Appex Corporation

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# Executive Summary

In May 1986, the merger of “*Appex Inc.”* and Lunayach Communications Consultants (LCC) would establish the Appex Corporation which would provide management information systems and intercarrier network services to cellular telephone companies. Prior to the merger, the “*Appex Inc*.” began in 1984, founded by Brian E. Boyle, where the company focused on management information systems and intercarrier network services to cellular telephone companies. Lunayach Communications Consultants (LCC) was known to specialize in design and engineering of cellular radio networks for cellular companies.

During 1990, Appex was considered to be the fastest growing high-technology company in the United States due to their staggering revenue growth of 1600% between the years of FYI1987 and FY1990, according to *Business Week*. Due to their consistent revenue growth rate, the company is capable to add 10 new employees every month.

Appex Corporation’s two main divisions of revenue during 1990:

|  |  |  |
| --- | --- | --- |
| **Division** | **Purpose / Functions** | **Revenue (%)** |
|  **ICS****(Intercarrier Services)** | **Purpose:** Provide service to cellular subscribers to and from other markets (“roamers”). **Functions:** on-line national verification system, national financial clearinghouse, national location and call forwarding system. | 60%(10% are cellular subscribers) |
| **CMIS****(Cellular Management Information Systems)** | **Purpose:** Integrated on-line software system used to manage the primary functions of a cellular carrier in its home market. **Functions**: billing information, equipment inventory control, cellular network engineering analysis, accounts receivable, credit and collection info, and customer information. | 40%(Charges a fixed rate of $3 - $4 per month) |

The Appex corporation was once a rather effective company before its rapid expansion resulting an increase in expense and improperly monitoring expenses. Shikhar Ghosh, chief executive officer (CEO), of Appex has suggested various solutions on how the organization should be shaped. Appex executives, with the guidance of Ghosh, must decide on what the organization structure should be to meet the company’s needs. In this case, we must analyze aspects about the company such as key issues, threats, and decide on how its structure should be made to help benefit the company’s growth.

# Problem

Prior to the merger of the Appex corporation, the first CEO of Appex Inc., Brian Boyle, instituted few formal business procedures which some were deemed unnecessary. As a small company at the time, the organizational structure was very informal yet fluid with employees having various quality traits from commitment, focused, hardworking, and strong teamwork. As a result, Appex was considered to be very responsive, effective at getting work done while maintaining a low cost. Appex has the ability to bring products to the market relatively quickly and innovative technical solutions enabling a strong foundation to compete against established firms with more resources and experience. Their abilities would lead the Appex corporation to grow rapidly leading to a bigger-sized company bringing in more revenue, but also bringing in more workload and projects to accomplish. Currently, the company’s organizational structure is incapable to adequately ensure the increasing demands of work and projects, resulting an increase in expense and misuse of funds.

“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 and Cox, 338). As Appex was carelessly spending cash and not monitoring their expenses, Appex’s investors decided to recruit Shikhar Ghosh in 1988 as chief operating officer (COO) to mitigate these issues before becoming the CEO of the company. Ghosh’s main specialty was creating organizational structures in which he believed that creating variant structures would improve Appex’s workflow and expenses. Some of the organizational structures Ghosh had suggested were circular, hierarchical, and divisional.

The workforce of the company can be considered hectic with the tendency to be ‘reactive’ in nature while spending majority of their time dealing with workload and issues with little to no underlying planning structure. This resulted with Appex falling behind schedule with their projects, missing installation dates, failure in product development, no financial planning, and overall functioning unproductively leading to loss of customers and clients. As a small company, their improper organizational structure approach worked, but as the company is increasing in size, the approach is impeding growth, alarmingly fund spending, and an unnecessary number of employees to remain competitive.

# Industry Competitive Analysis

## Mission Statement

Appex’s duty is to provide management information systems while carrying out impactful intercarrier network services for cellular telephone companies in an efficient and cost-effective manner.

## Generic Strategy

The optimal strategy that Appex should take is a differentiation strategy. Since the creation of Appex, the company was known to introduce new products and innovative technical solutions for their customers. The company should still continue focusing on being unique creating potential competitive advantages against competitors and increasing consumer base.

## Organization Structure

Initially, Appex had an improper organizational structure, yet functional until the company got bigger in size which it’d realized they would need to implement a proper organizational structure. Ghosh had suggested innovative structures such as the “circular structure”, “hierarchical, functional structure” and the “product team structure” which were all dismissed due to their infeasibility or went against senior executive ideals. Later in 1990, Ghosh implemented a divisional organizational structure for Appex which would have many advantages such as improved accountability, budgeting, and planning. Ghosh also plans to change the organization structure about every 6 months to analyze the impact of each implemented structure.

# Porter’s Five Forces

## Threats of New Entrants: Low

“If barriers to entry are high and newcomers can expect sharp retaliation from the entrenched competitors, obviously the newcomers will not pose a serious threat of entering” (Porter, How Competitive Forces Shape Strategy). To be able to compete in the cellular IT industry, the entrant must be prepared to invest time and pay the startup costs to overcome the significant entry barriers. It’s unlikely for any new entrants to enter the industry since it would require a massive infrastructure with a reliable cell-service, hence the threats of new entrants being low.

## Bargaining Power of Customers: Low

Since the cell market is relatively new in 1991, customers have few alternatives when it comes to having a reliable cell service. Some cell companies are only available to specific regions or unable to provide the unique cell services compared to Appex. This results in having Appex able to adjust their prices accordingly to their preferences without being swayed by customer to lower prices.

## Threats of Substitutes: High

There are low switching costs which customers are able to freely opt out from using Appex’s cell services and search for alternatives that many have a similar infrastructure with lower costs, or better and unique capabilities. “Threat of substitute is high when: Substitute performance is equal or superior to industry product performance.” (FME, Porter’s Five Forces, 22). With cell competitors on the rise, Appex must have something unique to offer to retain their competitiveness and sustainability.

## Bargaining Power of Suppliers: Low

Appex has an already built infrastructure with a strong established network where it focuses on the customer’s information and cellular data while managing product development. There is no need to buy materials and supplies for Appex’s ongoing operations unless otherwise.

## Intra-Industry Competition: High

As the cellular market is booming, many established competitors or possibly new entrants, likely to bring in new tech, will try to monopolize large areas of the market share. Appex must decide on what the company’s purpose is and its plan to gain growth and sustain life expectancy. The company should also try to improve and create revolutionary technology that will give them a leading competitive advantage.

# Stakeholders

## Employees

Appex currently has 172 employees, where 153 salaried and 19 on an hourly basis. The company is also hiring 10 new employees every month.

## Customers

Appex has approximately 75 customers or clients such as BellSouth, Cellular Communications Inc., and Southwestern Bell. These customers hold various contracts and agreements with the company that holds value between the range from $100,000 to over $2 million. Appex also has 250 available markets in the United States and 34 markets in Canada they serve.

## Shareholders

Those who own stocks in Appex hold a huge stake in the company, especially when they are the financial backers of the company. If the company is continuously improving and preventing issues, stockholders should expect increased positive earnings. Continued negligence on company responsibilities and obligations will decrease the stock value, thus, leading shareholders to backout and seek other stocks.

## Subscribers

Among the 75 customers of Appex, most of these companies have their own subscribers who rely on them for various needs that are supported by Appex to ensure quality service and accurate information such as billing and roaming services.

# Available Solution Options

## Circular Structure

Introduced by Ghosh, is a structure that has concurrent current circles expanding from a middle circle or core. The circular structure consisted of 3 major circle layers where the innermost circle contains Appex’s senior executives such as the CEO and COO. The second circle layer consisted of managers such as customer service manager, operations manager, engineering manager, administration and sales manager. They are responsible for controlling and monitoring operations respective to their role within the company. The last circle layer consists of operation workers that is intended to serve the customer outside the circular structure. The structure was inspired by the Japanese business models that were typical in Japan’s companies. The circular structure was optimized towards responsiveness leading to a sense of flexibility unlike being stiff-like which is more catered to a structured planning. The intention was to create a non-hierarchal organization in which information is flowed continuously within and between organizations.

## Effect on Stakeholders

The circular structure is a newly introduced business model that has unknown capabilities outside of its Japanese origin. If this structure is implemented into Appex, employees must be able to shift their business style and culture to keep up with system. This can benefit employees by setting more defined company roles as well as improving workflow unlike Appex’s chaotic unstructured business organization. Shareholders of the company will have unknown benefits or consequences when implementing the circular structure which can create doubt among them. Appex’s customers will also be heavily impacted where the services provided by Appex is more likely to improve, but could possibly hold unmeasured errors.

## Matrix Structure

Since Appex has implemented a divisional and a hierarchal, functional organization structure suggested by Ghosh, a hybrid of these two can create a matrix structure which will provide the benefits of these structures when merged. The matrix structure is able to effectively create teams rapidly and gives division and functional managers equal authority which was unachievable when each respective organizational structure was one-sided. Employees are likely to have dual responsibilities where they are to report to their managers from both perspectives of the functional and divisional organization structure under the matrix structure. “Divisional structure is organized according to Outputs. Each division may be responsible for a different set of products, geographical markets or segments, or clients” (Cash,30). While the matrix structure can help various needs like technological expertise in various functions like vertical and horizontal, they do not have control over resources since it is limited. The company must monitor their resource allocation through scheduling and certain priorities in order to bring stability.

The matrix structure has dual authority which is needed to help establish balance of power resulting in harmonizing with internal and external company environmental pressure. Appex’s task environment can be complex and uncertain which will require a strong interdependency among work units and frequent internal and external changes. Appex must also conserve their resources such as money, people, and equipment by setting an economy of scale to prevent frivolous spending. With the matrix structure, Appex is able to keep up with numerous demands from the environment and the ability to flexibly allocate resources efficiently.

## Effect on Stakeholders

Shareholders will see an increase in value of stocks creating the company’s value to increase. Employees will be granted new additional roles and tasks that can create a strong work culture while improving interdependency in the workforce. Appex’s customers are more likely to see more benefits provided as well as reliability in their cell services. This will likely attract more subscribers for Appex’s customers thus giving the company a higher market share in the cellular service industry.

## Do Nothing

While Appex continues to grow rapidly, keeping their improper organizational structure will likely to bring more employees into the company which could give a large network for workers to rely on. There is also a chance to improve relations among employees and creating innovative tech. According to Ted Barker, vice president of operations and management, most employees had the option to be “interested in something, you just did it” showing that employee had some sense of autonomy in the company while having an undefined role which “nobody had any sense what their job description was”.

## Effect on Stakeholders

Customers are likely to see a drop in quality of service and eventually technical functions. This would lead to many of Appex’s customers to leave and find other cellular-providing companies that they can confide in. Any retaining customers using their services should expect a fall in their subscribers. Shareholders will lose value in their stocks if Appex’s work environment is chaotic and is frivolously spending money. Employees should expect a decrease in wage and work ineffectiveness which may lead them to be laid off in the near future.

# Recommendation

I recommend that Appex implement the matrix structure. The structure can solve various issues from work inefficiencies, budgeting resources, and delayed growth. This approach will also help determine the hierarchy of employees and their roles within the company along with the development of teams and divisions that can help divide up work properly. Resources will be monitored properly through the structure preventing wasteful fund spending and being flexible to allocate resources. The matrix structure has been represented as a “focus on an end product rather than functional contributions encourages flexible, innovative, and adaptive behavior” (Morgan,51). Appex must manage their internal operations properly or else the company suitability will cut short against their competitors.

# Justifications for Rejecting Alternatives

## Do Nothing

By doing nothing to implement a proper organization structure is doomed to fall into bankruptcy. As the quality of service and functions are decreasing in value, customers will surely find other competitors to deal with which will recently lose majority of their revenues and contracts. The company’s mismanagement will also likely waste their funding away on new employees that have no definite role in the workplace. Internal problems will arise among the company’s employee and executives which “conflicts (will) develop between departmental and team loyalties” (Morgan, 53) creating factions and rivalries among the work environment. When the company was small, their main strength was in flexibility which is now unachievable as Appex continues to rapidly grow to meet growing consumer demands.

## Circular Structure

Executives and employees at Appex found it difficult to relate to the circular organizational structure. This structure was considered to be untraditional to many western companies unlike Japan which Ghosh stated that people “expected to see a more traditional organization chart”. Many who reviewed the circular structure chart couldn’t comprehend what the power levels were, who had authority to make decisions, and how performance was evaluated. If Appex’s employees are incapable of understanding the nature of the circular structure then it has no beneficial use if it were implemented. Also, since the structure was geared for responsiveness from consumers, it wouldn’t rely on any form of planning which can be a hinderance for the company’s project developments and growth.

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