Appex Corporation

CIS 410-02

Case 2

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# Overview

Initially founded as Appex, Inc. in 1984 by Brian E. Boyle, the company merged with Lunayach Communications Consultants in 1986 and was named Appex Lunayach Systems Corporation. Boyle was no longer the CEO at the time of the merger. While Boyle was CEO, he instituted few formal business procedures for the company. In May of 1988, Shikhar Ghosh accepted a position as the COO of Appex Corporation with the understanding that shortly thereafter he would be made Appex’s CEO. His specialty was organizational structure, focusing on how to create rapid-response organizations. In May 1989, the company changed its name to Appex Corporation.

# The Problem

The main problems for the case of Appex Corporation include lack of asset management, accountability, and any designated authority. The decision that must be made for this case is which organizational structure should be used. “For the ability to answer three simple questions: ‘what to change?’, ‘what to change to?’, and ‘how to cause the change?’” (Goal pg343).

# Industry Competitive Analysis

## Mission Statement

The Appex Corporation will provide management information systems and intercarrier network services to cellular telephone companies and credit scoring systems for financial service companies. The goal of Appex, as is with any other for-profit organization is “to make money now and in the future” (Goal pg301).

## Generic Strategy

Appex Corporation follows the differentiation strategy. This is demonstrated best by the cellular management information systems. These systems are designed to manage the primary functions of customers in their home market, providing features specific to each customer.

## Organizational Structure

The organizational structure varies through the history of Appex Corporation. The history of the firm began in May 1984 with a matrix like structure. Ghosh recognized this as an issue. He first attempted to apply a circular organizational structure. This structure was unsuccessful because it did not define where the authority to make various decisions was held and was geared toward responsiveness and not planning. In February 1989, Ghosh established a hierarchical, functional structure where the organization was divided and grouped into teams by function. This structure was successful in establishing a focus on completing tasks, and the structure adapted well with company growth for a time, but was overall unsuccessful due to discord between teams where each team would restrict the involvement of other teams. This restricted involvement inhibited working relationships and resulted in tasks that were previously accomplished and needed by multiple functions to be done separately by each function, resulting in duplicated work and additional costs. This issue was particularly apparent between the operations and engineering teams. In August 1990, a divisional structure was adopted which separated the organization into divisions by responsibility for a product (i.e. ICS and CMIS), shared resources between products (e.g. Operations, which included customer service data center and network services for customers), and administrative functions. This structure has created resource allocation issues between divisions which has forced Appex to decentralize resources such as office equipment and roles such as database manager by purchasing equipment and hiring personnel dedicated to a single division. Ghosh noted that once the divisional structure was implemented, he received fewer new product development ideas. He hypothesized that this was due to the scope of resources needed for a new product to be developed did not fall within a single division’s scope. Lastly, the divisions began to act like small companies. They each had their own policies and preferences, and became faced with the same structural questions that Appex faced earlier on.

## Competitive Rivalry

Appex’s competitors include GTE, Cincinnati Bell, and McDonnell Douglas. None of these organizations provide a product or service that is similar enough to the products and services of Appex to compete, therefore competition is low.

## Threat of New Entrants

The threat of new entrants is moderately high. The cost to start up and maintain a firm that provides custom software-based solutions is low. There are no notable barriers to entry.

## Threat of Substitutes

The threat of substitution is non-existent. The services provided to Appex’s customers are unique and not duplicatable by any dissimilar products.

## Bargaining Power of Suppliers

Appex Corporation is a very self-sustaining firm. Its suppliers are limited to the businesses which Appex purchases equipment from and the hiring market which provides skilled employees. Neither of these suppliers have any significant bargaining power.

## Bargaining Power of Customers

The bargaining power of customers is low. The customers of Appex Corporation are primarily cellular service carriers. They gain some bargaining power as their products/services are affected by Appex’s services. The services provided by Appex are purchased through multimarket, multiproduct, multiyear contracts and the services provided require considerable time to develop and personalize for each customer creating a high switching cost. As of the time that a decision must be made for this case, Appex has low competition and approximately 75 customers, meaning that customers are less concentrated than sellers.

Key Stakeholders

## Electronic Data Systems and Investors

Electronic Data Systems (EDS) and Appex’s Investors are primarily concerned with accountability and transparency through the usage of financial planning and resource allocation systems and administrative procedures.

## Management

The scope of authority given to managers is dependent on the structure of the company.

## Employees

The way employees’ roles are defined is decided by the structure of the company.

## Cellular Service Providers (Customers)

Customers are primarily concerned with the quality of the services provided by Appex.

# Solutions

All solutions will be required to implement requirements set by EDS, which involve the adoption of various systems and procedures used to track resources for the purpose of accountability.

## Do Nothing

Stick with the divisional structure most recently adopted. “The divisional structure works well when coordinated action is required to develop innovative products, satisfy client expectations, or maintain a market segment.” (Cash)

## Functional

Divide the organization into teams by function. “Job responsibilities interlock so that they complement each other as perfectly as possible and are linked together through the scalar chain of command” (Morgan 21).

## Matrix

Divide the organization into teams by function and product. An organization “that systematically attempt[s] to combine the kind of functional or departmental structure of organization found in a bureaucracy with a project-team structure” (Morgan 51).

# Impact of Each Alternative

## Do Nothing

EDS and Investors will be happy because Appex is implementing the planning and allocation systems and administrative procedures required as a division of EDS.

Management will be unhappy due to increased spending on resources per division done due to the difficulty of coordinating the sharing of resources among the divisions. Senior executives will be happy having little or no involvement required in day to day operations.

Employees will be rotated between divisions in an effort to spur product development and communication across divisions. Whether or not if employees are happy with this course of action will vary.

Customers will be happy to have the operations division, a single contact for support and daily operations.

## Functional

EDS and Investors will be happy because Appex is implementing the planning and allocation systems and administrative procedures required as a division of EDS.

Management will be unhappy due to increased spending on resources per functional group. Senior executives will be unhappy having much involvement required in day to day operations.

Employees will be unhappy when dealing with other functional teams due to lack of cooperation.

Customers will be unhappy as the business shifts its focus away from meeting their needs and becomes more concerned with internal processes.

## Matrix

EDS and Investors will likely be unsatisfied with this decision as it inherently has poor accountability, but will receive some satisfaction as Appex will still have to implement EDS’s planning and allocation systems and administrative procedures.

Management will be happy due to low involvement and unhappy because authority is based on skills and resources rather than a hierarchical position.

Employees will have good relations with each other but will be unhappy when management makes decisions opposing their ideas.

Customers will be happy as employees working in a matrix structure are more responsive to and better focused on the customer.

# Recommendation

It is my recommendation that Appex, as a division of EDS, implement the matrix organizational structure. “Some organizations have equally compelling needs for the benefits of both the functional and divisional structures. These organizations need both technological expertise within functions and tight horizontal coordination across functions” (Cash). The matrix structure causes the least amount of unhappiness as it offers the most advantages and fewest disadvantages as a project oriented firm.

# Work Cited

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