

Case 5 – Agrico

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Mission, Overview, Problem

As technology advances, new applications and opportunities emerge on how to effectively utilize it in a business scenario. “Rapidly evolving information technologies are permeating our lives as employees and as private citizens,” (Cash). Technology holds the key to automating and reengineering key business processes, which can improve the overall efficiency and effectiveness of the business. “New IT tools are constrained primarily by our ability to identify useful applications, develop them, and put them to effective use,” (Cash). For this reason, it is often very tempting for businesses to quickly acquire and implement technology systems that were not given adequate time to be effectively planned out or thought through. “Manger’s choices of when and what IT tools and data to acquire or applications to develop are complex,” (Cash). Developing information systems in house or purchasing software solutions from outside vendors involve considerable planning and evaluation, as they both will require significant amounts of effort and resources to develop and/or implement.

In the case of Agrico, they identified a need for better management capabilities of their portfolio, and chose to pursue acquiring a new system that would meet their needs. Agrico realized, after signing a contract with AMR that their software may not be the best solution as they have found flaws in the suite, and have serious disputes with AMR’s CEO over their contractual agreement.

Agrico provides ranch and farm management services for land in the Midwestern United States. The company was founded by two farmers in the 1949, and had grown to a size of 83 employees by the mid 1980’s, with a portfolio estimated to be worth around \$500 million. This allowed the company to be viewed as one the larger agricultural management firms in the nation. With four regional offices, Agrico was able to manage over 350 farms and ranches and close to

700,000 acres of land. The company's portfolio consisted of 47% tenant farms, where tenant farmers would agree to farm the land managed by Agrico and in return received a portion of the year's crops, which they could then sell on commodity markets, 51% cash rent leases where farmers would make cash payments to use the land, and the remaining 2% consisted of farms and ranches directly managed by Agrico. This last segment, while making up a very small portion of their total assets, involved considerably more effort for Agrico to maintain and manage than the other two segments.

After identifying the need for computer services and IT that would meet their needs now and in the future, and provide automation of office tasks, Agrico's top management decided to acquire new information technology. Recognizing their lack of expertise in developing software solutions, they turned to AMR, which specialized in producing one software solution, a system for managing farm and ranch portfolios. AMR was founded by A. M. Rogers in 1977, and consisted of only 10 employees. For being such a small company, they had earned a very positive reputation among their 12 clients in several states. This coupled with their software that seemed to offer everything Agrico needed, AMR was chosen as the vendor to provide the new management suite for Agrico.

The total purchase price of the software was approximately \$200,000 with a 1% of the purchase price annual maintenance fee. In the agreement signed by Agrico and AMR, AMR was determined to be the only party who could modify and readily access the code outside of viewing listings to test the system. Agrico's VP of Information Systems, George P. Burdelle, expressed desire to buy the source code to protect Agrico in the event they needed to modify the code or AMR went out of business. After realizing that every one of AMR's installations of their software was unique and the difficulties of implementing every one of their features together,

Burdelle became even more aware that having the source code could potentially benefit Agrico greatly.

Burdelle began having lengthy discussions with Rogers over the escrow of the source and object code. He felt that the only way he could ensure that the system code installed and implemented in the business matched the code held by the third party was to have a copy of it himself. Rogers did not like this idea, as he felt Burdelle was being paranoid and irrational and did not want to open up the opportunity for his company's code to be stolen or leaked. This created much tension between the two, and caused Burdelle to view his legal options of being able to acquire the code. After reviewing the contract with his lawyer Burdelle realized that, while Agrico would be allowed to view the source code in order to understand, AMR was the only party who could copy and store the code. Burdelle then faced a dilemma when a software engineer left the source code up on a computer, providing him with the opportunity to clone the code and make a copy for himself. This risked violating the contract with AMR and an expensive and damaging legal fight that could damage Agrico's reputation. Before deciding how to act on this dilemma, let us perform an analysis of Agrico's environment.

Porter's Five Forces

In the agricultural management industry, Agrico had established themselves as well-situated firm, with a substantial bed of assets and revenues. The threat of existing competition in this industry is most likely moderate. Seeing as how the case lists Agrico as one of the larger suppliers of farm management solutions, it would be safe to assume there are other firms to compete with in the industry. These firms may all compete in the same parts of the United States or they may be spread apart to different regions. If they were more dispersed, Agrico would likely face less risk from competing firms, as they would be able to gain a better hold on their

market space. However, if the firms all compete in the same geographic regions, competition between the firms may be more intense, as the services and products they offer to farmers will have to compete in a more densely populated market.

Due to the reasons mentioned previously, the threat of substitutes remains moderate for Agrico. If there exist multiple firms that offer similar services as Agrico in the same regions Agrico competes in, farmers will have more options to choose from if Agrico does not meet their liking. However, if the firms are more geographically dispersed, farmers may not have as wide a selection of substitutes to choose from, and may be forced to do business with Agrico. Farmers also have the option to purchase and manage land on their own, though it may prove to be more difficult and expensive than if Agrico were to. The threat of new entrants is considerably lower for Agrico. As mentioned earlier, Agrico has a well-established portfolio consisting of close to half a billion dollars in assets and revenues. This type of success would be hard for a brand new company to imitate before being overwhelmed by Agrico or another more established competitor.

The threat posed by consumer bargaining power is low, as the main consumers of Agrico's services, farmers, have high switching costs if they choose to no longer use Agrico's services. Other firms may have higher prices for similar agreements, which could prove unappealing for farmers. In addition, taking into account the high cost nature of acquiring and managing the equipment, land, and labor necessary to run farms and ranches, managing and owning farms is simply not a feasible or lucrative option for many farmers. The costs associated pursuing this option on their own would be too great for many. Many of these farmers signed agreements with Agrico meaning they are bound to their contractual terms, which may leave them with very few options in some situations.

The threat posed by supplier bargaining power is considerably higher though. The main suppliers for Agrico are its labor force and its technology providers. With 83 employees in four regional offices, these workers provide the labor necessary to manage the over 300 farms and ranches doing business with Agrico. If they were to decide to quit or leave the firm after feeling dissatisfied with something the company has done, Agrico would likely lose valuable tacit knowledge and experience. Agrico risks upsetting employees if they decide to copy the code, as this could be seen as unethical by some and a wrong decision. Agrico also has little expertise in developing software and technological systems for their firm, leaving them the option of looking to outside vendors for their needs. Due to the varied and complex nature of their business requirements Agrico has few options to choose from in regards to which IT solution provider they choose. Without many viable options to choose from these suppliers have the power to command higher prices for their products and services, putting Agrico at a disadvantage.

Effect on Stakeholders

Whether or not Agrico can resolve its issue over having access to the source code of AMR's software suite, the company's stakeholders will be affected. Agrico's shareholders, an important internal stakeholder, will most likely be pleased regardless of the solution, as it means that Agrico can now focus more thoroughly on implementing the new system into the company. This will increase the likelihood of a successful implementation, which means a greater chance of improving the operations of Agrico's business functions. The shareholders want to see Agrico maximize their returns, so no matter the solution, if it means more money in their pockets by having a company that can run more efficiently, they will be satisfied. It is worth noting though, that if the solution chosen results in a legal battle, shareholders may be negatively affected as it could harm the reputation on Agrico and hurt business.

Another internal stakeholder to consider will be Agrico's employees, both supervisory and nonsupervisory. If Agrico resolves their dispute with AMR over the source code, employees will most likely be positively affected. Management can now focus solely on implementing the software suite, and employees can focus on learning how to use the new system. If the source code is obtained through less than ideal means, some employees may be displeased, as some workers may feel the company performed an action that conflicts with their morals. What may seem like the best idea for top-level management to protect the company, may conflict with the viewpoints of lower level workers. "What is rational from one organizational standpoint may be catastrophic from another," (Morgan). Top management will likely be happier if they can resolve the issue of having a copy of the source code, as they will feel more secure knowing that their software is backed up in case of a disaster or if AMR goes out of business, which helps ensure their business continuity. It will also allow them to focus wholeheartedly on supporting the implementation of the new system and ensuring its success.

External stakeholders would be Agrico's customers and its contracted partners, such as AMR. If Agrico can resolve its issues with AMR and successfully implement the new management suite, customers will likely benefit greatly, with better management services from Agrico, and potentially lower costs due to the improved efficiency of Agrico's labor force. If Agrico is drawn into a legal battle, customers may feel some negative effects depending upon the length and outcome of the trial. As long as Agrico can still provide its services to customers, consumers will be satisfied. AMR may feel positive or negative effects depending on the solution pursued by Agrico. If Agrico sticks to the contract, AMR will likely be happy and proceed with the business contract with Agrico. However, if Agrico violates the contract in some way to reach its goals, and AMR is made aware of this violation, AMR may be negatively

affected. This may encourage AMR's leadership to pursue legal action, which could prove to be costly for both companies, and disrupt AMR's business.

Alternatives

Agrico really has two options to pursue concerning their issues with AMR and the source code. The first would be to do nothing, that is, not copy the source code and not violate the terms of their contract with AMR. This option has the potential to both positively and negatively affect the company. If they do not copy the source code, they avert any risk of a costly lawsuit with AMR due to them violating the contract, which saves valuable time, money, and resources that could be spent on implementing the new system, which increases the chances that will meet their set deadline. Lower level, supervisory and nonsupervisory employees will likely be content with this option as it minimizes legal and moral issues for the company, and increases the likelihood they will have a new IT system that increases their productivity. Upper management and top-level executives, like Burdelle, may be displeased with this option though, as their distrust and displeasure with AMR and their business contract will persist. This means they can continue to try to either negotiate the terms of the escrow for the source code, or just let the contract play out and accept AMR's decisions.

Shareholders will benefit from this option as it means the business will be able to focus on implementing the new system, increasing the likelihood of improved business operations, which could mean greater returns on shareholder investments. Moreover, shareholders would not have to deal with a potentially damaging trial that could harm Agrico's reputation and ability to do business. Agrico's contractual partners, namely AMR, will benefit as well due to their continued business agreement with Agrico. They avoid the risk of having their IP stolen by another company, and having to start a potentially costly trial.

The second option for Agrico is for Burdelle to authorize creating a copy of the source code. This option also has its positive and negative consequences. Agrico will now have a copy of the software they have been trying so long to attain, which means Burdelle and other top executives can relieve some of their anxiety over how much power AMR can have over them. Some employees may feel dissatisfied with this solution if they are made aware, as some may view it as immoral, and may choose to leave the company. Like the first option, this option may also allow Agrico's employees to better focus on implementation of the new system, as they can drop their disputes with AMR and fulfill their business contract. This will have positive impacts employees as it allows them to focus on successfully implementing AMR's software. Customers will likely see the same effects as if Agrico did not copy the source code. As long as the company can stay in business and continue to provide its services, customers will be content.

Shareholders will be happy as long as this action does not cause a lawsuit, which would open up the doors for all kinds of potential issues. Seeing as how this action would put Agrico in direct violation of their contractual agreement with AMR, they stand a fair chance of losing any trial brought against them, which could potentially harm shareholder returns. AMR will likely be negatively affected by this alternative, as it involves their IP being essentially stolen and having a large business contract broken. This means the company will likely have to pursue legal action against Agrico, which, while they stand a strong chance of winning, could prove taxing for the company.

Recommendation: Do Nothing

While doing nothing means Agrico will lose some autonomy and power over an aspect of their organization, the risks and negative outcomes they avert are reason enough to choose this alternative. AMR, by controlling the source code for the software, have considerable power over

Agrico. Burdelle likely sees the potential for AMR to, “systematically influence the definition of organizational situations and create patterns of dependency,” (Morgan). Burdelle does not want Agrico to be dependent on another organization for such an important part of Agrico’s business. However, they should have thought this through more thoroughly before pursuing the contract with AMR. In addition, as Burdelle and other top executives concluded, software and system’s development is not a competency for Agrico. Even if they were to obtain a copy of the software there would be no guarantee they would know how to effectively use or alter it. Moreover, what would happen if further changes were made to the software after Agrico made a copy? Their version would now be outdated and worth a lot less than a more up to date version.

The needs of a business and its contractors will often conflict as each has an ethical requirement to do what is good for them. One important factor that influences almost every business’s decisions is what will be best for shareholders. Contractors are, “separate firms that must maximize profits to satisfy their shareholders, and as a result, their business interest cannot be congruent with those of your firm,” (Fried). What is good for one firm will often not be what is best for another.

As mentioned above, if it were found out Agrico made a copy of AMR’s source code, they open the doors for a potentially damaging lawsuit. While they stand a chance to win, they also stand a fair chance of losing, as their actions are very clearly in direct violation of the contract. Organizations naturally have a desire to dominate or subject other organizations or groups to their own will, as is the case for Agrico and AMR. AMR’s CEO had indeed been unreasonable and wanted Agrico to go along with his wishes, but Burdelle also wanted AMR to satisfy his demands for control over the source code. “Domination also occurs in more subtle ways, as when a ruler imposes his or her will on others while being perceived as having a right to

do so,” (Morgan). By copying the code and then using the argument that AMR had already broken the contract by not meeting Agrico’s demands of a more satisfactory third party escrow, Agrico would essentially be saying they had the right to break the contract. In addition, regardless of the outcome of the trial, Agrico’s executives recognize that a case brought against them could damage their reputation and have larger unknown consequences. Burdelle and management have an ethical obligation to protect their company, and by not stealing the source code, they guarantee Agrico protection from a lawsuit. If Agrico loses the court case, they risk missing a major opportunity to improve their business, which could set them back substantially.

Works Cited

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