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# APPEX CORPORATION

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## CASE 2



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QUEENA LIN  
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## **Appex Executive Summary**

In 1998, a BCG consultant Shikhar Ghosh was hired to improve the organizational structure of the company. During his time as COO, Ghosh noticed the lack of id structure within the company so he tested numerous different organizational structures including circular, divisional, and circular designs. As these structures were tested, many issues were fixed but new problems were accompanied by the new implementation. Due to the ineffectiveness of those management styles, Ghosh decides to change the organizational structure of Appex Corporation every six months. The goal of this case is to examine the problems with each organizational structure and determine the best decision for the organization as a whole.

## **Appex Background**

Appex Corporation was a company founded in 1986 from the merging of the Appex Inc. and the Lynayarch Communications Consultants (LCC). Apex Inc focused on management information systems for the cellular industry and credit scoring for the financial service companies. Lynayarch Communications Consultants (LCC) specializes in the design and engineering of cellular radio networks for large cellular companies. In April 1990, Appex served 250 markets in the United States and 34 markets in Canada. Apex's contract with the customers ranges from \$100,000 to \$2 million. The company's primary marketing strategy was through trade and industry trading publications such as *Cellular Business* and *Mobile Phone News*. In the same year (1990), Appex became known as one of the fastest-growing technology companies during this period; according to Business Weekly

(Gladstone). From 1987 to 1990, the company revenue grew 1600% from \$1 million to \$16.6 million.

The services of Appex were broken down into two categories: intercarrier services (ICS) and cellular management information systems (IS). ICS was a set of online services that helped carriers to provide service to customers to and from other markets. IS consisted of an integrated software system to help carriers to provide service in their home markets.

## **Appex Problem**

Appex Corporation started as a small, informal but highly responsive and effective company. As the company grew larger, the old organization structure can no longer adapt to the increase in employment and organization size. The customer demand rises and Appex failed to respond to customer expectations with the rising complexity of business processes. This results in unclear job responsibilities and poor communication management as well as unfinished daily tasks. This inefficiency and ineffectiveness of its organizational structure cause Appex to lose a large sum of money. Although Ghosh was appointed as the new CEO of the company, Electronic Data Systems (EDS) acquired Appex in 1990.

## **Industry Competition Analysis**

### **Appex Mission Statement**

Appex Corporation's mission was to become a leading service provider to the cellular industry two types of service which include management information systems and inter-carrier network services.

## Appex Generic Strategy

The generic strategy that Appex followed was cost-leadership.

## Appex Stakeholders

- **Appex Employees:** The employees are the workers as well as the suppliers of the company. Employees also include the executive members of the company.
- **Appex Shareholders:** any individuals that hold financial stock of the company
- **Appex Customers:** This would include all cell phone providers that Appex Corporation provides to, which are approximately 75 providers as of April 1990

## Porter's Five Forces

### The threat of new entries: Low

The threat of new entries is considered low because of the cost and knowledge barriers with cellular companies. The cellular market is relatively new and contains a high development and operation cost.

### Supplier power: Low

The cellular industry is a new market and Appex is a service-based industry that does not require a large number of raw materials to conduct business. Appex also has the capabilities to produce its hardware and software which means its suppliers are themselves.

### Buyer's power: High

Buyers contain a high level of bargaining power as there are several alternatives that the customers can seek. Appex will lose their customer if they do not provide the expected

service level and they also need to remain competitive in their cost-leadership strategy to keep their customers.

#### **The threat of substitutes: High**

The threat of substitute is high because Appex doesn't have a differentiation strategy but instead focuses on cost leadership. This means that other telephone companies can provide the same level of services as Appex.

#### **Competition: High**

Appex's competition includes companies that offer similar services such as GTE, Cincinnati Bell, and McDonald Douglas.

### **Alternatives**

#### **Do Nothing (Divisional Structure)**

Under Ghosh, Appex is currently implementing a divisional structure in which employees identify with their division rather than their functional specialty. This structure works well when coordinated actions are required to develop innovative products, satisfying customer expectations, and maintaining market segments (Cash). It contains advantages such as improving accountability, budgeting, and planning which the employees focused on meeting financial targets. Cooperation occurs within the division and through this organizational structure, the top executive only needs to focus on strategic planning rather than wasting time on day-to-day operations.

This organizational structure consists of many issues in various ways including resource allocation, poor communication flow across divisions, and antagonism between different

departments. Each division wants control of its resources and once the divisional structure is implemented, fewer product development ideas are received since there is a lack of communication flow between different divisions. Over time, this structure also creates the problem that the division would act like small companies with different business procedures. This could end up causing problems for customers since poor communication can negatively impact production and customer service.

### Adaptive Structure

AppexCorporations can consider changing its organizational structure every six months. While this strategy allows the company to adjust to the most efficient structure at different times, the restructuring process can be timely and problematic. The implementation of this structure requires to relearn the business processes which wasted time and money. This will also create uncertainty since changes are made frequently. Customer service would likely be altered with the change of different organizational structures. This will cause a decline in revenue if the service is different from customer expectations. Overall, this strategy creates a huge risk of wasting resources and time.

### Circular Structure

A circular organizational structure is intended to create a non-hierarchical organization that allows information to flow continuously in the organization and its surrounding environment. The most inner structure contains the top executives, with the next layer as manager of functions and employee in the function. In the environment around the circle is the customer.

This structure requires the employees to have a great understanding of the company's culture and newly hired employees will find it difficult to accustomed. This structure also created a mentality for its employees that see its customer as the enemy. This will negatively impact the communication between customers with the employees which would damage customer relationships.

### Matrix Structure

Under Matrix structure, divisional managers and functional managers have equal authority within the organization, and employees are expected to report to both instead of only one. This structure combines the benefits of both functional and divisional structures through better resource efficiency, responsiveness, dual reporting relationships, and shared decision rights. Using a matrix organizational structure allows the sharing of highly skilled resources between functional units and projects (Westland). Communications are open, which solves the problem of Ghosh's concern about a lack of collaboration between different departments.

The only concern of this strategy is that the Matrix Structure has never been implemented into Appex Corporation so the company cannot see the accompanying issues until this structure is being carried out.



## **Recommendation**

My recommendation would be to implement the matrix organizational structure which results in better resource and time efficiency and allocation throughout the company. It would also alleviate the issue of Ghosh receiving a lack of ideas for new products that resulted from the problem of poor communication between different divisions. Under this structure, employees need to collaborate and focus on a project with input from all aspects of the business. “The fully developed matrix is team-driven, in that priority is given to business, program, product, or project areas, with functional specialism providing support.” (Morgan 3) It is heavily project-driven and needs to require employees from different departments to assemble into teams to complete these projects. This reduces favoritism between each department because working together allows them to perceive the distribution of resources from a less biased perspective. This structure also provides a stable work environment with security-enhanced.

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