Case 2: Appex Corporation

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Problem Statement

As a newer firm in a recently emerged industry, Appex Corporation and its CEO, Shikhar Ghosh, are struggling to discover the best way to structure the organization for effective functioning. According to Gareth Morgan, we can understand organizations as organisms living in a wider environment, struggling to survive (Morgan 33). An organization’s strategy is its survival mechanism. Furthermore, if we follow the ESSO Business model, an organization’s structure is a consequence of that strategy (Lim). Therefore, Ghosh should devise the organizational structure based on Appex’s business strategy. The problem is that Ghosh lacks a clear understanding of the business’s strategy. Instead, he is organizing Appex based on ideas such as financial goals, which are “subsidiary to survival” (Morgan 34).

Industry Competitive Analysis

Mission

Appex aims to provide valuable products, services, and support to businesses within the mobile phone industry through differentiation. Customers reside within the United States, as well as internationally. Generally, Appex’s products and services fit within two broad categories: intercarrier network services and management information systems.

Generic Strategy

Given the industry Appex operates within, it is unsurprising that the company follows a differentiation strategy. A differentiation strategy is characterized by “uniqueness.” A company can differentiate itself with its product usefulness, quality, customer service, brand, among other factors (Tanwar 13). This is evident, as it is stated that that Appex had always been very responsive, rapidly bringing innovative solutions to the market. Appex’s original CEO was able to bring to the market a new service to “address a particular need… in the cellular industry” before any of its competitors. After Ghosh’s arrival, it is noted that the focus on restructuring was distracting employees from proposing fresh product development ideas. It is clear that Ghosh still values the uniqueness of Appex, as he attempts to shift company culture in the creative direction again.

Porter’s Five Forces

As a reminder, Porter’s Five Forces “considers five forces that determine the ‘attractiveness’ of your market by analyzing the competitive intensity.”

*Competitive Rivalry*

Appex currently faces low competitive rivalry for a number of reasons. It appears that although there exist competitors with greater resources and experience, those competitors were unable to move products to the market quickly enough. Appex was able to get the contract first. The customers would experience high switching costs, given the contract terms that were negotiated. Thus, it’s unlikely that the competitors have very much strength in the situation. However, it’s important to keep in mind that this market is quickly transforming, so competitors could develop better technologies and attract customers after their contract ends.

*Buyer Power*

For many of the same reasons, Appex customers have low buyer power. The biggest reason again rests in the high switching costs. A majority of contracts were large multimarket, multiproduct, multiyear service agreements. It would be very difficult to transition to a new seller. Additionally, the cellular company’s own service is affected by the the product/services provided by Appex. There are heavily dependent on Appex to receive pertinent information related to operations and customers. Finally, based on the industry, its unlikley that customers are more densely concentrated than sellers (Porter’s 25).

*Supplier Power*

The only two suppliers are the workers and Boston Consulting Group (BCG). Apex employees supply labor, and BCG supplies consulting leaders, such as Ghosh. Though the Apex employees appear to be non-unionized, they still seem to hold a significant amount of power. When Ghosh first arrived, Appex lacked any resemblance to a bureaucracy. Most employees did anything, and there were no job descriptions. Thus, employees were very flexible, and had a great deal of delegated power to decide what to do and when to do it (Morgan 29-30). Ghosh also tells that he is very responsive to the suggestions of employees on what issues exist in the organization, and what could be done to remedy those problems. Furthermore, it appears that while Ghosh recognized a need for increased control, he disliked bureaucratic organization, and favored a flat structure. Such an organization would give employees even more power.

Finally, BCG likely has a good amount of supplier power as a reputable consulting group, who Appex is relying on to turn the organization around.

*Threat of substitution*

The threat of substitution is low. Mobile phones continued to grow in popularity and importance, while landlines remained stagnant in usage and innovation. While landline telephones may have cost less at the time (Porter's 22), the utility and convenience of a mobile phone outweighed any cost benefit that could be realized using landlines. It would be quite a while before new forms of communication began to appear in society.

*Threat of new entrants*

There is a moderate threat of new entry. While Appex managed to ward off some competitors and put several large communications companies in contracts, it is still an increasingly growing market. Market penetration does not appear to be extremely difficult, as Appex did it itself with 25 people. Additionally, the biggest necessity to get started is the software.

Stakeholders

* Ghosh and senior management- For much of the time, they were making all decisions. Thus, the are being held accountable by investors for the actions and performance results of Appex.
* Appex Employees – In the beginning, they had a lot of autonomy, and few procedures to follow. They are fairly confused by the changing organizational structures, especially if the implemented structure is nontraditional. Many are in a struggle for resources, money, and other employees. Believe they understand the company and products much better than outside individuals with only managerial expertise, and are thus better suited to lead.
* Appex Customers- For the most part experienced bad customer service due to the original (and sometimes subsequent) structure of Appex. Yearning for better service.
* Investors (venture capitalists)- Brought Ghosh into the company to improve functioning and success. Wanted Ghosh to put in place a traditional, hierarchical organization structure. Have a stake in the profitability and healthiness of Appex.

Alternative Actions

* Do nothing- Keep the organizational structure as-is. That is, keep a divisional structure with an additional, centralized product development team. This would not fulfill Ghosh’s goal to continue altering the organizational structure every 6 months.
* Adopt a matrix organization structure- This organization structure is a blend of functional structure with project-team structure (Morgan 51). This structure is “team-driven.” Benefits of using a matrix is that it adds flexibility, adaptability, melding of skills, and responsibility at lower levels. Disadvantages include personnel playing teams when “project teams are superimposed on a strong bureaucratic structure” (Morgan 53).
* Perform an industry analysis, identify the overall business strategy, then form a decision on the “best-fit” organizational structure.

Impact

* Do nothing
  + Ghosh and senior management- Will likely be unhappy as there are still significant problems with the way the organization is structured. As divisions begin to become more complex, senior management has less of an understand of what is happening in each division. Divisions have also begun “playing games” with their financial statements, and senior management cannot fully comprehend the fiscal standing of the organization. Additionally, Ghosh desired to continue changing the organization structure every 5-6 months.
  + Employees- Have somewhat better accountability, and ability to plan and perform. However, they are largely fighting amongst each other for scarce resources and team members. They are likely stressed and confused, as they try to set up their divisions as “mini-companies.”
  + Customers- Currently, employees and management seem to have an internal focus, so customers are probably not receiving a lot of support with this option. Additionally, few new product ideas are being proposed. This means customers are not realizing any new benefits from Appex.
  + Investors- This seems to bring very little benefit to investors, if any. While maybe reaching financial targets, employees are not creating value.
* Adopt a matrix organization structure
  + Ghosh and senior management- Would likely make Ghosh happy, as he is able to “try-out” a new organization structure. Additionally, this structure allows for more team focus and product innovation, which were some of Ghosh’s goals. Matrix structures are said to “diffuse influence and control,” which may not be to the delight of senior management.
  + Employees- Still may be fighting over resources. Project teams may have trouble getting along or trusting each other, as each individual member feels more loyalty to their functional group. Could increase their productivity and possibly their happiness/feeling of importance on the job.
  + Customers- Customers will likely receive some benefit from this organization change, but likely only marginally.
  + Investors- Would like to see more formal hierarchies, as it seems to become even less clear who holds formal power. However, this option would likely benefit them more, financially.
* Perform an industry analysis, identify the overall business strategy, then form a decision on the “best-fit” organizational structure.
  + Ghosh and senior management- Would benefit greatly from this option. Would give all management a clear picture of where the company is trying to go and how it can best travel there. Would increase their reputations as managers and executives. They would likely be able to stop flip-flopping with organization structure, and better understand their own role.
  + Employees- Could benefit or be a disadvantage for the employees depending on the determined structure. More than likely, however, the chosen structure would help them with communication, productivity, and personal growth.
  + Customers- This structure would take into account customers as part of the environment. Thus, it should bring them benefit, as well.
  + Investors- The best choice for the investors, as well. Understanding the strategy would help Ghosh lead the company in the right direction, and identify the appropriate actions to do so.

Recommendation

The recommended course of action would be to perform an industry analysis, identify the overall business strategy, then form a decision on the “best-fit” organizational structure. While Ghosh learned about the advantages of several types of organization structures, it is unwise to employ those theories haphazardly. In his attempt to experiment, Ghosh lost sight (or possibly never understood) Appex’s strategy. A firm understanding of that strategy, along with the overall environment in which the company exists, is so crucial to making an informed decision regarding organizational structure. Morgan states that “successful organization share ‘patterns’ of characteristics that are appropriate for dealing with their particular environments” (Morgan 53). This goes to show that the way an organization structures itself completely depends on how it decides to stay alive.

Works Cited

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