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Solving the Appex Organizational Structure Challenge

In the late 1980s and early 1990, Appex was a rapidly growing corporation that provided services for the cell phone industry. As part of the growth, Appex acquired Lunayach Communications Consultants. In October 1990, Appex was acquired by Electronic Data Systems. While the company was acquiring others and being acquired themselves, they faced the same challenge: **Appex needed to find an organizational structure that worked for their company.**

The mission of Appex is to provide quality service and deliver innovative technologies to cell phone carriers. Appex specialized in providing management information systems to cell phone companies as well as designing and engineering radio networks for cell companies. The company had a large focus on differentiating themselves from others by providing excellent customer service and high-end information systems. The company had approximately 75 customers with large, multiproduct, long-term contracts ranging in value from \$100,000 to \$2,000,000.

As the company began its rapid growth in the late 80s, it became clear that Appex needed to find an organizational structure. The company originally had few formal procedures given it was a small company. Although, as they and the rest of the mobile/cellular environment grew and saw a substantial increase in subscribers, Appex began to face issues with declining

customer service, falling behind schedule, no financial planning, and a lack of innovative new technologies being developed.

Although Appex's system was able to be developed sooner and cheaper than their competitors, Appex still faces pressure from competing companies of the time such as GTE, Cincinnati Bell, and McDonnell Douglas. Although the company still should maintain their strategy of being a focus leader on differentiation (since they've been able to innovate and develop the technologies first), Appex needs to find an organizational strategy that will allow them to remain strong and maintain market control over its competitors.

In finding an organizational structure for the company, Appex will have two main stakeholders. The first group are the employees of Appex, who have gone through a mix of organizational structures under Ghosh and had no organizational structure beforehand. The other group of stakeholders are Appex's clients, who are currently having issues with the quality of service they receive from the company. There are several choices Appex could make to handle their organizational issue.

When Appex was acquired in October 1990, the company was attempting to use a divisional organization structure. Electronic Data Systems, the company that acquired Appex, made Appex a division of EDS. There are several choices Appex could make to solve their problem with organizational structure. The company could choose to do nothing and remain as a divisional structure. They could attempt to revert to the functional structure they had in 1989. Finally, they could try to implement a matrix structure.

The first choice Appex could choose is to do nothing and remain in the divisional structure that was previously established. Employees of the company would be impacted by the decision to do nothing. Employees would continue to have challenges with resource allocation

and lack of communication between divisions. Cash says that divisional structures cause “a reduction in efficiency due to a loss of scale economies.” And that “the necessary mix of skills ... may not occur” (Cash 109). Customers and employees would both be affected by Appex choosing to do nothing as there would be less development of new products. Cash details this issue by adding that “in-depth competence and technical specialization may also be weakened, since employees identify with ... the division rather than with a functional specialty” (Cash 110). For those reasons, Appex should find an option beyond doing nothing.

Another option Appex has is to attempt to return to a functionally structured organization. In February 1989, Ghosh moved the organization from being a circular structure to a horizontal structure. When Appex was structured functionally, the company succeeded in completing tasks it had been assigned. There would be an impact on employees if Appex moved back to a functional structure. The company would run the risk of teams becoming more polarized again, where people defined their responsibilities and didn't want to work on things that weren't *their job*. Employees also might have issues again was that for Appex, authority was functional rather than managerial expertise.

The outside managers hired did not know the product like the current employees did. This is similar to *The Goal* when Peach walked into a plant and was “wreaking havoc in the name of improving customer service” (Goldratt 22). For the customers, the functional structure presents its own issues. When Appex operated as a functional organization, the technical culture adopted an “it's good enough” attitude rather than focusing on customer service. That attitude goes against the mission of the organization, so this structure should not be implemented again.

Appex could attempt to implement a matrix organization. A matrix form delivers the benefits of functional and divisional forms and gives equal authority to both functional and

divisional managers. Cash says that a matrix form is a good fit for organizations that need “both technological expertise within functions and tight horizontal coordination across functions” (Cash 110). Appex employees have had issues with lack of leadership and need the tight horizontal coordination, and groups such as engineers need technological expertise to continue delivering innovative products. Morgan says something similar by writing “work in most parts of the world has now shown that in designing or managing any kind of social system ... the interdependence of technical and human needs must be kept firmly in mind” (Morgan 37). By implementing a matrix form of organizational structure, the two primary stakeholders will be impacted in positive ways.

For employees of Appex, a matrix form can address the issues that employees felt were present in other organizational structures. For example, while the company was operating under a functional form, employees faced the issue of having polarized teams and narrowly defined responsibilities. Under a matrix organization, an employee such as an engineer could be assigned to a project and a department at the same time. In other words, “the engineer has a home base, but works full time on different projects” (Cash 110). This layout has an underlying functional structure built to solve problems, but also helps preventing people from saying “that’s not my responsibility.” In the divisional organization, Appex had problems with resource allocation and that setup being bad for economies of scale. Matrix form on the other hand requires economies of scale to be effective, which solves one of the major issues the company with the divisional form.

Customers of Appex will see benefits in the matrix form as well. Since we can address the issues employees had in the functional and divisional forms, the customer will be less likely to encounter the issues they faced under those forms. When Appex ran under a functional form,

customers had issues with quality produced by Appex. As mentioned earlier, under the functional structure, employees tended to adopt a “good enough” attitude which goes against the mission of providing quality service and products. Since the matrix form addresses the organizational challenges in the functional form, employees will be less likely to have the “good enough” attitude and will work to deliver the highest-quality service and products.

When Appex ran under a divisional form, customers saw less innovation coming from the company in terms of new products or services. For Appex to expand its reach and earn or retain customers, it needs to remain innovative. This is a benefit for the customer has well if they are already doing business with Appex.

Now that Appex has been acquired by EDS, there are three main choices to solve their problem of finding an organizational structure. They could choose to do nothing and remain in the divisional form as they were prior to acquisition, but there has been a lack of innovation. They could revert to a functional form, which saw a reduction in quality of services. They could also try to adopt the matrix form, which brings together the functional and divisional forms to solve problems in teams. Based on the analysis of these three organizational structures, Appex should implement a matrix organizational structure.

Works Cited

Goldratt, Eliyahu M. and Jeff Cox. *The Goal*. The North River Press, 2014.

Morgan, Gareth. *Images of Organization*. n.d.

Cash, et. al, Fried. *Building the Information Age Organization*. n.d.