Project Stakeholder Management and Stakeholder Analysis

Rajeshwar Vayyavur

Doctoral Research Scholar at California Intercontinental University, California, US
EMAIL: rajeshwarvv@yahoo.com

Abstract

The implementation of projects involves the struggle to achieve project’s objectives while at the same time meeting the expectations of various stakeholders is intense. The stakeholder theory has been used to explain this struggle of interest, needs and expectations. Donaldson and Preston wrote the germinal research used to build on the theory. Donaldson and Preston conceptualized stakeholder theory as normative, descriptive and instrumental. The paper provides an empirical review of literature of stakeholder analysis including the normative, instrumental and descriptive approaches to stakeholder management.

Keywords: Project Management, Project Stakeholder Management, Stakeholder Management, Stakeholder Analysis

Introduction

THE implementation of the project in the 21st century is influenced by numerous factors. The concept of stakeholder management dominates scholarly conversations and publications, government policies and recommendations, and the general public. The rise in the number of scholarly work on stakeholder management is attributable to the increased emphasis on sustainable development. The struggle to achieve project objectives while meeting the expectations of various stakeholders is intense. Project managers and projects teams need to understand how to meet these needs without compromising the outcomes of the project. An empirical literature is conducted to identify the various stakeholder management approaches and the stakeholder analysis that scholars propose. Freeman (1984) introduced the concept of stakeholders. He defined stakeholders as “any group or individuals who can affect or is affected by the achievements of an organization’s objectives”. Later, Cleland (1986) introduced the concept to the project management paradigm. Since then, the role of stakeholder managements forms a core component of project management process. The current definition of project management “the process of adapting the specifications, plans, and approaches to the concerns and expectations of various stakeholders” indicate the centrality of stakeholders in project management. The basic precept of project management is that project stakeholder management can increase the success rate of the project by influencing stakeholders. The study focuses on the stakeholder theory and the normative, descriptive and instrumental justifications.
Literature Review

Stakeholder Theory

The first section outlines sources that describe, criticize or improve Donaldson and Preston (1995) definition of stakeholder management. The second sections outline the various model and approaches proposed by various scholars of effective stakeholder analysis. Freeman (1984) provided the pioneering work on project management. In his book “Strategic Management: A Stakeholder Approach,” he introduced the notion that organizations have stakeholders, and he offered a basic outline of features of the concept of stakeholders. After his publication, numerous publications including books, articles, and journals have addressed the issue thus making the concept of stakeholder a mainstream concept not only in project management but also in other academic fields.

Throughout literature, the stakeholder's approach is described as a powerful approach for understanding an organization or firm and its environment. The approach broadens management’s vision of its functions, roles and responsibilities that extend profit maximization. According to Donaldson and Preston (1995), the stakeholder model postulates that all individuals or groups with legitimate interests in an organization participate to achieve benefits. These stakeholders they lack pre-set priorities of interests and benefits over the other. As a result, the stakeholder theory postulates that in addition to a corporation’s stakeholders, there are other external elements including the community, trade unions, environmental groups, associated corporation, employees, customers and government agencies.

The core idea behind the stakeholder theory is that a firm has relationships with numerous constituent groups, and the firm can support these constituents or endanger them by balancing their interests (Jones & Wicks, 1999). According to Jones and Wicks, the key or basic premises of stakeholder theory include: A firm has relationships with numerous constituent groups (referred to as stakeholders) who are affected by decisions of the firm. Secondly, the stakeholder theory is concerned with the nature and characteristics of these relationships in terms of processes and outcomes of interest to the firm and the stakeholders. Third, the interest of legitimate stakeholders has an intrinsic value, and no single value should dominate the other. Finally, Jones and Wicks (1999) revealed that their main focus is the decision making process. Donaldson and Preston (1995) offer a descriptive, instrumental and normative stakeholders theory to facilitate in understanding the various features of the stakeholder theory as follows:

(1) The stakeholder theory is descriptive in that it describes a firm as a constellation of cooperative and competitive interests that have intrinsic value.
(2) Stakeholder theory is instrumental as it establishes a framework for evaluating the connections, between the practice of stakeholder management and the realization of various goals of a corporate.
(3) The fundamental assumption of the theory is normative in that it involves the acceptance of the notion that stakeholders are person.

(4) Finally, Donaldson and Preston claims that the normative element is at the center of the stakeholder theory by describing the justifications of favoring stakeholder theory.

In addition, the two scholars outlined four fundamental theses in relation to the stakeholder theory. First, it offers a model of the corporation. Secondly, it offers a framework for evaluating the links between conventional performance of the firm and the practice of stakeholder management. They revealed that the stakeholder is more of normative because it represents an intrinsic value. Finally, Donaldson and Preston (1995) revealed the theory is managerial because it describes attitudes, structures and practices need to interests of stakeholders.

Descriptive or empirical theory describes and explains the specific characteristics and behaviors of a corporate. In this respect, it describes how managers behave. In recent literature, the theme of social and environmental consciousness and profit maximization has become dominant. The normative theory entails the identification of the underlying moral or philosophical guidelines for corporate management and offers a description of how and what managers should do while dealing with stakeholders.

The topology offered by Donaldson and Preston (1995) has received widespread criticism and other alternative approaches and models formulated. Jones and Wicks (1999) grouped stakeholder research into social sciences and ethics-based theory categories. The social science-based theory entails instrumental and empirical approaches while the ethics-based focuses on normative issues. Jones and Wicks (1999) suggest a convergent stakeholder theory that combines both normative and instrumental tools and show how managers categorize stakeholder theory into three perspectives. The three perspective include corporate, stakeholder and conceptual. According to Steuer (2006) the corporate perspective describes how firms manage stakeholders while the stakeholder perspective describes how the stakeholders influence the organization. The conceptual perspective outlines how specific concepts such as sustainability relate to interactions between business and stakeholders.

The fundamental purpose of the stakeholder theory is to equip managers with the capacity to understand the various stakeholders and manage them effectively. Numerous studies accentuate the managerial importance of stakeholder management (Carroll, 1991; Donaldson & Preston, 1995; Hendry, 2005; Rowley & Moldoveanu, 2003). These studies underscore the importance of effective project stakeholder management for the survival of the firm. The model has its roots in strategic management but has wide applications in other fields and disciplines. Corporate Sustainable development is the process of balancing financial profitability interests of an organization with the larger societal concerns for economic development, environmental safeguards and satisfaction of societal needs in the short-term and long-term. The focus of sustainable
development is both internal and external stakeholders impacted by the activities of the organization.

Enyinna (2013) explores the assumptions of philosophical pragmatism that support the stakeholder theory. He stated that the theory does not qualify to be normative because its conception of morality is hypothetical. The main question of the exploration is whether the stakeholder theory is ethical or normative as proposed by Donaldson and Preston (1995). He invokes Hasnas (1998) definition of normative theories. Hasnas argues that a normative theory of business an attempt to concentrate or focus the general theories of philosophical ethics upon those aspects of human life that entail business relationships. As a result, a key element of a normative theory is that it should provide guidelines that support business relationships. Pesqueux and Salma (2005) stated that researchers following the normative perspective try to define the best alternative to driving organization initiatives ethically and in a constructive way. These studies postulate a close relationship with paradigm searches under the interpretive theory of organization.

The challenges of distinguishing the normative, descriptive and instrumental stakeholder theory appear in the work of Egels-Zandén and Sandberg (2010). They describe the triple taxonomy of Donaldson and Preston’s typology. They stated that most of the empirical studies view the Donaldson and Preston models as describing, sometimes explaining and specific the various characteristics and behaviors. This line of research is descriptive because it deals with issuing relating to how the word is. The second view of other articles is to interpret that function of and offering guidance to the firm of some core moral and philosophical principles. The third perceptive is often controversial (Egels-Zandén & Sandberg, 2010). The perceptive relates to identifying connections or local of connections between stakeholder management and the realization of an organization’s objectives. Egels-Zandén and Sandberg (2010) stated that the normative aspect is the core of the theory, but most researchers often refer to various stakeholder theories when referring to Donaldson and Preston model (1995).

Instrumental Stakeholder Theory

Instrumental stakeholder theory is part of a wider class of issues that concern the relationship between corporate social performance and corporate financial performance. Some writers refer to the theory as the main theoretical framework for defining and distinguishing corporate social performance and corporate financial performance research. The question, whether the theory can be interpreted the same way in modern research, needs to be answered using the different perceptive in Donaldson and Preston description. As discussed earlier, Donaldson and Preston (1995) definition of instrumental theory focuses on providing a framework for describing the relationship between the stakeholder management and the realization of organization goals. The principal focus of consequent studies has been that organizations that practice stakeholder management will be successful in performance. Several studies
have inferred the instrumental theory implicitly and explicitly through conventional statistics focusing on: The relationship between stakeholder pressure to an organization and how it affects organization strategy (Weaver & Cochran, 1999). Descriptive justification of the stakeholder theory includes researchers who point to a trend of management practices to adopt a stakeholder approach or not. Descriptive research analyzes stakeholder management as it is in the actual organization. Studies using this approach do not make prescriptive or normative assertion about the desirability of the stakeholder management. The key elements of the descriptive theory involve defining stakeholders as well as tool to identify stakeholder, and concepts that represent stakeholder salience toward managers. According to Remenyi (2005), salience refers to the question why some stakeholders’ claims are attended to while others are not. Mitchell et al. (1997) hold that salience constitutes attribute of power, legitimacy, and urgency. She stated that stakeholders with these attributes are silent toward managers than stakeholders that pose only one or two of these attributes. Another critical element of the descriptive theory is the number of visual stakeholder maps or models. Such models are used to enhance perception of complex organization environments and show the forces that influence organizations (Remenyi, 2005). The connection between social and financial performance (Cornell & Shapiro, 1987); However, Pesqueux and Salma (2005) stated that due to the diverse nature of these studies outcome, no clear relations in one direction are confirmable. The divergence between normative and instrumental stakeholder theory include:

The stakeholder theory’s descriptive aspect reflects and explains the past, present, and the future. It often generates exploratory and predictive propositions while as instrumental perspective attempts to show the connection between stakeholder approaches and the beneficial outcomes. The instrumental theory is used to explore the relation between causes (stakeholder management) and effects (the performance of an organization). Normative theorists try to explain these relationships through theoretical aspects and philosophical principles.

Depending on the point of reference a researcher uses, there are possible areas of disagreement about Donaldson and Preston typology. From an interpretive perspective, the empirical-normative distinction is not automatic. In addition, several normative studies affirm that moral behaviors are not justifiable since morality has its innate merits. Such articles consider the greatest contribution of normative theory is that it allows the prediction of specific moral behaviors. Verbeke and Tung (2013) propose the addition of temporal elements to the stakeholder theory to improve firm-level competitive advantage. They distinguish two major stages that include early and late stage in stakeholder management. They postulate that at the outset, the various stakeholders provide a source of competitive advantage in the form of resources including technology capacities and tactic knowledge. At the first level of
competitive advantages, the competitive advantage of the firm is sustainable to the degree the competitors are unable to imitate the value-creating strategy of the company. The strategy involves combining the amorphous resources better than the company’s competitors. However, in the later stage, a combination of social and economic relations among the firm and its common dependencies pressure the firm toward conformity thus leading to inter-firm homogeneity. Sustainable development remains a contested concept with various interpretations. According to Raj and Musgrave (2009), the concept of sustainable development is complex especially between sustainability and development.

Stakeholder Analysis

Current studies on stakeholder behaviors focus on identifying and describing various ways in which stakeholder can influence corporate activities or shape its salience (Hendry, 2005). In addition, scholars have evaluated factors that influence the selection of various strategies by these stakeholders. The concept of stakeholder influence is used interchangeably with concepts including “influence tactic” and activities. Freeman (1999) describes strategies as “means” stakeholder use to achieve what they want and proposes hat nature of the relationship between the firm and stakeholders play a critical role in determining the nature of the relationship. The stakeholder management approach selected by the project team influence and is influenced by the stakeholder analysis. The importance of stakeholder analyzes is increasing as the world becomes increasingly interconnects. Projects, regardless of the sectors or industry they are being implemented, affect numerous people, groups, and organizations. As a result, no one stakeholder can argue to be on completely in charge of the project (2004). For this reason, projects involve managing the responsibility and expectations of a wide range of individuals, groups, and organizations. Bryson (2004) identifies seven reasons why stakeholder analysis is important. He stated that stakeholder analysis helps the project team to identify the interests of all stakeholders and potential conflicts that may jeopardize the project. Project analysis enables an organization to identify opportunities and relationship that are critical in the implementation process. It also guides the project team on the appropriate strategies and approaches for effective stakeholder management.

Stakeholders include internal and external stakeholders. Most literature recognizes external stakeholders despite the fact that the management of internal stakeholders is always problematic. External stakeholders include individuals or organizations who do not make up part of the client organization but have interest in the project or the activities of the project influence them. Eskerod & Huemann (2014) contributes to the understanding of stakeholder analysis by identifying contributions from other fields. He stated that stakeholders are vital to the success of the project because they provide the necessary financing and resources, and they assess the potential success of the
project. Stakeholder analysis plays a critical role in procuring resources for the project. The aim of stakeholder analysis is to increase the possibility of the project to anticipate opportunities and possible problems at the most appropriate time. The two main purposes of stakeholder analysis include assisting the project representatives achieve the project successful by identifying strategies to procure resources. The second is to help the representatives understand the interests and concerns of all the project stakeholders (Eskerod & Huemann, 2014). These two purposes appeal to the instrumental approach to stakeholder management and normative approach. The first purpose details, how the project representatives identify ways to make the stakeholder, contribute to the project (instrumental approach) so as to realize the benefits they struggle for in order to fulfill their needs. The second approach entails the procurement of the necessary knowledge about how to satisfy the needs and interests of stakeholders (normative approach) as well as identifying ways to improve the success rate of the project. As a result, Eskerod & Huemann (2014) argue that the stakeholder analysis increases the chances of combining the “of” and “for” approaches stakeholder analysis. From this perspective, stakeholder analysis increases the probability of project success and the project product success and harnessing the stipulated project benefits to the investors and other stakeholders. In order to achieve this matrix of success, the project stakeholder analysis needs to be appropriate.

Eskerod & Huemann (2014) revealed that classical stakeholder analysis methods have a number of steps. These steps include stakeholder identification and several stages of stakeholders’ assessment. As a result, the analysis method of choice is selected on the desired type of interaction. Conflicting interests often arise when a project involves numerous stakeholders, and the prioritization of their needs is an essential part of planning. Mitchell et al. (1997) propose categorization of stakeholders based on the assessment of power, legitimacy, and urgency. Consequently, a powerful, legitimate stakeholder with an urgent request deserves more attention from the management. The prioritization of stakeholders follows Freeman (1984) classical proposal. Freeman stated that differentiation of stakeholders into primary and secondary stakeholders is essential in devising a strategy to allocate resources. He defines primary stakeholders are those that are vital to the wellbeing and survival of the organization. The second method is systematic constellation. The method originated from a family therapy but adopted in the project management field. Systematic constellation is applicable in the context of change and conflict management. Systematic constellation is a critical instrument that displays relationship structures within the system in a spatial way. For this reason, it is applicable in the analysis and development of changes of relationship structures. He stated that the purpose of systematic constellation is to use the intuitive knowledge of the client to position the relationships of a system in an appropriate
space. The method use “systematic resonance” and “representative perception.” The representatives behave “in resonance” to the existing relationship structures.

Bourne (2013) compares systematic constellation method and the classical project stakeholder analysis. Proposes that the systematic constellation method is issue-specific, and it is applicable in project management. According to the proposed constellation method, stakeholders’ issues are identified by “the client.” The system stakeholders are facilitators undertake a neutral role. A major advantage of client-focused strategy is that it offers a “top of minds.” Bourne (2013) underscores the central role stakeholders play in the successful delivery of the project. Identifying, mapping, and prioritizing project’s stakeholder is a major step in project implementation. The success of the project relies on the approval from the stakeholders. As a result, there is a great need to identify the interests and expectations of these stakeholders.

Bourne (2013) proposes a five-level model of stakeholder’s relationship management maturity (SRMM). The five levels include ad-hoc (some use of processes), procedural, relational, integrated and predictive. The first step involves the identification of all stakeholders. A group of the project team members forms a list of stakeholders. Then the team identifies the two aspects that entail how each of the stakeholders and what does each of the stakeholders expect from the project. In addition, the first step involves the categorization process by indicating the direction of influence of each of the stakeholders. The categorization also includes the upward, upward, downward influence from these stakeholders. After the identification and description of the stakeholders and their interest, the team prioritizes the needs of these stakeholders. Bourne (2013) proposed a stakeholder circle that classifies stakeholders according to their importance. The categorization follows the stakeholder’s power to “kill” the project, closeness to the project and urgency or how important is the project to the specific stakeholders. The third step is visualizing the stakeholders. The visualization step entails understanding the structure of the stakeholders. The structuring of the stakeholders, as proposed by Bourne (2013), is similar to the systematic constellation. The fourth step involves engaging the stakeholders by identifying the most appropriate communication channels that are tailored to the attitudes and expectations of the stakeholders. The engagement profile is the final process of collecting data about the stakeholders that leads to the creation of an effective stakeholder management plan.

McCullough (2013) identifies the foundation for the ethical treatment of stakeholders and describes the benefits of ethical stakeholder view. The study highlights the need to prioritize stakeholders according to their value. Ethical principles validate value-centered foundation of stakeholder treatment. The conclusions are based on a qualitative action research study that examines
leadership team behaviors. They postulate that there is a synthesis of the Kant and utilitarian theories that integrate the benefits of both to meet the organization and the need of stakeholders. The prioritization of values is a matter of contextual judgment, and it is value-centered to complement a utilitarian decision process. According to Daley (1999), there are three stages of ethical development that include behavioral, developmental and strategic. The purpose of the behavioral stage is to meet the legal and mandatory requirements. Most projects use project governance and rules of conduct to accomplish the behavioral stage. The developmental stage seeks to offer project leaders a tool to recognize and resolve ethical issues and dilemma. The strategic stage considers feedback mechanism, value-stated codes of ethics and ethical review process to manage effective that evolvement of the organizational culture and structure.

In order to drive project management the value-centered leadership, McCullough (2013), stated that the implementing team needs to define the core values. The definition of the core values of the project should include all stakeholders to create trust from the initiation of the process. One of the effective strategies of creating trust and nurturing a positive relationship is through communicating the values of the project to stakeholders. The second step in stakeholder management is engagement where the project is implemented. The value-based categorization of stakeholders in forms each decision, issue, and communication. For this reason, stakeholders comprehend the inherent trade-offs thus improving stakeholder buy-in.

Bourne (2013) explores the use of stakeholder Circle™ in managing stakeholder relationship. Stakeholder Circle™ offers a dynamic mechanism for assessing key stakeholders in relation to their influence and for comprehending their needs and expectations. Project relationships occur between project managers and the stakeholders of projects and also among project stakeholders themselves. Bourne (2013) emphasized that the key to managing project relationship, requires understanding the direction of influence of the stakeholders. Bourne’s the Stakeholder Circle™ integrates these directions of influence to support the identification of project stakeholders.

The management of forwards components entails projecting and planning while backward management entails developing and maintaining the necessary control systems, implicit and explicit knowledge (Bourne, 2013). The management of upwards entails developing and maintaining vibrant relationships with that senior management. Managing downwards entails managing the team while inwards involve receiving feedback from various stakeholders. Sideways management involves meeting the needs and impacts of external stakeholders. Outwards include government and regulatory bodies, taxpayers, voters, and lobby groups. Projects are organizations in microcosm. As result, projects have similar structures. They have a purpose, structures, authority, and culture. As a result, project managers
need to be aware of the culture of the project sponsor. They need to be in recognition that the culture of the project may differ with that of the organization.

**Conclusion**

The stakeholder's approach is described as a powerful approach of understanding an organization or firm and its environment. The approach broadens management’s vision of its functions, roles and responsibilities that extend profit maximization. The core idea behind the stakeholder theory is that a firm has relationships with numerous constituent groups, and the firm can support these constituents or endanger them by balancing their interests. Donaldson and Preston (1995) formulated the stakeholder theory that has been the foundation for future stakeholder. The theory is conceptualized as normative, instrumental and descriptive. Instrumental stakeholder theory is part of a wider class of issues that concern the relationship between corporate social performance and corporate financial performance. It is the main theoretical framework for defining and distinguishing corporate social performance and corporate financial performance research. The key elements of the descriptive theory involve defining stakeholders as well as tool to identify stakeholder, and concepts that represent stakeholder salience toward managers. Salience refers to the question why some stakeholders’ claims are attended to while others are not. It constitutes attribute of power, legitimacy, and urgency.

Current studies on stakeholder behaviors focus on identifying and describing various ways in which stakeholder can influence corporate activities or shape its salience (Hendry, 2005). In addition, scholars have evaluated factors that influence the selection of various strategies by these stakeholders. The influence of stakeholders is the basis of performing stakeholder analysis to identify how these influences will be managed. The stakeholder management approach selected by the project team influence and is influenced by the stakeholder analysis. The importance of stakeholder analyzes is increasing as the world becomes increasingly interconnects and the concept of sustainable development gain momentum. Projects, regardless of the sectors or industry they are being implemented, affect numerous people, groups, and organizations. As a result, no one stakeholder can argue to be on completely in charge of the project (Bryson, 2004). Therefore, projects involve managing the responsibility and expectations of a wide range of individuals, groups, and organizations. There are numerous reasons why stakeholder analysis is important. First, it helps the project team to identify the interests of all stakeholders and potential conflicts that may jeopardize the project. Secondly, it enables an organization to identify opportunities and relationship that are critical in the implementation process. Thirdly, it guides the project team on the appropriate strategies and approaches for effective stakeholder management.

Stakeholder analysis fulfills two main purposes of stakeholder analysis.
(1) Assisting the project representatives achieve the project successful by identifying strategies to procure resources.

(2) To help the representatives understand the interests and concerns of all the project stakeholders. These purposes appeal to the instrumental approach to stakeholder management and normative approach. The literature search identifies four key methods that are used to conduct the stakeholder analysis. They include systematic constellation and classical analysis (Eskerod & Huemann, 2014), stakeholder’s relationship management maturity (SRMM) (Bourne, 2013) and stakeholder Circle™. The classical stakeholder analysis methods involve stakeholder identification and stakeholders’ assessment while in systematic constellation; the analysis is based on the client. The SRMM method involves that include the identification of all stakeholders, the categorization process, prioritization the needs of these stakeholders, visualizing the stakeholders and engaging the stakeholders by identifying the most appropriate. Stakeholder Circle™ methods focus on managing the influences of stakeholders. These influences include upwards, downwards, sidewards and inwards.

Stakeholder theory remains attractive in the management of projects. The theory recognizes projects as a relationship that involves more than one actor. The fundamental approach, to managing these actors, is to understand the direction of their influences. Literature highlights numerous strategies that are applicable in analyzing stakeholder and the decision on which method is best may differ. However, the baseline similarly in all the methods is the categorization of stakeholders, identification of their influences and prioritization of their expectations.

The findings of the study are limited in the fact that the study focused on stakeholder and did not explore the link between other theories and stakeholder analysis. In addition, the study is not limited to study.

References:


