work environment, which is actually a bad thing for the company, as every other stakeholder would be negatively affected. The cons of this alternative are that Appex would probably continue to displease customers, the shareholders wouldn't feel as though their money was being spent the way they wanted, and Ghosh would have most likely been fired for not doing what he was hired to do. That is why this is a bad alternative decision and should be avoided.

An organizational structure is needed if the firm wants to achieve its main goal, or to survive. As the firm grows, it becomes more and more apparent that some type of formal structure is needed to progress. A good example of this is how Appex was successful as a startup with an informal structure, but then began to lose control of itself as the firm grew. At this point, a more

formal structure was needed, and Ghosh was hired to make that happen. In chapter one of the book, *Building the Information Age Organization* by James Cash, an organizational structure serves the function of “enabling members to undertake a wide variety of activities according to a division of labor, coordinating those same activities through integrating mechanisms, and defining the boundaries of the organization.’ Without that basic structure, it would be very difficult for Appex to survive at their size before Ghosh. That’s an overview of the do nothing alternative, and why it is the wrong decision.

2. Consult managers and employees

The second alternative decision is including the managers and employees before making a structural change. Ghosh didn’t have to just use his own ideas, like the circular structure. He could have gotten manager and employee feedback first. The pros of this decision are that the managers and employees may be more willing to accept the structural changes if they are included in its formation. As seen with Appex, not all the employees and managers appreciated the changes that Ghosh was implementing. This is best exemplified by the letter criticizing the formal structure that was sent to Ghosh by the manager who suggested the product team structure. Here the question that needs to be asked is, “How can you make an effective decision concerning an organizations’ members without consulting them first?” The structure was already laid back before Ghosh took over as CEO, and consequentially, a lot of the employees were resistant to some of the changes he tried to implement. McKinsey & Company, an American worldwide management consulting firm, states that 70% of change programs fail to achieve their goals largely due to employee resistance and a lack of management support. If both are included the possibility of coming to a better solution cannot be overlooked. This is another reason to include them in on the decision making.

The cons of this decision, however, is that Appex could do this and still fail to implement the correct structural change. An article on *Forbes*, a well-known American business magazine,

presents more than a few shortcomings of “decision inclusion”. The article points out the facts that “the traditional change model views top-management as sole originator of change ideas,” and “employees are construed merely as auxiliary implementers.” This means that executive decision makers don’t truly value employee input when deciding on an organizational change. The article also states that “employees must fear raising concerns or proposing alternatives one too many times,” because they may be negatively impacted, and that “insulating a project from critical feedback looks like a recipe for failing late and failing big,” which translates to “deflecting valid criticisms is not a good way to handle a large decision, one like implementing structural changes.” The last con is that it was Ghosh’s job to make the decisions. He could not be too dependent on feedback from his managers and employees, or he would have been seen as a poor leader. Those are the pros and cons of including management and employees. Lastly, the impact of this decision on the stakeholders are that Ghosh potentially chooses the correct organization al structure on his first try, the shareholders are reassured about the trajectory of the firm, the employees are satisfied with their roles within the organization, and the customers receive a decent experience.

3. Implement a network structure

The last alternative is a bit unrealistic, but the easiest solution to the problem. If Ghosh had gone with a network structure in the first place, Appex would not have needed all the future changes. According to Peter Drucker’s article in the Harvard Business Review, “The Coming of the New Organization,” a new organizational structure called “network structure” marks a “sea change move from command-and-control organizations to an information-based organization.” A network structure takes elements from all three of the traditional organizational structures, functional, divisional, and matrix, and combines them together to create an adaptive, responsive organization that thrives in a volatile environment. This type of organizational structure seems to fit Appex perfectly. The problem, however, is that this structure did not exist at the time, and

Ghosh needed to make the mistakes that he did to figure out what structural changes were needed in the first place. You can't learn anything new if you don't fail first. Those are the pros and cons of this decision. The impact that it has on all the stakeholders is a positive one, as it would have been the perfect solution to the problem.

My Solution

The best alternative decision in this case is to include the managers and employees in on the decision to make structural changes. The first alternative, do nothing, is a no-go since it does nothing to solve the problem presented by the case. Implementing a network structure would have been the best solution, had it actually existed, and been possible for Ghosh to implement. Based off the information about Appex that he had, I don't think he would've been able to come this solution on his own. Also, the traditional structures involve a process of evolving from a functional structure to a divisional one, and then to one that's akin to a matrix. Ghosh may have had some missteps, like re-implementing the functional structure, but the divisional structure seemed to be working before they were acquired by EDS. I can assume that had the EDS acquisition not occurred, Ghosh and Appex would have eventually found themselves implementing a matrix structure. Including the managers and employees in on the decision making seems to be the only real solution that can be applied to this case, and that's why my solution would be to do just that.

Conclusion

This case study involves Appex Corporation, a service provider in the cellphone industry, and decisions about organizational structure made by Appex's newly appointed CEO, Shikar Ghosh. The alternative decisions to Ghosh's are to do nothing about Appex's situation, involve managers and employees in decision making, and to implement a network structure. The best

alternative decision is to include the managers and employees in on the decision because it's the only realistic choice, and therefore, the best decision to make.