2018

CIS 410-02

Kimberly Roeten

[AGRICO, INC.]

A Software Dilemma

Executive Summary

Agrico, Inc. was started by two farmers in Des Moines, Iowa in 1949, and since then it has provided farm and ranch management services for 691,000 acres of land in several Midwestern states. Because it has managed a portfolio worth $500 million since 1987, it has been ranked as one of the nation's largest agricultural management firms, providing cost-effective management services for more than 350 farms and ranches. During their business planning process in 1985, a group of their executives decided that their current arrangement for computer services was not adequate for their needs. Their goal, like every organization, is to make money now and in the future (Goldratt) as stated in The Goal. George P. Burdelle, an information systems vice present for the company, faces a dilemma and is forced to make a rather ethical decision regarding their software package.

Problem

Jane Seymour, the software engineer for Agrico's new AMR system, had left source code open on her computer while she was out at dinner. Burdelle must decide whether to copy it to tape and ship it to their off-site storage facility or simply not to proceed with it. Given his experience with AMR, a vendor of farm management software, over the past year, he was not confident enough that their proposed agreements to secure the source code were sufficient. He had to consider the risk that if Agrico's portfolio was converted to a new computer system and something happened to the existing source code, the data could be altered or even worse corrupted without anyone's knowledge.

Mission Statement

While contemplating which solution was the most logical and ethical to take, Burdelle wanted to make sure that any future modifications to the software used the most recent version of the source code. “Since Agrico had no internal computer systems staff, they contracted with a large computer consulting firm for recommendations on their computing needs and responsibility for them.” (McFarlan) To minimize cost and installation lead time, instead of attempting to develop a custom-coded system, a new software package was recommended.

Generic Strategy

Agrico’s generic strategy focuses on the idea of cost leadership, unlike previous cases. To clarify, a cost leadership strategy is when “a firm finds and exploits all sources of cost advantage and aims at becoming a low cost producer in the industry.” (Tanwar) According to this case, Agrico is able to provide cost-effective management services for more than 350 farms and ranches, and “acting as an agent, they bought equity interests in farms and ranches for their clients and managed them to provide operating cash flow and capital appreciation.” (McFarlan)

Industry Competitive Analysis

Industry Rivalry

In terms of the degree of rivalry, the risk of this occurring is low because again they are ranked as one of the nation's largest agricultural management firms, so any other business lower in the hierarchy are more at risk than Agrico is, not to mention they have a market share worth $500 million.

Threat of Substitutes

If the risk of competition is low, the threat of substitutes will then be rated low because due to its leasing of farms, which includes cash-rent and crop-share, those clients were entitled to work on land that belonged to Agrico. One thing that Burdelle kept in mind when trying to make a decision for the good of the company was that he wanted to "abide by the terms of the contract, but didn't want to jeopardize Agrico's clients assets." (McFarlan)

Bargaining Power of Suppliers

When it comes to the bargaining power of suppliers, the threat is high because the software purchase agreement between AMR and Agrico "provided that the source code be place in escrow to provide protection in case of a natural disaster or in the event of AMR's bankruptcy or inability to provide adequate support for the software." (McFarlan) Only AMR is allowed to make modifications to the software package, and Agrico must pay 1% of the total purchase price including modifications monthly as a maintenance fee. Agrico also is limited on their access to source code as they can only "view listings reasonably necessary to test the system." (McFarlan)

Bargaining Power of Buyers

The risk of bargaining power of buyers in this case runs low because again, Agrico owns the land that most of the clients build their farms and ranches on, so once they sign a lease they must pay rent and/or share their crops and it will be difficult to get out of that. “Although mergers and acquisitions often increase the financial strength of the suppliers, the buyers must be aware that specific products may be discontinued or lose support as a result.” (Fried)

Barriers to Entry

The threat of new entrants is high because even though Agrico may be considered the one of the largest agricultural management firms, it is still relatively easy for a company to enter the market out of nowhere, as long as they’re physically and financially stable.

Stakeholders

In this case, George Burdelle has the largest stake in the success of Agrico due to the fact that he is in charge of determining which path Agrico should take in regards to their software needs. It will be up to him to decide the most ethical approach. Executives will also be considered a crucial stakeholders because they also play a part in the final decision making. The general employees of Agrico, which includes officers, board members, and anyone else that is not considered a manager or executive of the business, also has a large stake in the organization. Shareholders are also considered stakeholders in this situation because those who put money into a business contribute to the financial success of the company, so they have a right to be informed about what all is going on in the company. The clients/customers also have a large stake in the success of Agrico externally because without customers, the company would not survive. Lastly, AMR is also considered a crucial stakeholder because they are the ultimate software provider, which means they have the right to enforce anything that was agreed upon in the contract.

Alternatives

1) **Do Nothing:** There appear to be issues with the company's current state, most specifically with their software and computer system, and from the looks of it, not making a change would have a relatively large impact. If Agrico and Burdelle decided to continue to run its course as is and try to work out the problem without jeopardizing their agreement with AMR, the code would be left as is but could potentially leave the company in a dilemma.

2) **Copy the Source Code:** If this alternative is chosen, Agrico will be faced with some risks, but it is the duty of Burdelle to work towards the best interests of the company, and if there are consequences attached to the policy, perhaps Burdelle must consider ethics. Agrico would have certain access to the most recent version of the source code should Burdelle choose to copy it and secure it. The risk of the portfolio data being altered and/or corrupted would be high in this case, but having a backup plan for the company in the absence of AMR is tempting, as Agrico could use this alternative to their advantage to get ahead and continue developing their software.

Impact on Stakeholders

If Burdelle and the business executives decide to do nothing, this will honor the agreement Agrico originally made with AMR. Although it may not necessarily benefit their computer systems, this alternative would not put the company in danger of breach of contract. The only downside this alternative would have on all the stakeholders is that Agrico will not have a copy of source code needed to ensure survival of the company, and this could lead to financial problems in the company and with its clients which is a catastrophe. As for AMR, having seen the integrity and loyalty from Agrico this would strengthen their relationship with one another and built trust. However, if AMR eventually went out of business while on contract with Agrico, this could hurt the business and certain positions as well. If Burdelle and the business executives decide to copy the source code, they are more at risk of potentially facing ethical and legal consequences. Copying source code without permission first of all is unprofessional and can be considered stealing which is of course illegal, and AMR made it clear in their contract with Agrico that software may not be copied or reprinted without prior permission from AMR, so Agrico could potentially face lawsuits for this and Burdelle could lose his job. The only stakeholders that would not be affected by this alternative would be the clients because all they deal with are leasing arrangements and then they ultimately do their thing, unless of course Agrico goes out of business then that’s a different story.

Recommended Course of Action

Based on what I've acquired from this case, I would go with the do nothing alternative. Even if it isn't necessarily for the good of the company, violating a contract agreement would not only be unethical but illegal as well, and that would just ruin the reputations of Burdelle and Agrico. Making a decision without prior permission is risky, even if the company wasn't in trouble by any means. Businesses should always strive to be moral, even if that means taking somewhat less convenient measures to maximize value to shareholders. Having more trustworthy employees in a business ultimately will benefit a company more in the long run instead of taking opportunities that could potentially be illegal to get on top. "It seems that successful organizations evolve appropriate structures and processes for dealing with the challenges of their external environment." (Morgan)

Bibliography:

Golratt, Eliyahum and Cox, Jeff. The Goal: A Process of Ongoing Improvement. North River Press Publishing Corporation. 2008.

McFarlan, F. Warren, Agrico, Inc. – A Software Dilemma, Harvard Business School.

Tanwar, Ritika. Porter's Generic Competitive Strategies. IOSR Journal of Business and Management. Volume 15, Issue 1, PP 11-17. Nov-Dec 2013.

Porter's Five Forces: Strategy Skills. Free Management EBooks, 2013.

Fried, Louis. Managing Information Technology in Turbulent Times. Wiley-QED Publication, John Wiley & Sons, Inc. Canada, 1995.

Morgan, Gareth. Images of Organizations. SAGE publications, CA, 1986.