CASE FIVE

Agrico

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Executive Summary

Agrico, an agricultural portfolio management organization, commissioned AMR software in order to improve their business processes. Unfortunately, AMR and Agrico can not agree on the storage of the source code that generates the object code that Agrico utilizes in order to make portfolio decisions. AMR wants full protection of their intellectual property but will allow for a third-party escrow account that if in the even AMR is dissolved Agrico will gain access to the source code and technical documentation. Agrico disagrees with these terms, because they can not verify the source code is indeed the code that generated the object code they currently have; they wish to hold the source code at their facility that holds their data records.

During these negotiations, Jane Seymour a programmer for AMR left the source code on an Agrico workstation that is completely accessible by Agrico employees. One of Agrico programming managers asked the VP of IS Burdelle if they should copy the software, even if this was breach of contract with AMR.

Based on an ethical analysis (see below), it is recommended that Burdelle copy the software for Agrico. As it stands Agrico has too much uncertainty if they do not copy the software. The software is vital to Agrico's business software and they do not have any alternatives to turn to. If AMR is dissolved, and the source code is not the correct version this could lead to serve loss in revenue for Agrico, and certain loss of historical data. Copying the software, on the other hand, eliminates that uncertainty and ensures that there will be no loss of data or profits based on the software.

Background

Agrico was an agricultural portfolio management organization in the 1980's, founded by two farmers from Des Moines, Iowa in 1947. Agrico maintained a numerous number of farms through three different profit models: crop share, cash-rent, and direct management.

In order to better manage the portfolio Agrico invested in an IT architecture. After searching through different organization, Agrico landed on AMR software that was the closest to the business needs of Agrico. AMR signed a contract with Agrico to deliver the necessary software by October 1st, 1986. Unfortunately for Agrico, their VP of IS determined that the software had not been fully tested in the environment necessary to meet the needs of their business functions; forcing Agrico to test and report issues to AMR.

Agrico invested heavily in the AMR software in order to get the software to work as expected, shifting their conversion date to June 1st, 1987. During this time Burdelle, the VP of IS, realized the importance of having source code backups due to the individuality of each installation. Agrico and AMR were in deadlock in negotiations with how the source code would be stored. Agrico proposed they store the source code with their sales data in order to verify the source code; but AMR insisted that Agrico storing it in their facilities would lead to theft of their intellectual property.

During these negotiations the programming manager noticed that Jane Seymour (one of AMR's onsite employees) left the source code on the computer accessible by the programming manager. The programming manager asked Burdelle: "**Should I copy it to tape and ship it to our off-site facility**?"

Stakeholders

Agrico's Shareholders

Agrico (assuming it's publicly traded) has an obligation to their shareholders to increase profits.

Agrico's Employees

Agrico has an obligation to their employees to increase profits in order to create a stable work environment.

Agrico's Customers

Agrico has an obligation to their customers to provide a high-quality service for agricultural management in order to increase their profit share.

Porters Five Forces

Threat of New Entrants: **HIGH**

Agrico is a financial service, and financial services are relatively easy to start; just requires venture capitalists or a hefty capital of your own.

Threat of Substitutes: **HIGH**

Agrico, other than crop-share, offers services that a bank could offer for farms in need of capital to start or revitalize their farms. Crop share is Agrico's differentiation; but, their other two services are risk for high threat of substitutes.

Bargaining Power of Suppliers: **HIGH**

AMR, Agrico's software supplier, has a high bargaining power due to their software closely inline with the business processes at Agrico. This power is visible in the case since AMR and Agrico are in deadlock on negotiations.

Bargaining Power of Customers: **LOW**

Threat of substitutes is indeed high; but, due to the nature of capital lending, switching costs is extremely high keeping customers bargaining power low. In order for Agrico's customers to switch to a substitute they would have to overcome the current debt to Agrico and get a new debt.

Competitive Rivalry: **MID**

Threat of substitutes being high with a low bargaining power of customers creates for mid competitive rivalry. Agrico and its substitutes likely only really compete for the new applicants for farm capital services.

Proposed Solution

Copy the software

Ethics in business is defined as what produces good is ethical (profits), and what produces bad (costs) is unethical (*Dr. Barker*). There are four components of ethics in business: Privacy, Accuracy, Property, Access. In order to determine if copying the software is ethical, we must look at the four components under scrutiny.

Starting with Privacy, copying the software is ethical. Jane Seymour incorrectly assumed privacy on the workstation provided by Agrico. There is no privacy in the business environment. The Agrico has an obligation to their securely monitor activity on their workstations. Ironically, one of the reasons for this invasion of privacy is to evade the risk of ignorant employees releasing sensitive information.

Accuracy, in the context of the case, is the concern of Burdelle on the accuracy of the escrow account holding the source code. Burdelle states: “However, we had no independent way to verify that the source code AMR stated was our escrow copy was in fact the source code that generated our object code.” In this context, it is ethical for Agrico to copy the software to insure the accuracy of their generated object code. The object code is leveraged to increase profits therefore increasing the profits of the stakeholders; without this data they would lose profits.

Property is the component, in the context of software, that needs the most scrutiny. Who owns the source code? AMR, obviously, created the software in order to sell to prospective clients; but Agrico once signing the contract found that the software was not smoke tested enough, and provided their services to test and perfect the code. Even with Agrico's influence on the software a reasonable person would deduce that AMR owns the intellectual property; therefore, it is not ethical for Agrico to copy the software. The copying of another organization's intellectual property, specifically in the context of property, has legal and perception ramifications therefore incurring a loss for the stakeholders.

Access, in this case study, pertains to how Agrico would access the generated object code if AMR determines to cut contract, or is dissolved. Currently as it stands, Agrico has an escrow account that is inaccessible until this event occurs (like mentioned in Accuracy). In order for Agrico to increase profits for their shareholders they need access to the software (which they do now) even in the event of AMR's dissolution. If they loose access to this software, they costs are incurred. Therefore, it is ethical for Agrico to copy the source code in order to ensure constant access.

Based on the four components, it is ethical for Agrico to copy the software. Agrico has an obligation to their shareholders to increase profits and deter costs; and in order to affectively do this Agrico needs constant accurate access to the software provided by AMR. Copying the software is a breach of contract with AMR; but it is not illegal. Jane Seymour's negligence led to Agrico obtaining access to the source code. According to Trade Secret Laws: "The holder of the trade secret is nevertheless obliged to protect against such espionage to some degree in order to safeguard the secret, as under most trade secret regimes, a trade secret is not deemed to exist unless its purported holder takes reasonable steps to maintain its secrecy" (*Wikipedia*). AMR failed to take reasonable steps in order to secure its intellectual property.

"Business is about process, not motivation" (*Political Loud Mouth*) A reasonable person might look at this response as immoral; but, in the business environment there is no morality only legality and profits. In the case legal mentions that if Agrico could get access to the source code, they would have a foot to stand on in the inevitable court proceedings.

Alternative Solutions

Do Nothing / Don’t Copy Software

Based on the information in the recommended solution, not copying the software would give the opposite results; therefore, it is not recommended that Agrico not copy the software. The deadlock of negotiations between AMR and Agrico leave too much uncertainty for the future of Agrico utilizing the software; uncertainty, leads to loss of profits and “a business is a machine for making money”.

The only benefit to not copying the software is adhering to the intellectual rights of AMR, i.e. the signed contract between the organizations. This does not generate profit. The software generates profit, and the constant access and accuracy of the generated object code generates profit.

Citations

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