CIS 410

Dr. Robert M. Barker

Case 2-1: Appex Corporation

Yuxuan Chen

1/29/2020

Appex Corporation

Appex Corporation was founded in May 1986 from a merge of Appex Inc., and Lunayach Communications Consultants (LCC). They focused on management information systems for the cellular industry and credit scoring system for financial service companies. And changed the name to Appex Corporation in May 1989. After the merge of Appex Inc. and LCC, the company was entrepreneurial, technology-driven and loosely structured. Customers began to complain about the customer service and the company was not able to provide all the technical assistance of customers. It became difficult to accomplish basic tasks, such as the preparation of price analysis of new products. People who could not withstand the chaos quit. Then the new CEO, Shikhar Ghosh was trying to create some innovative organization structures.

"Reengineering is the process by which the organization that exists today is retired and the optimal version of the new organization is constructed" (Cited from "The Reengineering Revolution", by Hammer Michael.) Obviously, the old organization structure is no longer appropriate for the new company. Ghosh started with trying to implement was a circle structure. But Ghosh soon realized that a circular structure didn't suit the company for several reasons. The employees are not familiar with this circular structure and could not relate to the structure.

Consequently, Ghosh then tried a horizontal structure, but the employees show no enthusiastic as well. Later on, in February 1989, Ghosh established a hierarchical, functional structure. The function was organized as teams such as sales/marketing team, a software development and services team, an engineering and technology team, and operations team, and a finance, human resource, and administrative team. In March 1989, Ghosh accepted Gudonis's ideas that there should be separate product teams for each of Appex's main products. Then he started to hire product managers and to establish product teams. The team structure has been succeeded for a few months, various issues began to occur. Ghosh hired lots of outside people such as experienced in management to head teams, hired engineers better skilled in quality issue, and had them assume responsibility for the engineering function. The company had to learn to value new types of aptitudes and to adjust to the attendant changes in the power structure of the company.

"Reengineering means to disregard all the assumptions and traditions of the way business has always been done, and instead develop a new, process-centered business organization that achieves a quantum leap forward in performance." (Cited from "The Reengineering Revolution", by Hammer Michael.) In August 1990, Ghosh implemented a divisional structure. He established two broad divisions: intercarrier services (ICS) and cellular management information system (IS). The company's products logically could be divided into one of the two businesses. In the meantime, the operations division had also created. Each division had one head who was responsible for the entire division and reported to Ghosh.

1.   The Competition in The Industry

As a small company at the beginning, Appex had only 25 employees and $2 million in revenue in 1988. However, after it changes the organization structure, it got $6.8 million in 1989 and $16.6 in 1990 with over 172 employees and added about 10 new people every month. They

got lots of competition, such as GTE, had an abundance of resources than Appex. And those

competitors including GTE, Cincinnati Bell and McDonnell Douglas, put out a request for

proposal to establish a joint entity called ACT, which would address a particular service need in

the cellular industry. During that period, cellular service was the most important component of

the revenue. Roaming only represented approximately 10% of cellular subscriber revenues.

2. Potential of New Entrants into The Industry

Cellular industry is very difficult for new entries to get in. The cellular industry in the

United States began in 1982 when the Federal Communications Commission established

guidelines for the creation and structure of the industry. As the results, the new entrants were

hard to get into the cellular market. And the cellular equipment is also very expensive, and most

of areas have already been taken by a cellular company, which created a barrier for new entrants

to get into. The majority of those cellular corporation are usually very large.

3. Power of Suppliers

The power would be low as Appex do not need new raw materials or service from other

companies to conduct their business. At least there are new cellular station needed to build in

new areas. That would not be a large amount of new equipment.

4. Power of Customers

The customers would have a large impact and power over Appex. As a service company,

making customer happy is the most important thing. "Today's customers expect higher and more

consistent levels of product quality and safety" (Cited from "Management of Information

System", by Dr. Robert Barker). They need to provide service with high quality to help with

their customers even some of the problem could be solved by the customer themselves. If the

customers are unhappy about them, the switching cost is low for them to find another company to provide the same service. "In fact, it is almost impossible to discourage or prevent user self-support" (Cited from "Management of Information System", by Dr. Robert Barker). In the meantime, there are some alternatives for customers to choose, and there are limited number of customers while each volume is huge. Appex Corporation could not afford the loss of volume buyers. Therefore, the customers' bargaining power are large.

5.   Threat of Substitute Products

There are several same level telecon companies who could provide the cellular telephone service and roaming service. The have a high level of threat to Appex due to the service it provides is not unique. While Appex was merged and had a bad customer service, and it did not have price advantages, any other companies such as GTE or Bell could provide the same level service for the customers.

The problem Appex Corporation was facing is obvious: which organization structure would the most suitable for Apeex, and how could the organization structure change happen. As a Corporation which provided telecon services and consulting services, Appex Corporation is specialized structure of employees. Those employees who are doing consulting would not know anything about how to build up a base station for cellular. As the results, their employees are narrowed in their field. When there is a problem need to solve for customer, a team with different areas could form up quickly and response to that problem. Each individual in the team would have deep knowledge in their professional field.

In this case, to have a scientific organization structure is the most important thing to operate the corporation. "In 1832, Charles Babbage, inventor of one of the earliest forms of the

mathematical computer, published a treatise advocating a scientific approach to organization and management and emphasizing the importance of planning and an appropriate division of labor" (Cited from "Images of Organization", by Gareth Morgan). There are some of the organization structures I would like to suggest.

The first one would be the Functional Structure. Which is actually the most traditional corporation structure. There will be Sales and Marketing department, Finance, Administration and Human Resources department, Operations department, Software Development department and Engineer and Technology department. Each department have a head who responsible for the department and report to CEO. The advantage of this structure is everyone in Appex Corporation is familiar with this structure, it will offer high level of specification. Everyone knows what they should do and who they need to report to. Also, staff working skills can be effectively improved due to they are specified working on their tasks.

The second one would be Divisional Structure. This structure forms a simpler vertical organizational structure. Actually, Appex corporation was naturally divided this way: Intercarrier services (ICS) and cellular management information system (IS). It can create cohesiveness between small groups of employees working in each department. Divisional structure is also effective. Each department was in charge of managing and tracking their own financials, employees, customers, equipment, etc. What's more, this structure allowed all employees to focus on their department's service. But it also has some disadvantages such as it will create a gap between the two departments. The lack of communication between employees and the department head would probably cause some problem and competition.

The third one would be the Matrix Structure. It is a structure which has multiple cross function, cross business unit groups. The matrix structure is very flexible, resources are free to

work on several projects at once. Any need from any department will response soon and join the project team. As a corporation like Appex, might need a flexible structure to dealing with the different problem from different customers every day.

I would like to recommend using the Divisional structure for Appex Corporation. I believe the most important thing is the corporation could adopt the organization structure and maximize the functionality and productivity. "Business processes are simplified rather than being made more complex" (Cited from "The Reengineering Revolution", by Hammer Michael). Also, motivate the employees and make customer happy are also important. In this case, the challenges in structure at Appex Corporation were unnecessary, especially the initial state of the company. "If we examine the changes in organization accompanying the industrial revolution, we find an increasing trend toward the bureaucratization and routinization of life generally" (Cited from "Image of Organization", by Gareth Morgan). The transfer structure is based on the circumstances of the corporation. In addition, managing the employee roles, distinction of allocations to budgetary frameworks as well as meeting the targets needed organization as opposed to structural changes. After the Acquisition by EDS, the division structure could be easier follow the EDS's requirements, such as financial planning system, recourses allocation system, etc.

And for functional structure, Appex actually tried it in the initial state of the corporation which did not has a good feedback from employees. The structure is also not suitable for small business. While Appex Corporation has only 25 employees, this structure would make the employees to be responsible for many functions. It could also make a very difficult decision-making process when everyone is focusing on their own tasks, and no one could have a total strategic view of the whole corporation. For matrix structure, while it opens lines of

communication, they could make the reporting more confusing. It will not achieve the goal of the

Appex Corporation especially after the acquisition by EDS. Also, there will be heavy workloads

as a company growing larger and larger. It may cause additional expenses significantly.

Furthermore, an organization may find that it's forced to keep and pay talent it doesn't use

consistently. If it doesn't, it risks losing sought-after skill sets to a competitor.