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Case 2 - Appex Case

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**Introduction**

Appex Corporation was founded in 1986 from the merger of Appex Inc. and Lunayach Communications Consultants (LCC). Brian E. Boyle founded Appex Inc. in 1984 (Barker, 2019). Appex Inc. was founded on the management of the information systems for the cellular industry and credit scoring systems for financial services companies. They grew dramatically between fiscal years 1987-1990 with revenue increasing by 1,600 percent. Appex’s products and services were divided into two main categories: intercarrier services (ICS) and cellular management information systems (IS). ICS managed the information carriers needed to provide service to cell phone users to and from other markets, otherwise known as “roamers”. ICS contributed 60 percent of total company revenues in 1990. IS provided a software system (CMIS) Cellular Management Information Systems that included customer account information, billing and collections, and equipment inventory. In 1988, a partner from the Boston Consulting Group, Shikhar Ghosh, was named Appex Corporation’s Chief Operating Officer (COO). Ghosh believed he could change the structure of how Appex managed the business. He stated that “I left BCG with my head full of ideas on how to structure organization” (Barker 2018). This statement was an eye-opener to Brian Boyle and the rest of the Appex Inc. for the possibilities of restructuring their organization. This case analyzes several different types of structures and

hopes to determine what the best structure would be for Appex to help the business succeed and

continue to make money now and in the future.

**Problem**

The root of the problems at Appex was poor organizational structure. The company was very small when it started so there was no need for any formal business procedures. If something needed to be done then someone would do it, but there were no clearly defined roles or job descriptions. As the company grew and the number of employees increased, this informal business culture began to cause problems. People just came to work on their own schedule and worked on whatever needed to be done right now. The employees were reacting to issues instead of planning for or preventing them. This had a very negative impact on customer service. They couldn’t keep up with all the customer requests for assistance and began to miss installation dates. One customer stated that they had to call the company 150 times before they got a return call (Barker, 2019). They were also experiencing failures in product development because there was no communication between developers and more than one developer would be working on a project and coding it in incompatible ways. There was almost no financial planning and the company was spending money quickly and not monitoring expenses.

After Shikhar Ghosh became CEO in 1988, he decided to try several different types of organizational structures in hopes of reviving Appex and finding a new way to handle all their new business. Eventually, Electronic Data Systems (EDS) acquired Appex in 1990. EDS inherited all the problems that Appex had in prior years. The main challenge for Appex was to follow EDS requirements and create divisional structures inside of a larger, bureaucratic organization.

**Industry Competitive Analysis**

The mission of the Appex Corporation is to provide information and services to cellular carriers with their online national verification system and the CMIS software system. When analyzing Appex’s competitive environment it’s helpful to consider the five competitive forces described by Harvard Business School professor Michael Porter.

1. **Inter-Industry Competition**

According to Porter’s theory, rivalry is most intense when competitors are numerous, or industry growth is slow. In this case, the industry is rather new so Appex does not have many competitors, and the industry is growing very quickly. Appex initially managed to stay competitive by being innovative and reacting quickly to problems. When their main competitor’s GTE, Cincinnati Bell and McDonnell Douglas wanted to work together on an industry-wide service entity called ACT, Appex came up with a solution and implemented it causing ACT to be disbanded.

1. **Threat of New Entrants**

Barriers to entry include absolute cost advantages, access to inputs, economies of scale and well-recognized brands (Martin). The threat of new entrants into the cellular industry is high because it is new and rapidly growing. Profits are high and competition is low, so this makes entering the industry very attractive (Porter).

1. **Customer’s Bargaining Power** Customers have high buying power when the number of customers is large in comparison to the number of competitors serving them (Porter). This is a significant concern for Appex because they are not providing good customer service for their customers. Customers have trouble getting issues resolved in a reasonable amount of time and they can’t rely on the company to meet the installation dates that have been scheduled for them. This type of service often results in customer’s switching to other providers.
2. **Supplier’s Bargaining Power** There are no suppliers because they are software related. They do not rely on physical goods that come from a supplier. There are no direct suppliers that are needed for Appex to run its business. Software and hardware are needed to provide services to customers, and employees are needed for customer service and to keep the business up and running.
3. **Threat of substitutes**

The threat of substitutes for Appex is at low risk. Although the case did not mention any substitutes specifically, there is always a chance with the advances in technology that a substitute could arise. At the point in time that this case was written, I think the threat of substitutes is low because the market of cellular carriers was at the growth stage in the product/service lifecycle. Sales were at an all-time high, and Appex had an abundance of customers that they were supplying services to as consumers were shifting to cellular phones with roaming plans.

**Stakeholders**

According to Business Dictionary, a stakeholder is “a person, group or organization that has interest or concern in an organization” (Business Dictionary 2018).

The stakeholders are employees, investors, customers, and managers. The employees of Appex hold a large stake in the success of Appex. Their jobs literally depend on how well Appex does, therefore it can be assumed that they are invested in seeing the success of the company. The investors hold a very high stake in Appex with trusting their finance in Appex’s hands. They want Appex to do well for their own personal and financial gain. Appex’s customers do no necessarily care for how well Appex does but want to ensure that they stay floating so they can keep consuming Appex’s superior services. Managers have a high stake in the organizational structure. “For the ability to answer three simple questions: ‘what to change?’, ‘what to change to?’, and ‘how to cause the change?’ Basically, what we are asking for is the most fundamental abilities one would expect from a manager.” (Goldratt). Depending on the structure that is chosen also depends on managers involved with the company.

**Alternatives and Impact on Stakeholders**

The first alternative is to do nothing. In this case, doing nothing would be keeping the divisional structure. In this structure Appex is divided into two main divisions, ICS and IS, and an Operations division that provided services to the other two divisions. The divisional structure is good for management because it improves accountability, budgeting, and planning (Barker, 2019). Employees benefit because they have more clearly defined roles and business goals within the divisional structure. This leads to greater cooperation and communication within each division. Greater accountability benefits the customers because when employees are held responsible for poor customer service and performance then they are much more likely to be motivated to improve the quality of their work. There are some disadvantages to this structure though. While communication improves within divisions, it degrades between divisions. Each division starts to think of itself as an independent organization and can develop an “us vs. them” attitude.

The second alternative would be to implement a hierarchical functional structure. In this structure, functional teams are formed with a clear hierarchy of responsibility. For example, sales teams handle sales issues, financial teams focused on financial planning, and engineering teams focus on software development. This benefits managers because teams are more efficient and focused on completing tasks. It benefits employees because they have a clearly defined chain of command and area of responsibility. It benefits customers because in this structure there is a customer service team that is focused only on customer service issues. The disadvantage to this structure is that over time the teams add more sub-functions within their groups, which adds more layers to the hierarchy and increases complexity. This structure also tends to place people with more functional expertise at the top of the hierarchy rather than people with more managerial experience.

The final alternative is to allow EDS to change the structure of Appex. EDS is a billion-dollar company, so they know how to structure divisions within the organization to ensure that operations run smoothly, and the company continues to have a profit. Employees may not want to change the divisional structure since within the divisions, employees were working together and accomplishing divisional goals. Shareholders of EDS would once again be happy if the company is making money and using investment money wisely. Allowing EDS to change the structure may be wise since they know how to organize structures to ensure this happens Customers would be treated as all EDS customers are. Customers may be happy with this service they are receiving. Finally, Shikhar Ghosh may be happy if he is the one recommending the structural change. Ghosh may also like the change even if he did not recommend it, because he enjoys changing the organizational structure and may like the challenge of working in this new environment.

**Best Course of Action**

The best course of action, in this case, is to do nothing. Keeping the divisional structure makes the most sense for this company because they were acquired by Electronic Data Systems (EDS). Author Gareth Morgan states that “where the environment of an organism is composed of other organisms, organizational environments are in large measure composed of other organizations.” (Morgan). Now that Appex itself is a division of EDS it must focus on its structure within the larger organization of EDS. EDS needs to provide discipline to the company and needs to figure out the strategy.

Citations

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