3A Assignment 1 Report

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Communicating with Stakeholders and Managing Their Expectations

COMP3120 Assignment 1

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18 March 2016

Executive Summary

The following report been written to answer some key questions about the role of stakeholders in projects and businesses, and include the types, how to identify, the expectations and how to communicate with these differing stakeholders. It will also cover how to evaluate the effectiveness of the stakeholder management process and how a CEO can best manage the stakeholders within their company. It determined that management of stakeholders is crucial, and their expectations need to be taken into account and communicated with effectively.

Introduction

Identifying and managing any stakeholders in a project is crucial to its success. In some cases, stakeholder interests can be in direct opposition, so tradeoffs and compromises need to be made to ensure a successful outcome. The role of stakeholders in project management has changed over time, and the understanding of their importance has changed as research into the causes of project failures and successes has progressed.

According to Cleland (1998, p. 55), "Stakeholders are people or groups that have, or believe they have, legitimate claims against the substantive aspects of the project." In other words, stakeholders are people who are effected by the outcome of the project and can exert some influence over the product (Witnch, 2004). If the people or group with a claim cannot exert influence over the project, they are usually overlooked as stakeholders throughout the project.

Discussion

Types of Stakeholder

There are two main classes of stakeholder: *internal* and *external*. Internal stakeholders are everyone directly related to the implementation and creation of the project (Winch, 2004). Internal stakeholders can be divided into demand and supply side stakeholders (Winch, 2004). Demand side stakeholders request the creation of the project and include elements like the client, sponsor, financiers, client employees, client customers (Winch, 2004). Supply side stakeholders are responsible for creating the project for the demand side and include engineers, contractors and employees of the project creating company (Winch, 2004). The external stakeholders have less power over the project, but are able to influence the outcome through approaching regulators or government bodies, and include the distinction of private and public (Winch, 2004). Private stakeholders generally have the least power and include concerned citizens, while public stakeholders have a large amount of power but are less likely to exercise their power without the intervention of private stakeholders. Public stakeholders include regulatory agencies and government bodies such as the tax office or governments (Winch, 2004).

Significance of Stakeholder Expectations

Maintaining effective relationships with important stakeholders is crucial for the long-term success of a project (Post, Preston et al. 2002). Successfully managing expectations is a key part of this relationship. An analysis in the factors affecting the success or failure of software projects in the context of developing Customer Relationship Management Systems (CRM) found that the quality of expectation management is most often a critical factor (Kibera, 2013). Furthermore, the Project Management Body of Knowledge (PMBOK®), which presents standard guidelines of project management, states that “Stakeholder satisfaction should be managed as a key project objective” (Jarocki, 2014). Through employing strategies for understanding the requirements of stakeholders, developing visible indicators of progress and maintaining regular engagement with key stakeholders on the project’s development, a project manager will be able to manage and maintain achievable expectations from stakeholders.

The stakeholders involved all have different expectations depending on their goals and interests for the project. The most frequent clashes occur between demand and supply side of the internal stakeholders. This is a result of a conflict of interests with the supply side looking to maximize the income stream deriving from the project, while the demand side is looking to maximize delivered value for minimal costs (Winch, 2004). Another frequent source of clashes is from within the internal demand side where the diversity of interests and the power of the stakeholders is large (Winch, 2004). While the internal demand side tends to support the project, they seek different outcomes and client employees demands particularly differ from the client and financiers (Winch, 2004). Both the client and financiers will tend to seek the maximum return on investment, while employees favor usability and a positive impact on their working environment (Winch, 2004).

The job of managing stakeholder's expectations does not fall onto any single person. As outlined by Hillman and Keim in their 2001 paper "An organization can be viewed as an interdependent set of relationships between primary stakeholders" (Hillman & Keim, 2001): all members of an organization contribute to managing stakeholders and their expectations. The organizational hierarchy influences who will manage stakeholder's expectations, e.g a project manager manages employee's expectations. A prime example is the elected board of directors who have fiduciary responsibilities to shareholders (Directors, 2013), who are primary stakeholders.

Stakeholder's expectations will often be conflicting due to the sheer number of different stakeholders and each individual stakeholder's objectives. It is important for stakeholder conflict to be mitigated or resolved in a timely manner due to the stakeholders influence on the project (Ritcher, 2012). The 'when' involved when managing stakeholder's expectations is influenced by the type of stakeholder, specifically their influence and interest in the company/project (Jay & Don, 2005). The stakeholder's position on the stakeholder matrix (see appendix 1) helps determines the frequency of communication with stakeholders. The upper-right corner of the stakeholder matrix indicates that the stakeholder must be closely monitored and frequently updated while the opposite side requires infrequent communication and less detailed information (Jay & Don, 2005). The 'how' of managing stakeholder's expectations is also dependent on the stakeholder and their position in the stakeholder matrix. Ali says "*Communication is key and must make clear to participants and end users the envisaged strategy as well as on-going progress"* (Ali, 2012). As discussed later in the report multiple communication approaches and mediums should be used to achieve best results.

Stakeholder Identification and Meeting Expectations

Unidentified stakeholders can increase the risk of breaches of legislation and potential patent violations. Most project's external stakeholders include the local or federal government whose expectations are typically to "obey the law" and "pay [your] taxes on time" (Li, 2016). If these expectations are not identified, then the company runs the risk of fines, criminal charges or civil litigation. In addition, Zwikael O., Elias A. A. and Ahn M.J.'s state in their paper (p. 120, 2012) that the global market for HIV/AIDS drugs requires aid organizations who are expanding care in third world countries to collaborate with drug companies to minimize the risk of accidently violating the drug company's patents. If the expectations of external stakeholders such as government or related corporations are not identified, it will damage the chances of a project's success. Once the stakeholders of a project have been identified, their expectations need to be found and managed.

"One of the main reasons business relationships end prematurely is because the expectations of one or both sides are not understood and, in turn, not satisfied." (Lambert, 2008) This results in, "missed opportunities for value creation or disconnects between promise making and promise keeping," eroding the relationships between the stakeholders over time (Lambert, 2008). Because, "clear expectations establish the foundation for high performance [business relationships]," (Lambert, 2008) if the expectations are unclear, the companies morale will be harmed. This causes standards to drop across the business leading to delayed progress, communication discrepancies and increased costs from the resulting errors.

It is also essential that even if the stakeholders are in alignment, their expectations must be realistic. According to Saucer and Willcocks (2007). "If programmes too often start with unrealistic targets, the problem of project performance can be turned on its head." One case study involves a failed tourist attraction: "Unrealistic expectations are a product of a well-intentioned, but naive belief that any cultural heritage asset must, by right of its age or local cultural value, be a viable tourism product, when in reality, the asset does not possess the attributes required to become a viable attraction" (McKercher, Ho, Cros, 2004). Similarly, for all business products, if the expectation of attained value is greater than what is possible, the resources invested run the risk of not contributing towards increasing the companies value, and the company loses the return on the project.

Communication with Stakeholders

Communication leads to understanding of stakeholder expectations. Even in closely knit development organizations, it is often the case that people are limited because they "can't express exactly what [they] need, but [they'll] know when [they] see it," particularly when they want to describe an advanced set of requirements in software development (Boehm, 2003). To improve stakeholder communication, several tools and techniques have been developed for allowing software developers and stakeholders to discuss the requirements of a project. Creating personas is one method for developing an understanding of stakeholders' expectations for a project. Using personas, stakeholders can describe how particular users might operate a system and allows them to clarify characteristics of the end product's users. User stories also allow stakeholders to describe desired capabilities of the product (Canty, 2015). These communication tools allow for stakeholder requirements to be understood and clarified, allowing developers to realign the project closer to the expectations of stakeholders.

Different methods of communication should be used to achieve the highest levels of penetration and retention (Snethlage, Delbaere, Elliot, & Jones-Walters, 2012); there is no single approach that will be effective in every situation (International Finance Corporation, 2007). Factors such as scale, location and project timeline can affect the communication with stakeholders (International Finance Corporation, 2007). Two major categories of communication are Instrumental communication (from one entity to another in only that direction) and Interactive communication (between entities and involving negotiation and discussion) (Snethlage, Delbaere, Elliot, & Jones-Walters, 2012)& (Snethlage, Delbaere, Elliot, & Jones-Walters, 2012). Appendix 2 illustrates the difference and nuance; the more interactive the communication, the more direct.

Instrumental communication can be broken down into four sub-sections: spoken, written, visual and digital (see appendix 3). Instrumental communication tending to be one-to-many, it is usually used for large groups for high information penetration. Being one-way, stakeholders cannot immediately provide feedback and so may end up dissatisfied with the information. Targeting stakeholders correctly is key for stakeholder engagement.

Interactive communication is used when an organization or group requires or wants stakeholder input into a project. If a stakeholder's input is taken into account in the decision making process the stakeholder will have stronger sense of commitment, thus increasing their level of engagement (Snethlage, Delbaere, Elliot, & Jones-Walters, 2012). Interactive communications collaboration in planning creates a plethora of solutions which can be discussed and analyzed to determine the 'best' solution for all stakeholders involved (Snethlage, Delbaere, Elliot, & Jones-Walters, 2012).

Interactive communication can become inefficient if the interaction is occurring between excessively large groups. This phenomenon is similar to Frederick Brooks' *Mythical Man Month:* adding extra man power to a project will not ensure its completion in a shorter amount of time, in fact the opposite can occur (Brooks, 1975).

Evaluation and Management of Stakeholder Expectations

Developing visible indicators of progress is highly valuable in evaluating how well stakeholder expectations are being met, allowing stakeholders to provide detailed feedback. One simple progress indicator is a visible display of information that is discovered as the project is worked on. This may include a list of existing product features, a list of remaining product features, information about the team velocity and a list of discovered defects (Canty, 2015). A demonstrable product is also an effective progress indicator. Producing information about new features and changes as they occur – regular updates – improves stakeholder understanding of the project, and may help them adjust their expectations.

Having a plan for regular engagement with stakeholders sets the project up to stay in line with expectations as it develops. Projects can (and have) failed due to poor stakeholder engagement (Kibera, 2013). In addition, it should be considered that the importance of input from different types of stakeholders changes as the project develops, with key project decision makers being more important at the initiating and planning stages, and users being more important at the executing and monitoring stages (Jarocki, 2014).

CEO Stakeholder Management

A CEO makes the following key assumption about the stakeholders: that stakeholders are rational; they are trying to maximize some measure(s) of value (for instance, monetary value, ethical value, etc.). The CEO must be mindful that these differing interests may be conflicting or competing. Employees (internal stakeholders) may be interested in getting raises and climbing the corporate ladder; investors in the net growth and revenue of the company; lawmakers in the ethics of the business and its e.g. paying of taxes. Some of these interests by definition conflict, and so it becomes the CEO's job to try to strike a balance between the conflicting interests of stakeholders (Ramaswamy and Ozcan, 2011). An example of a potential conflict between stakeholders is as follows: employees may ask for a raise due to changing economic circumstances (like rising inflation). Their salaries come out of the organisation's net income, the lowering of which is contrary to the interests of investors and partners. Yet if employees aren't granted a fair raise, they could go on strike, or simply quit, which could have a very severe effect on the organisation's net income, as well as its public image.

The CEO should expect a great deal of responsibility for the organisation. They act as the public image of the organisation, they make important decisions about its future, and they are expected by stakeholders to have good judgement in terms of risk and opportunity (Lafley, 2009). Stakeholders will expect some amount of risk, but will have faith in the CEO's judgement that risks will turn to rewards in the longer term.

The CEO should expect that if the organisation fails, or declines, they will inevitably be blamed. Consider HP's former CEO Carly Fiorina, who in a short US presidential campaign (suspended as of February 10) saw initial hopes dashed by recurring references to her past performance as CEO. Critics characterised her laying off of around 30,000 HP employees (Goldman, 2015) as an immoral, abject betrayal of those stakeholders.

The CEO should also expect the responsibility as an innovator of the company. They are in charge of spearheading the organisation's growth into new areas of the market. A high-profile example of a CEO that failed to do so is the ex-CEO of the declining – yet still behemothic – Microsoft, Steve Ballmer. Ballmer is characterised to fail to seize early enough on opportunities that rivals (for instance, Apple) saw (Thompson, 2013).

Conclusion

The CEO must be mindful of the potentially competing or conflicting interests of their organization's stakeholders in order to strike effective compromises. In agile development, this process of managing stakeholder expectations is especially important since feedback must be given regularly as the plan develops and changes rapidly as the project progresses.

Through employing strategies to understand the requirements of stakeholders, developing visible indicators of progress to share, and having a plan to engage with stakeholders on a regular basis, a project is much more likely to understand and meet the expectations of stakeholders. Mutual understanding of all stakeholder's expectations is achieved through effective communication, which ideally all stakeholders participate in, and where effective compromises are found when stakeholders' interests are competing or conflicting.

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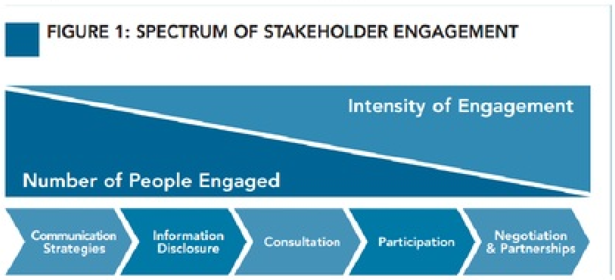
Appendix

1 – Stakeholder Analysis Matrix

Source: https://www.mindtools.com/pages/article/newPPM_07.htm

2 – Spectrum of Stakeholder Engagement



Source: (International Finance Corporation, 2007)

3 – Instrumental Communication methods

Spoken	Written/printed	Visual	Digital
• Meetings	• Newspapers	• Television	• Internet
• Press conferences	• Books	• Slide shows	• CD ROMs
• Training sessions	• Magazines	• Videos	• PC demo's
• Radio broadcasts	• Pamphlets	etc	• List servers
• Discussion groups	• In-house publications		• Email bulletins
• Hearings	• Posters		• Discussion groups
etc	• Panels		• Online conferences
	• Brochures		etc
	• Letters		
	etc		

Source: (Snethlage, Delbaere, Elliot, & Jones-Walters, 2012)