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CIS 410-05

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Case 2: Appex

Organizational Structure

An organizational structure serves a multitude of purposes, designing one for an organization comprises of decisions that must take these factors into account. The structure of an organization includes the division of labor, division of decision rights, coordination mechanisms, organization boundaries, and informal structure. When Shikhar Ghosh, a former partner at a consulting firm, accepted the chief operating officer position at Appex Corporation, it was a small and disorganized company. With only 25 employees and a whopping \$2 million in revenue, it was grossly successful due to capturing a niche market. Appex was loosely structured and employees did what they wanted with little to no consequence. Or so they thought: Appex was losing money at a rapid pace, and investors weren't pleased.

Appex Corporation was the product of a merger between Lunayach Communications Consultants (LCC) and Appex Inc. LLC designed and engineered cellular radio networks for cellular companies, while Appex Inc. managed information systems for the cellular industry. Appex Corporation served as an intermediary between cellular telephone companies and their customers via management information systems and intercarrier network services. They provided customer relationship management systems (CRMs), payment systems, and other management systems between carriers that companies could use to bill their clients.

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At the beginning, Appex only facilitated transactions within the cellular industry. They had little to no competition because the cellular industry was newly emerging. As a result, their growth was exponential. They were even rated the nation's fastest growing high-technology company in 1990. Innovation was rampant, and Appex's team was extremely talented. However, they were unmanaged and losing their foothold in the infant market.

Without this oversight, employees were able to work in creative manners which led to impressive problem solving and deliveries. Consequently, they had no clear roles or project focus. They worked on what they individually deemed important. They were a project-based company, but when their workloads increased, they simply hired more people. They were blowing through their money.

Shikhar Ghosh

In 1988, the investment group had had enough and decided to make a change. Shikhar Ghosh, the new Chief Operating Officer (COO), was brought on to make structural changes. His specialty was organization structure, particularly in creating rapid-response organizations. Appex needed clear financial planning, day-to-day operational structure, and improved customer relations. They needed to focus on making money in the present, while still supporting their long-term goals (Goldratt).

Ghosh was incentivized to succeed; he was promised the highly coveted CEO position. In total, Ghosh worked tirelessly for three years. He implemented a variety of structures and styles while feeling out what the team preferred. He noticed that they

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weren't making the transition from an entrepreneur's successful startup dream to a small company successfully. Employees had a short-term tunnel vision approach to issues, they simply put out emerging fires instead of creating fail-safes. They simply failed to plan anything, including internal meetings.

Structures

Ghosh's initial approach was implementing a circular structure. This meant there were concurrent circles expanding from the middle. The middle circle contained executives, followed by managers, and employee. The area encompassing the circles contained the customers. The goal was freely flowing information between the layers and the environment. Shortcomings quickly became apparent, employees didn't understand it, new hires didn't adjust, authority wasn't clearly outlined, and customers weren't being serviced.

Ghosh then tried a horizontal structure. He hypothesized it would work since it was more familiar to staff, it is a vertical structure flipped on its side after all. However, the implementation failed, no one even showed up for the meeting on the first day. He then took a more traditional approach after surmising that innovation was not the best route.

Ghosh split the company into functional divisions that reported to him, thereby creating a hierarchical, functional structure. However, office politics took hold. Divisions began forming smaller teams and units that had their own managers and resources. They then began competing for funding from higher-level managers. Company policy

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was ignored in favor of individual micro-management level decisions. Some teams went as far as altering financial statements to receive more funding and forge their performance reviews. Ghosh made several incremental changes, but in 1990 the Appex Corporation was acquired by Electronic Data Systems (EDS). They made it clear to him that Appex was on its own to solve their structural issues to successfully integrate upon the acquisition.

Competitive Analysis

Appex was grossly successful because they captured a market in a newly emerged industry. They penetrated this infant market before competitors could even introduce their own solutions. They had a competitor, ACT, which was several competitors that joined together. However, it disbanded before they could become a real threat. Appex was the middleman between suppliers and their customers, and they succeeded in differentiation. They were an innovation powerhouse that introduced several products within the industry. Negatively, the internal teams acted as individual companies and competed against each other.

Porter's Five Forces Model

Appex was the leading organization in the industry, their growth and projections fueled their acquisition. Ghosh was obviously familiar with his previous employer's, BCG, marketing matrix (Boston Consulting Group Matrix). In these terms their growth rate and market share were the stars of Appex. They had low competition because other organizations simply couldn't compete with their speed (Tanwar). They were quick

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to release products into the market. As such, there were also few substitutes available.

Their weak point would be the threat of new entrants. They could be overtaken by newcomers that have successful structures in place (Porter). They don't rely on supplies since they are a tech company, so outside of daily use devices, they only rely on the cellular industry as a whole. Their customers did not have much bargaining power, due to the lack of substitutes. This would only change by alternatives establishing themselves in the otherwise monopolized market.

Stakeholders

There are only a few stakeholders involved in the Appex Organization case. The primary players are the employees, EDS, customers, shareholders. The employees were the primary stakeholders when Ghosh was implementing new structures. However, the acquisition bumped up EDS (Destination Innovation). If Ghosh followed my recommendation, employees wouldn't have to adjust, which makes the EDS transition easier. EDS wouldn't be satisfied because the disorganization would continue. Customers would most likely stay unhappy due to sub-par assistance, but remain satisfied with their service. Shareholders would have mixed opinions, Appex would deliver, but they would fault EDS with a fumbled integration.

Continued Implementation of Different Structures

Ghosh could keep trying out new and innovative structures, but he would risk angering EDS. Though, constant changes could begin to stress out the employees at Appex. They have already gone through six structures within three years. Constant

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change increased employee anxiety (ADAA). Employees would not have a solid foundation and see decreased performance when they do not know what to expect as a result (Newby-Clark). The likelihood of a structure sticking this far along is slim to none, Ghosh needs to tailor his decision to all of the stakeholders instead of the employees alone.

Adopting EDS' Organizational Structure

If Ghosh implemented EDS' current organization structure, he would be pleasing their parent company. Employees on the other hand would be extremely upset. Their responsibilities, management and authority, and day-to-day work would be affected. Following the transition, consistency would be established within the organization. EDS would have a successful integration if the structure stuck. Employees wouldn't really have a choice, they would need to adopt the change or be removed from Appex. EDS could police the new policies. Customers would see a deteriorating levels of service followed by consistently improved service thereafter. Shareholders would have confidence in the previously non-existent structure within Appex.

The Do-Nothing Recommendation

Ghosh's role within Appex changed when they were absorbed into EDS. Though he was at the top of Appex, he is no longer at *the* top. He manages the Appex branch at EDS, a far cry from being the CEO of a company. As such, his focus is on integrating into EDS rather than managing Appex alone. It is my recommendation that he stop focusing on implementing structural changes, and instead focus on integrating with

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EDS. As time passes, the shareholders and EDS higher-ups will be able to force Appex into complying with their company policies and standards. Those that dissent will be given ultimatums, and the branch will fall in line. Ghosh is no longer responsible for discovering management tools to use on employees that will not conform. Someone with experience with EDS' structure should be assigned to reorganize the Appex branch. Ghosh should do nothing.

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