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Robert Mahaney
University of Kentucky

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Escalating Commitment to Runaway Information Systems Projects

Robert C. Mahaney
University of Kentucky

Introduction

Software development project failure plagues the IS industry. More than half of all IS projects are completed beyond budget, nearly a third fail to implement the desired functions, and only 16% are finished on time and within budget (Cafasso, 1994). Many of these may be described as runaway projects. Runaway projects are those that exhibit significant cost and schedule overruns (Keil & Robey, 1997).

Researchers have described this continued support in the face of negative information as an escalation of commitment to a failing course of action (Brockner, 1992). A key research question is: Why do IS managers continue to support runaway projects?

Theoretical Basis

Several theories have been put forth to explain escalation of commitment to runaway projects. The most promising theories to explain this escalation are self-justification theory, prospect theory, and agency theory.

Individuals often continue to engage in actions with negative consequences and rationalize them in a self-justification process (Festinger, 1957; Staw, 1976). Self-justification explains that people do not want to admit their past decisions were incorrect. They reaffirm their belief in their previous decisions by keeping their course of action (Brockner, 1992). Self-justification theory draws part of its explanation from the sunk-cost effect.

Keil, Truex, & Mixon (1995b) and Garland (1990) found a positive relationship between sunk cost and escalation of commitment. Their studies thus support self-justification theory.

Prospect theory predicts that a decision maker, when faced with choosing between two positive alternatives, tends to exhibit risk-averse behavior, and when faced with choosing between two negative alternatives, tends to exhibit risk-seeking behavior (Brockner, 1992). Escalating commitment may occur when a manager chooses between two negative alternatives: (1) canceling a project and writing off the cost, or (2) continuing to fund a project that is likely to fail (Whyte, 1986).

Several studies have examined the predictive ability of prospect theory in the context of runaway projects. One used experiments across different cultures to test whether the theory would apply to the North American culture and to a European culture (Keil, Mixon, Saarinen, & Tuunainen, 1995a). It found that prospect theory explained escalation of commitment in both cultures. Escalation was stronger in North America.

Agency theory is directed at explaining the relationship, in which one party (the principal) delegates work to another party (the agent) who performs the work. An agency problem arises when the goals of the principal conflict with the goals of the agent, and the principal cannot easily monitor the work of the agent (Eisenhardt, 1989). Agency theory predicts that agents will act in self-serving ways, and not in the best interest of the principal.

Agency theory suggests that two factors can improve the alignment of the agent's activities with the principal's goals. The first is the type of contract between the parties. The theory suggests that a behavior-based contract will be less effective than an outcome-based one in that alignment (Eisenhardt, 1989). The second factor is the existence of an information feedback process. The theory predicts that when the principal has sufficient information to monitor the agent's activities, the agent more likely behaves in the interests of the principal.

For runaway IS projects, the problem of self-interest may make the agent (i.e., programmer/developer) reluctant to share important project information with the principal (i.e., project manager) (Bergen, Dutta, & Walker, 1992). The programmer/developer may even conceal negative information (Abrahamson & Park, 1994), or give false information to the manager (Bergen et al., 1992). These actions impede effective project management and may lead to escalation of commitment.

Methodology Overview

This research proposes a survey of IS managers and project managers to find the predictors of the escalation of commitment to runaway projects. Managers will be asked to consider the most recent runaway project on which they worked and to use their experience with it as the basis for completing the survey. The survey will contain items to test self-justification theory, prospect theory, and agency theory as potential explanations of escalation of commitment to runaway projects.

References

References available upon request from the author (mahaney@ms.uky.edu).