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Appex Corporation

Case Study

Background

Appex Corporation is a result of the 1986 merge between Appex Inc. and Lunayach Communications Consultants. Appex Inc., founded in 1984, was centered on the information systems management for the cellular telephone industry, as well as the credit scoring system for financial companies. On the other hand, Lunayarch Communications Consultants (LCC) was the design and engineering company for cellular networks and the radio networks being used.

In 1990, Appex Corporation was rated as one of the fastest growing high-technology company in the United States by Business Week (Gladstone). The corporation, headquartered in Waltham, Massachusetts, was in dire need of an organizational structure – as the company previously had none. Previously, Appex was able to facilitate like other small businesses, where the employees were able to work on daily tasks within their availability and without and certain job responsibilities. There was a clear lack of communication within the levels of the organization which led to the lack of task completion daily. This inefficiency led to Appex losing large amounts of money, hurting the investors and customers in the long run.

Appex investors brought in Shikhar Ghosh, introduced as the CEO in 1988. With this addition, the company was destined to undergo a plethora of organizational structure changes in order to help Appex survive as it grew. Ghosh focused on the company’s current customers as well as its prospective customers. In the end, there were a large amount of work requirements set, and an implementation of the divisional organizational structure within Appex Corp. There were four specific divisions: Intercarrier Settle Services (ICS0, Information Systems (IS), Operations, and Human Resources.

The problem at hand is simple, which organizational structure should Appex adopt? This organizational structure should best fit the business needs and move the needle far away from the company’s previous structures. There needed to be policies placed that focus on efficiency, keeping the economies of scale present in the market. “We can’t run the plant just by the seat of the pants” (Goldratt). Appex needed to move away from running the plant this way and create a division of labor within the corporation to establish daily work responsibilities. However functional Appex was at the beginning was not going to last, as the company had seen almost a $16 million revenue increase from 1987 to 1990. Ghosh needed to find an organizational structure that could stick as Appex continued to boom within the industry.

Stakeholders

The most obvious stakeholder at risk in the Appex case is Shikhar Ghosh himself. As the CEO, he is responsible for setting the structure of the organization to help the business and its employees thrive. Ghosh has changed the structure multiple times, each starting out well then falling off down the road. To continue the increase of revenue by Appex, Ghosh is faced with the hard task of implementing a sustainable structure that will keep the company’s employees, customers, and investors happy.

Next, there are the employees. Those who work for Appex, and Ghosh, may face different changes and could leave the company if unsatisfied. The new structure could lead to changes in supervision, daily responsibilies, and potentially more work.

Third is the customers. The customers keep the Appex engine flowing. As the corporation is booming in the cellular network industry, the customers continue to grow and demand more. Because of this, it is important for Appex, and Ghosh, to be able to satisfy these requests. For example, BellSouth and Southwestern Bell rely on Appex to fulfill their own cellular needs to keep those companies alive and thriving.

Fourth are the shareholders, who invest in the company. These shareholders have seen the company grow exponentially over the past couple years while changing organizational structures. However, there is plenty of risk involved by doing this. So, in the end, shareholders would prefer to have a set structure for a continuous amount of time in order to feel comfortable with their investments.

Lastly, is Electronic Data Systems (EDS) - owned by General Motors, which acquired Appex in 1990. EDS made a large investment in Appex, now relying on the company to implement this organizational structure that can raise the bar that General Motors previously had.

Mission Statement

Appex Corporation had a mission of providing management information systems as well as intercarrier network services for the cellular phone industry. The corporation desired a credit scoring system within the financial service companies, too. The company is customer-focused, priding itself on service, reduced costs, and efficient delivery of their product to their customers.

Competitive Analysis

Appex Corporation has plenty of competition in the cellular industry. As Appex began as a smaller, entrepreneur-like company, the company had a leg-up on its competition in response time. Also, there was an advantage when it came to the consistency of the product that Appex offered when compared to the larger companies. However, as Appex boomed, the product and response times took a hit.

Generic Strategy

In 1991, Appex was facilitating its operations within a Divisional structure. The company was split into four divisions: Intercarrier Settle Services (ICS0, Information Systems (IS), Operations, and Human Resources. These divisions were responsible for their own tasks and communicated (somewhat) with one another as issues raised.

Of Porter’s Generic Strategies, Appex used the Cost Leadership strategy. “Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible” (Tanwar). This may help explain why Ghosh was open to changing organizational structure every 6 months. As the Appex Corporation grew, it began to fall victim of many Cost Leadership companies: the lack of attention to the needs of its customers.

Porter’s Five Forces

Porter’s Five Forces are utilized to thoroughly analyze the “attractiveness” of the market that the Appex Corporation is competing in. There are external factors that may play in the industry, and these five forces help businesses analyze where there is opportunity as well as risk within the product’s market. In the Appex Corporation case, these five forces will be analyzed below:

1. Competitive Rivalry

The level of competition was high in this market. As Appex grew over time, it lost its competitive advantage of reliable response time and consistency of its product. As Appex expanded, the proper management structure remained undeveloped, leading to a lack of innovative product that larger firms could afford to practice trial-and-error on. As these companies began to be more effective than Appex, they became more functional too.

1. Threat of New Entrants

The threat of new entrants in this market is somewhat high. This industry is not difficult to break into, as the costs of entry are low and do not require as much personal infrastructure as other industries (like in Case 1). However, companies that can merge with engineering companies (like Appex) gain even easier access to softwares that can be established in cellular networks very swiftly. As seen with Appex, the industry sees a lot of jockeying for position in the levels of competition.

1. Threat of Substitutes

There were not many alternatives discussed in the case study that were of concern. However, the threat is very high as the competition for this product and services was very high.

1. Bargaining Power of Suppliers

The bargaining power of suppliers in this case is quite low. Suppliers of equipment to operate are set at standardized rates, and there is no potential for suppliers to participate in price gouging.

1. Bargaining Power of Customers

Customers have a very high buyer power when it comes to the product at hand. The nature of this industry consists of few buyers, but at tremendous volumes of the product. Appex and its competitors must be able to supply a consistent product at a cost-effective price to compete within this industry.

Potential Solutions

1. Do Nothing

The first route that Appex Corporation can take is quite simple: do nothing and essentially “exist.” As of now, the corporation has a Cost Leadership strategy and is structured divisionally. Because Ghosh has struggled tremendously at setting a sustainable structure, he could ultimately decide to keep the Divisional structure and hope the teams will be able to effectively communicate more often. By doing nothing, the stakeholders are at tremendous risk for failure. The employees, shareholders, EDS, and Shikhar Ghosh risk total and complete failure within the cellular industry – potentially leading to a loss of all customers. Those who are loyal to Appex may remain satisfied, however, there would be a firm ceiling set for the company’s future goals. Shareholders would likely become dissatisfied with the company, as the divisional structure is not cost-friendly. While the shareholders may not be happy, the Divisional structure may be the most reliant structure that Ghosh has implemented. This structure creates a vertical, more integrated style of business that makes communication absolutely necessary. To seek upper management, each employee now has a direct route through its division of labor. The former structures failed as there was no direct placement of employees within the organization which led to plenty of uncertainty.

1. Implement a Matrix Organizational Structure

The second alternative that the Appex Corporation may take is the Matrix structure. This structure is one of the few that Ghosh has yet to implement within the organization. A Matrix organizational structure would create a more bureaucratic structure. There would be more functionality within the company on top of having the multiple divisions that already exist (Cash 2). As a result of the Matrix strategy, there will be better cost-effective resources that could lead to a more consistent product, better decision-making as a team, a heightened level of responsiveness, and better relationships among the teams. The current problems with Appex are simple, and with a successfully implemented Matrix structure the corporation would work better functionally and divisionally. For all stakeholders, this would be nothing new from the company. Another organizational structure would not be a surprise to anyone and has become a commonality by now. The investors would see an increase in income as the performance would be better and more innovative. Employees, EDS, and Ghosh would see steady improvement in the many facets of the business and their work-life would become less hectic and easier to maintain daily.

1. Continue to Adapt Incrementally

“Anything that can be changed will be, until time runs out” (The Rules of Bureaucracy). Throughout his time as CEO, Ghosh has implemented the Circular structure, Horizontal structure, Hierarchy Functional structure, and most recently the Divisional structure. Because the company has continued to exist, it is not easy to rule this alternative out. Currently, the organizational structures and policies have rotated on a 6-month basis. This steady change would have a very odd impact on the stakeholders of the corporation. For the employees, the continuous change in the work structure would cause plenty of problems after so long. The constant change would make the work environment extremely unattractive, leading to the inability to recruit talent. For the shareholders, this would be like the organization doing nothing. The increase and decrease of revenue over time would potentially even out in the long run, however, that is not a risk that investors would like to take on.

Course of Action

My personal recommendation for the Appex Corporation is to implement the Matrix Organizational Structure. A “fully developed Matrix is team driven, in that priority is given to business, program, product, or project areas, with functional specialism providing support” (Morgan). After evaluating the Appex Corporation, it is critical that these things be established to create a successful working environment. As new projects are developed, and innovation is a focus for the company, better communication within the teams in the Matrix structure would lead to effective and efficient task resolution. Because the prior structures failed to provide adequate responsiveness and consistency, the division of power among managers in the Matrix structure will help hold each team and function within the organization accountable. All in all, it would be beneficial for Ghosh to give the Matrix Organization Structure a try, even if it does not completely solve the problems. After analyzing this structure, it would serve the company a multitude of ways if successfully implemented. However, if it does not work entirely, the company has changed structures so much and soon the employees will think “that’s the way it’s always been around here” (Apes).

Conclusion

In conclusion, there are many alternatives that Shikhar Ghosh has when deciding between how to structure Appex as the CEO. With the very high level of competition in the industry, and the massive growth of the Appex Corporation, he must act now. Because of that, the best alternative is the structure that benefits the stakeholders the most. The result: apply the Matrix Organizational Structure throughout the company. Each time there is a structure change, risk is involved. However, the Matrix structure is designed to create effective communication throughout the functional teams. This is something that Appex has been failing at and is critical for the future growth and innovation that is necessary to grow within its respective industry. Ultimately, Ghosh should find no issue with making another structural change and hopefully it is the last change that the organization must go through for a very long time.

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