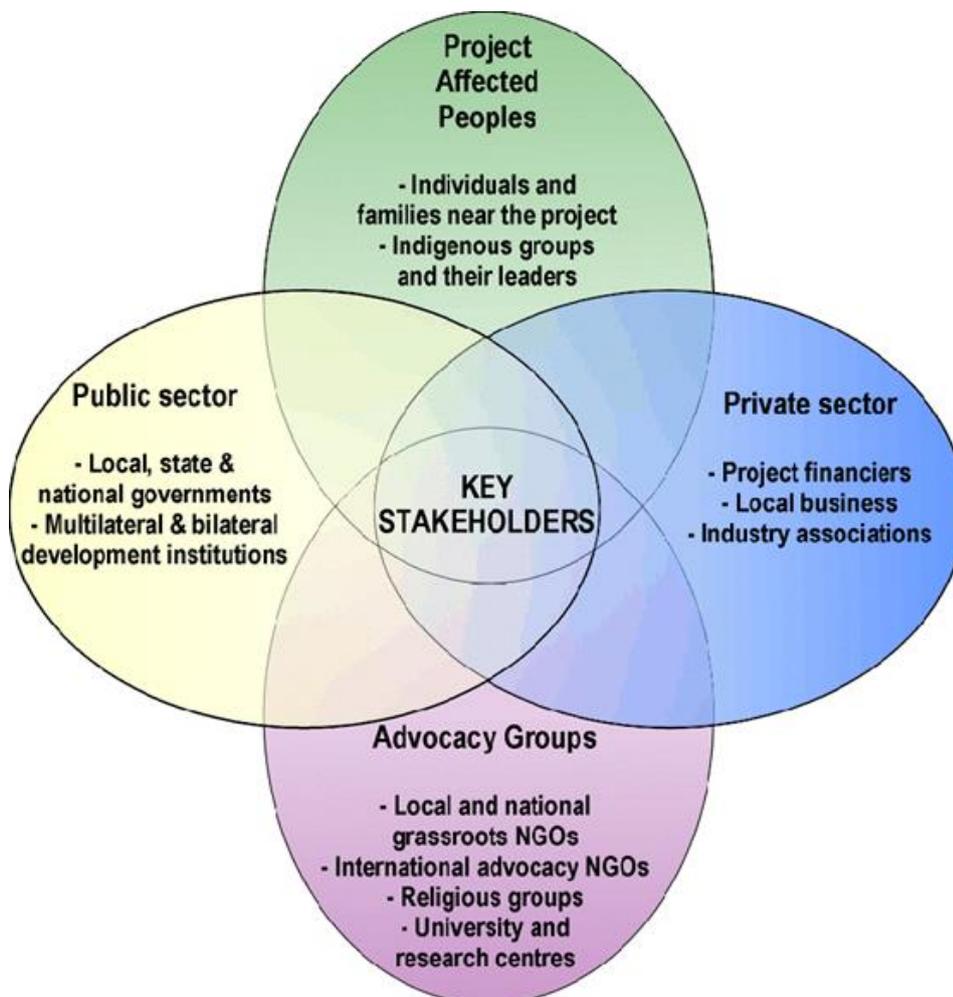


Understanding the stakeholder environment

Imagine you have a project, no matter if it is simple or complex in its nature, you immediately have people who will show interest in your project. These people are, the ones who we call stakeholders, in this case your stakeholders.

Stakeholders can appear in different forms and size and the interest that they have in your project can vary, or maybe you would like to get their interest on the topic. They can be directly or indirectly interested, and they can also influence your work in the same way.

Stakeholders can be defined as individuals or organizations that are involved in or affected by an action or policy and they can be included or not in the decision making process. (Freeman 1984; Annan 2007; Sterling et al. 2017). Depending on the scope and the field of the work, stakeholders appear as government representatives, businesses, scientists, local users of national resources etc.



It is important to include different stakeholders, including groups that are less represented and hidden stakeholders as well. Before including anybody in the stakeholders' phase, it is important to perform a stakeholder analysis, for more relevant identification (considering their views and interests on the project you are proposing). For example, United Nations Environment program identifies and engages with 9 major specific stakeholder groups for sustainable development projects under their oversight, those are farmers, scientific & technology community, women, children and youth, indigenous communities, workers, trade unions, business, NGOs and local authorities.

So let's categorize the main stakeholders and the form they appear in:

- investors
- employees
- customers
- suppliers
- communities
- governments
- or trade associations

What do stakeholders do?

Stakeholders (depending on their type) don't have to do anything important other than engaging with the project owners in a way that best suits their needs, but there are stakeholders that are more active participants when it comes to projects they support.

Let's give an example of the customer as a stakeholder. A customer buys products from a business, which means they are affected by the business because the business is a provider of some good or service that they want or maybe need. On the other hand, the business is affected by the customer because the customer is bringing them profit.

This is more of an indirect involvement. What would be considered as a direct involvement of the customer as a stakeholder is, for example consumer activism, such as boycott, if they didn't like the product. In the US consumer activism is considered as the most common political activity after voting. Same goes with employees as an example of stakeholders. Some employees can just get paid and get the job done, while others might actively participate in strike or even quit if they think and see that their effort is not being rewarded, thus becoming a direct participant.



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Types of stakeholders

Primary and Secondary Stakeholders

These stakeholders can be differentiated by the level of investment in the results and outcome of the project.

Primary stakeholders get the greatest impact from the project, no matter positive or negative (employees, managers, customers, suppliers, business partners).

Secondary stakeholders represent the groups or individuals that are not affected directly by the project. Secondary stakeholders are harder to identify and they are usually not taken into consideration when everything is planned, because they don't affect the implementation of the project, except if they directly and actively involve themselves. If this happens, the effect can be colossal (governments, trade unions, advocacy groups etc.)

Direct and Indirect Stakeholders

Individuals or organizations that can influence decisions that the team of the project will seek to impose are:

Direct stakeholders- involved in the activities and can influence a change in the direction of the project. They appear as a team, managers, product owners etc.

Individuals or organizations that are more concerned about the result rather than the implementation are:

Indirect stakeholders- not involved in activities, but they are concerned on how well or how bad you do. These are the customers and suppliers.

Internal and External Stakeholders

These stakeholders are the ones that are within or outside your organization.

Internal stakeholders are usually upper management, board of directors, human resources, finance team etc.

External stakeholders are the government, the community, clients, competition, suppliers etc.

The Importance of Meaningful Stakeholder Engagement

Organisations can no longer choose if they want to engage with stakeholders or not. The only decision they need to take is when and how successfully to engage. Stakeholder engagement is premised on the notion that ‘those groups who can affect or are affected by the achievements of an organisation’s purpose should be given the opportunity to comment and input into the development of decisions that affect them. In today’s society, if they are not actively sought out, sooner or later they may demand to be consulted.

Situations arise when organisations do not actively engage but are forced to do so by the demands of society as a result of a crisis situation. In response, organisations employ crisis management techniques, and are often forced into a defensive dialogue with stakeholders, leading to a significant and long lasting loss of reputation. This type of interaction is often antagonistic and damaging of trust.

Meaningful engagement occurs when organisations, aware of the changes in the wider society and how they relate to organisational performance, choose to establish relations with stakeholders as a means to manage the impact of those changes, such as those created as a result of global economic downturn. Organisations can either seek to mitigate risk through the use of stakeholder management, or exploit these new

trends to identify and establish new opportunities through the use of meaningful stakeholder engagement; the latter is characterised by a willingness to be open to change. Figure 1 distinguishes between crisis management, stakeholder engagement and stakeholder management.



SOURCE: STAKEHOLDER-LED PROJECT MANAGEMENT/LOUISE M. WORSLEY

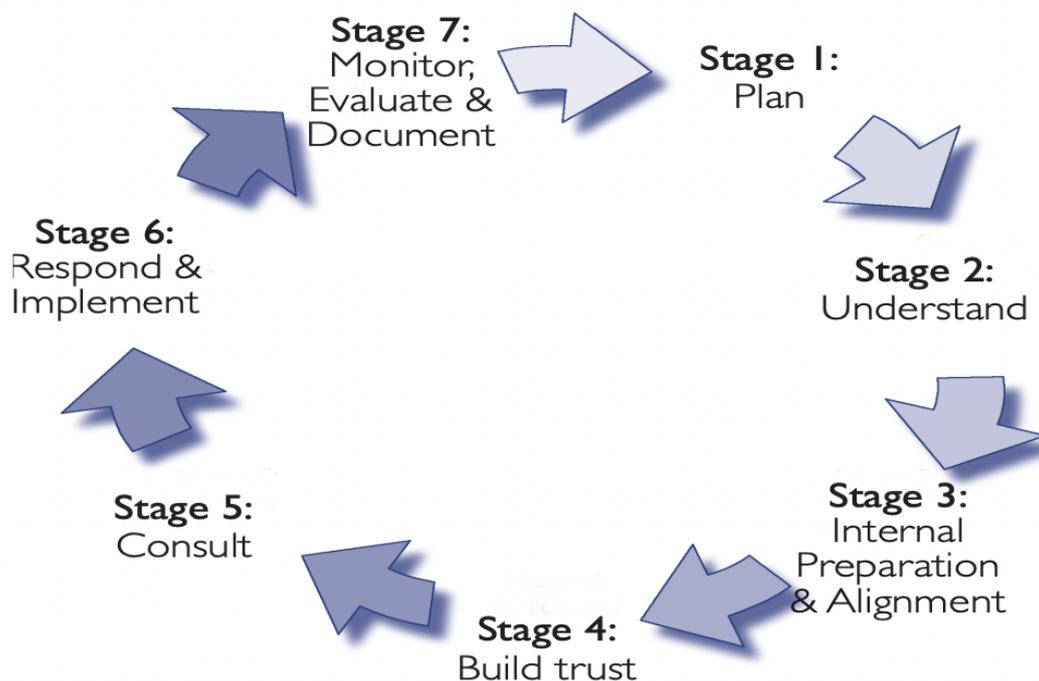


A Summary of Meaningful Stakeholder Engagement

As with any other business process, the process for engagement should be systematic, logical and practical. We provide a process here that will take you from the starting point of planning and identifying objectives through to post monitoring and evaluation. This process is represented as a circle because it is constant, where lessons from past experience will then shape future planning and engagement.

The process is not linear; rather it is an iterative process in which an organisation learns and improves its ability to perform meaningful stakeholder engagement while developing relationships of mutual respect, in place of one-off consultations. The following figure is a useful check-sheet for you to use in practice.

Figure 2: The Process Flow of Stakeholder Engagement



❖ *Stage 1, planning:* Identify your basic objectives, issues to address and the stakeholders you prioritise as critical to your organisation.

❖ *Stage 2, understand your stakeholders:* Identify the urgency they feel for their issues, the legitimacy of their interest and the power they have to impact on your organisation. Understand their wants and needs and how this correlates with your wants and needs from them. Having an understanding of their motivation, objectives and issues, and which of those are your issues, will help with profiling the priority stakeholders. (Profiling will help later when designing engagement and consultation tactics.)

❖ *Stage 3, preparing internally to engage:* Dedicate appropriate time and resources to identify possible commonalities between your organisation and your stakeholders – to identify possible ways into conversations and win-win situations. Agree the commitment

your organisation will give to stakeholder engagement and the process, which may mean building the business case and identifying internal advocates.

❖ *Stage 4, building trust:* Different stakeholders will come with different levels of trust and willingness to trust. Recognise this and that how you interact with them will need, therefore, to adapt to the level of trust present and needed.

❖ *Stage 5, consultation:* For overall success it is important to achieve during consultation:

- Fair representation of all stakeholders, not just the easy ones
- Be responsive by providing information and proposals that respond directly to their expectations and interest previously identified, not just information responding to your internal objectives and activities.
- Contextualise information so that stakeholders get a detailed, holistic picture.
- Provide complete background information stakeholders need to draw fair and reasonable conclusions.
- Be realistic in negotiations with possible trade-offs of expectations, needs and objectives. This will help achieve agreement and build trust.
- The consultation process should be material to your organisation's key economic, social and environmental risks. The mechanism of consultation includes personal interviews, workshops, focus groups, public meetings, surveys, participatory tools and stakeholder panels. Choose relevant mechanisms for each stakeholder group as one template won't fit all. Prioritise issues from your and the stakeholders' viewpoint, understanding the stakeholders' issues of importance.

❖ *Stage 6, respond and implement:* Decide on a course of action for each issue agreed upon – understanding possible stakeholder reactions to your proposal will help you to develop a more successful proposal of action. How you respond is critical and a perception of fairness can drive success. A process is provided offering guidance on how to implement measures for the agreed issues identified.

❖ *Stage 7, monitor, evaluate and document:* Knowledge management is critical for capturing information and sharing what is learned. Transparency of the process is greatly aided by accurate documentation, especially if your organisation reports on stakeholder engagement or submits to external scrutiny. Remember to report back to stakeholders on progress, in a form and language appropriate to them. Collect a wide

range of views to assess success and learning points of the engagement process, especially to understand cost-benefit – including benefits such as reputation, risk management and new business models.

Golden Rules' – conditions within your organisations that will encourage and foster meaningful engagement:

- ❖ Internal alignment in expectations, roles and outcomes. Being flexible will help achieve this, as will appreciating different viewpoints, pressures and business objectives that other teams or business units might have.
- ❖ Building trust with stakeholders is very important, aided by understanding their viewpoints and motivations. Managers need to gauge the level of trust in relationships but not be too quick to judge.
- ❖ Understanding and being transparent about the motivation of both stakeholders and your organisation can help overcome differences. Recognise that the fundamental motivation of each side may be very different but understanding and articulating this can help close this gap.
- ❖ Your organisation needs to recognise the importance of stakeholder views and engagement. It is critical that your organisation as a whole appreciates the contribution stakeholder engagement gives to overall business success and that it is not just an add-on.
- ❖ It is important to consider how you plan engagement so that it encourages viewpoints from across the population spectrum. Gender can play a role in how women interact vs. men, and consideration should be given to setting, mode of consultation and fair representation.
- ❖ The 'tone from the top': the role that leaders play is fundamental in building meaningful engagement. An appropriate role for the CEO may be actively involved in the initiation of the development of the stakeholder engagement strategy and involved in engagement with key global stakeholders.
- ❖ Your organisation's culture will have an impact on how stakeholder engagement occurs (i.e. autonomy for local adaption and local relevance). Therefore assessing its culture is important for identifying enablers and barriers to your stakeholder engagement activities. A culture web will help do this.

- ❖ Assessing past non-productive engagement behaviour will help the organisation to learn from past experiences. It is important to collate this information from both the organisation and stakeholder viewpoints.
- ❖ Recognise the interplay and, therefore, influences between leadership, organisational behaviour and capabilities in creating strategies, processes and procedures.
- ❖ In conclusion, we recommend you consider four vital influences on your stakeholder engagement efforts: organisational culture, structure, human resources and learning

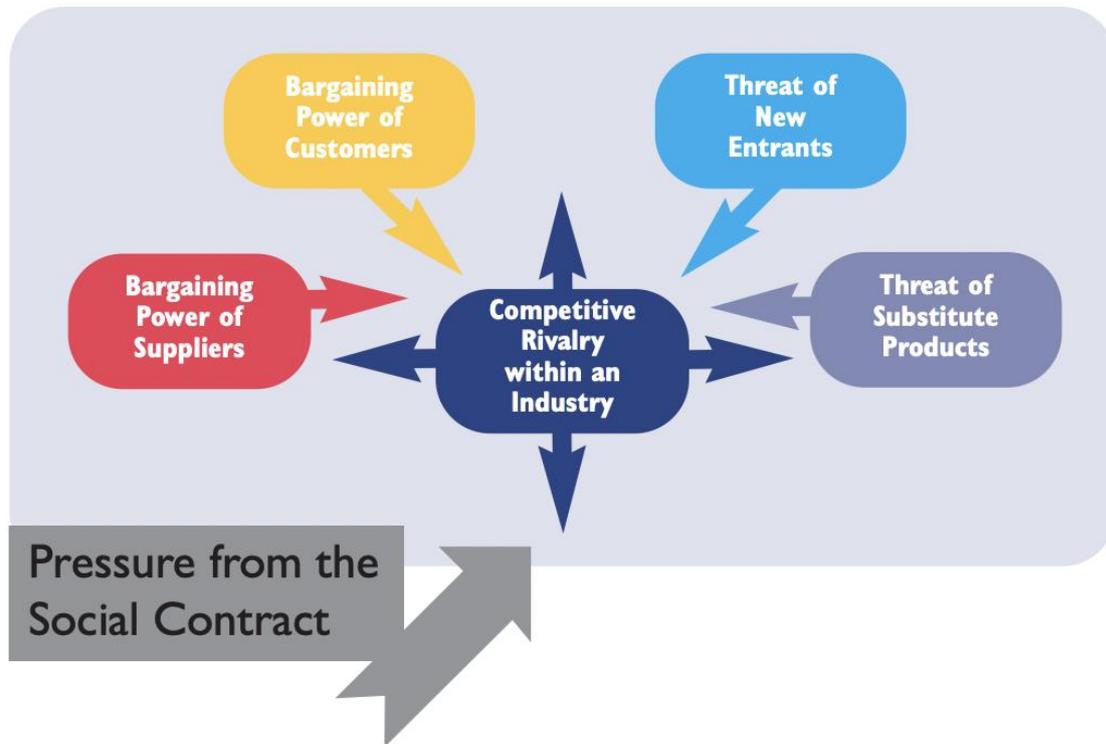
The Benefits of Engaging with Stakeholders

The development of meaningful relations should add value to the organisation's operations by: reducing constraints on business and increasing the licence to operate; allowing it to plan for the future, minimising risks and enhancing opportunities by better understanding the fast-changing PESTE (Political, Economic, Social, Technological, Environment) context; and, enabling it to better understand critics and potentially refute, convince or address criticisms. Furthermore it will enable organisations to reassure stakeholders that they are on top of issues, and in some cases, be essential for solving problems. It is, therefore, justifiable in terms of time, money and effort expended in their development and maintenance.

Basic Principles of Stakeholder Participation

Articles by Coimbatore Krishnarao Prahalad, Michael Porter and others have highlighted the growing consensus in business circles that the relationship between business and society is now an issue of significant commercial relevance to all organisations. Ian Davis, the then Global Head of McKinsey & Co, writing in the Economist emphasised the need for CEOs of modern large corporations to take the opportunity to 'restate and reinforce' this relationship to help secure the billions invested by their shareholders over the long term, arguing that there is a new social contract³. Some commentators have described the social contract as an additional and sixth force in Porter's widely recognised and utilised five forces model (see Figure 3).

Figure 3: Porter's Five Forces model plus Social Contract



Box 3 describes some of the basic principles of stakeholder participation.

Box 3: Core Values for the Practice of Stakeholder Participation

1. Stakeholders should have a say in decisions about actions that could affect their lives or essential environment for life.
2. Stakeholder participation includes the promise that the stakeholder's contribution will influence the decision.
3. Stakeholder participation promotes sustainable decisions by recognising and communicating the needs and interests of all participants, including decision-makers.
4. Stakeholder participation seeks out and facilitates the involvement of those potentially affected by or interested in a decision.
5. Stakeholder participation seeks input from participants in designing how they participate.
6. Stakeholder participation provides participants with the information they need to participate in a meaningful way.
7. Stakeholder participation communicates to participants how their input affected the decision.

Source: Adapted from Core Values for the Practice of Public Participation by the International Association for Public Participation, www.iap2.org

Towards Meaningful Engagement

As we already mentioned before, the concept of meaningful stakeholder engagement goes far beyond the idea of simple contact inherent in crisis management or consultation as seen in stakeholder management; inherent in the concept of meaningful engagement are the following ideas:

- ❖ a two-way process including exchange of information, research, analysis and opinions between the organisation and stakeholder
- ❖ a commitment and willingness from each side to contemplating changes in behaviour, actions, priorities, organisational structure, staffing, training, product development and interaction with markets
- ❖ actions based on a unambiguous set of objectives, with clearly defined outputs, and projected outcomes and impacts
- ❖ an understanding that companies are rarely homogeneous in nature, and therefore how stakeholders establish and build relations with different departments in the organisation may be distinct, and will be influenced by the particular organisation context, corporate culture and structure
- ❖ a shared and acknowledged understanding of the political environment in which the NGO is operating, which may influence their agenda

The benefits to companies of engaging in a meaningful way are various, including enhanced reputation, strengthened capabilities, improved relations with regulators, better ability to mitigate risk, and potential access to new consumers, new product ranges and new business models. Such stakeholder engagement is a necessary but not sufficient condition for organisations to become 'good' or 'great' social performers, particularly due to the contribution that this process can make to positive and material changes in the organisation's organisational behaviour and internal structure. Critical issues, or critical success factors, to be assessed in the planning of meaningful stakeholder engagement, rely on what the organisation is willing and able to do. Figure 14 provides further detail on these critical issues and useful questions to be asked and answered. This section then provides further details regarding each of these issues.

Figure 14: Desirable Company Characteristics

Is the Organisation Willing and Able to ²¹ :	Explanation	Questions to be Asked and Answered
1. Be flexible	Be prepared to change the way in which stakeholder dialogue is conducted with different stakeholders. Not all stakeholders, even within the same category, will have the same attitudes or perceptions and they will not all desire the same intensity of dialogue.	Which form of engagement is appropriate for different stakeholders, and does the company have expertise in that technique, or the ability to build the expertise? Are you flexible to altering the forms of engagement with any stakeholder as the relationship evolves?
2. Allow time to build trust	Devote adequate time to the process. This may involve dedicating staff and resources over a considerable period of time, i.e. a number of years	Do all participants understand and respect the perspectives of the other participants and why they are present, so that there is mutual understanding (if not agreement!)? Do we understand where different stakeholders are coming from – what is the legacy of past dealings with the company and/or the industry? Do we know if there has been a history of broken promises, and stop-go dialogue in the past which has to be overcome?

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