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CIS 410

Agrico

Case 5

Background/Mission:

Agrico Incorporated was a management company for the agriculture field founded in 1949 by a couple of farmers. Their mission was to "[provide] farm and ranch management services for 691,000 acres of land in several midwestern states" (Agrico). By the late 80s the company had grown to be worth over $500 million, and recognition of their brand was vast. They would purchase stock and equity in farms for their clients and act as a middle manager, offering cashflow to clients. The closest comparison is a stockbroker for farmland.

Business Strategy:

According to the case, "Maintaining four regional offices housing an average of five farm managers each, Agrico was able to provide cost-effective management services for more than 350 farms and ranches" (Agrico). As there is little differentiation between asset management, Agrico opted for a cost-leadership business strategy. When utilizing a cost-leadership strategy, a company offers "a basic no-frills product that is produced at a relatively low cost" (Tanwar). This means that, despite offering a non-differentiated service compared to their competitors, a company will find as many places to save on cost and then will pass those savings on to the end consumer.

Organizational Structure:

Agrico operated using a functional organizational structure, which separates work based on "main functions, such as engineering, production, sales, and finance" (Cash). They had satellite offices in different parts of the country so that property could be managed in-person much more easily than if a team had to travel several hundred miles just to make an in-person check. They also separated labor across departments, as this is the best way to promote economies of scale (Cash).

Porter's Five Forces:

Competitive rivalry is low in this case. As stated, Agrico was regarded as one of the top providers in the market at this point, so competition within the industry wasn't very harsh. Despite a lack of service differentiation across competitors, Agrico had a large market share and plenty of loyal clientele.

Threat of new entrants is low in this case. "[It is] more difficult for new rivals to enter a market if brand loyalty is high, as your customers are far less likely to switch to another brand" (FME). Contracts made with Agrico kept clients within the company, and once an individual were to choose Agrico for agricultural management, they were likely to choose them again or to recommend them to others on the market. Additionally, the deals with landowners that Agrico maintained would not be easy for a new company to acquire.

Threat of substitutes is low in this case. Substitutes are defined as products or services that meet a particular consumer need, but are available in another market (FME). Investment in the agricultural field is a somewhat niche market, and Agrico at this point was the name to know.

Bargaining power of suppliers is high in this case, as landowners were directly responsible for the overall revenue that Agrico would receive, since they directly relied on them for ROI. If farmers had a bad harvest or didn't meet the same agreed-upon standard, Agrico would face a net loss as a result.

Bargaining power of buyers is low. The consumers have high switching cost as well as high switching effort, and this in turn drives their bargaining power down (FME). Since contracts are difficult to change once a client gets involved with Agrico, they basically take the reins going forward and take all bargaining power with them.

The Problem:

Agrico had outsourced IT services to a consultant in its initial days, but they quickly realized that it was wholly unnecessary considering the needs of the company. These IT services included recommendations on computing needs from a larger consulting firm who dealt in IT, and the firm recommended an in-house data processing system. Agrico followed this advice and signed a contract with AMR to fulfil these duties. The relationship between the two companies was strained, and the contract wasn't written to the benefit of Agrico. AMR developed the software but stipulated that the software's source code would remain in the custody of a third party, allegedly for backup purposes. Agrico argued that this proposal was not adequate, and the two companies fought over the issue for a while. Near the end of the development, Agrico discovered the source code on an AMR computer that was temporarily in their possession. The question became whether to copy the source code and make a backup themselves.

Stakeholders:

Stakeholders are those people who will be impacted in any way by Agrico's final decision, including but not limited to executives, shareholders, managers, employees and customers.

What to Do and Why to Do It:

Agrico has two options here: either they take the moral avenue and ignore the aforesaid source code, or they can act ethically and copy the source code in order to create a more secure backup.

Agrico has a contractual obligation to relinquish ownership of the source code to AMR, regardless of whether they believe their backup measures will be effective or not. The time to renegotiate the terms of the contract is up, and no such thing can happen this close to the end of the project. Assuming AMR does in fact lose the source code due to poor backup procedure, Agrico is not able to restore from their own backup without possible ramifications. The fact that they obtained the source code goes against the terms of the contract, and is most likely the morally wrong thing to do, since the opportunity to obtain the source code came about through an accident.

I believe the option that Agrico should pursue is the most *ethical* for the company as a whole: copying the source code for their own backup purposes. There's an obligation by any company CEO to make as much money for their corporation as possible, as this is an implied contract between said company and its stockholders. This is also a cyclical contract between the CEO and the employees, as a lack of funds means the company has to start cutting major costs by laying people off, and laying people off means less productivity, which goes back to investors making less money. A company by-and-large is completely *amoral* due to these factors, meaning that during decision-making, they will not consider which option to be the "right" option and which to be the "wrong" option; the two are simply options with no rightness or wrongness attached. Goldratt says that the goal of a company is to make money, full stop (Goldratt). No sense of morality exists for a corporation, whose main goal is to maximize profits, and no amount of "self-regulation" will fix this. No corporation will ever sabotage itself for as arbitrary a reason as doing the morally right thing if they don't have to. This isn't to say that a corporation is intrinsically *immoral*, meaning that they specifically seek to do that which they believe to be wrong, but rather morals do not exist for a corporation. Since corporations are amoral, they must follow an ethical principle when making decisions. Ethics are different from morals in the sense that, while morals deal with what is right versus wrong, ethics decides what is fundamentally good or bad.

Agrico might not even need the backup at all, and if they never end up needing it, then AMR never finds out. If they do end up needing the backup, Agrico will save the entire cost of the AMR project by maintaining ownership of the software that they paid for. This would benefit the company in terms of reducing unnecessary expenses, and it would benefit customers by preventing system downtime. Should AMR try to pursue legal action, Agrico's lawyer argued that "the judge or jury could well side with us, especially when we explained the trouble we have had with AMR and their unsatisfactory response to our concerns" (Agrico), which is a theory I'm willing to stand behind. That being said, it is in Agrico's best interests to copy the source code and back it up offsite themselves, as it is the most ethical decision.