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CIS 410-01

Case 2-1 Appex Corporation

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**OVERVIEW**

Appex Corporation is a company that provided management information systems and intercarrier network services to cellular telephone companies. Appex Corporation was a merger of two companies, which were Lunayech Communications Consultants (LCC) and Appex, Inc. Luneyech specialized in the design and engineering of cellular radio networks for cellular companies while Appex had focused more on management of information systems for those companies. This was in the mid to late 1980s when the cellular industry was still very new. At this time, this industry was fast growing, and Apex was rated by Business Week as the fastest growing high-technology company in the United States. In 1988, Shikhar Ghosh accepted a position as a chief operating officer with the understanding that he would be made chief executive officer shortly after. Ghosh lead the company through six organizational structure changes over a 30-month period.

**PROBLEM**

When Ghosh took over as the new CEO/COO of Appex Corporation he was faced with a structural issue. The company was very loosely managed with a very informal and fluid structure. This worked early on with the company but as the company grew it led to problems. Employees were hard work when they were there, but there was an issue with them showing up late. They essentially created their own schedules. As the case states, it went from an entrepreneurial atmosphere to a chaotic one. The employees became “fire-fighters”, which means they tackled whichever problem was the biggest at the time with little planning structure. This led to issues with customers not receiving responses. The customers that were assisted were quite happy, but the problem was the ones who received no assistance at all. Appex couldn’t keep up with the new demand at the pace the company was growing. This is where Ghosh had to decide on what to do with the structure to increase efficiency so that all customer needs could be met, and tasks could be accomplished on time. Whatever decision he had to make, he had to get the employees to conform while at the same time, pleasing the customers and shareholders.

**MISSION STATEMENT**

Appex Corporation’s mission is to provide management information systems and intercarrier network services to cellular telephone companies as well as credit scoring systems for financial service companies.

**PORTER’S FIVE FORCES**

***COMPETITIVE RIVALRY***

Appex Corporation had a **high** amount of rivalry. Their competitors were GTE, Cincinnati Bell, and McDonnell Douglas. At one point they had put out a request for proposal to establish a joint entity called ACT which was intended to address a service need in the cellular industry. This ended up falling through because Brian Boyle, the first CEO had implemented a solution that gave Appex a large advantage. However, with time, other companies would catch back up once they were able to implement their own solutions and competition increased.

***THREAT OF NEW ENTRY***

There was a **low** threat of new entrants because primarily because of cost and knowledge barriers. Companies needed to have the expensive infrastructure in place as well as the software to effectively run the business. This would be quite expensive and a huge risk since Appex Corporation and other similar companies had already cornered the market.

***BARGAINING POWER OF CUSTOMERS***

The bargaining power of customers would be low because of the high demand for Appex Corporations services. They had approximately 75 customers in 1990 which included BellSouth, Cellular Communications, Inc., and Southwestern Bell. They had contracts that were multiyear service agreements that ranged in value from $100,000 to over $2 million. This would also create high switching costs. As Appex grows and with the current issues they have, bargaining power of customers could potentially increase.

***BARGAINING POWER OF SUPPLIERS***

The bargaining power of suppliers in general, would be **low** because once they already have the infrastructure in place, there is not many other, if any, raw materials that would be needed. It was primarily service that Appex offered. Their main supplies would be their employees, computers, and programming. Computers could be bought from several different companies. A such as Windows would have **high** bargaining power since every computer needed it, and Appex would have no other true substitute to go to. So in other words, it would really **depend** on the supplier.

***THREAT OF SUBSTITUTES***

The threat of substitutes would be high because Apex Corporation deals with technology and they offer unique and specialized products and services. In the tech industry, things can change fast. All it takes if for one company to come up with some unique idea, or that next “latest and greatest” thing, and they could lose a lot of business. With that being said, there would not be a lot of substitutes, but in this industry, the threat of even one substitute could potentially be crippling.

**STAKEHOLDERS**

***Shareholders*** – This would be anyone that has a stock in the company

***Customers*** – This would be any of Appex’s customers such as BellSouth, Cellular Communications, Inc., and Southwestern Bell.

***Shikhar Ghosh*** – Ghosh is the CEO, with the goal to improve/fix the organizational structure of Appex Corporation that would fit their culture and solve efficiency issues to improve performance for customers.

***Appex Corporation Employees*** – This would be anyone else that works for Appex Corporation, including the board of directors.

**ALTERNATIVES**

**DO NOTHING**

With this alternative, Ghosh would do nothing at all with the structure. He would leave the company as informal and allow employees to do what they want, when they want with no real structure in place. As the case stated, problems were already arising because of this lack of structure. It would be likely that the problems would only get worse.

***Shareholders***– Everyone has their limits, especially customers. With Appex Corporations poor customer response time, customers will leave which means the company will make less money, which means shareholders would be very negatively impacted. Shareholders have a stake in the company, and their primary concern is to see a high return on investment. This alternative would not lead to that.

***Customers*** – Customers are already becoming dissatisfied with the very poor response time. Even with the higher switching costs, the customers will have their limits. Once the poor service reaches a certain point to where it negatively impacting customer business, they will leave.

***Shikhar Ghosh*** – If Ghosh was aware of the current issues and poor service and did nothing about it and watched the company fall apart, he would likely get voted out or lose his position as CEO.

***Appex Corporation Employees*** – Employees will begin get to fed up with their fast-paced high stress environment of fixing problem after problem that should not even be problems to begin with. It is likely they will end up leaving the company and finding another place to work that has more structure.

**IMPLEMENT DIVISIONAL ORGANIZATIONAL STRUCTURE**

This is the structure that was implemented by Ghosh in 1990. He established two broad divisions, intercarrier services and cellular management information systems. He also created a third division for operations which included utility functions that serviced the other two divisions. This structure improved accountability, budgeting, and planning and gave employees a focus, meeting financial targets. This would be an improvement over no structure, but there will still be problems. Problems this structure presented were lack of innovation. Communication flow did not cross between divisions, so fewer ideas were presented. This led to the divisions acting like separate companies which presented the problem of them focusing on local optimum instead of the global optimum (Goldratt). Each division wanted their numbers to look good instead of what was best for the company.

***Shareholders*** – The shareholders would be a little happier with this solution since there would be some structure in place. Overall, they wouldn’t be too excited since fewer project ideas were being presented which means growth and return on investment wouldn’t be as high as it should or could be.

***Customers*** – Customers wouldn’t be too happy if service requests aren’t being completed because of the divisions fighting with each other.

***Shikhar Ghosh*** – Would see the structure eventually decline and continuous fighting between divisions, with a snowball like decline.

***Appex Corporation Employees*** – Employees may become disgruntled; the environment could be come hostile with constant complains and blame games between the two divisions.

**IMPLEMENT HOLOGRAPHIC ORGANIZATIONAL STRUCTURE**

This structure would allow Appex to exploit uncertainty rather than reducing it. This could fit them with as fast as they are growing. There would be quite a bit of uncertainty. It would allow them to adapt to changing environments. People, decision rights, roles, and reporting relationships are contingent on projects and events. With this structure, the organization could be fast and responsive to any changes in the environment, which could be new entrants due to technology advances. Overall, this roll could show more innovation.

***Shareholders*** – With more innovation, there could be higher return on investments, which would make the shareholders wallets happy.

***Customers*** – Customers would likely be happy, as solutions for day to day problems could be fixed or solved, and they would see more services. poor service

***Shikhar Ghosh*** – Ghosh would likely see more innovation with this structure, so he would be very positively impacted. If he is making the shareholders happy, then he is doing his job.

***Appex Corporation Employees*** – Employees will feel empowered and like they can be more creative with this structure. They will work better together and there will not be a “wall” like there is with the divisional structure.

**IMPLEMENT FUNCTIONAL ORGANIZATION STRUCTURE**

This is a hierarchical structure where the functions were organized as teams such as sales/marketing, software development and services, engineering and technology, operations, finance, human resources, and administrative. This allowed the company to focus on tasks but created other problems. The source of authority was functional and not managerial. This means that the head of engineering was the best engineer. This could create problems, since the best engineer would be a valuable resource, but if he is spending all his time managing, he isn’t being properly utilized and vice versa, if he is spending all his time engineering, he isn’t being an effective manager. Another issue is that the organizational chart grew rapidly, taller and wider.

***Shareholders*** – Shareholders wouldn’t see as much profits as they should since every decision made could be over ruled by someone above that person. This is a problem with so many levels in the organizational chart.

***Customers*** – Customers wouldn’t be to happy for the same reason as the shareholders. The focus would be more internal rather than towards the customer. There would be too many meetings and too much wasted time.

***Shikhar Ghosh*** – Shikhar would likely end up overwhelmed if decisions continuously made there way up the tree until they reached him due to the constant battle between authority.

***Appex Corporation Employees*** – Employees would be too focused on the internal processes and titles of the different positions. Which for some, employees might like that, but it wouldn’t be beneficial for the company.

**RECOMMENDATION**

Since Appex is in an industry that is all about innovation, I would recommend the holographic organizational structure. Different environments favor different species of organizations based on different methods of organizing and that congruence with the environment is the key to success (Morgan). The holographic structure would allow them to be more responsive in an industry where things can change rapidly. This would be an invaluable trait for an organization to have. A business is like an organism, if an organism does not adapt and grow to its ever-changing environment, they will not survive (Morgan). Work activities are influenced just as much by human nature, as by formal designs set by an organization, so focusing on the human side of an organization is crucial (Morgan). The divisional structure creates conflicts of interest between the different divisions with them not focusing on what is best for the company only what makes their division look good. A system of local optimums is not an optimum system at all; it is a very inefficient system (Goldratt). The holographic organizational structure would remove these conflicts between divisions. Power is the medium through which conflicts of interest are ultimately resolved. Power influences who gets what when and how (Morgan). The functional structure, while, at first seemed more organized lost focus once there became too many titles and positions. It created to many problems and had too many people involved with making simple decisions which is not a problem in the holographic organizational structure. With a holographic structure, the organization will be able to self-organize and regenerate continuous basis (Morgan).

**WORKS CITED**

Goldratt, Eliyahu M., and Jeff Cox. *The Goal: a Process of Ongoing Improvement*. Routelege, 2016.

Morgan, Gareth Images of Organization. SAGE publications, CA, 1986