My response to the Anderson Report on the Baynes Sound Connector

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The Anderson Report on the Baynes Sound Connector (BC Ferries, Feb. 16th, 2023) outlines 5 future options related to the ferry service between Buckley Bay and Denman West. Four of these options consider the continued use of the cable ferry, whereas one option considers the replacement of the cable ferry with a normal propeller ferry.

By using a 25-year Net Present Value (NPV) analysis, the report concludes that the replacement of the ferry is the least desirable alternative.

My immediate reaction to reading the Anderson Report is to ask, "Why on earth was this form of NPV analysis not performed when the Baynes Sound Connector (BSC) was being initially considered as an option for this ferry route?"

My second reaction is to ask, "Why on earth is this form of analysis being considered now?"

If NPV analysis had been applied to evaluate the BSC originally, then the option to go ahead with the cable ferry would have been dropped instantly. The comparison of the extraordinary $50 million potential required capital investment for the BSC versus keeping the same AEQ vehicle capacity ferry Quinitsa on that route would have been a complete no-brainer.

At some stage or other BC Ferries in the future must admit that there was huge mistake made back then. I have described that type of error as being a typical example of "an investment in managerial ego", a well-known error that is cited frequently in the business history literature.

Another type of managerial error cited often in the literature is known as "the sunk cost fallacy", where managers who have made a big mistaken investment fail to

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recognise or admit to that failure, and continue to pour good money after bad in keeping that project afloat. Those who ignore history are doomed to repeat it.

The Anderson Report is a classic example of falling for the sunk cost fallacy. Indeed, it is so classic that I suspect that if the BSC is kept operating in the years after the publication of this report, then a business school case study will inevitably be written about it as a means of teaching business students what not to do.

This example would replace the discussion of the history of continued government expenditures on developing the Concorde passenger jet as the prime example of this classic fallacy. In the bizarre circumstance of the BSC, business students analysing such a case study would be completely perplexed as to why BC Ferry's management kept on ignoring the hoard of warnings about the mistake that they were making.

I have direct experience of writing exactly such a case study. My case study entitled *"The Zeebrugge Car Ferry Disaster"* became exceptionally popular as a business school case study in Business Strategy classes in the 1990s. In the US alone it was taught to over 30,000 MBA students a year for a number of years.

It was published in 8 different Business Strategy casebooks, and was included in the Harvard Business School MBA curriculum[2] as a dramatic illustration that managers cannot just make decisions based on pure financial analysis alone[3].

That case showed that complex social, moral, and technical issues should be assessed as possibly trumping the direct application of rigorous financial analysis.

The Anderson Report indeed fails to examine anything other than finances regarding the future of the BSC. It omits any form of risk analysis for each option, and disregards the history of the cable ferry by ignoring any probabilities of possible outcomes of keeping the ferry in operation.

One can only ask "what could possibly go wrong?" with maintaining the cable ferry in service, especially if it is re-engined and modified to carry more vehicles.

I have previously pointed out that the cable ferry's technology lies outside the main technological competence of BC Ferries. The company's core expertise is related to propeller-driven ferries. The BSC's teething problems (which appear to be continuing today as I write) involved an underpowered engine, inadequate cables, the bull-wheel connection between the cable and the hydraulic drive, and

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2 "The Zeebrugge Car Ferry Disaster (A)", in J. L. Bower, C. A. Bartlett, C. R. Christensen, A. E. Pearson, and K. R. Andrews, *Business Policy: Text and Cases*, Irwin, 7th Edition, 1991.

3 In that extreme situation, directors and managers who had made multiple decisions based solely on financial analysis were later charged with criminal offenses for their neglect of the many non-financial aspects of those decisions.

inadequate speed. All of these issues were new and unrelated to BC Ferries' prior engineering skills.

If the ferry is to be modified to carry more vehicles it will become heavier, which may necessitate bigger cables (and cable handling fixtures) and a more powerful new engine. It is almost certain that the introduction of such modifications will result in a succession of failures that will be a repeat of the stream of teething problems that have plagued the cable ferry.

The Anderson Report describes the general social context of the BSC as follows:

> "The broad community continues to be unsupportive of the vessel and reactions to potential increased investment remain highly negative. Islanders, the Ferry Commissioner and the BC Ferry Authority have questioned vessel reliability and the proposed investments."

This seems ample proof that scepticism over the Baynes Sound Connector's reliability, plus operational success, is widespread.

No matter what the NPV analysis may say and recommend, keeping the BSC in service will condemn current BCF managers to a life of eternal criticism and highly focussed negative analysis, especially if things do go wrong as I predict above. Are they prepared to suffer through such a long-term public relations fiasco?

We will all be saying "I told you so!" and then "I told you so!" again, over and over.

Severing the route from interoperability was the original cause of all the problems with the BSC as a concept. The expenditure of an additional amount to modify the BSC will mean around $70m would have been spent in total sunk costs, an amount that could have easily bought a second-hand larger ferry from Japan, Norway or the Philippines

What is glaringly missing from the Anderson Report is any consideration of risk and probability, especially any prediction of the likelihood of future problems. One cannot be so utterly blinkered so as to rely on NPV analysis alone as the guide as to what to do.

Let me predict one more problem…

The inflexibility of the cable ferry's design over its long lifetime frustrates anyone's ability to ensure that any current-day capacity specification will be valid in 10 years' time. Yes, we can admit that the original design of the ferry made it too small, and that we can rectify that mistake by adding two more lanes to the ferry at a cost of $15 million, but will that additional capacity remain sufficient from 2033 onwards?

Such a capacity modification may just postpone today’s crisis, only to have it repeat again in a decade or so as demand increases, stimulated by the Islands’ new high speed Internet service, and by any future general social phenomenon such as a new pandemic.

The inherent lack of flexibility of the cable ferry handcuffs BCF management. Previously, swapping in a larger ferry could have been done in reaction to good times, or a smaller ferry could be brought in to cope with bad times.

Sticking with the Baynes Sound Connector by pouring good money after bad to modify it and thus keep it in service is a classic example of the woeful sunk cost fallacy. It is a Band-Aid solution when amputation is required.

The Anderson Report advocates the mistaken injection of more capital funds into a project that was ill advised, ludicrous, and justifiably universally mocked and condemned in the first place.

I hope that BC Ferries’ senior leaders will recognise that this would be an enormous error, and will disregard the Anderson Report’s recommendations for keeping the BSC in service.

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