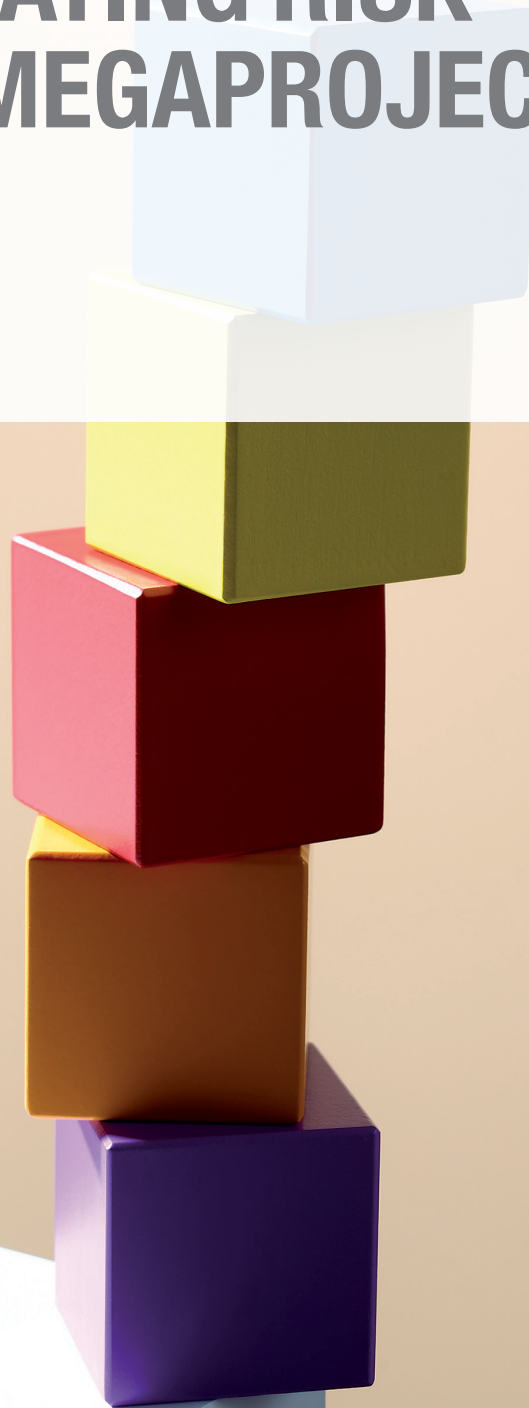McKinsey&Company

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MITIGATING RISK IN IT MEGAPROJECTS

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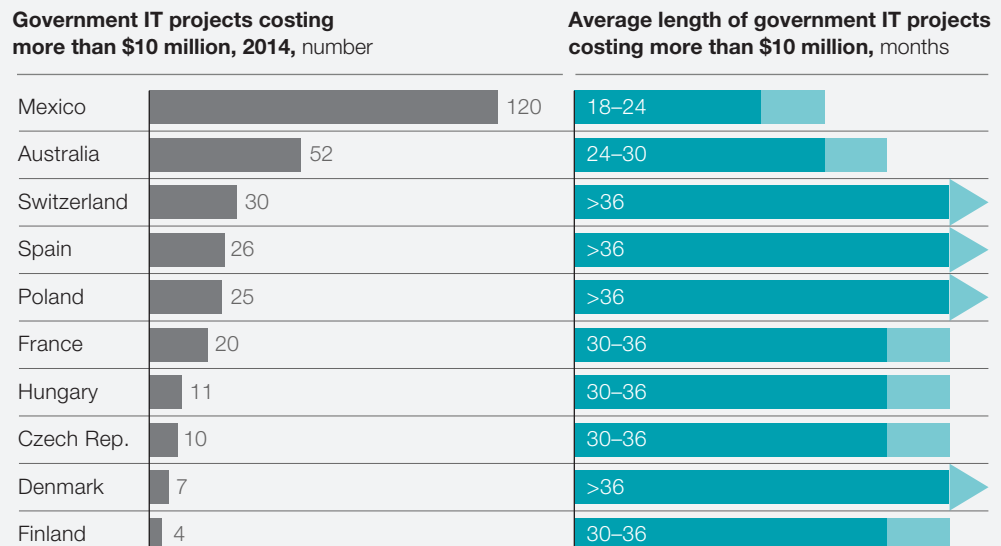
MITIGATING RISK IN IT MEGAPROJECTS

Public-sector IT projects are highly susceptible to delays and cost overruns. Some leading-edge governments are finding ways to avoid those pitfalls.

Many governments are pursuing major IT modifications and systems upgrades by investing in information technologies that will allow them to implement policy changes more effectively, work more efficiently, and create new digital services for citizens. Such IT megaprojects— initiatives with initial price tags exceeding $15 million—present significant risks, however.

According to joint research conducted several years ago by McKinsey and Oxford University, IT projects in the public sector are six times as likely to experience cost overruns as comparable projects in the private sector.[1] The reason? It's the sheer length of time required to complete them (exhibit). The study from McKinsey and Oxford found that the longer an IT project is scheduled to last, the more likely it is to run over time and budget, with every additional year increasing cost overruns by 15 percent.

Exhibit

Multimillion-dollar, multiyear technology projects are common in the public sector.

	Government IT projects costing more than $10 million, 2014, number	Average length of government IT projects costing more than $10 million, months
Mexico	120	18–24
Australia	52	24–30
Switzerland	30	>36
Spain	26	>36
Poland	25	>36
France	20	30–36
Hungary	11	30–36
Czech Rep.	10	30–36
Denmark	7	>36
Finland	4	30–36

Source: Organisation for Economic Co-operation and Development, survey on digital government performance, 2014

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[1] Michael Bloch, Sven Blumberg, and Jürgen Laartz, "Delivering large-scale IT projects on time, on budget, and on value," October 2012, McKinsey.com.

The average length of government IT megaprojects is between 30 months and 36 months— plenty of time for things to go wrong. Public-sector organizations, like their private-sector counterparts, must continually protect against scope creep, adapt to changing specifications, and weather inevitable turnover among critical IT staffers. Government entities also face a number of sector-specific challenges, including heightened sensitivity to security risks, multistage decision making involving multiple government stakeholders, bureaucratic procurement processes, ministerial impatience, and, all too often, intense media scrutiny.

Leading-edge governments are deploying new strategies and methods for keeping IT development failures from happening.[2] Several have explicitly limited the size and length of their IT projects. For example, Estonia avoids getting entangled in large IT projects by breaking them up and sequencing them into smaller initiatives. Denmark has utilized agile development methods to get stalled projects back on track.[3] Other techniques for managing risk in IT megaprojects—such as sophisticated forecasting and contingency planning—are now mandatory for big projects in the United Kingdom.

Governments around the world can modernize their IT systems more quickly and more successfully by drawing lessons from one another and from the agile techniques being deployed in the private sector.[4] They can realize ambitious service and efficiency objectives— and be considered digital pioneers rather than technology laggards. ◼

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For detailed findings from the McKinsey Center for Government's productivity research, see "The opportunity in government productivity," on McKinsey.com.

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[2] Steve Cheng, Mike Joyce, and Mark McMillan, "Harnessing the power of digital in US government agencies," November 2017, McKinsey.com

[3] Sverre Fjeldstad, Martin Lundqvist, and Peter Braad Olesen, "From waterfall to agile: How a public agency launched new digital services," March 2016, McKinsey.com.

[4] See the survey "How to create an agile organization," October 2017, McKinsey.com.