
Appex Corporation Case Study

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Overview

Massachusetts based Appex Corporation, established in 1986 to provide cellular telephone organizations with management information systems and intercarrier network services, was the result of a merger between Appex, Inc. and Lunayach Communications Consultants (LCC). Shikhar Ghosh, formerly a partner at Boston Consulting Group, was recruited as the new COO of Appex Corporation and tasked with developing an organizational structure for the company. During his tenure as COO, Ghosh experimented with many various organizational structural styles that varied in effectiveness; he also experienced a promotion to CEO. Electronic Data Systems (EDS) acquired Appex Corporation and in turn a decision was to be made regarding the organizational structure of the company now that Appex Corporation plays a role as a division within a larger organization.

Mission Statement

Appex Corporation provides enhanced customer management of home and roaming territories to cellular telephone carriers by offering intercarrier network services (ICS) and cellular management information systems (IS).

Generic Strategy

Appex Corporation is pursuing a cost leadership strategy. A considerable market share is necessary when pursuing this strategy which is beneficial to Appex Corporation because the

market is still relatively new (Tanwar). The product that Appex Corporation provides customers is difficult to differentiate amongst competition resulting in a need to maintain competitive pricing. Appex Corporation was responsive to their environment allowing them to be effective at accomplishing tasks quickly and at a relatively low cost, resulting in a sense of efficiency which is the main focus of a cost leadership organization (Tanwar).

Organizational Structure

The organizational structure of Appex Corporation has fluctuated significantly since its inception. Initially during its start up phase the structure was very fluid and informal fostering an environment of high interaction between employees. This structure allowed Appex Corporation to be highly innovative and provide new products to the market quickly. However, Appex Corporation failed to adapt to their environment leading to unacceptable performance and a decrease in profits. Once Shikhar Ghosh was brought in as COO the organizational structure was altered approximately every 6 months. Ghosh implemented and tested several structures, some more innovative than others, including the circular, hierarchical, functional, and divisional structures.

Porter's Five Forces Analysis

Porter's Five Forces Analysis identifies potential opportunities and risks for an organization, while keeping the competitors' activities in mind. The forces Appex Corporation's environment

can exert on the market and how they can affect the long-term success of the organization are measured with this analysis (Porter).

1. Competition - High Threat: At its inception, Appex Corporation was a small company but grew as the market evolved, along with other organizations who provided similar services to cellular telephone companies. Appex Corporation's competitors would include GTE, Cincinnati Bell, and McDonnell Douglas. At one time, the competition banded together to develop ACT, yet Appex Corporation was able to introduce more innovative and advanced technology allowing them to outperform the competition. However, the industry became more steady and less innovation occurred.
2. New Entrants - Low Threat: There are significant barriers to entry into this industry because of the knowledge, capital, and resources needed to be successful. The market was already dominated by a few companies providing similar services to Appex Corporation.
3. Substitutes - High Threat: As stated previously, the services provided by Appex Corporation are not unique. Other companies in the industry, such as GTE, are able to provide customers with equal service.
4. Suppliers - Low Threat: Appex Corporation suppliers are comprised of their employees. The industry that they operate in is niche resulting in employees having a specific knowledge base making it difficult to transition to a different organization. The employees most likely do not belong to a union which would decrease the power they have over Appex Corporation.

5. Customers - High Threat: Appex Corporation provides services to approximately 75 customers that have accounts varying from \$100,000 to \$2,000,000. Customers have the ability to switch to a competitor's services at any moment giving them a high degree of bargaining power. The customers drive the market price which is accepted by Appex Corporation to remain competitive because of their focus on cost leadership.

The Problem

During Appex Corporation's initial stages, they operated under the belief that formal procedures were unnecessary and would manage their operations when they arise, rather than be proactive. This lack of structure resulted in unreliable employees and incomplete deliverables, yet the market demand was increasing resulting in more projects and a need for more employees. The organization grew rapidly between 1987 and 1990 resulting in a jump in employees from 25 to 172 and a 1600% increase in revenue. Appex Corporation was dealing with capacity issues because of their ineffective and inefficient organizational structure. Ghosh has since implemented various organizational strategies in hopes to create employee accountability, boost morale, and increase productivity. Due to its acquisition by EDS, Appex Corporation must work out its organizational structure within the boundaries of their new parent organization.

The Stakeholders

1. Shikhar Ghosh: Ghosh was brought to Appex Corporation as COO after becoming a partner at Boston Consulting Group. He later moved up to CEO. He was brought to Appex Corporation because of his expertise in organizational structure with the intent to restructure what the organization already had in place. His role of CEO and goal to successfully restructure the organization allow him to assume responsibility for Appex Corporations performance.
2. Shareholders: Those that chose to invest in Appex Corporation now hold a stake in the company and desire to see profits derived from the success of the company. Venture capitalists that invested large amounts of money were the ones that drove for a change in the organization, ultimately leading to the hiring of Shikhar Ghosh.
3. Employees: Appex Corporations employees also operate as their supplier because of the work they provide. Employee job security is dependent on the demand for the company's services. If demand decreases, less employees will be necessary and vice versa. Employees heavily influence the acceptance of new organizational structures.
4. Customers: Appex Corporation has approximately 75 customers that include Bellsouth, Cellular Communications, and Southwestern Bell. The customers generally have multimarket, multi product, and multi year service agreements with Appex Corporation ranging anywhere from \$100,000 to upwards of \$2,000,000. These agreements are legal obligations therefore customers would want to ensure they are provided with top quality service.

5. Electronic Data Systems (EDS): Appex Corporation now contributes to the success of EDS because of their acquisition. The financial planning systems, resource allocation systems, and administrative procedures that are utilized by EDS must be followed by Appex as well.

Alternative Solutions

1. Do Nothing: Appex Corporation would do nothing and continue to use the organizational structure that is in place. Following the trend that Ghosh has in place, it is likely that the structure would go through another change in 6 months. The separation of the different product lines that is currently in place has provided improvements in the areas of employee accountability, financial budgeting, and planning. Although, with a divisional strategy in place it is likely that resource allocation, product development, and responsiveness would not see improvements (Barker).

Impact on Stakeholders:

1. Shikhar Ghosh: Ghosh's goal will not be accomplished causing him to maintain focus on delivering an optimal organization structure for Appex corporation rather than focus on the company's future strategy.
2. Shareholders: If Appex Corporation continues to bring in revenues, the shareholders will be happy. However, if revenues decline they will not.
3. Employees: This approach continues to build walls and limit communications between employees. This environment may lead to a decrease in innovation and resource allocation issues.

4. Customers: Customer service issues will continue to pursue within Appex Corporation resulting in a poor customer experience. In turn, they could take their business elsewhere resulting in a decline of demand.
 5. EDS: The waiting game must be played while Appex Corporation continues to test organizational structures that may or may not work for them. The requirements from EDS may also be difficult to implement resulting in inconsistencies.
2. Implement Ted Baker's Suggestion: Ted Baker suggested that the Operations division should be disbanded and in turn integrate the functions into the other two divisions. The result of this would create a centralized data processing function. This structure would reduce the control possessed by divisional heads forcing boundaries to become more flexible. There is also potential for a third division to be created that focuses on international business as global opportunities grow. Following Ghosh's structure philosophy, it is likely that Appex Corporation would see another structural change after 6 months.

Impact on Stakeholders:

1. Shikhar Ghosh: Diminished boundaries between divisions will allow more communications resulting in a positive reaction towards the change. His focus will likely still be on organizational structure rather than future strategy.
2. Shareholders: If Appex Corporation continues to bring in revenues, the shareholders will be happy. However, if revenues decline they will not.

3. Employees: Boundaries will be more flexible allowing more communication between the divisions that exists which in turn would increase employee morale. However, the strategy would likely change again in 6 months.
 4. Customers: Customers may experience increased service because of better communication between divisions within Apex Corporation.
 5. EDS: If customers are happier, there is possibility to increase revenues which would benefit EDS. The transition between organizational strategies would be a good opportunity for EDS to implement their requirements, potentially resulting in employees being receptive to the change.
3. Implement Network Organizational Structure: According to Cash, many organizations begin with a functional structure and then move to a divisional structure as the organization grows (Barker). We can see this is the case with Apex Corporation. A network organizational structure aims to incorporate the advantages of other organizational structures while diminishing their weaknesses. A network structure shifts from command and control to more information based. This structure places an emphasis on adaptation to environments that are constantly evolving and exploiting uncertainty (Barker). Teams are encouraged to be formed when needed for a project and then later disbanded when they are no longer necessary. The resources that are necessary are contingent on the projects requested creating greater flexibility. If Apex Corporation were to implement a network structure, it is likely they will be quick and responsive to change in the environment. However, with a network structure it is possible to have a duplication of resources and poor accountability.

Impact on Stakeholders:

1. Shikhar Ghosh: If this structure proves to be beneficial, Ghosh will have fulfilled his obligations to establish a successful organizational structure. In turn, he will be able to focus on the future strategy of Appex Corporation rather than the structure.
2. Shareholders: The project based nature and increased efficiency of a network structure provides the opportunity to increase revenues, therefore making shareholders happy. If revenues decrease, shareholders will not be happy.
3. Employees: This structure provides employees the opportunity to work more freely. However, because of the project based nature of this structure employees are contingent therefore resulting in less permanent employees.
4. Customers: A network structure would help foster an environment for innovation allowing new products to be available to customers. Efficiency would be increased which would result in product completion allowing the customers to receive their deliverables in a timely fashion.
5. EDS: Increased efficiency established by the network structure could potentially increase demand and revenue allowing the company to be more profitable.

Recommendation

Appex Corporation should implement a network organizational structure. A network organizational structure combines characteristics of both functional and divisional structures (Barker). Implementation of a network organizational structure allows Appex Corporation to

reinstate the innovative nature that once pushed it to become an industry leader. The issue that was always at hand was the lack of response to the environment, which is a strong suit of this structure. The industry that Appex Corporation is competing in is likely to change rapidly with new findings and growth prevalent. Network structures are adaptive to changes in the environment and are best suited for unstable circumstances such as a competitor making an unexpected breakthrough in technology. Morgan states that an organization should be reactive like an organism in nature (Morgan), which has been a downfall for Appex Corporation leading them down this path. If Appex Corporation chose to do nothing, it would continue to see stagnant innovation and uncertainty regarding employees and customers. If Appex Corporation were to implement Ted Baker's solution, they may see results for a short period of time but would likely have to change structures again. Volatile environments, like the industry Appex Corporation operates in, experiencing rapid change are well suited for a network structure. Many organizations that are technology or software based opt for a network structure and I believe that is the best option for Appex Corporation. While this structure deviates from the norm, the company is used to evolving organizational structures which makes this a low risk option with high potential for success.

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