
THE  TIMES

Business

'Black swans' fly out of control; Growing threat from high-cost, hi-tech projects

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491 words
22 August 2011
The Times
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English
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Big IT projects are spiralling out of control, costing shareholders and taxpayers billions of pounds, according to new research.

A study of about 1,500 projects by Oxford University and McKinsey & Co, the management consultants, found that one in six grew so wildly out of hand that they threatened to sink the companies that commissioned them.

These so-called "black swans" were so disastrous that, on average, they ran 200 per cent over budget and 70 per cent over schedule, the researchers found.

They said that the average cost overrun for all the IT projects was 27 per cent, but it was the outlying cases with the biggest budget blowouts that accounted for most of the losses.

Bent **Flyvbjerg**, of Oxford's Said Business School, who led the study, said: "We were shocked when the data came in. IT projects are now so big and touch so many aspects of business, government and citizens' lives that this poses a singular new challenge for top managers."

In a paper published today in the Harvard Business Review, the researchers said that the percentage of problem projects was 20 times higher than they expected to find.

The IT sector was three times more likely to have schemes spiralling out of control than building and construction companies delivering large infrastructure programmes, they said.

They looked at publicly funded and private sector ventures and found that, although government IT disasters received more publicity, private companies were just as likely to be affected.

Runaway projects can result in huge losses for investors in excess spending and destroyed benefits. They have also ended careers.

The study highlights the example of Auto Windscreens, which was the second-largest car glass company in the UK in 2006 with sales of £63 million and 1,100 employees.

Unsatisfied with its financial IT system, the company changed its software. By the end of last year, it had been forced into bankruptcy by a combination of falling sales, problems managing its inventory and overspending on the IT project.

Another example was at Airbus, where IT problems led to lengthy delays in the introduction of its A380 aircraft, causing its shares to plummet and prompting several senior figures to resign.

Professor **Flyvbjerg** said that the projects that failed most spectacularly usually did so because they were too big and complex, often involving the development of new technology from scratch.

Companies should be careful to break transformation projects into smaller modules lasting no more than 30 months at a time to keep risks under control, he added.

Jürgen Laartz, a director at Mc-Kinsey & Co, said: "The results are a wake-up call for top managers considering significant IT projects. Our experience shows that IT projects are often not managed in the right way."

Problems with IT led to the delay of the Airbus A380

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