Appex Corporation Case Analysis

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I. Executive Summary

This case shows all the tests a young consultant from Boston Consulting Group (BCG) had to face when he accepted a COO/CEO position at Appex Corporation. Over a span of 2 and a half years, he had to implement six different organizational structure changes to cope with issues and challenges posed by each transition.

In 1988, Appex was a corporation driven by technology providing good products and services, but very loosely managed. Expenses were not being properly monitored and investors hoped Mr. Gosh, the new COO/CEO with a specialty in organizational structure, would fix the problem.

He joined a company organized around projects with no financial planning or strategy and decided to try the structure models he had learned as a consultant at BCG. Mr. Gosh started with a circular structure, then a horizontal structure, followed by a functional structure which grew out of control and had to be structured in terms of products and business lines.

Organizational issues were not solved, and the final change was to a divisional structure, about 3 months before Electronic Data Systems (EDS) bought Appex in October 1990.

II. Mission Statement

Appex Corporation provided intercarrier services and management information systems to cellular carriers in the US and Canada.

III. Generic Strategy

To be able to survive and achieve a lasting position in its market, Appex chose a combination of Differentiation and Focus generic strategies. The Focus strategy "is most suitable for relatively small firms" (Tanwar, 2013, p. 14). In 1988, Appex was a small growing technology company in a very competitive market, and Differentiation provides a "viable strategy for earning above average returns" (Tanwar, 2013, p. 13) in a specific business segment like products and services for cellular carriers.

This sounds like a good recipe for success but concentrating on being effective instead of efficient to secure a competitive advantage led to deteriorating corporate financials and all sorts of organizational issues.

IV. Organizational Structure

Appex underwent many organizational structure changes over the span of 30 months in an effort by its CEO to solve managerial and cultural issues. Its final structure before being acquired by a larger corporation in 1990 was a divisional one. In a divisional organizational structure, "various units are allowed to operate in a semiautonomous manner under general rather than detailed supervision and the control of those with ultimate authority" (Morgan, 2006, p. 21). This type of structure did help with several of Appex issues like employee accountability and budget planning.

However, other issues appeared like resource allocation among departments or units. One of the disadvantages of a divisional structure "is a reduction in efficiency due to a loss of scale of economics" (Cash et al., 1994, p. 30).

V. Industry Competitive Analysis (Porter's Five Forces)

1. Competitive Rivalry

By the end of the 1980s, the cellular communications segment was growing very fast, resulting in a constantly changing environment for competition. Appex had to compete with larger and powerful firms like GTE and McDonnell Douglas, but its key to success was being able to create and deliver the right products quickly. Competition was fierce, but Appex had an edge and won most of the time.

2. Threat of New Entrants

The threat of new entrants for Appex is low. If a market "requires the acquisition of patents or proprietary know-how, many potential new entrants will be deterred because of the large up-front investment required" (Team FME, 2013, p. 18). The products/services providers for cellular carriers are one of those markets.

3. Threat of Substitutes

The threat of substitutes for Appex is high. There are products and services available in the markets that could serve Appex' s customer needs developed by powerful companies like GTE. The availability of these alternatives constrains the ability of Appex to raise its prices to improve profits.

4. Bargaining Power of Suppliers

Suppliers in the cellular services sector in the latter part of the 1980s decade were in a relatively weak position. All product development companies in that segment offered a competitive alternative to the few cellular carriers back then, meaning developing a product quickly with key features is the only recipe to keep sales at healthy levels.

5. Bargaining Power of Customers

Appex customers have a strong bargaining power since the cellular carriers in the communications sector are price sensitive and demand customized solutions to be delivered quickly and cost effective to be able to compete with other carriers. They commonly ask suppliers like Appex and GTE to present and compete with offers for customized solutions using a process called Request for Proposal (RFP) or Request for Quotation (RFQ).

VI. Stakeholders

The employees: a decision to change the organizational structure of a company has a direct impact on the organization's most important asset: its people. It "enables organization members to undertake a wide variety of activities according to a division of labor" (Cash et al., 1994, p.25), but every reorganization almost always implies the elimination of some management positions resulting in probable layoffs or early retirement offers for some of the company's work force. The remaining employees will have to adapt to the new structure and a probable broader span of responsibilities.

The customers: a decision to change the structure of the organization is always aimed at improving efficiency, and internal processes and communication, to be able to develop new products and services fast enough which translates into much better service to its customers with corresponding boost in their perceived value offered by the company products and services.

The shareholders: Appex investors hired the new CEO with the sole purpose of turning this around by applying his expertise in innovative organizational structures to fix issues like budget planning and cost control. An organization structure change would be welcomed by the shareholders as long as improved market share and sales results can be observed in the financial reports.

VII. Alternatives

Appex must survive in the competitive environment they do business in. To do so, they must bring new products and services disruptive enough to beat the competition. "Organizations, like organisms, are 'open' to their environment and must achieve an appropriate relation with that environment if they are to survive" (Morgan, 2006, p. 38).

There are three possible alternatives for Appex Corporation to achieve an organizational structure that will allow it to survive in its environment:

1. Do nothing

This would be the conservative option to avoid having to face new issues with personnel and financial planning, which were some of the reasons the structure changed to many times until it finally was setup as a divisional one. After all, it did solve the accountability and budget planning issues.

Short-term impact on employees would be negligible with this decision, but the long-term implications of resource allocation and communication problems among divisions could prove to be very costly for the corporation, and ultimately for the employees.

Similarly, Appex's strength had always been new product development, and having divisions that don't cooperate with each other impacts the creation of new ideas. Soon, customers will begin to perceive no value in the existing portfolio hurting sales volumes and the financial numbers and stock appreciation in the market, making the shareholders unhappy again.

2. Keep changing structures every six months

After so many trials and structural changes with no success in fixing all the problems that each change brought up, Mr. Gosh concluded that constant change was necessary to bring in "fresh blood", people with new ideas, to benefit the corporation and help adapt to constantly changing business environment.

However, having to deal with organizational changes every six months would certainly create an important deal of anxiety in the employees, who would be wondering if they are going to be let go or their responsibilities change so much that they couldn't keep up. There would surely be changes in their incentives, who to report to, and so on. In summary, issues will not disappear, or new ones will be created in a never-ending cycle of changes.

Customers might perceive constant change of structure as a sign of weakness or lack of business strategy, possibly hurting the corporation's brand image.

Shareholders will probably see an impact in stock price if market share starts to shrink due to brand image erosion. Embarking in a cycle of internal periodic changes doesn't look well in financial news and annual reviews.

3. Change to a Matrix structure

There are many organizational structure options, and Mr. Gosh already tried quite a few: circular, horizontal, functional, and divisional. However, there are two other options we discussed in class he didn't have a chance to try before being acquired by EDS.

One of them is the holographic option, which is organized around single units totally autonomous with centralized headquarters dictating brand image and policies. However, this type of structure is most suitable for franchises, not for technology-driven corporations like Appex. The other option is a Matrix structure, which is organized around projects and very dynamic, like the way the corporation was organized when Mr. Gosh joined them.

Having yet another structural change would have an impact on employees. The ones with a skill set not suitable for the new structure will have to be laid off, but there will be many new opportunities to make a career change or at least the organization will be refreshed with new ideas from employees with a different mentality or set of skills.

Customers could see the new structure as a sign of a strong corporation adapting to offer better products and services. Shareholders would probably be skeptical about the benefits of yet another change, but later realize its more beneficial for continuous company growth with more benefits for its investors.

VIII. Recommendation

Our recommendation is to change to a Matrix structure. This type of structure is dynamic and built around project, like the old Appex structure. But a matrix structure would provide Appex with moderate time and resource efficiency and a cross-functional information flow.

Additionally, it is more suitable for organizations doing business in a complex environment with multiple demands.

Appex had made many changes but kept losing its ability to create new ideas allowing its competition to catch up. "If you don't provide a quality service all you've got at the end is a bunch of expensive mistakes" (Goldratt & Cox, 2004, p. 62). Doing nothing after being acquired by EDS would not solve its inter-division communication issues or resource allocation discussions.

Changing every six months would seem like the only way to get rid of old issues and hope to have fewer new issues to deal with once the new structure is in place. However, every change would not only be in the organizational chart but also responsibilities, reporting, compensation and many other aspects instead of focusing on new products and services to improve sales.

IX. Books and Articles Cited

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