

# Appex Corporation

Case 2

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## **Problem Statement**

Appex Corporation CEO Shikhar Ghosh entered his position knowing the company lacked, in many aspects, organizational structure. With his management expertise in organizational structure, Ghosh began his new role as CEO dedicating his efforts towards building a company that all aspects and sections were operating in the most structurally beneficial way. Ghosh hopes to improve the communication, accountability, culture, and planning structures for Appex by going through several organizational structural changes. Appex is a management of information systems and intercarrier network service company and their target customers are telephone companies. The structures Ghosh implements include all executives, management, employees, and customers. Throughout his years as CEO, his structures varied from innovative structures to traditional / functional structures, most failing in a few months. The purpose of this case analysis will be to decide with organizational structure will best solve the issues of Appex Corporation.

## **Industry Competitive Analysis**

### Mission Statement

Appex Corporation provides cellular management information systems and intercarrier network services for telephone companies. The company was founded in May 1986 in the merger of Appex, Inc. and Lunayach Communications Consultants, a company that specialized in design and engineering of cellular radio networks and has the same market as Appex. Named the fastest growing high-technology company in the United States, Appex was growing at a rapid rate under their CEO Shikhar Ghosh. Appex's generic strategy is to focus on differentiation and

creating new products and services that can compete in the cellular information systems service market. Appex's products and services can be categorized in two categories intercarrier services (ICS) and cellular management information systems (IS). Their ICS half focused on providing customers with the information they need for providing cellular subscribers with management of their roaming usage and charges. The IS side of the company integrates software systems to manage main functions of cellular carriers. Appex's CMIS software includes customer information, billing information, accounts receivable, credit and collection information, equipment inventory control, and cellular network engineering analysis. ABS (Appex Billing Service) is there alternative software for smaller businesses. Both sides to the business focus on differentiation and branding to succeed above competition.

### Competition

Appex's initial structure was to produce new products and innovative technology efficiently to compete against larger firms such as GTE. Their competition also included Cincinnati Bell, and McDonnell Douglas. These competitors made a proposal called ACT to address service needs within the cellular industry but Boyle, Appex's first CEO, created a solution to all the issues addressed in ACT before their competitors despite their abundance of resources. Appex was able to crunch out a solution before the established companies because their initial structure lacked all formality. Their structure was for everyone to do everything in order to rapidly get products out to the market as informal and hardworking unit. Appex does not suffer from new entrants or substitutes because they always focus on getting the next big cellular service out first and that makes for a great selling point in their fast-growing inception period.

## Organizational Structures

Beginning in 1988 Ghosh became the CEO of the fastest growing cellular technology company in the US with a focus on changing the company's organizational structure, leading to multiple changes. Ghosh started out with the idea of informal, horizontal structures being the new modern way to be successful, then changed to more traditional structure, and even tried a mixture of both. Here's a list of each organizational change Ghosh introduced to his company and how it impacted the employees / customers of Appex.

1. The first innovative structure formed was a **circular structure**. Ghosh's idea was to have a non-hierarchical authority structure and have information flow freely between the organization and its environments vertically and horizontally. The CEO and COO were in the middle of the circle surrounded by everyone else in layers. The manager circle surrounds the executives, then the employees, then customers outside of the circle. This structure did not fit the company because it lacked power structure for decisions to be made and communication had no definite direction.

2. Next was a **horizontal structure** turning the functional hierarchy sideways. Immediately this structure was disagreed with for the management employees that could take charge of employees because it lacked direct reports to inform of their decisions. Managers did not know who they had authority over during decision making and employees did not know who to report under since communication was also horizontal. The second innovative structure failed in around 3 months. In transition out of innovative structures, Ghosh had a change of idea similar to Goldratt in *It's Not Luck* to "provide a secure and satisfying environment for

employees now as well as in the future" (Goldratt, INL). The employees are struggling to find their purpose in the company and are lacking security in their roles. Employees are wanting a more traditional structure, so Ghosh must cater to their needs in order to see improvement.

3. Ghosh's experience of failure lead him in the direction of a traditional structure, which most employees expected in the first place. Next up was a **hierarchical / functional structure**. This was based around teams based on job categorization and responsibilities, such as a sales & marketing, software development and services, engineering and technology, finance, HR, and administrative teams. This succeeded in having sections complete their individual tasks, but politics of leadership played a bad role. The structure restricted joint departments like sales & marketing or engineering & operations from integrating their work and subgroups were created. The egos of the group members caused a separation of decision power and failed in allowing the managerial employees to make decisions over the highly skilled specialists.

4. A recommendation by the senior vice president of sales, Paul Gundonis lead Ghosh's switch into the **product / business team structure**. The company products each had their individual functional departments. Each product was led by a Product Manager with the rest of functional teams reporting to them. The multifunctional product teams lost authority again Who makes decisions in each functional team for the product? Should the Product Manager tell the teams like Eng. and Ops. what to do? Who owns the resources that were once shared? Goldratt's second strategic direction to reach organizational goals is to "provide satisfaction to the market now as well as in the future" (Goldratt, INL). There were too many organizational variables and these internal affairs lead to Appex having less customer focus. If Appex loses focus to the market demand and are failing to support their customers, they will fail. There were a lot of

processes not getting done because of these distractions and the product structure had to be replaced.

5. Lastly, in 1990 Ghosh implemented a **divisional structure** for Appex's two large businesses (categories); Intercarrier Services (ICS) and Cellular Management Information Systems (CMIS).

This structure has proven to improved accountability, budgeting and planning. "Utilizing a resource means making use of the resource in a way that moves the system toward the goal."

(Goldratt, TG) and proper utilization of the resources in both divisions can prove to cause structural improvements if all resources are allocated effectively. Along with the two sections

he also made an operations division that serviced both businesses. The problem was they put up walls and did not share the resources that once serviced the whole company. Resource

allocation and sharing of resources between departments divided the two divisions and they were seen as acting individual companies that competed, making it hard for the business

operations to know what their financial status was within each separated division. Goldratt's third strategic direction to achieve a goal is to "make money now as well as in the future".

(Goldratt, INL)

## **Stakeholders**

The stakeholders in the company's organizational structure involves all investors, executives, management, employees and customers. The CEO Shikhar Ghosh is the main stakeholder in the organizational structure decision process because he has made this task his top priority. The decisions he makes has the highest impact on the organization. Next, the management groups are primary stakeholders because the choice of structure will determine the authority they

have in company decisions. In some structures managers are promoted to VP or Senior VP positions about an entire department and in others they are structured under or next to managers that were once horizontally structured. The employees are stakeholders because in most informal structures they will have the freedom of not being told how to do their work and information will flow freely to whoever they choose. Investors have a concern in how the organizational structure will help in growing the business and increasing product sales in the long run. Customer are also a concern in determining the organizational structure because the separation and integration of different products and services can cause customers that once talked to one section of Appex to have to contact multiple departments to purchase their products and ask questions about their services.

## **Alternative Situations**

There are three potential situations Ghosh could choose to manage his organization structure in the best interest of Appex.

### 1. Do nothing

In this situation Ghosh would continue to operate using his structure philosophy. His plan was to continue changing Appex's structural design every six months to accommodate their continues growth. Growing at a rate of 10% a month Ghosh is in pursuit of continuous improvement. By making no change past 1990 and continuing as a divisional structure, Ghosh will continue his operations after being bought by Electronic Data Systems (EDS). He now had to structure his divisions into a much larger organization and likely had to make his adjustments at a much faster rate than growing 10% per month. The divisional structure would include ICS, IS,



and Operations / Finance and Human Resources divisions. The problem that would continue would be the separation of powers between the walls put up in both the ICS and IS divisions. They will continue to fail at sharing the resources purchased for all of Appex and fail to communicate across divisions. This will leave operations and financial planners clueless of their company financial and market position since they cannot acquire collective data on both divisions.

## 2. Divisional: Integrate operations into both divisions

The next suggestion is Ted Baker's recommended solution to integrate the third operations division into both ICS and IS divisions. The exception of it having a section in both divisions is that all the data will still be centralized. This will allow for accurate reporting and effective joint corporate decision making. This will prevent the divisions from acting as separate companies since their financial and operational goals will be made very similar. Communication between divisions will also increase allowing for the barriers to slightly go down. "Since the strength of the chain is determined by the weakest link, then the first step to improve an organization must be to identify the weakest link." (Goldratt, TG). The problem that remains is that teams like engineering, sales, and marketing will still suffer from deciding who deserves to acquire the resources and which teams will be left without them or must purchase new resources. This is what will keep the walls up and there is still a possibility of the divisions separating their operations departments if conflict is not managed correctly.

## 3. Hierarchical / Functional Structure

Out of all of Ghosh's structures the traditional functional structure most successful next to the divisional structure. This structure correctly categorized each manager and employee and there was clarity in who oversaw who/what. The responsibilities of each position were obvious and day-to-day operations had a strong attentive focus and teams succeeded. The problem with this structure was the company politics of who should lead who and what title should be held in the hierarchy. The ego of the employees destroyed the structure because people wanted to determine their role within the company instead of allowing executives to create structure. In *The Goal* Goldratt gives his perspective on finding a solution to conflict similar to this; "One, people are good. Two, every conflict can be removed. Three, every situation, no matter how complex it initially looks, is exceedingly simple. Four, every situation can be substantially improved" (Goldratt, TG). If the functional structure continued, the company could improve if leadership did not have an ego outweighing the executive decisions and employees were kept in their structure without unnecessary / detrimental change.

## **Recommendation**

I recommend Apex Corporation continue using a divisional structure that integrates operations into both ICS and IS divisions. This is the best option for their company because it best focuses on their generic strategy of differentiation while still having centralized decision rights. The company will continue to rapidly produce new products and services by separating the employees to focus on their individual goals. The decisions will be made vertically within both divisions, while the operations and data flows will now be vertical and horizontal. Both divisions will be able to focus on their concentrated sales teams and customers. The issues with resource allocations should level out after the integration of operations because the

distribution of resources will be managed with transparency. Each employee will have specialized and deep knowledge of either the ICS or IS division, solving the issues of everyone doing everything. With the implementation of operations into a divisional structure, Apex Corporation will be prepared for growth in both divisions through projects while having their operations succeed as an individual team.

## References

Goldratt, Eliyahu M., 1947-2011. *The Goal : a Process of Ongoing Improvement*. Great Barrington, MA : North River Press, 2004.

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