

Case: Appex Corporation

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Overview: Mission, Problem, Strategy

Organizational structure is a fluid and dynamic concept that varies from organization to organization. As firms emerge in different industries, they will inevitably find different forms of organizational structures more advantageous than others, as “The appropriate form depends on the kind of task or environment with which one is dealing” (Morgan). Environments shape the needs of an organization, and those that can adapt and best manage changes in their environment are more likely to survive. Appex Corporation is in a situation of determining an organizational structure that will best suit their needs and support their ability to survive and compete in their industry.

Appex’s core mission is to make money now and in the future by providing innovative services to consumers in the cellular industry that enable their consumers to better operate and manage the services they provide to their end users. As of the mid-1980’s to early 1990’s, the cellular industry has grown substantially due to changes in technology and recent government legislation, and is expected to continue its strong growth into the new decade. Appex has grown rapidly alongside the industry since its creation. The company has seen substantial increases in its total revenue over the past 4 – 5 years, starting with revenues of about \$1 million of revenue in 1987 to close to \$17 million in 1990. Revenues have not been the only aspect of the company that has seen gains, as the employee body has increased almost eight fold since the company’s formation, with a current employee body of around 160.

With Appex’s rapid growth, a serious problem began to emerge. The company was founded with a very loose organizational structure in which organizational roles were loosely defined and teams were more project focused, with very little emphasis being placed on functional roles. This worked well for Appex at the start, as it allowed them to be more

innovative with the products they developed and gave them greater flexibility with market demands. As the company began to grow, this lack of a concrete structure began to work against Appex, as employees had little to no sense of purpose. Each day consisted of fighting the fires present that day, with no plans or consideration of what may happen in the next week or even next day sometimes. Customers were suffering as well, with many not receiving help when they reached out to Appex due to poor response times. Financial planning and accountability was virtually non-existent making it nigh impossible to get an accurate picture of where the company stood financially; something needed to be done.

Shikhar Ghosh, a partner at the Boston Consulting Group, decided to take the position of Chief Operating Officer of Appex in 1988, and inherited the mess Appex had made of itself. Realizing the serious nature of the problem facing the company, Ghosh decided to implement some sort of organizational structure to provide a sense of accountability and order to Appex. After trying innovative structures like the circular and horizontal structures, Ghosh was met with some success, but even more problems. For instance, in the circular structure employees were confused with whom to talk with in order to get things done, and had very little grasp of who was in charge or how their performance was evaluated. The horizontal structure caused similar issues to occur, and it became evident to Ghosh the innovative approaches to structuring an organization were not working, so he decided to take a more traditional approach.

In 1989, Ghosh implemented a functional hierarchy that separated the company into several functional teams such as sales/marketing, software development, finance, human resources, etc... While the functional hierarchy allowed the company to focus on completing tasks issues began to emerge. Functional teams became very polarized with little communication and cooperation occurring between them, a common problem in functional structures according

to Cash et al. “Similarity encourages collaboration, efficiency, and quality within the function, but makes coordination and cooperation with other departments more difficult” (Cash).

Personalities set the standards of success causing egos to clash, thus making forward progress more difficult. This may be because managerial roles were based functionally rather than managerially. Managers did not have to be good managers; they just had to be good at whatever their functional team was responsible for. After creating cross-functional product teams, some issues were resolved. Teams shared information on product happenings, which allowed the functions to better integrate themselves. However, there were still issues of authority and resource allocation. This caused the company to lose its focus on customers and meeting the goals of the organization.

Ghosh then implemented a divisional structure in August of 1990, based on the two main types of products Apex offered. One for intercarrier services, one for cellular management information systems, and a smaller operations division to support the two larger divisions. This move allowed for improved accountability, budgeting, and planning overall, with improved cooperation in the divisions and enhanced focus on meeting financial goals. This structure did not come without its set of issues though, the first of which was the persistent issue of resource allocation. Each division wanted control of its own resources, and thought their needs trumped the others. Another issue was the lack of collaboration between the divisions. There was little communication of information and flow of ideas across the divisions, which led to less new product development ideas. Innovative ideas were one of the key competitive advantages that fueled Apex’s rapid growth, and losing that may hinder their ability to maintain an edge in the market. The divisional structure also caused the divisions to cook their books in a way that

allowed them set aside funds for specific division needs, which made it difficult to get an accurate picture of Appex's financial position.

Electronic Data Systems (EDS) acquired Appex in October 1990. EDS was a larger, more hierarchical organization with a more set in stone bureaucracy. Ghosh planned to continue to change the organizational structure every 6 months or so because he believed it was necessary for an organization. Becoming a division of EDS meant that Appex now had to use EDS's systems for resource allocation, financial planning, and administrative tasks, areas that Appex has struggled with in the past. Ghosh now has to decide what to do in regards to the organizational structure of Appex, as a decision now could have major effects on the success of the company. An analysis of Appex's stakeholders will help shed some light on which course of action should be taken.

Stakeholders

Appex has numerous internal and external stakeholders that to be taken into account regarding a decision about organizational structure. A major internal stakeholder to take into account are the shareholder since they have stock in the company and serve as a major driving force in many major decisions as their interests are pursued by the board of directors. They want the company to do well so their shares hold and grow in value, and if Appex adopts an appropriate and beneficial organizational structure, it will build able to operate in such a manner that aligns it with its overall goals. If Appex succeeds, the shareholders will be happy. In addition, having recently been acquired by EDS, Appex needs to seriously consider their wants as well. EDS will most definitely want to see their investment pay itself off, and if it does not, they may take matters into their own hands. This may involve inflicting more bureaucratic rules and procedures onto Appex, since EDS is a functional organization with more vertical decision-

making, essentially taking away their autonomy and ability to be flexible in regards to market demands, which could prove terrible for Appex and further worsen their situation.

Another major internal stakeholder are the employees of Appex. Any decision made regarding organizational structure will have a direct impact on the way they do their jobs, all the way from top-level managers to developers. Power and reporting structures will change, roles will transform to better suit the structure, and employee responsibilities will have to adapt to the new environment. Employees from all levels of the organization are a huge reason for the success of Appex thus far, as they have been the ones developing, selling, and supporting the innovative products that have put Appex at the leading edge of the industry. Ghosh should strongly consider this fact before making a decision that will attempt to “fix” the organizational issues facing Appex.

Customers are an important external stakeholder to keep in mind. Their needs have to be met in order for Appex to continue selling them products. Appex has prided itself on creating customer-focused products; Ghosh even notes that this is a big reason for the success of the company. If Appex makes the correct decision regarding its organizational structure, customers will likely benefit, as the organization can continue to focus on creating and providing the best possible products and services for them.

Porter's Five Forces Analysis

An analysis of Porter's five forces can help in creating a clearer picture of Appex's environment. Locally, the threat of new entrants is relatively low as the cost to enter the market would be high for new firms as there are already several established organizations in the industry. The threat of new entrants for international markets could be high, as globally, demand

for cellular services will only increase, and new markets will open up creating new opportunities for firms wishing to make an entrance and compete. Threat of substitutes could be considered high as well. Appex competes among a group of established firms that offer similar services and products as they do. The nature of the cellular industry ensures that companies like Appex provide services and products that operate under the same set of guidelines.

Customers have considerable power in this industry. If they do not like the service, product, or support a company offers it is reasonable to assume they will be able to find a company that meets their needs relatively easily. There is no pressing need that requires them to purchase from one provider or the next, so the only things firms can really do to encourage this behavior is by differentiating themselves. It is critical for a company to encourage repeat purchase behavior by lowering customer bargaining power. Companies like GTE, Cincinnati Bell, and McDonnell Douglas most likely offer similar products as Appex, so threat from existing competitors remains high. The primary strategy companies seem to employ in this market is differentiation. Early on, Appex had considerable competitive competencies that put it ahead of its competitors because it was able to offer unique and innovative products to customers. As the company has grown though, they have been slower to respond to market demands, which has been caused in large part by the changing organizational structure that has caused some dysfunctions. As Appex struggles to maintain and build back a competitive advantage, established firms seek to gain a lot by potentially securing more customers and/or developing their own new products.

Little was mentioned of Appex's suppliers, except about their employee body. Appex's employees have driven the success of the company thus far, as they are the ones who have built, sold, and stood behind the products that have made Appex into what it is. The way the company

is structured has major impacts on the way they perform, and feel about their jobs, and it crucial that their needs are satisfied. If they are not, employees may decide to leave for organizations that better suit their needs, which could prove detrimental for Appex, as it would mean losing important talent. Ghosh even noted, having to bring new people on increased infrastructure costs, since they needed time to train and learn. Therefore, labor suppliers, employees, have modest power that should not be ignored. We can assume the cost to acquire, build, and maintain the infrastructure needed for the systems Appex uses is high. If suppliers of these components were to hike up their rates, Appex's costs would increase right there with them.

Alternatives

Appex has several courses of action it could take regarding its approach for organizational structure. The first alternative is to do nothing, that is, keep the current divisional structure. As discussed earlier, the current divisional structure has provided some benefit to the organization as it has encouraged functions within the divisions to collaborate more as a team, and accountability, budgeting, and planning have improved. Divisional structures also tend to align themselves with differentiation strategies, as it allows employees to focus on creating outputs that meet market demands. However, there are still squabbles over resources among the divisions, innovation has slowed as there is less free flow of ideas between the divisions, and each division has shown a tendency to play games with their financial statements making it difficult to gauge how the company stands financially. With less innovation, Appex stands to potentially lose a key advantage that has helped it grow so much in the past, since creating unique solutions has helped set it apart from their competitors. In addition, without a strong handle on costs, executives have no idea if Appex's profits are where they should be, and if they need to cut costs. If Appex is unable to compete as effectively as it has in the past, their ability to

survive in the industry will suffer. Customers will suffer with subpar products, competitors stand to gain a better standing in the market, shareholders will see less returns on their investments, and employees may face layoffs, which could damage moral and create a tenser workplace that will further exacerbate issues.

The second alternative is to keep making changes to the structure every six months or so, taking and trying out suggestions when they come. By continually changing the structure, Appex stands a better chance of adapting to changing business and market demands. However, doing so involves considerable risk of creating new issues for the organization and its employees. Every structure Ghosh has implemented thus far has had positive and negative impacts; the functional structure provided a defined hierarchy to a chaotic situation, but also allowed egos to clash and infighting to occur. The divisional structure encouraged cooperation within the divisions, but bickering over resources continued, and innovation continued to slow. As stated at the beginning no one structure is a cure all for the issues that every organization faces, so trying to force one structure as a one size fits all may do more harm than good.

Also, now as a division of EDS, Appex will have to follow already established rules from a different, meaning they will have less autonomy in regards to how the organization operates. Vertical decision-making with rigid boundaries are commonplace in bureaucratic, functional, organizations like EDS, meaning decisions are made from above. The effect this will have on Appex remains to be seen, but it could mean that trying different structures out every few months may simply not be an option, as EDS may not allow it. As a functional organization, they will most likely prefer routine and obliging to the established ways of doing things.

Changing the structure constantly may also negatively affect the organization, through a more anxious employee body, and providing no guarantee of encouraging innovation. Workplace

stability is important for laborers, both low and high, as they need to have a clear understanding of their responsibilities and authority in accomplishing tasks. Without it, employees may find their needs are not being met, and leave for greener pastures, causing Appex to lose top talent and people who know the industry and the business. This could further hinder Appex's ability to innovate.

If this option were to work, customers stand to gain a lot, as they may receive more innovative products tailored to their needs. Competitors may face more fierce competition if Appex is able to continually adapt and react to market demands because of its dynamic business structure. Employees may encounter more friction in the workplace though, as their roles and responsibilities continue to change. Shareholders may see larger profits and returns if Appex is able to focus on its goals and continue to offer more unique products.

A third alternative would be to implement a matrix organizational structure. A matrix structure attempts to combine both the divisional and functional structures in to one, keeping the positive aspects of both. An employee may simultaneously work on a project team and report to a functional team. With a matrix structure, Appex could see more flexibility in its ability to allocate resources, improved opportunities for employees to gain and develop skills that interest them, and the ability meet multiple demands from the environment. Resource allocation has been a major issue for Appex no matter the organizational structure, so greater flexibility in allocating resources may ease conflicts and allow teams to focus on completing tasks. Meeting multiple environmental demands may help to ensure that Appex is able to satisfy its customers and keep business.

The matrix structure does not come without its potential issues though. Appex's employees have always had conflicts over authority and accountability, that is managers and

employees often do not know what decisions they can make, or whom they report to. The matrix structure has the side effect of creating a situation where a person reports to two bosses, which could create more conflicts and ambiguity over which decision to make. Does an employee listen to a project manager or a functional manager? In addition, the matrix structure creates the need for people to spend a large amount of time in meetings. This was a problem with the functional structure as well, as a large amount of resources were devoted to planning and organizing rather than accomplishing tasks, which hindered productivity. If the matrix structure worked, employees would likely be happier with greater opportunities, but may experience more conflicts with greater ambiguity on who to report to. Customers would be happier too, as Appex could spend more time focusing on projects and delivering products to the market. Competitors, again, would likely face greater competition as Appex is able to return to a project way of operating that may spur further innovation. With happier customers, business is likely to improve which means greater returns for shareholders.

Recommended Action: Do nothing

No matter which organizational structure Appex has implemented, they have never been able to solve every problem. A functional style provided order, but politics and personality clashes still occurred. More innovative approaches like the circular and horizontal structures created uncertainty and ambiguity that created confusion for employees. Even the divisional structure still has problems with resource allocations and accurate financial tracking. So why choose the divisional structure? Simply put, it seems like the lesser of all the evils. It has provided Appex with the ability to focus on tasks and operate more as team working towards a

goal rather than a chaotic free for all. A divisional structure tends to work better with companies whose generic strategy is differentiation. “The divisional structure works well when coordinated action is required to develop innovative products, satisfy client expectations, or maintain a market segment” (Cash).

In addition, with recently being acquired by EDS, Appex will be required to use the systems and guidelines EDS has established for allocating resources and financial planning, so there will be less opportunity for the divisions to play games with their financial statements and bicker over resource allocation. This eliminates some of the major problems that has plagued Appex since adopting the divisional structure, as both major divisions will be fairly subjected to the same rules and guidelines from an unbiased third party. Appex may now be able to better focus on completing tasks and achieving company goals.

A functional structure served its purpose of providing a gateway to a more hierarchical structure from a chaotic situation, but the fact of the matter remains that a functional structure does not align itself well with Appex’s chosen strategy. Functional strategies work well when companies focus on creating economies of scale, that is, they are concerned with effectively utilizing inputs to gain a competitive advantage. A cost leadership strategy aligns well with a functional organizational structure as it allows each function to focus on performing their tasks in the most effective way possible. The functional structure falls short when the organization needs to be able to react to changing demands. “The weakness of the functional structure is its inability to respond to a differentiated environment or one in which the firm must respond differently in each product category or customer segment in which it operates” (Cash). Appex has prided itself

on its ability to bring customer-focused products to market, and a traditional functional structure would simply not be conducive to that approach.

A matrix structure, while seeking to gain the best from the functional and divisional approaches, stands to create more problems than it would solve. Creating an environment where there will be more ambiguity in decision-making would not be a beneficial move for Appex. The matrix structure seems to intentionally create some conflict, as Cash et al. point out, “some of the conflict built into a matrix form is healthy, since it forces discussion and coordination to resolve issues that pertain to both functions and projects” (Cash). In theory, this sounds like an excellent idea, as it encourages collaboration among groups that would otherwise not, however it may work differently in practice. As discussed earlier, decision making authority, priority, and scope have been a common problem in every structure Appex has implemented thus far, for example a big reason the circular structure failed was that employees did not know who they were supposed to report to. They expected a more traditional structure and found it hard to fit into the culture. Employees need a sense of stability and clarity in their job tasks and in the culture of the business, otherwise their moral and effectiveness will suffer.

This leads into another reason why Appex should do nothing and retain their divisional structure. Changing the organizational structure will create turbulence in the workplace. As stated, employees want a stable work environment so they can experience less anxiety about their position and role in the company. If their tasks and responsibilities are in a state of current flux, their ability to focus on doing their job will suffer. “When we choose a technical system (whether in the form of an organizational structure, job design, or particular technology) it always has human consequences, and vice versa” (Morgan). There is too much of a human risk

in continually changing the structure every six months, especially for a company as large as Appex, as it is likely to create more problems.

If Appex keeps its divisional structure, it can still make smaller more incremental changes to fix problems as they arise. In addition, having to follow EDS's guidelines for resource allocation and financial planning may work in Appex's favor, as the blame game can shift to outside of Appex and onto the rules set into place by EDS. As the *Rules of Bureaucracy* state, "It is easier to fix the blame than to fix the problem." Rather than fix the problem of deciding how to divide resources amongst themselves, Appex can look at EDS when it has issues. This could create a greater sense of unity inside of Appex as both divisions will be subjected to the same rules and treatment as the other, so the infighting between them may cool. This, in turn, may motivate the divisions to re-focus on keeping Appex competitive in the market, i.e. continue to develop innovative products that allow the company to differentiate itself from the competition, making its stakeholders happy, and allowing them to achieve the goal of making money. "Management must be concerned, above all else, with achieving alignments and 'good fits'" (Morgan). The divisional structure is the most aligned best fit for Appex at this moment in time.

Works Cited

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