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CASE ANALYSIS 13-2

AGRICO

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Overview

Agrico is a farm and ranch management services company founded in 1949 and located in Des Moines, Iowa. The company managed 691,000 acres of land between 350 farms and ranches in the Midwestern United States, and by 1987 the company ranked among the nation's top agricultural management firms with a $500 million portfolio of managed properties. Facing new software and automation needs, Agrico hired AMR to develop a software package to suit their business IT requirements. After a solution was developed, friction arose between the two companies over terms of the contract – specifically, over the source code and whether Agrico should be granted permission to maintain a copy. George Burdelle, Agrico's Vice President of Information Systems, is faced with a dilemma after finding an unattended copy of the source code in his office (Smith).

The Problem

After determining in 1985 that Agrico's current computer system was inadequate, the company decided to contract with a consulting firm to recommend a new solution for their computing and automation needs. Agrico selected AMR's software proposal for their product and reputation, and after negotiating terms, development was underway by 1986. Agrico was to pay one percent of the total $200,000 due as a monthly maintenance fee to AMR, and had already invested about $75,000 into the project. Though it was agreed upon by both parties to place the source code in escrow, allowing a neutral third party to hold the source code, the two companies were unable to settle on an acceptable arrangement for this situation. AMR had delivered the object code within the decided upon timeline, but the system was not yet fully standardized, tested, and accepted by Agrico. The software was supposed to have been delivered to Agrico by October 1986, and the incident with the unattended source code transpired in May 1987 – a significant delay in the agreed upon timeline (Smith).

The Solution

In this ethical conundrum, it is important to weigh the consequences of each action (or inaction). Burdelle had concerns about not being able to come to an agreement with AMR about the best way to escrow the source code, and was concerned that if something disastrous were to happen, that the object code they did possess could not be reproduced, and that future modifications to the software would require an up to date version of the source code in order to avoid conflicts or corruption within system software. However, AMR and their owner A. M. Rogers were adamant that they should maintain the source code, allowing them to protect their asset and continue collecting revenue on the software in maintenance and modification fees. Copying the source code would be in violation of their contract, which specifies that the source code should not be copied without explicit permission from AMR, and to do so would surely result in a lawsuit.

Industry/Competitive Analysis

Agrico's Organization & Strategy

Agrico is one of the country's larger agricultural management firms, servicing more than 350 farms and ranches across the Midwest. Investing in new software is necessary for the business to continue to operate and support its clients. Agrico operates with a functional structure with centralized key operations and four regional offices dedicated to serving its twelve client groups. Management has a hierarchy with leadership in four managers leading its main divisions – Marketing, Finance, Operations, and Regional Office Operations (Cash). Because the services they offer the farms and ranches they manage are difficult to differentiate, Agrico operates with a cost differentiation strategy, and strive to find the best operations and investments to benefit its clients and continued business success. Because of the volatility in the agricultural market and the change in commodity prices throughout the year, the company does not operate with a cost focus strategy (Porter).

Threat of New Entrants

The threat of new entrants in the agricultural management services industry is medium. There are relatively few barriers to entry beyond starting capital, and any new company with a better software system than Agrico may be able to woo their customers assuming there are no long-term service contracts to honor. The right elements could allow a new company to enjoy similar success as Agrico if it were to attract customers away from Agrico and the other top agricultural firms.

Bargaining Power of Buyers

The power customers in the agricultural industry is high. Agrico is in agreement with their customers to manage and protect their assets and to fail to do so would result in loss of clients. A significant loss of clients would lead to Agrico's ruin if they were unable to take on new clients, which may be difficult if there are issues with their reputation or ability to properly support their clients' assets.

Bargaining Power of Suppliers

Bargaining power of suppliers – in this case, the suppliers of the software that Agrico needs in order to move forward with business – is high. There are few other suppliers for the business that Agrico operates, and so if we focus on the leverage that a vendor like AMR has over Agrico, we can see that there is a significant amount of influence in the hands of AMR. Agrico chose AMR between two top contenders for their new software needs, leaving one good alternative that presents its own challenges if Agrico were to change suppliers.

Threat of Substitutes

Threat of substitutes in the agricultural management services industry is low. An independent farm would rely on an agricultural management service company because to invest in their own software and systems to do the same work would require a high amount of capital and additional workers, including knowledge workers to operate and maintain the software. Most farms are likely not in the financial position to take on this expense of time and money, which is why they would have turned to Agrico in the first place.

Competitive Rivalry

Agrico's competitive rivalry is medium to high. Agrico is among the top agricultural management firms in the nation, meaning there are a number of other large companies that offer the same services that Agrico does. If a customer were to switch to a competitor, they may be facing a different system and pricing structure, or possible switching costs that may make it difficult to find a new management service, but the risk of losing a client to a competitor is present. If something were to happen to a client's assets as a result of this ethical decision, there would be a motive for a client to move their business to a competitor.

Stakeholders

Burdelle, Hockenberry & Other Shareholders

George Burdelle, Vice President of Information Systems, Henry Hockenberry, President and CEO of Agrico, and Louise Alvaredo, the systems and programming manager, have been specifically named in this case as stakeholders representing the interests of Agrico. Burdelle's decision would surely have implications for his position within the company, as well as Alvaredo's, and to commit an action that would result in a lawsuit for the company would surely be condemned by other shareholders regardless of the advantage.

Agrico

Agrico will have to face a public relations issue if they choose to copy the source code, regardless if the courts would side with their decision to do so or not. They do have an interest in possessing the source code, as there is a concern that because there was no standard software and the fact that each of the twelve clients utilized a slightly different version of the software, by not having the source code there could be maintenance and corruption issues in the future that would impact their clients and their business. However, ramifications of taking the source code and violating their agreement with AMR could result not only in lawsuit and a tarnished reputation, but they may find themselves at square one again in finding an appropriate software solution if AMR decides to discontinue their business with Agrico.

Agrico Employees

Agrico employees have a pronounced interest in this decision, as the continued success of Agrico means they get to continue employment with the company. The newly hired systems and programming manager, two programmers, and two operators hired certainly would like to come to a consensus about the software as they have invested time and effort to ensure it meets Agrico's needs and surely expect to continue working on maintaining the software for Agrico. A significant change in the current plan for software could potentially result in a significant change for the employee structure of the organization.

Agrico Clients

Customers of Agrico may be facing a decision to stay with Agrico as their management service supplier in the face of a lawsuit. Some farmers may not be concerned with an ethical violation as long as they continue receiving adequate support from Agrico and their operations are not impacted, but reputation may be important to other clients that may have qualms about working with a company that had knowingly violated a written agreement.

AMR & Rogers

AMR and their owner A.M. Rogers have a stake in this decision, as they are in a written contract with Agrico and the copying of the software would violate their agreement. They are also under contract to not receive a majority of the money owed for the project until Agrico is satisfied with the deployment of the software, so they have a vested interest in getting this situation wrapped up so that they can collect on payment.

Jane Seymour

Whether or not Jane had set up the situation to "look the other way" leaving the source code on the computer while she left for several hours, Jane could be facing some real problems. AMR surely wouldn't be pleased that she had created such a situation if they were to find out. And if Agrico does copy the source code, Jane's job could be in jeopardy.

Potential Solutions

Do Not Copy the Source Code

Agrico could easily not copy the source code. Burdelle can make the decision to return the source code to Seymour uncompromised, and the company would not find themselves in any less advantageous of a position than they were before the May predicament. Having to come to a consensus between two parties in a contract is a cost of doing business, and just because a situation presents itself that allows a company to make a business decision that advances their own agenda and disadvantages their partner in an agreement does not mean the company making the decision has to compromise their ethics simply because the opportunity arose.

Take the Source Code

Agrico has an interest in possessing the source code, even though their written agreement states that Agrico may not have a copy of the software without AMR's explicit permission. Although Agrico's attorney was quoted as believing that they would potentially win a lawsuit brought against them because of how inflexible AMR had been in working with Agrico and their needs for the software, the lawsuit would bring bad publicity and tarnish the reputation of

Agrico. Software vendors may be hesitant to work with Agrico in the future because of unscrupulous acts. This does not boil down to whether they would win a lawsuit or not, but whether the negative effects of an unethical decision would significantly impact the business.

Renegotiate the Contract

Agrico could approach AMR about renegotiating their contract. If they choose not to copy the source code, they could potentially use this as a good faith gesture in order to gain some trust from Rogers (although, this may result in Jane Seymour getting into trouble by creating the situation). There surely must be legal protections that AMR can invoke in order to protect their source code regardless of who is in possession of it if it is for the betterment of the operation of the system. Both companies agreed to put the source code in escrow, and so they must come to an agreement that is acceptable for each party, meaning AMR may need to make some concessions in order to continue doing business with Agrico. That being said, Agrico must realize that no software is going to be "perfect" through the first iteration, and must understand that installing new software is a process and they may need to adjust their expectations slightly in order to accommodate a covenant. The Agrico technical team that worked with AMR from October to January could be used in a way that allows them to have confidential access to the source code, but allow AMR to continue to maintain and modify the code as needed in order to secure future revenue. The ambiguity in their contract should be reasonably eliminated in order to come to a consensus.

Scrap the AMR Project and Move On

Although there have been significant sunk costs in this project, it is still an option to move on and find another vendor to supply their new software. Burdelle has entertained this idea, but realized there were not a number of other reasonable solutions. Making the switch to the other vendor would require a change in hardware, meaning additional expense. If the decision to move on to another vendor is to be made, it must be made swiftly as a significant amount of time had already been invested in this project, and time was running out on their legacy software agreement, set to expire in September 1987.

Selected Option: Do Not Copy the Source Code & Approach AMR about Renegotiating the Contract

I would strongly advise Agrico to not copy the source code. To do so would be a huge violation of trust between Agrico and AMR, and depending on the result of a foreseeable lawsuit, Agrico may find themselves beginning at square one in regards to finding a solution for their software needs if AMR decides to discontinue doing business with Agrico due to this violation. Burdelle has stated that he has been honest up to this point with Rogers, and though the two have had disagreements and have undoubtedly gotten on each other's nerves about the stipulations of the contract, the escrow, and the state of the software, I don't believe there is a level of unreasonableness reached amid the two that would justify jeopardizing the relationship between the two companies and in turn Agrico's clients and assets.

Agrico should surely approach AMR about renegotiating their agreements if they are to work together in the future. I do believe it would be worthwhile to attempt to continue to negotiate with AMR, but for this to work, Rogers will surely have to release a little control in order to keep the client. While Agrico may also need to adjust their expectations, it would be wise to eliminate or at least mitigate ambiguity within the written contract between the two companies, especially if they are to continue to work together to maintain the software after full deployment.

Rejected: Take the Source Code

I believe that taking the source code – even in secret – would eventually backfire and severely damage the reputation of Agrico. This could result in them having issues finding software companies to work with in the future, or other vendors if their needs change in the future. Customers of Agrico may have negative feelings about working with an unscrupulous company if they get taken to court by AMR over the source code. The company would be knowingly taking on legal fees and possibly a settlement on top of the costs already spent to develop the software, which I don't believe is a justified expenditure. Despite the headache they have had in negotiating terms with AMR about the source code, deception is not the solution here.

Rejected: Scrap & Move On

Regardless of the sunk costs on this project, Agrico chose AMR for this project for a reason, and honoring their agreement would be the best way forward. I believe cutting their losses and moving on to a different vendor would significantly impact their operations as they are nearing the end of their current software contract and must have a new system in place by September 1987. Other than the conflicts in the specifics of the agreement, Agrico was pleased with the functionality of the software from AMR, and so there must be a way to agree on terms and move forward with deployment.

Resources

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