

CASE 2
APPEX CORPORATION

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Appex Lunayach Systems Corporation, whose name changed to Appex Corporation in 1989, services cellular telephone companies by providing management information systems and intercarrier network services. Senior Management with a great deal of help from Shikhar Ghosh has spent the last three years, 1987 to 1990, implementing and analyzing potential organizational structures as the company surges from a small group of only 25 employees to quite a large corporation, which is projected to grow by an estimated 50 percent every six months and requires a dynamic structure to match this high growth rate. Senior Executives and shareholders want their investments to grow, which means expanding the number of employees to support a higher demand in technological effort because the market and demand is rapidly increasing due to normal growth projections and consistent technological advances. Therefore, the alternative that is to resolve the issue of whether to reorganize Appex Corporation's organizational structure after three years of constant structure change and that will allow fluidity of cross-functional processes and dynamic decision rights without disrupting daily operations is to inherit a classical hierarchical structure.

To support their growth to becoming a larger organization, Appex has enlisted Shikhar Ghosh as their COO with an understanding that he would be made Appex's CEO sometime thereafter. Each of the organizational structures that Ghosh has revealed strengths and weaknesses after they were implemented and with 1991 approaching, another update of their organizational structure was required. Appex Corporation needs to shift more towards a bureaucratic system because as the organization keeps growing, the more structure it'll require in order to provide their customer with unequaled service and grow effectively as a unit under a common goal. When the corporation is later united into a larger organization, this would benefit the shift by easily integrating into the new parent company's existing bureaucracy. Shikhar Ghosh would need to consider many different structures depending on the need for the

organization and the mission that it has at that current time as to not dilute the purpose of the organization to ultimately improve overall performance.

The main problem that Shikhar Ghosh observed upon arriving to Appex Corporation as the COO is the disordered condition of the company's current structure. In the beginning of Appex, there handful of employees were a closely linked group but is now just a group with no distinct job responsibilities, work ethic, or chain of command. Ghosh observed Appex employees upon arriving and stated that "Everybody just did what they felt like. For instance, customer service people were supposed to start at 8:00 AM. They wouldn't arrive until 10:00 AM, but they would work until 2:00 AM. Everybody did things on their own time, and the attitude toward the customer was – 'We'll call you back.'" Clearly, the employees and Appex, as a whole, has a very unprofessional environment which is the cause of Appex "losing money rapidly". (Nohria)

To remedy the disorganized structure of Appex Corporation when the cellular industry began to blow up, Ghosh would restructure the organization about every six months, which is each time the organization grew by 50%. First, he tried a circular structure, where the senior executives were in the middle and each group of descending importance being put further out from the middle and ending with the customer. Second, Ghosh followed a more hierarchical and functional structure with the intent of eventually breaking the system down into something less formal. He formed teams based on function and then later added teams based on products independent of the original teams.

With Ghosh's help, by 1991, Appex was considered a large organization that has expanded into a divisional structure with each of the divisions being responsible for their part of the business only. The first division was accountable for inter-carrier settlement services while the other was in charge of Information Systems and the final division that was broader and dealt with the Operations. At the time of Ghosh's recommendation in 1991, Appex had positioned itself in a way to be a strong contender with little threat from competition and plenty of space to expand.

To analyze the four alternatives defined in the preceding paragraphs, we must use Porter's Five Forces in order to determine how competitively strong Appex Corporation is. Before I go through each one, Porter stated, "The company without a strategy is willing to try anything." (Porter) I feel as this quote applies to this case in a big way. For the Five Forces, the threat of new entrants is low because Appex is in an industry that is very expensive to enter and requires technical training of their employees in addition to there being only a limited number of customers, large cellular carriers. The threat of substitutes for Appex is high because the service they provide can be provided by other companies in different ways than from how Appex is performing theirs. The roam and billing services offered by Appex are intangible and a well-equipped competitor could provide these same services so that customers would not be able to tell a difference except for who is supplying the service. The bargaining power of the supplier is quite low for an organization such as Appex because they do not require any raw materials or little equipment for production. Since there is not much to supply, there is little power coming from suppliers. However, the bargaining power of buyers is a different story, where the buyer has a lot of power over Appex as there is a limited number of buyers and they are all high-volume buyers. The final force of Porter's Five Forces is the degree of competitive rivalry which is always continuing to grow within the technological suppliers like Appex

Corporation. They have a medium to high degree of rivalry because they have been known to compete by differentiation in their new innovations but Appex should be cautious in the market of technological services. When increasing the size of an organization in the ever-changing industry of technology, the risk of being beat out by competitors who can react faster to develop a new solution increases.

The stakeholders for the case of Appex Corporation are Shikhar Ghosh, Appex Corporation and its employees, shareholders, and customers. Shikhar Ghosh's reputation relies heavily on the outcome of his implementation of organizational structure to a relatively unstructured organization. Appex's employees and shareholders, including their Board of Directors, clearly want to see their investments of time and money not go to waste. Obviously, customers such as Bell South have previously invested in the ideas and services that Appex has so they would like to keep their partnership intact.

To solve the problem of what the next steps are for Appex Corporation in deciding whether or not to reorganize their structure another time after more growth in the number of employees, which is outperforming the forecasted numbers presented in Exhibit 1 of the Appex Corporation case. There are four alternatives that Shikhar Ghosh and Appex Corporation must consider when analyzing and choosing their organizational structure: Do nothing and remain a divisional structure, return to their team structure, change to a matrix structure, and change to a classical hierarchy.

The do nothing alternative will empower Appex Corporation to remain as a divisional structure, one for intercarrier settlement services, one for management of Information Systems, and the final division was broader and handled operations. A divisional structure has proven to have advantages by improving liability, budgeting, and planning. It did this by allowing near cross-functional operations between divisions and retaining employees focus on their specific responsibilities within their division. While there are plenty of advantages, this case presented many disadvantages in with utilizing this structure or else Appex's executives wouldn't be reconsidering restructuring. If they are to continue utilizing this divisional structure, they must first address the following problems: sharing the company's resources like a database architect, difficulty with maintaining senior management control, and lack of teamwork across divisions. In addition to these problems, functional structure issues would arise because of the similarities in their basic premises like when Appex's heads of teams would naturally create smaller team units within their team, which in turn raises the necessity for more managerial staffing of each sub-team.

For Appex Corporation to revisit a team structure, it would greatly alleviate some of the problems defined in the above paragraph by improving camaraderie between the divisions which aids in inspiring loyalty among employees to work together towards Appex's business goal. This team structure relates back to the roots of Appex's early successes where there was just a small group of 25 employees. Even when Appex basically did not have a structure in the beginning, the empowerment of their employees and team-centered effort produced effective and efficient results, which is common for development of technological products/services. As Appex grew, these two common structures did not sufficiently work but a combination of the

two ideas could as in team based on products or functionality and interpersonal relationships. This combination could enhance the employee morale and inspire new product ideas from improved employee satisfaction. To highlight the idea that “activating a resource and utilizing a resource are not synonymous.” (Goldratt Goal) applies to training the new hires. A benefit could be observed with training of new hires like if the employees are enjoying and proud of their work, then the new hires are typically to follow the mindset of the employees that trained them and making them an effective team member more quickly. This is a great example of a quotation from Gareth Morgan’s Images of Organization, “Individuals and groups tend to operate more efficiently when their needs are satisfied.” (Morgan) A potential disadvantage of this structure is a possible relapse into the unorganized, muddled structure from 1987. It is essential to remain conscious of the employees’ satisfaction, but this alternative would not be beneficial for Apex Corporation to implement as it was focused on the employee rather than the business’ goal.

The next alternative is introducing a matrix structure to Apex Corporation. A matrix structure is somewhat similar to a divisional structure except that there is another segment and typically produces two reporting managers for employees: functional and product. With a divisional structure already being utilized within Apex’s organization, implementing this matrix structure would be a simple transition due to the similarities and would only require one segment to be added. Employees are formulated into entities by both function and product with each entity then being assigned to a project with a specified goal. A matrix structure can take the advantages of the divisional structure along with the team-based structure, both

defined earlier. If Appex were to choose the matrix structure, they must consider the recommendation of applying a balanced/functional matrix. This type of matrix structure assigns project managers to oversee project development and must share power with the functional managers, who are the typical decision rights proprietor of their team. With that being said, one of the clear disadvantages in the division of power is the misalignment of the project and functional managers needs and priority. A great amount of communication is needed in order to achieve a sufficient cross-functional cooperation between divisions as well as the two overseeing managers. If the Senior Management of Appex believe that their employees are capable of overcoming the inherently difficult human action of sharing power, then this alternative could benefit Appex Corporation.

The classical hierarchy structure is the final alternative and the one believed to be the most beneficial to the management and operation of Appex Corporation organizational structure. This structure has been proven to effectively and efficiently manage a small or large organization and provide a simple structure that is to alleviate the complexity that Appex has faced during the growth of their company. Although this is a impersonal notion and would not allow for the loosely designed environment that the employees are accustomed to, the fact is that the employees had already been loosely managed and it proved to be costly for Appex and resulted in the recruiting of Shikhar Ghosh. Even since the employees began as a small cohesive group, it proved unstable by 1988 and required an immediate change in processes and organizational structure. With the company growing constantly and consistently, it becomes more difficult for the Senior Executives to set and communicate common goals for the

employees and company, as a single unit, to work in attaining those goals. At this point in Appex's operations with consistent growth, it is highly recommended that they adopt a classic top-down hierarchical structure with clear decision rights, cross-functional cooperation, and a direction and focus toward attaining their goal. However, concepts from some of the other structures should be and are strongly advised to implement in relief issues that need executive's attention for employee satisfaction or improving organizational camaraderie. It is encouraged for Appex to remain having a type of divisional structure with formation of teams by project or by both functionality and project. Appex's Senior Management must keep the hierarchical chain of command when considering including these other concepts from other structures.

The biggest advantage of implementing a classical hierarchy structure is that it will clear the lines of communication from one area/team to another. It is easy to follow as the structure displays clearly who reports to whom and what their job responsibility is. This also allows a transparent view of the organization's structure to shareholders and the Board of Directors, so they can see how their investments are playing out a projects and functions are passed along their processes in an easily trackable and organized structure. A top-down structure can allow for a constantly changing technological environment. This idea is highlighted by the quote, "Technology is a necessary condition, but it's not sufficient." (Goldratt Necessary...) Goldratt's quote explains that technology companies can quickly grow but needs a strategy rather than one solution/product. As Appex Corporation continues to grow rapidly and massively, this structure will stand the time of change and business processes with being highly compatible

with any new processes implemented as long as the decision rights aren't forgotten and followed by all. The classical hierarch top-down structure is my recommendation for Apex Corporation in 1991. Ultimately, Apex needs leadership to resolve its issue and is proven in a quote by Porter that "The best CEO's I know are teachers, and at the core of what they teach is strategy." (Porter) The organization's CEO needs to provide an in-depth strategy with highlighted goals for the goods/services they offer to their clients.

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