AGRICO, INC

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Business Issue

The business issue for Agrico, Inc was in need for a new information system that could suit all of their business needs. In 1986 after looking at what multiple vendors had to offer they chose AMR, a small software company from Omaha. The multiple references and demonstrations given by some of their already existing customers showed Agrico that the company could provide all of the features that they need. Once the contract was signed and the software was being installed several issues were discovered. Agrico discovered that no standard software existed, and that the software provided had to be modified for any applications that Agrico wants. Agrico wanted to have access to the source code from AMR's software to ensure continuity, but AMR's founder refused to give them a copy. In the contract that was signed by both companies they agreed that the source code and the software could not be copied and that the source code listings were not to be removed from Agrico's property. They also further agreed that the source code and all of the accompanying documentation would go to Agrico if AMR were to go bankrupt, stop maintaining/supporting the software.

The contract stated that the most recent copy of the source code developed by AMR would be kept by a third independent party in escrow to keep it safe. "Conflict is regarded as an unfortunate state that in more favorable circumstances would disappear (Morgan). The main conflict arouses due to the vagueness of the contract. The companies did not specify the terms of the escrow agreement after the contract was finalized or after the software was implemented. This strained the relationship between the two companies. Jane Seymour, AMR's software engineer that was on site at Agrico left the source code up on her computer while she stepped out to have dinner. George Burdelle, the VIP of information systems for Agrico must decide on whether to make a copy of the source code.

<u>Industry Competitive Analysis</u>

Mission

Agrico was in the business of farm management services. Their portfolio was worth an estimated $500 million. They served over 350 farms in the Midwest region while only possessing four regional offices. How Agrico's business works is that they purchase interests in farms, and ranches, and manages them as an investment for clients. There are thee types of arrangements that Agrico handles: crop-share leases, cash-rent leases, and direct management. For the crop-share leases, Agrico sells crops in the commodity markets. Under this strategy, Agrico's generic strategy is cost leadership. They have tried to find all sources of cost advantage and have aimed to become a low cost producer in the commodity industry (Tanwar).

Competitive Rivalry

The competitive rivalry for Agrico, Inc is high. They sell commodity products that have very little product differentiation (Porter's Fie Forces; Strategy Skills). This makes the switching costs for customers low and they will go to the person who sells the good that they want for the lowest price.

Threat of New Entrants

The threat of new entrants into this industry is low. This is due to the high start-up costs required to enter the industry. A new entrant would need huge amounts of capital in order to achieve the economies of scale that are required to be profitable (Porter's Five Forces; Strategy Skills).

Threat of Substitutes

The threat of substitutes for consumers is low. The switching costs associated with commodity products is low. There are very few options available to replace the grain products that their customers need.

Bargaining Power of Customers

The bargaining powers of the customers of Agrico, Inc is high. Since Agrico is selling an undifferentiated product, the switching costs are low and the customer will buy from the person who offers the good that they want at the lowest price (Porter's Five Forces; Strategy Skills).

Bargaining Power of Suppliers

The bargaining power of suppliers of Agrico, Inc is high. Most of Agrico's business is from leasing land to farmers and selling those crops for a profit and they do not need to purchase supplies from anyone. However, the bargaining power of the suppliers of software is high. After conducting their search, it was discovered that there were only two companies that could provide software that would meet the company's needs. Agrico chose AMR who owns the source code and will be in charge for developing and maintaining the new software system that has been put in place.

Organizational Structure

Agrico, Inc has a functional organizational structure. The company is focused on being efficient and providing commodities at the lowest cost possible. The decision rights of the organization are determined by those that are higher up in the company in terms of hierarchy (Cash). The boundaries of the organization are rigid and fixed. Each job is well-defined and there is very little overlap in terms of duties (Cash). The division of labor for Agrico is deep and narrow (Cash). The Coordination mechanisms of Agrico is driven by normalization and routine (Cash). Each individual has a specific job that they do over and over again. For Agrico the data flows from bottom up and the information flows top down because they are an organizational structure.

Stakeholders

The stakeholders involved include: the employees of Agrico; the customers of Agrico; George Burdelle - the vice president of information systems for Agrico; AMR- the software company; A.M. Rogers- the owner of AMR; and Jane Seymour- the AMR software engineer.

Alternatives

Do Nothing

George Burdelle could make the decision to do nothing. He could decide to overlook the fact that Jane Seymour left the source code up and open on her computer. The terms of the contract will not be violated, and they will not face the potential of a law suit. If Burdelle chooses to do this though, then there would still be a serious issue with the continuity of the new software that has been installed. If Burdelle chose this course of action, then the client's of Agrico could have serious losses if the software fails or if AMR goes bankrupt. But AMR would still own the source code and the intellectual property associated with the source code.

Make a Copy of the Code

George Burdelle could choose to make a copy of the existing code and have it stored and secured in the third-party facility that Agrico currently uses. If AMR goes bankrupt or they can no longer maintain the software that Agrico has it could mean disaster for Agrico and all of its customers. The costs of switching to another company are extremely high. AMR is extremely protective of its source code because the software it provides is different from any close competitor. It specifically says in the contract that Agrico cannot copy it or store it in a different location. If AMR discovers that its source code has been copied, then it could have massive repercussions for everyone. Jane Seymour and George Burdelle could both lose their jobs. Agrico could also be sued and end up paying out large amounts in legal fees. If the source code got out this means that AMR would be able to sue Agrico for violating their intellectual property rights. The only way that A.M. Rogers could maintain control over the field was to keep a monopoly on the information available (Adams). By making sure that no one copied AMR's source code, they could ensure that no one could offer similar products and ensure that their customers could not go to another competitor if they were dissatisfied with the product/service they were receiving.

Recommendation

George Burdelle should choose to do nothing. He should not make a copy of the source code. Since there is no one standard version of the software provided by AMR they are dependent on the company to find a solution to their software problems.

George Burdelle is faced with a problem in morals and not in ethics. Businesses are amoral because they aim to survive, what enters the equation is what is good or bad for the company and what is illegal (Barker). If an organization gets caught doing something that is illegal, they will lose money. According to The Corporation, companies don't have any ill will or malice, it merely does what is required to protect the bottom line. Ethics is about good and bad, while morals are about what is right and what is wrong. With regards to ethics, coping the code is illegal and he should not do it. It specifically violates the contract that they have signed with AMR. With regards to morals however George can find some justification in copying the code in that if he does not Agrico would suffer from not having the source code. It can be argued that AMR mislead Agrico as to the shortcomings of the capabilities of their software. Each of the systems designed for their customers had to be custom made for each of their needs and there was no standard source code in existence. Also it can be argued that AMR failed their part of the contract because they have not yet been able to provide software that is consistent with Agrico's needs.

Burdelle can also argue that he needed for the code to be stored in a secure location. Rogers wanted to put a copy of their source code into a bank vault which is not a secure location since there are no environmental controls to protect it from damage or theft. This can also be argued to be a violation of the agreement between AMR and Agrico since the agreement clearly stated that the software is to remain in escrow with a third party to insure adequate backups.

Agrico is completely dependent on the software developed by AMR which cannot be supported or sustained. If there is a breach of contract then it relives AMR of the responsibility of keeping a copy of the source code in escrow. If AMR goes bankrupt or is unable to deliver the services that are promised Agrico will be worse off than before they implemented AMR's system because of the sunk costs and the legal fees that they will have to pay. This means that making a copy of the code would make both companies worse off and ethically it would be disadvantageous to both companies.

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