"To Be, or Not To Be"
The Question of Runaway Projects

By Deepak Sarup, FCA, CISA

*"Whether 'tis nobler in the mind to suffer
The slings and arrows of outrageous fortune,
Or to take arms against a sea of troubles,
And by opposing end them?"*
—Hamlet, William Shakespeare

The sad fact is that some projects will fail; they always have and probably always will. New IT-related projects appear to have an even higher propensity for failure, and despite an increasing maturity level, will probably continue to do so. Consider the area of customer relationship management (CRM) software implementation. A highly complex CRM implementation can cost more than US $100 million and take three years to complete. Yet, less than a third of the managers in a recent survey rated these projects as being successful in terms of meeting, even partially, their business objectives.[1]

The focus of this article, however, is not on failed projects per se, but on why failed projects—particularly IT-related projects—are so hard to kill. Time and time again, bad projects continue to survive or even thrive well past their logical termination date, consuming scarce investment and resources.

Illustration #1: Consider the case of a life assurance company operating in Southeast Asia. After an extensive global search, it selected a new, state-of-the-art packaged software solution for originating and administer all its assurance products. The new solution was far from proven, yet the executive-level selection committee was reassured by the commitment of the preferred systems integrator and its stated desire to adopt the solution as a de facto *standard for its growing implementation practice. The first warning signs emerged at the scope definition phase when it was obvious that the level of fit was much less than even the most pessimistic estimates. Yet, both parties agreed to continue with the develop and build phase. The next warning emerged when the develop and build phase took three times as long as expected, even allowing for the reduction in functions and features over time. Yet, both parties decided to ignore these signs in the hope that the new solution would give rise to significant competitive advantage. The critical warnings emerged during the systems integration test when it was apparent that the underlying architecture would not support the distribution model in a cost-efficient manner. By this point, the project had assumed a life of its own and no one appeared able to step up to the plate and kill it. The project continued in this sham existence for another year*

or so during the user-acceptance testing phase, when payment disputes eventually led to its suspension. From a post mortem *analysis, it was obvious to an outsider that the project should have been killed in its first year. Yet, it lasted nearly five years— a classic case of a runaway project. Indeed, the project gained momentum over time—despite being doomed at a very early point, mainly due to the seductive appeal of the "to be" state.*

Illustration #2: Consider another case, this time in the public sector of a major, developed country. At the point the project was initiated, new image processing technologies were in vogue. A major, global IT vendor proposed the conversion of all public records to this new format, thereby to enhance the quality and range of public services within this important government department. The seductive appeal was that the new system represented a world first in this type of service. The project was scheduled to commence production, on a limited scale, in a year or so, to secure early wins and showcase the new technology. Four years later, after two failed acceptance tests along the way, the project was finally terminated as the central budget office denied additional funding. It was a unique project and, alas, the "to be" state will remain unique for some time! It could, however, have been terminated in its first year— saving many millions for the taxpayer.

Runaway projects such as those illustrated above are characterized by situations in which projects have escaped from the control of management. Typically, a runaway project is large, complex, well behind its original schedule, considerably over budget, and with only a scant hope of being brought to a successful conclusion. With 20/20 hindsight, the symptoms of a runaway project are obvious but, in many instances, management and the project team remain oblivious at the time or, worse, take no action despite recognizing some of the symptoms.

Causes of Runaway Projects

The underlying causes of project failure are not new and should be familiar to most. Major causes of project failure include one or more of the following:
• The business objectives were unrealistic.
• The project scope was not well defined or agreed to.
• The underlying technologies were not mature enough.
• Effective project management practices were not followed.
• Adequate effort was not made to realize benefits from the project.

• Appropriate resources were not available or assigned to the project.

While this is by no means a complete list, it is demonstrative of the fact that the root causes of failure may be different, may emerge at different times in the project life cycle and, at times, may be hard to detect other than through monitoring delays and cost overruns.

Given that a project has failed, why does it continue on as if nothing has happened? Professor Isabelle Rodgers of the University of Paris offers an explanation based on the "seductive appeal of collective belief."[2] In her view, companies have the power "of a very human impulse: the desire to believe in something—in these situations, the projects' ultimate success." In her view, "collective belief arises because individual belief (of the project champion) is contagious, particularly when it reinforces other perceptions and desires. When this is the case, the belief can spread easily among the various decision-makers who control a project's fate." This condition may be particularly true of CRM projects.

Illustration #3: A large financial institution decided to replace its outdated branch delivery platform with a new CRM solution. The IT component of the new solution was tough but achievable and remained the focus of the implementation. The business and cultural aspects of the solution were even more difficult to achieve but were largely ignored. The solution, despite delays, was given the green signal for a rollout to the branches. Only then did it become obvious that the project had, in essence, failed; as it was not being used properly, it was a hindrance to the normal operations of the branch when it was used as intended. The project was terminated and several years of investment and effort lay to waste. In hindsight, it was obvious that the ardent support of the business champion had obscured the transformational shift in the sales culture that needed to be in place for the project to succeed. Given that the organization was not ready for this transformational shift, the project should have been terminated early in the design phase.

Management consultant Jimmy Gauterman suggests another reason that may cause a runaway project. He claims that an insidious psychological bias leads to a sunk-cost trap, where the managers chase after sunk costs and make incremental investments that are no longer recoverable.[3] Professor Max Bazerman of the Harvard Business School likens this irrational escalation to standing at a bus stop hour after hour. At some point, it becomes obvious that the bus is not coming.

Illustration #4: A major supplier of IT solutions embarked on a new generation system that was to replace its legacy systems with a state-of-the-art, web-enabled solution. It was championed within the company as a future category killer. Several years later and grossly over the approved development budget, it was obvious that there were no takers for this embryonic solution despite an effective sales pitch and its inherent technical sophistication. Yet, the executive managers were loath to kill the project, influenced in no small measure by the substantial investment in the project. So the project continued to thrive long after its rational "expiry" date and was a classic case of throwing good money after bad.

Other significant factors that encourage decision makers to get locked into losing courses of action include:[4]
• The perception that the project setbacks are temporary or transient
• The innate reluctance of managers to accept failure as an acceptable outcome to either themselves or, more importantly, to others within the organization
• Old-fashioned administrative inertia

Not all of the above factors apply to every runaway project and not all are of equal importance. They do, however, explain in some part why projects continue beyond their rational point of termination.

Avoiding Runaway Projects

There is no simple solution to fix a problem that confronts many organizations and consumes a lot of unnecessary time and expenditure. A few useful tips are provided below to ensure that one does not escalate a company's commitment to a project beyond a reasonable point:
• Establish an early warning system[5]—Professor Rodgers recommends that, from the start, no matter how exciting or important a project, a company needs to make sure that its control procedures and criteria for evaluating project viability at each stage of development are truly working, clearly defined, rigorous and actually met. In applying these control procedures, one must learn to disregard sunk costs and decisions that led to them as no more than context. The more critical dimension is to evaluate the cost and benefits of going forward and escalating the commitment level. This approach will avoid endless rounds of rationalizing earlier decisions.
• Recognize the role of the exit champion[6]—Professor Rodgers suggests that the role and importance of the project champion need to be balanced by an equally determined and astute exit champion. An exit champion can provide an alternate view of reality based on the same data and may well end up saving a company many millions. While it may not be easy to find people who are willing to take on a negative role in a project, it is a role that can and should be nurtured by executive management.
• Focus on the quality of the decison rather than the quality of the outcome[7]—Most executives and managers are evaluated on project outcome and not on the quality of their decision-making. Consequently, as Harvard Business School professor Howard Raiffa states, managers worry more about the project's outcome than about the quality of their decision to continue the project.[8] In fact, the lower risk option from a personal perspective will always be to maintain the *status quo* because there remains, however faint, a glimmer of hope that the project will get back to normal. Therefore, the basis of performance evaluations of managers needs to incorporate looking at outcomes and the quality of decision-making. No one should be penalized for not being able to see the future.
• Schedule regular, independent reviews of every major project—Typically, an organization, and certainly the project team, may get so caught up in supporting a project that it might consider its successful conclusion a given. A way to minimize the risk of organizational overconfidence is to institute a regular review from an independent and competent third party—with a

report directed to executive management. Ideally, the review should be at the end of each major milestone and provide a perspective on the continued viability of the project. It is not unreasonable to combine these reviews with the regular quality assurance reviews that most organizations undertake for major projects.

• Provide for fail-safe options—Another tried and tested technique to avoid escalating commitment is to segment the project into small achievable components with a phased implementation. As each component gets implemented, the cost and benefit of continuation can be more objectively estimated and evaluated. It also avoids the risks inherent in overengineered solutions.

The investment guru Warren Buffet is on record as saying, "When you find yourself in a hole, the best thing you can do is stop digging." The key to avoiding runaway projects is to know when to put down the shovel. Unlike the Prince of Denmark, the "not to be" option may well be the better alternative for some projects and the sooner one makes that call the better.

Author's Note:

It may appear to be implicit from this account that all runaway projects are failed projects. While this is true in most instances, there are occasions when runaway projects can be successfully salvaged. For instance, in some cases a significant reduction in scope or improvement in the resource levels, or the use of better project management techniques, may be able to remedy the situation. However, these fixes must be used with caution, as they could easily become the basis of rationalizing an otherwise hopeless situation.

References

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