Recognizing Runaway IS Projects When They Occur: The Bank Consortium Case

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EXECUTIVE SUMMARY

Runaway projects have been a problem in information systems (IS) for quite some time. In 1988, KPMG found that 35% of their largest clients currently had a runaway project, and in 1991 the percentage of firms increased to 60%. Plus, over 50% of the respondents considered this to be normal (Rothfeder, 1988; Cringely, 1994). The traditional definition of a runaway is any project that grossly exceeds budget and time targets but yet has failed to produce an acceptable deliverable. Given that each runaway project is a dysfunctional use of organizational resources, it is important for practitioners to be able to identify them early and react appropriately. On the other hand, this case will help practitioners realize that the issues within runaway projects are complex and difficult. The case could be used in MIS courses for non-IS majors, systems analysis and project management classes for IS majors or EDP auditing courses in accounting.

BACKGROUND

The Savings and Loan Environment

The case begins at the time of the Savings and Loan Crisis in the mid-1980s. During the crisis, Savings and Loan institutions were locked into fixed-period low interest mortgages at a time when interest rates were skyrocketing. Moreover, high interest rates had dampened the demand for real estate making it difficult to find new borrowers. Savings and Loan managers were unable to move into new types of products because the industry was so highly regulated. Commercial Banks were more competitive because they were allowed to be more innovative. There was only one way the Savings and Loans could survive; they had to streamline operations. A news item of the time summarizes the plight of Savings and Loan institutions at this time.

> "Deregulation of liabilities before assets has caused a crisis of declining net worth in the savings and loan industry. S&Ls have 31% of their savings in low cost accounts, and removal of the interest rate differential on money market certificates has resulted in an increase of the

commercial bank share of this deposit from 30% to 48%. On the other hand, 58% of S&Ls' mortgages are at rates of 10% or less and slow loan growth prevents the rapid addition of new, high rate mortgages to S & L portfolios" (Jacobe, et al., 1982, p. 44).

Federal policy during the crisis was focused on encouraging Savings and Loan organizations to merge their assets in order to improve their ability to compete with the much more entrepreneurial commercial bank.

"Under the FSLIC policy of promoting the merger of S&Ls with a net worth to assets ratio below 2%, 320 associations were merged in 1981; even with declining interest rates, 1,000 will merge in 1982, raising the policy question of whether it is desirable that community-based specialized housing lenders be absorbed by the commercial banking industry" (Jacobe et al., 1982, p. 44).

The Narrator and Alpha Thrift

The narrator of this case is an information systems auditor of one Savings and Loan organization. Soon after the Auditor joined this bank, it merged with what was thought to be a financially stronger Savings and Loan (hereafter known as Alpha Thrift). Here is the auditor's initial impression of the institution when he arrived in 1982 before the merger:

> I became the first EDP auditor for a major S&L and received a significant pay increase and many congratulations. The S&L, a very old institution, was thought to be the bedrock of the city's financial institutions and management was highly regarded, both by employees and the community.
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> On the first day of employment came the news that we were losing money. Nevertheless, the EDP operation was similar to that of a previous employer and had its strong points. Everything looked promising. Then came the word that the board had opted for a merger with a similar S&L. The main attraction was that this one was making money.

Not only was Alpha Thrift making money, it also had an innovative idea for helping other institutions succeed without losing their independence:

"Another attraction was its involvement with four other S&L's in creating a large S&L processing center in a distant major urban area. The resulting system was to be the cutting edge of S&L EDP technology."

This case describes the activities of the consortium and its participating Savings and Loans, but the emphasis is on the viewpoint of Alpha Thrift as told from the perspective of the Auditor from the Savings and Loan that merged with Alpha Thrift.

SETTING THE STAGE

The Creation of a Data Center (1978)

The history of the project went back several years to the 'golden age' of Savings and Loans, when management of eight thrift institutions conceived the idea of such a data center. All apparently felt that their in-house systems or service bureaus were not capable of providing the technology they wanted and that pooling resources was the answer. Financing was not a problem at this time and so they chose to locate the data center in a high-rent district of their fairly large city. It was surrounded by upscale hotels and department stores.

Key Players

The Consortium–A cooperative venture by eight of the largest Savings and Loan institutions in the country. Each institution was independent of the others and none of the institutions could be considered the primary decision-making force. They were all equal partners. The Presidents of these very large Savings and Loans were each secure in their positions and were quite willing to back this innovation.

President of Alpha Thrift– One of the originators of the Consortium and one of the key people

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