Agrico

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Introduction

Agrico, Inc., founded in 1949 by two farmers in Des Moines, Iowa, is a provider of farm and ranch management services. They provide 691,000 acres of land in the Midwest of the United States with a market value of approximately $500 million by 1987. The company is in a transitional year for the implementation of their new computer system that will manage their portfolio and meet their functional requirements. Agrico signed an agreement with AMR, a provider of farm and ranch portfolio management software. The agreement requires AMR to maintain the software in escrow with a third party to ensure their services are adequate.

Problem Statement

On July 10, 1986 George Burdelle, Vice President of Information Systems at Agrico, helped create and sign into effect a contractual agreement between Agrico and AMR. The agreement states AMR will provide software that meets the needs of Agrico and AMR is required to make modifications to the software package to continue to satisfy Agrico's requirements. The $200,000 software package included modifications and adjustments to the software, the most recent version of object code for their software, viewing access to the source code for testing. The problem arises when a software engineer, Jane Seymour, accidentally left the source code on an Agrico computer and in the possession of Burdelle and Louise Alvaredo, a programming manager. Louise questions if she should copy the source code to a tape and ship it to their off-site storage facility, though the contract states the source code cannot be copied, duplicated, or removed from Agrico's premises. Though AMR did allow viewing of the source code for both parties, Burdelle and Alvaredo contemplated breaching the contract by copying then storing the source code because of conflict with AMR's procedures to backup and protect the proprietary software in-case of a disaster or loss of service. Burdelle discussed the of lack of service, backup recovery planning, and testing of their software with Agrico's attorney. They felt if they were to take the source code from the computer a judge in court would side with Agrico because AMR failed have an escrow agreement that is acceptable for both companies, since the source code was stored in Omaha, the same city AMR is located, and not with a third party. The attorney also states the judge will favor Agrico because AMR had unsatisfactory responses to their concerns. AMR and their founder Rogers did not trust Agrico or a third part with their source code and feared of it being stolen. "In an ideal situation, the information-disclosure expectations of managers, employees, and customers are aligned. In practice, they often are not" (Cash). The conflict creates an ethical dilemma for Burdelle and Alvaredo for whether copying and storing the source code on their own would be worth the violation of their contract agreement and if they were to get caught, who would Agrico win in court.

Industry Competitive Analysis

Mission Statement

Agrico's mission was to provide cost effective farm and ranch management service for 691,000 acres of land. Agrico ranked as one of the largest agricultural management firms and had four regional offices and provided services for more than 350 farms and ranches. In 1987 they provided farms and ranches for 170 clients and 691,000 acres of land in several states.

Generic Strategy

Agrico's farm and ranch management services had a cost-leadership strategy for their three different arrangements. Agrico would sell every acre of land they have to provide every year and were also able to sell crops provided by their tenants for certain lease agreements. The first is a crop-share lease arrangement which allows tenant farmers to use the land managed by Agrico for a portion of their harvested crops each year to be sold to commodity markets. The second was a cash-rent lease which the land managed by Agrico is used in exchanged for cash payments. The third is land that was managed directly by Agrico. In their portfolio the cash-rent leases made up 51 percent, the crop-share leases were 47 percent, and land managed by Agrico made up 2 percent. The market value of their portfolio was $500 million by 1987 making them one of the largest agricultural management firms.

Porter's Five Forces

Agrico's business strategy is easy to imitate but the commodity market of the farming and ranch industries allows for them to lease every acre of land to their tenants. There is a high demand for farmland to grow crops because the buyers need to expand their businesses and secure a space that meets their projected harvest size. Agrico is able to be a cost leadership supplier as the market sets the price and the demand will only increase.

The **bargaining power of suppliers** for Agrico is low because they supply their own land and services for their customers. However, for their suppliers of computer systems the bargaining is high because AMR is practically the only systems provider that could meet the complicated software requirements of their rent lease agreements. The **bargaining power of the buyers** are low because the farm and ranch tenants do not own the land. Therefore, Agrico has ownership of their buyer's necessary source of revenue for them to pay for the land itself in either cash or in crops. The price of the land is also set by the market for the sale of commodities, so the buyers don't have an option to negotiate the price. The **threat of new entrants** is low because the land and business model of Agrico is simple for farmers to imitate but the demand for land is much higher than the supply of land. Agrico will not struggle to sell their 691,000 acres of land across the nation regardless of competition. The **threat of substitutes** is low because in the farm and ranch industry to farmers either supply their own farmland or lease from a company like Agrico. It is virtually impossible to create a substitute to land properties and they will continue to have crop-share and cash tenants at the same revenue until they increase the number of acres they offer. Agrico's **industry competitive rivalry** is also low because they currently rank as one of the largest agricultural management firms in the nation and will likely not lose value unless a disaster were to happen to their properties. They will likely expand buy more land increasing the market value of their properties.

Stakeholders

The stakeholders of the implementation of new computer system include Agrico executive, management, employees, clients, and outside consultants. AMR founder Rogers and all his employees are stakeholders in the project also. The contract agreement between Agrico and AMR explicitly states that all Agrico and AMR employees are not to disclose any information about the code or documents of the proprietary software. Burdelle and Alvaredo are two stakeholders that could jeopardize the contract agreement for all other stakeholders if they were to copy and store the source code without AMR's permission. If the two companies were to go to court, it would be bad press for Agrico to have news about theft and breach of contract.

Ethical Dilemma

Agrico's Dilemma

On May 27, 1987 Seymour leaves the source code to AMR's proprietary software on an Agrico computer. Alvaredo made the discovery that Seymour has left the source code on the computer instead of the usually provided object binary code. Burdelle and Alvaredo want to seize the opportunity to backup and store the source code to tapes of their own since AMR does not want Agrico to own and potentially steal the code. Agrico has a reason to need the code to make proper modifications if they were to lose the service of AMR or a disaster loss of data and code. They are faced with a short amount of time until Seymour returns to either make a copy of the code, which is a breach of the contract, or to find an alternative way to acquire the source code. The two companies were unable to reach an acceptable arrangement so the two discuss the issue with Agrico's lawyer that wrote the contract agreement.

AMR's Breach of Contract

While Burdelle and Alvaredo are discussing an unethical business decision with their lawyer, the attorney mentions Agrico could not have a copy of the software without AMR's written permission. He also says the escrow agreement must be acceptable to both AMR and Agrico, meaning if AMR's service is considered unacceptable then they would be obligated to make adjusted in the service according to the contract. "Bringing a company closer to its goal. Every action that brings a company closer to its goal is productive." (Goldratt). AMR did not provide the necessary requirements of the system stated in the contract, working against Agrico's goal to increase productivity. In fact, AMR and the founder Roger breached the contract in the attempt to secure the source code in a bank vault. First, the contract states AMR shall place a copy of the source code for programs in escrow of a third party agree upon by both companies. Instead, Roger store a copy of the source code for backup in his personal bank's vault in Omaha, Nebraska. Data and intellectual property owners are careful with their information as "they want to choose who will have access to personal information and for how long such information can be retained" (Cash) to prevent exploitation. Agrico wanted there to be an independent third party to ensure the latest version of the software was available in an off-site facility. The second breach of contract made with Roger stored the tapes in Omaha was he refused to provide Agrico with the source code for independent verification that the escrow copy was the source code that generated the object code. The contract states that Agrico reserves the right to test the escrow disk pack at AMR's office to verify it is an exact copy of the current version of the software provided.

This information is in a direct violation of the escrow of source code specified in the contract agreement made between Agrico and AMR. As a result of the escrow violation, the contract states upon Agrico's reasonable belief that AMR is unable to provide adequate maintenance, marketing, and support Agrico can send a demand for the source code to AMR's address and the custodian will deliver the source code and all technical documentation to Agrico. It is evident in the contract that AMR has not followed the agreement and Agrico is responsible for taking the next step to acquire the source code they were contemplating breaching contract to have.

Alternate Decisions

1. Do Nothing

If Agrico were to do nothing and choose not to acquire the code, they will avoid the consequences of breaching the contract and continue their current relationship with AMR. Rogers will likely continue to store the escrow code at a personal bank in Omaha, Nebraska while not trusting Agrico to be included to the backup and restore planning. Regardless in the event of AMR liquidating, becoming bankrupt, or failing to provide maintenance, AMR must deliver the source code to be owned by Agrico. If the two companies are to continue working together, they must come to an overall agreement to withstand difficult situations. "Organizations, like organisms, are "open" to their environment and must achieve an appropriate relation with that environment if they are to survive" (Morgan).

2. Copy and Store the Code Without AMR's Permission

If Agrico employees were to backup, copy, and store the source code at their own facility they will be in violation of the contract. Agrico's attorney says even if they were to acquire the code without the AMR's permission, a judge in court would favor Agrico because the conditions of the agreement were not satisfactory to Agrico's requirements. The contract also states AMR must make modification in accordance to the warranties made in the contract for free. Agrico should attempt to make improvements with AMR before resorting to doing it individually. "What is the real goal? Nobody here has even asked anything that basic." (Goldratt). Again, if the contract were to be breached, AMR will have to deliver the source code to them anyway, which is the main concern.

3. Demand the Source Code in Violation of the Contract Agreement

Rogers and AMR have violated the contract agreement for the escrow of the source code and Agrico should hold them accountable for not having a third party in escrow to own the backup copy. AMR failed to create an agreement that is acceptable to both AMR and Agrico, leaving Agrico unsatisfied with the terms of their relationship. AMR could argue they have provided with the proper object code but there is no ability for Agrico to individual test and verify if it is the original code that has been implemented into their company. This could bring another legal battle that may bring unnecessary press but could also to be a win-win situation for Agrico.

Recommendation

It is recommended that Agrico demands the source code from AMR for their violation and breach of their agreed upon contract. AMR has refused proper backing up and storage under in escrow of a third party which warrants the source code to be turned over to Agrico's possession. Agrico has Reasonable doubt that AMR is failing to provide maintenance of the software and according to the contract, a demand must be sent to AMR at their current address for needs. Then, the source code source code and all technical documents will be sent to Agrico. If they chose to not act, Agrico would continue to have poor testing and disaster recovery systems. The proprietary software will rightfully be owned by AMR and they will continue to violate the source code in escrow agreement. Taking the source code from the computer, copying it to a tape then storing it themselves without permission is the least effective decision. A sensible quote the *The Goal* states, "Incidentally, common sense is not so common and is the highest praise we give to a chain of logical conclusions" (Goldratt). Agrico will likely have evidence against them and violate the contract and likely never own the source code upon separation with AMR. If they act safely and by the rules, Agrico will reach their goal to rightfully obtain the source code.

Works Cited

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