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Case 5: Agrico

Introduction to Agrico

Agrico specialized in farm and ranch management services in the Midwest. Their portfolio was valued at $500 million in 1987. They operated within four regional offices and managed 691,000 acres of land containing 350 farms and ranches. Agrico had a few revenue streams, they either allowed farmers to use their land for a share of the crops, made cash-rent leases, or directly managed properties. They serve the agriculture industry in the states they operate in, but they also invest by buying equity interests in farms and ranches for their client portfolio.

Overall, Agrico's organizational structure was functional. Their IT operations were centralized. They had a single computer that completed their calculations and managed data. The agriculture industry is dependent on predicting weather and climate. Having accurate forecasts makes the industry stable, but volatile climate changes can create challenges. Even so, predicting these changes allows room for adaptation (Glickman). Safeguarding against pests and diseases protects production. In other terms, the industry is reliable and always being researched and innovated upon.

That said, upper management makes decisions for the business, including those centered around innovative practices. While undergoing a planning process, executives decided that their current IT operations were not suitable any longer. They needed an arrangement with more adequate offerings such as automation. They decided to purchase new software for a new computer for the company.

The Software

Agrico contracted an external consulting firm since they didn't have internal computer systems staff. In turn, George P. Burdelle was selected to manage the project. The consulting firm concluded that Agrico should purchase a software package rather than contracting a development shop to build something custom for their in-house data processing. It was determined that the new software needed to accommodate the commodity market information.

Agrico settled on AMR, a small software company with twelve pre-existing clients. The proposed software package ran on a minicomputer and offered the automation they were seeking. Soon after the project began, Burdelle was offered the vice president of information systems position and accepted. AMR only sold the software package Agrico was seeking, so company focus surrounded this project. For this reason, the founder, A.M. Rogers, refused to release the source code in full. The legal agreement between the two companies stated that AMR would provide the software with changes agreed upon, there would be a monthly maintenance clause, Agrico would receive the object code, and access to the source code was limited to necessary viewing during system testing. Furthermore, AMR was the only party allowed to make changes to the code. Agrico could not hold the code, instead it was held in escrow with a third party for backups. In total, the chase price was $200,000 and the monthly maintenance fee was 1% of this.

The Dilemma

AMR's clients all received different versions of the software. The only difference is that Agrico wanted all of the features available, the other selected only a few. The features did not work together when combined. Some of them had not even been tested. AMR's process was installing the software and then debugging. This was not acceptable to Agrico. AMR did not receive a majority of the payments until the software passed the acceptance stage. Burdelle realized there was no standard software package, and grew increasingly concerned about the status of their backups.

Rogers was not used to Burdelle's thorough testing approaches. Their professional relationship became strained. A representative from AMR began working in-office at Agrico. During this time, Burdelle was still worried about the object and source code arrangements. There was fear that the change were not being documented correctly and that if a failure were to occur, Agrico would not be able to ever enhance or modify the system they had sunk resources into. Rogers was unwilling to let Agrico store the source code with a third-party storage facility. AMR was required to allow Agrico to understand the code, but were allowed to store it themselves. However, Agrico did not believe this was being done in a satisfactory way as described in their contract.

Suddenly, an ethical dilemma arose. Seymour, the on-site AMR developer, left the source code in an accessible state on a computer while she left the building for dinner. It was up to Burdelle if they should copy the code and send it to their storage facility before her return. While taking the company attorney's legal advice in mind, he began to consider his options.

When making my recommendation I will consider the ethics of this problem and forces surrounding the case (Porter). We will not consider right or wrong, only good and bad. For a business, good and bad terms revolve around making money. Good choices lead to making money, therefore they are ethical. Losing money is bad, therefore that is unethical. As a company goal is to make money now and in the future, making money and maximizing shareholder influences their choices (Goldratt).

Porter's Five Forces

Agrico's supplier, AMR, has extremely high bargaining power. Their legal documentation states that Agrico cannot store the source code. It cannot be coped or reprinted within AMR's written permission. Agrico is unable to contest this as they signed a legally binding contract.

Agrico's customers do not have a lot of bargaining power as far as the case is concerned. There is nothing written to suggest that their market share will be affected by this process. Their influence in the states they operate in is stable. They reported an increase in revenue from the year prior.

There is little to no apparent threat of substitutes for the region they operate in. They have a deep foothold in their states. However, AMR does provide similar software to 12 other companies that are within the same industry, so it is always a possibility. In conjunction, the threat of competition is at the same level. The case doesn't reference competitors, but the 12 aforementioned companies must be taken into consideration.

In addition, the threat of new entrants is low. The agriculture industry is very established, and entering the market is difficult. Purchasing land is costly, farmers and ranchers need experience to succeed, and purchasing equipment is expensive.

Stakeholders

Agrico's stakeholders will feel the repercussions of Burdelle's decision. The stakeholders include executives, the supplier, customers, and shareholders (Destination

Innovation). Executives of the company include Burdelle, and Louise Alvaredo, the systems and programming manager who discovered the source code, and several others. It will affect AMR who is the supplier and creator of the software. There are the customers which include those who operate the 350 farms and ranches Agrico serves. Lastly, there are the shareholders who have invested in Agrico in terms of purchasing stock shares.

Do Nothing

Burdelle and Alvaredo could leave the source code alone. This decision would like most, create rippling effects. On the client side, the relationship could stay intact since the software may be implemented successfully. Shareholders would be happy due to increased revenue stemming from a new system that better benefits the customers. AMR would be satisfied after receiving full compensation for completing the project. Should a disaster occur, they may not be able to update the software themselves down the line. It could be discovered that Burdelle was correct in assuming there was not a proper backup, and resources would have been sunk into a failed project. AMR's reputation would be in shambles, and Agrico would jeopardize their client relationships by losing the brand-new system. Customers would be displeased with decreased levels of service, and shareholders would be livid. Revenue would decline and Agrico could collapse since they still have centralized IT operations via dependence on this new system.

Make a Copy

Agrico could have made a copy of the accessible source code on Seymour's workstation. They could easily send the copy off to their third-party storage facility and

AMR may have been none the wiser. Agrico could face a resource and time-consuming lawsuit for going against the terms laid out in the original agreement. While their attorney felt they had a solid court argument for storing the code themselves if they could gain access to it, it was still up in the air. The bottom line is that pursuing the option violates the contract and arguing ambiguity may not be successful.

There is a possibility of losing and relinquishing rights to the software. The customers and shareholders would not be satisfied because a lawsuit necessitates damage control and monetary losses. This would lead to decreased revenues which is always ethically bad.

Cutting Ties with AMR

Agrico could end their contract with AMR and choose another vendor, specifically their second choice. AMR meets most if not all of Agrico's needs, this is why they were chosen in the first place. Starting fresh means admitting that the project was a failure and needing to explain the sunk costs to other executives and shareholders. They would then sink even more money into a new system with a new vendor. This requires more negotiation, more testing, and more headaches. AMR would be dissatisfied for losing a client, the shareholders would be unhappy since the company would see less revenue due to the losses leading to lower dividends, and customers would be unsettled due to an increased waiting period for improved services.

Recommendation

Burdelle should inform Alvaredo to instruct Seymour to secure the code properly when she leaves her workstation. Agrico is increasing revenue which means they are making money. In terms of a business, this is ethically good. Copying the source code actively goes against the contract ad infringes upon AMR's intellectual property. They would lose money from this option which is ethically bad. It is proprietary software and if Agrico was concerned with accessibility, they should've entertained other vendors or negotiated further before entering the agreement.

Agrico and AMR both have valid concerns but reaching this point of the project without a solution is unacceptable. Burdelle should not have allowed events to progress as they have. He permitted Agrico to sink copious amounts of money into the project, $75,000 more than expected already. AMR being concerned with their source code being sold is valid, and they protected themselves by adding that term. As Gareth Morgan states, "We begin to see politics everywhere and to look for hidden agendas even where there are none" (Morgan 205). Agrico being concerned with disasters and their system being inoperable is also valid. However, they entered an agreement, and the blame can only be placed on them.

As James Cash states, "Disaster recovery and business resumption may be made more difficult by the contractor's efforts to balance the needs of clients and its need to remain profitable" (Cash 161). While both companies have valid concerns, there is no guarantee that either's fears would come to fruition. If Burdelle was to assume no disaster would occur and AMR would continue maintaining the software and pursue functional backup options, Agrico will not face repercussions for Burdelle's decision.

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