

CASE REPORT 2

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Problem Overview

Appex Corporation is currently trying to leverage the heart of their organization of informal and fluid coupled with cooperation and an “all hands on deck” attitude and survive with the necessity of a functional classic organizational structure. Appex Corporation offered two products to the market, intercarrier services (ICS) and cellular management information systems (IS). The ICS product provided services to manage the information for carriers for “roaming” charges when a cellular phone was out network coupled with the key element the Positive Roamer Verification, providing 60% of the total revenue. The secondary business was IS and consisted of two products Appex Cellular Management Information Systems (MCIS) for large companies and Appex Billing Service (ABS) for small to medium sized companies. The MCIS and ABS software charged a fixed fee and represented 40% of the total revenue. Appex had grown exponentially over the course of 3 years with total revenues quadrupling from \$1 million in 1987 to \$16.6 million in 1990. Right along with revenue growth, the Appex family grew from a team of 26 to a medium to large size company of 103 within one year.

With growth comes growing pains, Appex most definitely was experiencing growing pains that was effecting the customer experience to employee morale. The frenzied existence permeated every aspect of the organization leaving the investors recruited an organizational expert, Shikhar Ghosh, brought his specialty of “Organizational Structure in Rapid Response” (Gladstone and Nohria). At the rate that Appex was growing, they needed a rapid response to curb any potential failure but maintain their quick ability to bring innovative products to the market to ensure the corporation’s survival. The increased demand placed a huge strain on the organization changing the culture from entrepreneurial to total chaos. Appex fell behind schedule and missed installation dates. Their crux of innovation, the developers, lacked a clear information flow in addition to a well-defined decision rights structure. In short, Ghosh saw the need for accountability and structure.

The precipice of the Appex organizational structure was innovation managed through projects. Ghosh implemented 5 different organizational structures continually interchanging structural elements in hopes of keeping the heart of the company. “The human factor often subverts the reengineering process, leading to massive failure rates.” (Morgan)

Oddly enough the non-hierarchical structure, the Circular Structure, were the largest failures in terms of employee expectations and an “us vs. them” attitude toward the customer producing a response environment (Gladstone and Nohria). An out of box approach from the vertical structure to a horizontal structure still maintained the non-hierarchical organization but control and resources still remained an issue. In 1990, the divisional structure seemed to function the best leaving Ghosh out of most of the day to day operations. It wasn't without its problems however Ghosh came to realize that in response to the ever-changing cellular industry, the organizational structure needed to continue to adapt.

Porter's Five Forces

Competitive Rivalry: High

Appex's once advantage to being adaptable and bringing new products to market quickly was left behind in favor of control in the new structure. The new products were being lost and falling between the cracks in attempt to meet the current demand of products.

Threat of New Entrants: Medium

Appex has the market advantage because they already have a product that sells and has an infrastructure in place. The telecom industry until this point was control by landline infrastructure. New technology is forcing the new products to be developed. It becomes a scramble of who can get there first and how they differentiate themselves.

Threat of Substitutes: Low

As stated with the New Entrants above, the mobile industry was new with little infrastructure and with only one way to receive and make phone calls.

Bargaining Power of Suppliers: High

The employees are the suppliers. The employees are leveraging their discontent either by apathy or competition between divisions. Thusly, not allowing for further growth to happen.

Bargaining Power of Customers: High

The power of the customer and the sheer size of the volume customer gives great bargaining power especially since 60% of the revenue is tied up with the large companies.

Stakeholder(s)

Critical Stakeholders of Appex include:

- Appex Corporation (employees)
- Customers
- EDS
- Appex Board of Directors

Alternative Actions and Outcomes

1. *Do Nothing:* The current structure with a modicum of success was the Divisional Structure. By separating ICS and IS into 2 divisions, they seemed to develop a small business attitude internally in each of the divisions but lowered the adaptability and responsiveness to foster the innovation necessary to stay current in the market. Another drawback was the resource allocation creating a mutual dislike between divisions from moving employees internally based on skill. The division of labor or resource allocation was purchased in triplicate to meet the needs of each division and lack of cooperation creating a redundancy of resources. It's clear that the market drove the structure explaining why the division structure worked, but it's in need of improvement to meet the requirements of EDS functional bureaucratic structure.
2. *Functional Structure:* A structure that logically could be beneficial after the acquisition by EDS but not for Appex. Ghosh initially tried a purely functional structure with polarizing effects. The teams created costed more in system development than the previous chaotic environment. Standards were set by individuals and not by the company. Conflict resides with the nature of the classic business theory versus an innovative environment. The division of labor didn't function efficiently because of a project based environment. While the hierarchical decisions is necessary the rigid boundaries smother the pioneering necessary in the telecom mobile market. According to Morgan, "...[functional] organizations have great difficulty adapting to changing circumstances because they are designed to achieve predetermined goals; they are not designed for innovation".

(Morgan) To reexamine a functional structure would cripple the future of Appex's success

3. *Matrix (Network) Structure:* The heart of Appex is original and inventive projects driven by the market. Since the market is constantly in flux divisional team building environment but still can have the functional structure necessary to coexist with EDS. In continuing with the divisional structure and amending the structure to fully utilize resources. Being and "Inventor" versus an "Adapter" by embracing the innovation would allow for market share gain and staying ahead of any potential competition. (Fried) The Research and Development team was nonexistent in the initial trial of the traditional hierarchy. The combined elements of Software Development and Services seems to be at a conflict.

Recommendation

Appex Corporation, founded after a merger of Appex, Inc and Lunayach Communications Consultant, is facing an acquisition by Electronic Data Systems (EDS) which in terms for Appex means yet another restructuring of division to comply with the EDS' requirements of a more functional organization, develop a new strategy or continue in its path of creating a hybrid most suitable for the well-being of their employees as well as the balance sheet.

The Matrix structure would be appropriate solution for the newly acquired Appex. Appex has reached critical mass in regards to its division of labor creating a balance in the economies of scale in their resources. By utilizing the labor more effectively, the overall morale should improve with cooperative efforts. Ultimately, the flexibility of the structure allows for the shared resources on projects as needed. The functional areas can maintain a stock of employees to meet EDS requirements. The decision structures allows employees to have information and resources to travel with more fluidity between all sections of the corporation. The downside still maintains some of the redundancy of people but should help create more effective teams. More team members means more expensive and the possibility of more internal complexity. Hopefully the functional portion will eliminate some of the employee doubts by firming up communication and rearranging managers.

References

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