Identifying and Rescuing Seriously Troubled Projects

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Agenda

- Why Project Failures Matter
- Project Escalation
- Project De-escalation
- Pitfalls Associated with Status Reporting

A Project Manager or Auditor's Worst Nightmare: <u>Waking Up to One of these Headlines</u>

Dutch government IT projects run €1bn over budget

Dutch government IT projects are costing much more money and taking far longer than expected

U.S. Air Force pulls plug on ERP project after blowing through $1 billion

Bad Decisions, Mismanagement Led to 'High Risk of Failure' for Obamacare Website, Study Finds

California courts throw huge software project on scrap heap

Manufacturer sues IBM over SAP project 'disaster'

Why Project Failures Matter

- They occur frequently
- They are costly
- They can disrupt business
- They can alienate customers
- In extreme cases, they can lead to bankruptcy

Market Impact of IT Failures

- On average firms lose about a half a billion dollars in market value over a two day period when they experience an IT failure

- In extreme cases IT failures have led to bankruptcy

Major Causes of IT Project Failures

- Decision errors that cause behavioral entrapment
  - leading managers to remain committed to failing courses of action

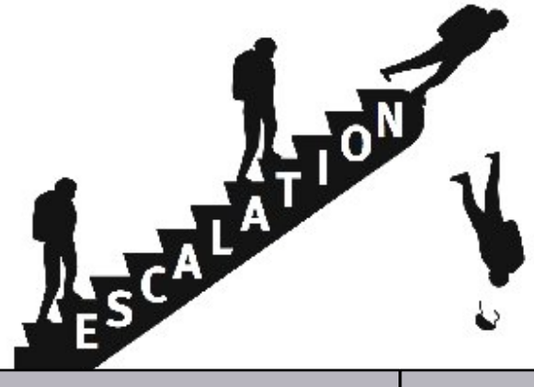
Our focus today

- Communication problems
  - leading to inaccurate status reporting and reluctance to report bad news, as well as unwillingness to hear bad news
- Poor risk management
  - leading to over-optimism and no contingency plans

The Essence of Escalation

Some projects never seem to terminate . . . "they become like Moses, condemned to wander till the end of their days without seeing the promised land."

(Keider, 1974)



There is Even a Dilbert Cartoon for This!

Areas Where You Need to be Concerned About Escalation

- Escalation to a failing project

Our focus today

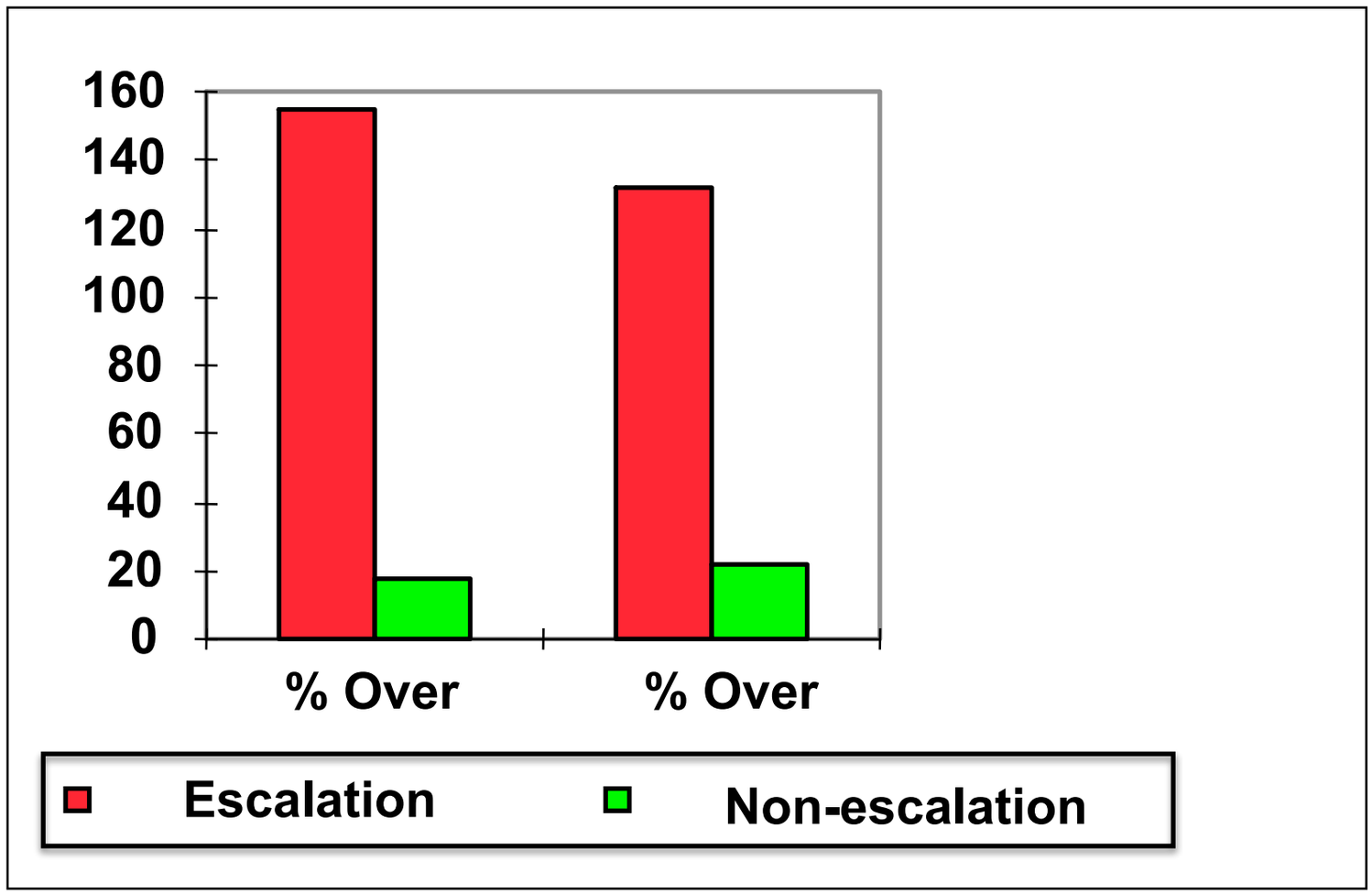
- Escalation to a particular launch or go-live date
- Escalation to a legacy system or outdated IT architecture

The Concept of Escalation

- Several different types of factors can contribute to escalation
  - Project factors
  - Psychological factors
  - Social factors
  - Organizational factors

Frequency & Severity of IT Project Escalation

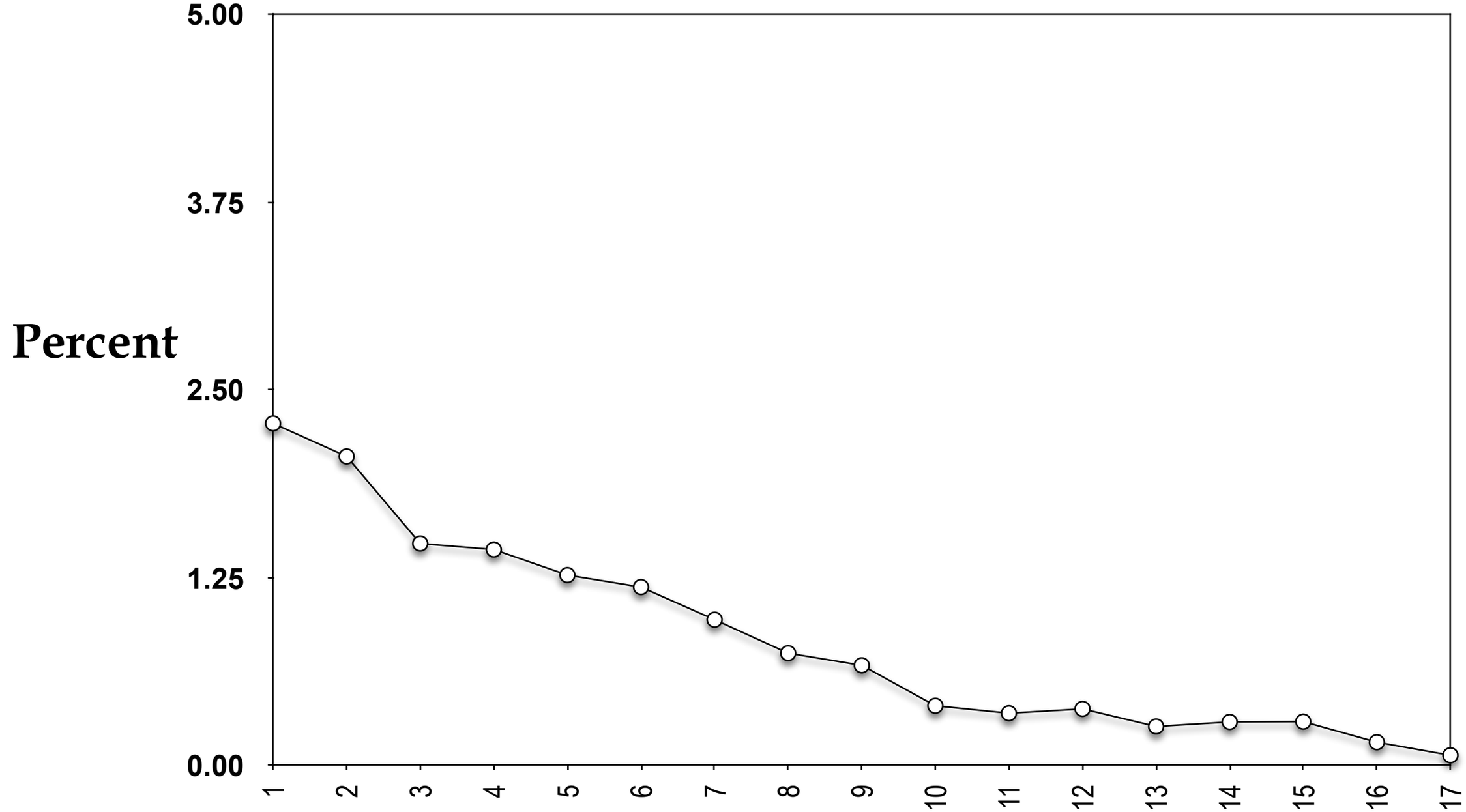
- 30-40% of all IT projects exhibit escalation
- Half of these projects escalate for a year or more
- These projects go way over budget and schedule



The CONFIG Project: A Case Study of Escalation

- CompuSys developed an AI-based system to help its sales reps configure computer hardware
- Despite substantial user involvement, the system failed to gain acceptance for two reasons:
  - Developers had a poor understanding of the sales process and built CONFIG as a standalone system instead of tightly integrating it with the company's price quotation system
  - Sales reps had no incentive to use the system
- Finally, after millions of dollars and more than a decade of effort, the project was terminated.

CONFIG Usage Over Time as a Percent of System Quotations



How Did This Happen?

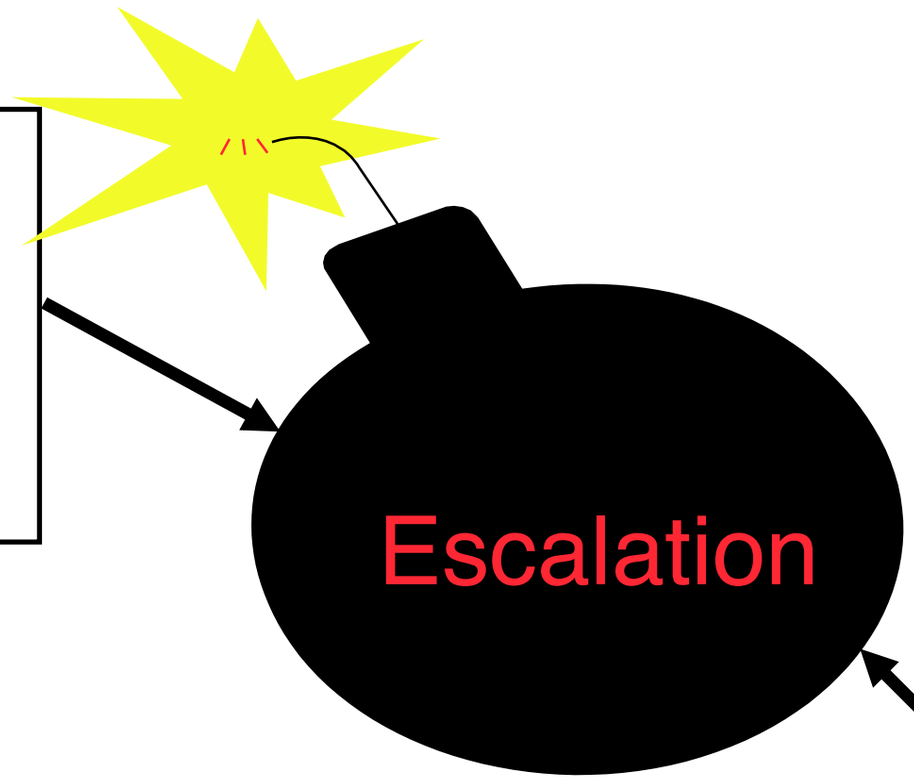
- They treated the project as an R&D investment
- Denial of negative information
- Emotional attachment
- Rivalry between sales and manufacturing
- Empire building
- Company culture that promotes escalation
- Loose management controls

Key Takeaway: Improving Project Management Practices Alone is not Enough

Project Management Factors

e.g., project monitoring & control

can cause escalation



Decision errors resulting from emotional attachment, sunk costs, desire to save face, etc.

can also cause escalation!

The Escalation Process

PROJECT SETUP

PHASE 1: DRIFTING

Ambiguity concerning project charter — Conflicts about project goal and direction

Problem Emergence

PHASE 2: TREATING SYMPTOMS

Problems seen as isolated Incidents — Remedies do not target root causes

Increased Problem Visibility

PHASE 3: RATIONALIZING CONTINUATION

Experts explain away past troubles — Alternatives depicted as more problematic

Imminent Threat to Project Continuation

PROJECT TERMINATION OR TURNAROUND

The California DMV Case

- California DMV's Database Redevelopment Project aimed to replace a legacy system that was inflexible and hard to maintain
- Seen as necessary and important, the project was initially estimated to cost $29 million

Phase 1: Drift

- Project is initiated without any real management involvement
- Mission critical business needs of DMV are not addressed
- Acquisition of new computer hardware and new database software begins anyway
- The project begins to drift

Stage 2: Treating Symptoms

- Fifteen months into the project, performance problems and issues with system architecture surface
- Despite the negative feedback DMV presses on with the project
- At best they are treating symptoms, not causes of the underlying problems

Stage 3: Rationalized Continuation

- Employees voice doubts about the viability of the project to DMV director Frank Zolin
- The data center director tells him that the project is "a turkey"
- Zolin rationalized continuation: "we had already committed 35 or 40 million into the project . . . I probably wasted 6 to 12 million tax dollars trying to save that first investment."

Is Your Project Drifting?

1. The project has been going on for some time without consensus among key stakeholders regarding the objective(s) of the project.
2. The project has been going on for some time without agreement regarding ***how*** best to achieve the project objective(s).
3. Although considerable time and money has already been spent on the project, there appear to be few, if any, deliverables to date.
4. Work continues on the project in spite of a vague or ambiguous project charter.
5. Conflicts regarding the goals and direction of the project remain unresolved.

Are You Tackling Underlying Causes of Problems or Just Symptoms?

1. Project-related problems are being addressed in a superficial way.
2. As soon as one problem is addressed another one emerges.
3. Each problem that occurs is described as isolated from other problems and is treated independently.
4. Actions taken to solve problems constitute minor adjustments or "quick fixes."
5. Problems are seen as being addressable without any need to review or reconsider the current project goals or direction.

Are You Rationalizing Continuation?

1. Proponents of the project keep coming up with new reasons for why the project must be completed.
2. Experts have been enlisted to "evaluate" the project but may be motivated to advocate for continuing the project.
3. A growing number of people outside the project are now raising doubts about the wisdom of continuing the project.
4. As projected expenditures rise, experts portray alternative solutions and project abandonment as even more costly or problematic.
5. Despite growing recognition that the project is in deeply troubled, people fool themselves into thinking that pressing ahead will eventually lead to success.

Stop Drifting

- Freeze the project or reduce headcount (at least temporarily)
- Get a small, good team to reassess and re-plan
- Make a clear go/no-go decision

Stop Treating Symptoms

- Break the habit of solving problems by throwing money at them
- Stop trying to fix the project one symptom at a time; this is futile
- Put your best people on the project and resolve the root causes

Stop Rationalizing Continuation

- Be suspicious toward new rationales for why the project 'must' continue
- Bring in outside experts to review the project
- Create transparency and visibility for a broader set of stakeholders
- Conduct hearings on the project's future

Other Actions that can Help Bring About De-Escalation

- Make problems visible beyond the project team
- Define and publicly state limits beyond which a project will cease to receive funding
- Clearly define and publicly state success criteria
- Make sure the person responsible for project evaluation doesn't have a vested interest in continuing the project

The Four Phases of the De-Escalation Process

Phase 1	*Phase 2*	*Phase 3*	*Phase 4*
TRUE PROBLEM RECOGNITION	**RE-EXAMINATION OF PRIOR COURSE OF ACTION**	**SEARCH FOR ALTERNATIVE COURSE OF ACTION**	**IMPLEMENTING AN EXIT STRATEGY**
Within-phase De-escalation Catalysts:	*Within-phase De-escalation Catalysts:*	*Within-phase De-escalation Catalysts:*	*Within-phase De-escalation Catalysts:*
Recognize negative feedback **Respond to external pressure**	**Clarify the magnitude of the problem** **Redefine the problem**	**Identify & legitimize an alternative course of action** **Manage impressions**	**Appeal to stakeholders** **De-institutionalize the project**

Rescuing a Seriously Troubled Project in 10 Steps

1. Stop
2. Assign an evaluator
3. Evaluate project status
4. Evaluate the team
5. Define minimum goals
6. Determine whether minimum goals can be achieved
7. Rebuild the team
8. Perform risk analysis
9. Revise the plan
10. Install an early warning system

(Bennatan, 2006)

5 "Inconvenient Truths" about IT Project Status Reporting

1. Executives can't rely on the project team to accurately report project status information
2. A variety of reasons can cause people to misreport project status information
3. More aggressive auditing of the project team isn't the answer
4. Putting a senior executive in charge of a project may increase misreporting
5. Executives often ignore bad news if they receive it

Keil, Smith, Iacovou, and Thompson (2014)

Dysfunctional Cycle of Distrust

Keil, Smith, Iacovou, and Thompson (2014)