



TECHNOLOGY

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'Black swans' busting IT budgets

One in six big IT projects go over-budget by an average of 200%, according to new research.

The study by Oxford University and McKinsey also found that spending on technology was three times more likely to spiral out of control than construction or other major projects.

Researchers said that rare but high-impact problems, dubbed "black swans", were often to blame.

They can lead to cost over-runs capable of bankrupting vulnerable firms.

The study analysed 1471 large-scale global IT projects costing more than \$170m.

It found that while most projects ran less than 30% over budget, a sixth ended up costing on average three times as much.

The study also raised concerns about the adequacy of traditional risk-modelling systems to cope with IT projects, with large-scale computer spending found to be 20 times more likely to spiral out of control than expected.

Swan blindness

Researchers put this down to "black swan blindness" - a tendency for IT decision-makers to ignore low probability but high-impact risks to project plans.

"Black swans are negative events that hit you rarely, but when they hit you, they do it with a large impact," said Professor Bent Flyvbjerg of Oxford University.

"IT managers tend not to see these black swans, because they assume that they're rare, and will probably happen to somebody else. They are wrong. They happen much more often than people think."

The professor cited UK firm Auto Windscreens as an example of a project that had spun out of control, with catastrophic results for the business.

"It was the second largest windscreen repairer in the country. They tried to implement a new IT system, but it misfired - creating huge problems," he said.

Auto Windscreens went into administration in February.

"Black swans often start as purely software issues. But then several things can happen at the same time - economic downturn, financial difficulties - which compound the risk," explained Prof Flyvbjerg.

Until now, large-scale software failures have been most associated with the public sector. In 2007, a European Services Strategies Unit report identified 105 UK public sector contracts with substantial cost overruns.

However, Professor Flyvbjerg believes these problems apply equally to private firms.

"People always thought that the public sector was doing worse in IT than private companies - our findings suggest they're just

as bad.

"We think government IT contracts get more attention, whereas the private sector can hide its details," he said.

Professor Flyvbjerg and his team are now looking to develop tools that help IT managers avoid out-of-control projects.

"Managers are very likely to run into black swans. They need to be able to identify them and prevent them."

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