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# Appex Corporation Case Study

# Mission Statement and Background

Appex Corporation was a company that provided management information systems and intercarrier network services to cellular telephone companies and credit scoring systems for financial services company using a focus strategy. The company began in 1984, founded by Brian E. Boyle, and merged with Lunayach Communications Consultant and immediately began exponential growth. From 1987 to 1990 the company realized a revenue growth of 1,600%, this growth encouraged the investor board to bring in Shikhar Ghosh, Boston Consulting Group Partner, to take over as Chief Operating Officer and then as Chief Executive Officer.

Ghosh specialized in organizational structure at Boston Consulting Group.

# Generic Strategy

Their generic strategy was differentiation focus strategy. They focused on the cellular industry and sold their services to cellular service providers. They focused on the special needs of the buyers by determining their needs for what services and systems they needed, working on a delivery time for said systems, and made agreements in compensation based on their needs. The flaw in their differentiation focus strategy was that as they grew it was harder to maintain the service level that they had with original customers.

# The Problem

When Ghosh originally joined the company there were 36 employees. The previous CEO and founder ran the company loosely, as in few to no formal procedures. The Division of Labor was very broad, leading to everyone doing any work they were interested in. This worked in the beginning making the company very responsive and effective. As the company grew, they lost this aspect as they couldn’t keep up with the increase demand and workload in a fluid structure such as that.

# Five Forces

## Competitive Rivalry

The competition in the industry were firmly cemented, companies such as GTE, Cincinnati Bell, and McDonnel Douglas. Before Appex was formed, the aforenamed companies came together to create a joint entity named ACT that would address a need in the cellular industry. Appex filled this need in the industry with their creation. Before their growth they were on par with other companies service-wise, but they changed as they grew.

## Threat of New Entrants

The threat of new entrants was low. A large initial investment is required to enter the cellular industry. As the technology was brand-new, proprietary knowledge was required to successfully develop systems that could compete with already established companies. There is also a lot of regulations being enforced by the Federal Communications Commission and in the beginning, this was being constantly changing, adding, removing, or modifying regulations as new technologies emerged.

## Threat of Substitutes

The threat of substitution was medium. As Appex was a relatively new company compared to established competitors they needed to maintain a certain level of service to not be replaced. Appex had multimarket, multiproduct, and multiyear service agreements with their customers, this made it harder for their customers to substitute easily and often. Typically, the customer would have to wait until the end of the agreement, then begin to develop an entire new system with a different company. Essentially wasting all of the previous development and system.

## Bargaining Powers of Suppliers

There were not a lot of suppliers for Appex. They created and maintained their own systems that were then sold to other companies. The suppliers had very little to no bargaining power. The only supply they were dependent on was their employment supply. As they defined their structure more, they were realizing they did not have adequate managerial expertise in their current employ. This made them be more willing to negotiate on salary, compensation increase schedule, benefits, etc. with potential new-hires that had managerial experience

## Bargaining Power of Customers

The customers had a good amount of bargaining power. They were able to negotiate costs, timelines, levels of support, and other aspects before they went into a long-term agreement with Appex. There were other companies that were offering the same or similar services that they could use to leverage to get a more favorable agreement.

# Organizational Structure

While Ghosh was with Appex the organization took multiple different structures. Starting out as a loose, anyone-does-any-work, to a circular structure, functional structure, divisional structure, and other variants in-between. In the end the company had a divisional structure, allowing each division inside the organization to organically develop their own business processes and culture. Promotion to manager are based more on integration skills than functional expertise (Cash), Ghosh realized this as he began promoting specialized employees to managerial positions.

With the division there was a large resource allocation issue which ended in divisions becoming rivals and competing, which was not the goal of this structure. Neither division wanted to share, they wanted their own engineers, R&D, finances, etc. Inside the divisions, there was a lot of productivity. The Division of Labor was broad to a certain point allowing collaboration of ideas, although the ideas generally never made it out of the division.

Originally the informal structures were very strong, and this remained true throughout all the structural changes, as managerial influence is not as strong on them (Cash).

# Stakeholders

The first stakeholder group are the shareholders, which in this case are the executives and the investor board. The overall success of the company matters to them very much, hence why Ghosh was recruited to be CEO and help organize the company in a better way. They ultimately control the changes to the organization.

The second group are the employees of the organization. They are most susceptible to change, especially structural change. The constant restructuring, every six months, makes the employees must learn the new flow of the organization every time. This disrupts work and can set back projects and even everyday work leading to a lower level of service.

The third group is the customers. This group is affected the most external of the organization. The diminishing level of service upsets customers affects their own businesses, and leads them to not want to continue working with Appex. Not being able to hear back from Appex support when an issue arises, receiving services far past established deadlines, and other consistent issues leads to the downfall of an organization.

# Alternatives

## Alternative Implement a Matrix Structure

A matrix structure is mix between a functional and divisional structure, both of which were attempted previously. A matrix structure has employees work in a dual assignment, such as an engineer being in the engineering department but being assigned to a project at the same time (Cash). Division of Labor would become narrow, Decision Rights would be decentralized, going to the individual divisions.

A dual authority structure is needed for this to work, and proper resource allocation is required. Employees will be required to work outside of their divisions, this is the functional part of the structure. Managers must share resources and power within the organization.

A large issue for Appex is not keeping track of costs pertaining to wages, training, equipment, and time. A matrix would help implement economies of scale to keep expenses down and be traceable (Cash).

## Alternative Continue Six Month Transformations

Another alternative could be to continue the six-month structure transformations that Ghosh had been doing already. This means that every six months there would be another reorganizing of the structure in order to adapt to the growth of the organization (Ghosh). According to his philosophy, these changes would be in accordance with suggestions from other employees. Problems are identified and considered in the next round of structural changes.

These structures may be pulled from Ghosh’s innovative structures he designed during his time at BCG. These would be a mix of multiple types of structures, being tailored to the organization at the time. This would require consistent structural change and adaption from every employee.

## Alternative Do Nothing

The last alternative would be to do nothing, and continue with the divisional structure. This consisted of three divisions: their two products ICS and IS, and an Operations division. Each division had their head appointed by Ghosh. Accountability, budgeting, and planning increased as employees were more able to focus on their side of the business, instead of being pulled to other areas distracting them from their main role.

Within the divisions, the structure worked well. Outside of the divisions, there were issues allocating resources. Communication between the divisions lacked. None of the divisions wanted to share resources, and did not trust each other, thinking that the other divisions were doing anything they could to get what they want.

# Recommendation

It is my recommendation that Ghosh implements a Matrix structure inside Appex. With the current divisional structure, a large amount of the issues stem from lack of communication. Matrix structures implement a dual authority, with division and functional managers both having equal authority (Cash). Resources are forced to be negotiated for instead of attempting to take control of all of them. Resource allocation is more flexible, as communication is more open and required as compared to the current divisional structure. Divisional structure created a hostile environment between the divisions.

Changing the structure every six months creates confusion, and eventually disdain for upper management and executives from lower employees. Being able to adapt to the continuous growth is necessary, but is also able to be done within a matrix structure through proper communication and working together. As technology is adopted with advancements and organization growth, more technological personnel will be sought after and managers will be able to communicate more efficiently (Fried).

# Works Cited

Cash, J. I. (1994). 2. In *Building the information-age organization: Structure, control, and Information Technologies*. essay, Harvard Business School.

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