Case 2: Appex

Mission Statement

Appex was one of the early cellular industry pioneers, providing service to other companies so they could manage their customers in roam territories and their home. Appex's products and services are these two divisions: intercarrier services that provided services to cellular subscribers to and from other markets; and cellular management information systems which managed the primary functions of a cellular carrier in its home market.

Generic Strategy

Appex was using a differentiation leadership strategy. Cellular was a very new concept and the service just started to get popular to meet customers' needs, especially for other companies' business needs. The cellular telephone industry in the US grew rapidly from 1984 to 1989. Numbers of subscriber went up about 38 times within those 5 years. Appex was taking off to become a huge business success to this niche industry.

Organizational structure

When Boyle was the CEO, Appex's organizational structure was project based, very loose and informal, as Ted Barker described, "Nobody had any sense of what their job description was"(Case 2).

When Appex hired Shikhar Ghosh as its CEO in 1988 and he make 5 tries of different organizational structures. Every time he saw problems and heard some good suggestions; he took actions to make changes:

Ghosh's first try was circular structure, which was not a very successful change. This structure brought confusions to employees within Appex. This structure only was not good for planning, but responsiveness was maintained well.

His second try was horizontal structure, which was not sufficient. This structure was too flat so the company lost control.

The third try was a hierarchical functional structure. "The weakness of a functional structure is its inability to respond to a differentiated environment or one in which the firm must respond differently in each product category or customer segment in which it operates. (Cash)" Different functions operated as teams. However, under this structure, each team started to create subfunctions within the team, growing vertically and horizontally in an unexpected speed. The product Team/ business team structure was a refined hierarchical functional structure – business teams were added in between management team and product teams to deal with their conflicts. Prices were raised on customer due to the high internal operating cost and more attention were paid to those internal issues instead of customers. What needed to be kept in mind was "All customers know is that they want excellent service and want it now. The timely delivery of excellent service is customer relationship management" (Kalakota, 2001).

Installing a divisional structure in Appex in 1990 for was Ghosh's fourth try. The three big divisions were ICS, IS and operations. This structure made planning and budgeting more easily,

and each division dealt with their own products/service and became more accountable.

Resource allocation became its biggest problem under this structure. Moreover, between

divisions communication and cross-pollination of ideas were not happening as much – there

were a lot of improvement ideas but no new products/services ideas.

I would say this was Ghosh's fifth try was installing a centralized product development team

and had heads of divisions rotate to be its head. That still could not stop divisions to play games

which caused accurate financial status were not delivered to executives. Executive did not have

a clear idea about the financial status of the whole organization.

Porter's Five Forces

Competitive Rivalry: Appex was in a very good competition position at the time, its competitor

such as GTE, Cincinnati Bell, and McDonnel Douglas would like to use Appex's particular

services in the cellular services.

Threats of New Entrants: Entering the Cellular industry would need big amount of capital and

technology investment, so the entering bar is higher than other industry. At the time, cellular

industry was still not matured so it was considered risky to invest on. Threats of new entrants

for Appex was not very high.

Threat of Substitutes: Currently days, Appex's threat of substitutes would be much higher

because of internet. Various of communication applications and network could easily be

utilized for the same purpose and features. They are also cheaper and easy to use. In this sense, threat of substitutes is high.

Bargaining Power of Suppliers: suppliers' power was low because Appex mainly developed its own technology to provide their products and services.

Bargaining power of Customers: at the time customers' power was low because there few cellular providers. But now there are a lot more providers, customers have much more choices.

Problems and Stakeholders

General Problems: Appex had been having a high growth and operating in a right direction. Because of the high growth and business environmental changes, it needed to change its organizational structure to catch up and look for further developments in market share, new products, and services. However, it took multiple tries on changing its organizational structure. These changes came too fast and too frequently, caused a lot of instabilities within the organization. We can take a look at the problems in the stakeholders:

CEO Shikhar Ghosh: Shikhar Ghosh was experienced and full of new ideas. His early creative changes on Appex's organizational structure did not lead to further development, instead, it brought in confusion and instabilities. Then he realized that it needed more control and new ideas of products/services. Shikhar Ghosh listened to other management members but made decisions too fast without a complete consideration.

Division management: heads of divisions thought in terms of their own division instead of thinking for the organization as a whole. They fought for resources and built their own subdivisions. Ideas from them were more about improvement about their own product, creative new product/service development ideas rarely came up.

Board of Directors: they played an important role in setting strategic goals and oversee management. However, the organizational structure changes almost every six months they did not step up enough to express their thoughts, just watching if the new structure would work out.

Employees: Employee number kept going up. Old employees had to adjust to changes all the time, and new employees faced unexpected organizational structure when they joined. All these would cause employee to lose confidence over the company and their work motivation went down. Even if the employees were not change resistance type, the frequency of changes would be too much to deal with, especially organizational structure changes were always big.

Customers: Customers were neglected because Appex was busier with their internal management, instead of product/service development or after sale service. But they were very likely to stay because at they time, cellular services did not have a big selection to choose from.

Alternatives and Impacts on stakeholders

The alternatives I consider are for what Appex should do after Electronic Data System made the acquisition. I have been saying too many changes happened in too short of a time, but changes were necessary, because "As organizational environments have become more complex, differentiated, and turbulent, more and more 'species' of organizations seem to have emerged.

(Morgan, 2006)". Changes have to be made to survive in the changing environment. What Appex could do under EDS:

Alternatives 1: completely adopt EDS's organizational structure. In this case, the whole structure of Appex would need to change again, Restructuring the whole organization based on EDS's structure. "Reorganization often leads to the elimination of entire layers of employees, especially middle managers" (Cash).

Impacts: **Shikhar Ghosh**, **division management**, **Board of directors** may be used to it, but their positions would be from proactive to become passive. Employees would have to go through changes again. Customers would stay as long as the products/services and prices don't have a big change.

Alternatives 2: operate independently as a separate entity, just report to EDS. This needs Appex to demonstrate in detail to EDS, convincing them after that many tries, Appex finally found the right structure for a continuous development path. Appex also need to come up with a solution to all the problems under the divisional structure, to gain EDS's trust to let them run independently.

Impacts: This alternative will put some work on Shikhar Ghosh and division management. Board of directors also need to support their proposal for independent operation to convince EDS. If Appex could operate independently as a separate entity and just report to EDS, employees and customers would feel the least change, thus employees can stay stable and work the way they used to work; customers can stay with Appex and do not have to the impact on them under this acquisition.

Alternatives 3: operate as a division, remove the centralized teams but let EDS manage resources allocations. If Appex can operate as division under EDS, removing the remove the centralized teams can save some operational cost and let EDS deal with the problems with divisional structure. EDS can control and manage the resources, make new rules for product improvement and development. That is especially important because "The pace of research and development will continue to accelerate, pushed by short product life cycles and new research tools. (Fried)"

Impacts: Shikhar Ghosh would just need adapt EDS's structure and make changes within Appex as they set to manage Appex as a division. Board of directors can talk to EDS directly to express their opinion**.** Division management would operate similar as before, the only change is the division would become a subdivision and follow the new rules under EDS with a certain amount of authority of decision making. Employees would also need to learn and follow the new rules. Customers still have the least impact or even would enjoy some price reduction with the operation cost going down.

Selected Alternative and Conclusion

I would select **Alternatives 3** for a few reasons: first, the impact would be the least on employees and customers, which keep the organization stay stable. Second, Shikhar Ghosh, division management, Board of directors are less resistant to changes, so they can react in a more positive way. Plus, EDS is an information system management company and I believe it can bring some new ideas to Appex that they have never tried before, such as digital strategy. "Digital strategy is becoming a game played at breathtaking speed (Kalakota, 2001)." The potential saved cost from removing the centralized teams can be put in to

investing on development of new products. The reason I don't choose **Alternatives 1** because it would bring in too many changes which would cause more instabilities after the acquisition. **Alternatives 2** could only be a good solution if EDS agrees with it. If EDS disagrees with alternative 2, they may start to suggest alternative 1, so Appex would lose a chance to propose alternative 3.

Works Cited

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