Case 11-3: Agrico, Inc.

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Executive Summary

To fit Agrico's future business needs, the company required a new computer service capable of data processing and office automation. Agrico would need a software system that was suitable for all their functional requirements to manage their multiple property arrangements. AMR was the company chosen and Agrico believed they could provide excellent office automation capabilities and the necessary features for their needs. However, AMR was a small company and their founder A.M. Rogers was hesitant to share the source code of the software system. AMR and Agrico had agreed to a contract together specifying the terms of the system and source code, but George Burdelle, vice president of information systems, believed Agrico should have a copy of the source code for backup purposes and to make sure it was adequately protected. One night, Burdelle became aware that an employee from AMR left a copy of the source code on a computer in Agrico. Burdelle must make a decision that will ensure the safety of Agrico's software system but also not put them in risk of legal action. In this situation, Burdelle can either do nothing or copy the source code.

Business Problem

Agrico, Inc. was founded by two farmers in 1949 and grew to provide farm and ranch services for 691,000 acres of land with more than 350 farms and a market value of $500 million. Given the number of customers and assets Agrico had, they needed new computer services and data processing that could help handle their three types of property arrangements. These three property arrangements included crop share lease agreements, cash rent lease agreements, and management of their own properties. To help manage these they decided that an adoption of an existing software system would be the best option because they would save time and money from not having to create their own. In the software system, the cash rent agreements would be

rather straight forward to handle, however, with crop share agreements the system needed to manage receiving, selling, and delivering share of crops. Moreover, with directly managed proprieties, the system must focus on all the logistics of running a farm.

There were many potential vendors, but only two were identified as realistic possibilities with AMR being the final decision. AMR was a small company but had excellent references and features while providing office automation. Their second choice was a mid-sized company that met their requirements but only sold three copies that were not in production and had limited office automation. AMR only had 10 employees and one software package that seemed to fit Agrico's needs. They signed an agreement for $200,000 stating that AMR would provide software consistent with Agrico's needs, but Agrico could not store or modify the source code, only view it if necessary. The agreement also required AMR to maintain the software in escrow with a third party to insure adequate back-ups.

Once the object code was installed, Burdelle's team found several problems. One of these problems was that there was not standard software and AMR had installed 12 different versions of the software for each of its clients. Moreover, many of the features promised were buggy and did not work well together. Even once the bugs were fixed, there was still the issue of not having the source code properly stored and secured. When new technology is produced, it can alter the balance of power (Morgan). In this case, Agrico went from having power over their information systems to then implementing a new system where they had to rely on AMR to handle the source code. Rogers took the back-up tapes to his bank vaults and there was no way Agrico could know if the escrow copy is the source code that generated their object code. Agrico was afraid that without the source code they could be locked into the existing system indefinitely without modifications. Having storage of the code and access to it at the right time could help identify

small problems before they grow larger and could help the company jump on a profitable opportunity (Cash). Agrico wanted to store the code in an off-site facility they used, but Rogers did not trust that option. One night Burdelle was made aware of a copy of the source code on an Agrico computer left by an AMR employee. In this situation, Burdelle must weigh legal consequences with the prospect of securing a back-up for Agrico and the future of their software systems.

Industry Competitive Analysis

The mission of Agrico is to provide equity interests in farms and manage them for farmers to provide them cash flow and capital appreciation through the means of cost leadership. Agrico's general strategy is cost leadership as they try to stand out among their competition by managing farms in a cost-effective manner and have become one of nation's largest agricultural firms. Agrico is structured functionally with four regional offices with around five farm managers each. Porter's five forces offers a more detailed look at their environment:

Bargaining Power of Suppliers: The supplier's power is low as Agrico already owns most of the assets they need and do not rely on suppliers to run their business.

Bargaining Power of Buyers: The power of their buyers is low considering there are not many options for buyers to choose from and many are tied to contracts or leases with Agrico.

Threats of New Entrants: New entrants are a high threat as a new company with assets and land could offer similar service as Agrico, but it would still be difficult given how Agrico is already established in the industry.

Threats of Substitutes: The threat of substitutes was high as farmers could manage the farm themselves or go outside of Agrico to other types of financial businesses to manage their money and cash flow.

Rivalry Among Competition: There was low rivalry with few companies in the agricultural management industry and Agrico stood out as one of the larger firms with an established reputation.

Stakeholders

George Burdelle: He is the vice president of information systems and will make the decision on what to do with the source code left on the computer.

Agrico Employees: The employees will be affected as the decision made by Burdelle could affect how the employees carry out their jobs with the new software system. Employees will want a decision that will best benefit their career goals now and in the future.

Agrico Shareholders: Burdelle's decision could cost Agrico more money in legal fees if he takes the code. Shareholders will want a decision that will best maximize their returns.

Agrico Customers: Many customers have signed contracts and leases with Agrico and rely on Agrico to perform efficiently for them to make money.

AMR: AMR signed a contract with Agrico and expect them to fulfill it without jeopardizing their source code.

Alternatives

Do nothing: By doing nothing, Burdelle is choosing not to copy the source code meaning Agrico will still be unable to back it up themselves and modify or enhance it. They are putting their trust

in AMR that they can continue to provide quality updates and maintain their software system and its code.

Copy and store the source code: By taking the source code off the computer, Burdelle will put Agrico in the position of being able to secure the source code and know the source code that generates the object code they have installed. However, this would be violating the contract and could lead to legal disputes with AMR.

Impact on Stakeholders

Do nothing: By doing nothing, Burdelle will be honoring the trust of Rogers and following the terms of the contract. Consequently, Burdelle will still have to deal with the concerns of Rogers and AMR. However, if Rogers found out about this situation and learned of Burdelle's choice, he could place more trust in Agrico to store the source code. The employees will still have to learn the new software system but rely on AMR to make the appropriate enhancements. If AMR's software system is discontinuous, it will be difficult to predict its effect on quality of work life and career paths for the employees (Cash). The stakeholders will be pleased as they will not be losing out on more money trying to find a new system or with litigation fees and will keep their reputation. The customers will be pleased if the AMR system improves Agrico's operations. AMR will also be in favor of this decision as it honors their agreement they made with Agrico.

Copy and store the code: By choosing to copy the code from the computer, Burdelle will be able to store the code, but he will violate the contract with AMR. This decision will put the company in legal danger while also endangering Burdelle's position in the company. The employees will be able to view the source code and modify it but if legal action takes place, it could hinder their ability to use the system. Shareholders will not be pleased as it could result in

heavy litigation fees trying to win favor in court while also hurting their public reputation. Customers could be happy if no legal actions are taken and modifications are made so Agrico can use the software to their best ability. However, if there are legal actions, customers could lose money as Agrico focuses attention and money on the litigation. AMR would be dissatisfied as it would violate their contract and could take legal courses of action.

Recommendation

In this situation, do nothing would be the best decision for Burdelle to make. Doing nothing is the ethical choice because it makes the most business sense for Agrico. In doing nothing, they are abiding by the agreement they made with AMR and avoiding the possible risks of copying the code. By choosing to copy and store the source code, Burdelle is creating the possibility of legal action from AMR. They will be able to store it for back-up purposes and provide their own modifications, however, they will be violating the contract with AMR and jeopardizing their chance to use the system at all if the court favors with AMR. By copying the code, Burdelle is concerned about the company functioning but it could hurt their reputation. Concerns about the group functioning obliterate concerns related to role of company in the wider world (Morgan). The litigation process could cost Agrico considerable time and money as they will try to convince the court to side in their favor. Even if the court does side in Agrico's favor, they will have lost money on legal fees and have strained their relationship with AMR and future relationships with other companies. This could negatively affect their goal to make money now and into the future (Goldratt). Furthermore, their reputation will suffer, and they could lose the trust of customers and partners. Clients and businesses do not want to do business with a company that does not honor their agreements.

These risks could be detrimental for the company; therefore, it will be in the company's best interest to avoid them. Doing nothing with the code will honor Agrico's contract with AMR and put Agrico in no legal danger. They will still have to trust that Rogers is securing the source code and that they provide the proper modifications to the software system. The risk of trusting Rogers and AMR is not as great of a risk as taking the code and facing legal disputes. If Burdelle takes the code, Agrico will be legally responsible and will have to put effort in defending their position. However, if Rogers and AMR prove to be unreliable and the system does not meet Agrico's needs, AMR will be responsible.

In the contract, it states that AMR shall place a copy of the source code in custody of a third party that is satisfactory to both parties and continue to make any modifications needed without charge to Agrico. At the time, Rogers was taking the tapes with the source code to his bank vault in Omaha. This was in violation of the contract as Agrico was not satisfied with this off-site escrow and wanted to store with an independent third party at their off-site facility. They could take this condition to Roger and require that they compromise to a different location that they both agree on. Moreover, Burdelle could use this situation to his advantage by explaining to Rogers how the source code was discovered on one of the computers, but they did not copy it. In helping facilitate any kind of social change, it may be necessary for the change agent to create transitional phenomena when they do not exist naturally (Morgan). Rogers does not place much trust in Agrico storing the code as he believes they could sell it. Thus, by making Rogers aware of this situation, he might place more trust in Burdelle and put more value in Agrico's concerns which could lead to a favorable compromise regarding the source code and better business relations moving forward. Moreover, AMR is responsible for providing any modifications and enhancements to the system needed. By copying the code, Agrico would fall victim to the fight-

flight response in which the group is devoted to protecting itself from some danger rather than taking a more balanced look at the situation (Morgan). Agrico is projecting its fears on AMR by believing that AMR will not secure their code and provide them the features they need even though in this situation, AMR is contractually obligated to. Agrico would be voiding the contracts terms if they were to copy the code, thus, delaying favorable returns for the shareholders and the company due to the possibility of litigation. The benefits of taking the code are little considering the legal risk they would be facing by violating the contract.

Works Cited

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Goldratt, Eliyahu M. *The Goal: A Process of Ongoing Improvement*. North River Press, 1984.

Morgan, Gareth. *Images of Organization*. Sage Publications, 2006.

AMR employee left source code on computer, Agrico Burdelle thinking about copying it escrow-give documents when conditons met

Agrico Inc. started by two farmers in 1949-farm and ranch services for 691,000 acres of land

$500 million market value

One of largest agrigultural management firms, cost effective management services for moe than 350 farms and ranches had crop share lease areements, and cash rent lease agreements, also managed few properties

1985 decided to get new computer services as the current services would not be beneficial for now or future needs. June 1, 1987 was conversion date

Had no internal computer systems staff-consuling firm assigned several employees to project including project manager George Burdelle.

Inhouse data processing use software package instead of develop custom coded system

Complex system needed since used for all 3 property arrangements. Cash rent was straight forwars. Directly managed properties needed to focus on all the logistics of running a farm. With crop share farms inloved in commodity markets and needed to manage receiving, selling, and delivering share of crops. Agrico selected AMR.-office automation capabilities and good refrences. Small company though

Burdelle received vice president of information systems in July 1986

AMR sold one software system for managing ranch portfolios

Signed agreement that they would provide software consistent with with Agricos needs. Amr rogers would not give up source code in fear of theft

Source code should not be copied or duplicated

Delieverd object code by October. Burdelle hired system and programming managers along with two programmers and two operators

Functions not tested, each version different, individual options did not work well together-

Need source code for backup purpose. Did not want to be stuck in existing system. No way of knowing that the escrow copy was source code that generated our object code.

Couldn't store it.

Take sunk costs and move to different vendor. Time of essence

Do nothing, copy source code, find a different vendor