Case 2 Analysis: Appex

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**Executive Summary:**

Appex Corporation has undergone a lot of different organizational structures during the time the demand for their products has skyrocketed. Appex needs to choose a structure that best allows them to scale in the cellular industry while minimizing negative impacts like costs, confusion, and bad communication. As analyzed below, the Matrix Structure may be Appex’s best option.

**Appex Northern Overview**

Appex Corporation was founded in 1986 after the merger of Appex Inc. and Lynayarch Communications Consultants. This Massachusetts-based company expanded quickly after entering the cellular industry at the perfect time. Appex provided two main services to cellphone companies: intercarrier network services (ICS) and management information systems (MIS). These solutions were the complete package that cellphone companies needed during the huge cellphone usage boom to handle roaming charges, routing in and between markets, customer information, billing, authorization, and more. These services were highly sought after at this time, and not many companies were able to provide all of these services.

**Appex Mission, Generic Strategy, and Organizational Structure**

Appex created solutions around cellular technology using their ICS and MIS expertise for cellphone companies in the United States. Their generic strategy could arguably have been cost leadership or differentiation, since they provided an all-in-one product at costs that couldn’t be beat elsewhere for the quality. This might be a case where ‘Focus’ is the generic strategic, since they implement concepts from both cost leadership and differentiation.

Since the cellular industry was rapidly expanding along with the increase in demand, Appex’s organizational structure was playing ‘catch-up’ trying to adapt quickly. When Appex Inc. and LCC were smaller before the merger, organization was less challenging. When Ghosh took over as the CEO, there were initially under 30 employees and no clear management hierarchy. Employees put their efforts into the development projects, so cost awareness fell by the wayside and Appex started losing money.

**Porter’s 5 Forces**

Although Appex’s ICS and MIS services were a huge hit, the threat of substitutes at the time was likely high because everyone wanted to get in on this technology boom. However, new entrants would have a hard time entering this market and competing with bigger companies that have been around awhile, so threat of new entry was low. Competition at this time was high and depended on a solid foundation to continue long-term, despite short-term successes. Bargaining power of suppliers was high since it was a lot more difficult to find employees that could develop and run this technology at the time. Bargaining power of buyers was high initially because they didn’t have many customers. If Appex stuck around and had a good structure, their buyers would lose power since there was such a high demand.

**Appex’s Dilemma**

Ghosh’s main focus when he took over was to establish a real organizational structure that would withstand the huge changes in the market, allowing their company to scale with it. Ghosh tried various different organizational structures, including circular, horizontal, hierarchical/functional, team-based functional, and then divisional. Circular and horizontal failed for Appex because employees did not their role in the circular structure, and there was not enough hierarchy in the horizontal structure. The hierarchical/functional approach organized employees and projects in a way that made more sense, but this approach failed as well. Ghosh settled on a divisional structure that separated the functions of ICS and MIS. This was the best approach yet, since it helped solve some of Appex’s issues with budgeting costs. Most large development companies use some aspects of this approach, where funding has to be requested for projects and monitored along the way. The divisional structure still had issues though, especially concerning communication between divisions.

**Stakeholders**

Stakeholders affected by Appex’s organizational structure include customers, investors, and employees. Customers are expecting reliable, timely products so they can start profiting and make back the money they paid Appex. Investors saw Appex’s success and hoped to get a piece of it, since they knew the cellular market was booming. Employees are most quickly affected by the organizational structure chosen, and their perception of the company’s health affects their productivity.

**Alternative Actions**

**Option 1: Do Nothing (Divisional Structure)**

Ghosh could stick to the divisional structure he last implemented. This seemed to be the best organizational structure he has tried yet, and perhaps he should let the company stabilize if it’s headed in that direction. But this may not be a good option since Appex is not already stable at this point. McGill researchers confirmed that the “divisionalized form tend[s] to be ineffective except under conditions where tasks and environment are simple and stable” (Morgan 50). This is not the case for Appex, so a different structure should be implemented.

**Stakeholder Impact:**

Customers mostly just care about customer support and reliability of Appex services, so if Appex can provide this under the divisional structure, the customers wouldn’t care about which structure is chosen. Investors are more interested in the structure, since it affects long-term health. Investors might pull funds if they think Appex is headed downhill with this structure because of all the new costs associated with organizing and hiring the labor. Employees are a little bitter from the current structure as there is drama between the divisions that keeps them from communicating. The text states that bureaucratic structures like this are increasingly under “attack because of their rigidities and other dysfunctional consequences” (Morgan 31).

**Option 2: Matrix Structure**

The Matrix structure is a viable option that “systematically attempts to combine the kind of functional or departmental structure … with a project-team structure” (Morgan 51). This structure makes sense for development companies since people with like skills should be grouped together (functional), but when it’s time for a project, employees from different departments need to collaborate (project-team). Since these two main entities balance each other out (Cash 31), this structure is used often today in IT Development.

**Stakeholder Impact:**

If implemented well, investors would stick around and see how it affects profits and the company’s market share. Another huge reorganization like this could be costly, and Appex doesn’t have a lot of room for risky endeavors. Customers again would only care about the structure when it affects their service. Customers might prefer this structure if it keeps better track of their projects with Appex. This structure might make the most sense to employees since they would belong to a main team and work on short-term projects throughout the year, so they might like this structure. As mentioned in the text, this structure “diffuses influence and control, allowing people at the middle and lower levels of an organization to make contributions that might otherwise be denied” (Morgan 53). If most of the employees are in the middle and lower levels, this structure would give them a positive outlook on their contributions.

**Option 3: Combine Divisional and Matrix Structures**

It might not be a bad idea to keep the MIS and ICS divisions separated functionally since MIS is focused on home markets and ICS is used to take advantage of roaming charges. The divisional structure could possibly benefit from 2 matrix structures, one beneath ICS and one beneath MIS. Each division would have specialized teams with similar skills, and these teams would collaborate with others on new projects (using project teams).

**Stakeholder Impact:**

This structure might be too risky to implement without a lot of planning. Investors would have a lot of questions about who is making decisions about the reorganization and whether employees/resources are being allocated properly so each division and team can run day-to-day. Customers dislike this structure if Appex has to raise their prices, or if projects and development suffers during the transition to the structure. Employees may feel further divided, and the teams combined with divisions could result in bitterness about positions/roles/titles that are decided during this transition.

**Recommendation: Implement the Matrix Structure**

Although there could be high costs to choosing the Matrix structure, this option would benefit stakeholders the most with the least risk. Many other large companies use this structure, so Appex would have others to learn from. Project teams would be formed by pulling in employees from different functional areas of the company with the various necessary skills to complete the project. The Matrix structure allows “members from different functional backgrounds to fuse their skills and abilities in an attack on common problems” (Morgan 51-52). This is a great solution for development companies. This choice is superior to the divisional structure because there was still not enough clear organization of different employee skills, only divisions of company functions. The Matrix/Divisional combination option would be a risky endeavor at this time, and Appex should first try this Matrix structure as defined.