
Involving Stakeholders in Managing Business Risks

Ashwathanarayana Shastry*

Introduction

Managing a project has never been easy. Large projects in particular more often fail. Even if the projects are successful, they deliver less value and will call for significant maintenance overheads. According to a study done by McKinsey Oxford, half of IT projects with budgets of over \$15 million dollars run 45 per cent over budget, are 7 per cent behind schedule and deliver 56 per cent less functionality than predicted. That means that - at least half the time, achieving at least \$15 million in benefits, requires spending \$59 million. This is clearly not just a project risk, but a big business risk that most CIOs of the companies are worried about. A project not delivered on time will affect the sales schedules for the company and will impact the revenue growth. A project not delivered within the budget will affect the project cost and will impact profitability. A project not meeting the desired functionality will affect the turnaround time and will impact productivity. All the three parameters – revenue growth, profitability and productivity will impact the business and hence not achieving these will be treated as business risks.

A manager responsible for executing the projects is not only responsible for managing project risks, but also becomes answerable to these business risks. An European client undertook a project to migrate existing application to a newer technology platform with an expectation that such a migration will result in considerable productivity improvement and hence he can trim his workforce by

one third of the current strength. The company went ahead with a severance package for all those workers who were likely to be fired at the end of project completion. However, when the project got completed and the new application went live, it did not yield the expected productivity gain and the company had to re-hire people to keep up with increasing business demands. The manager responsible for the project execution got fired since he did not understand the primary project objective and ended up making some loss to the company.

In another instance, an American client had outsourced an application development project to streamline the workflow process so that the cost

* **Adjunct Faculty, Xavier Institute of Management and Entrepreneurship, Bangalore. Email: ashwath@xime.org**

of internal operations can be reduced and hence the profitability can be increased. However the application development team over engineered the requirements of the workflow and implemented very complicated business rules. When this application was deployed, the actual cost of internal operation actually went up as the client had to set up a small maintenance team to simplify the business rules and also support user queries.

In yet another instance, a Canadian manufacturing company initially deployed an ERP package to streamline the basic manufacturing processes. Over a period of time, the technology team of that company went on adding additional packages and also customized the ERP package to meet the requirement of different country implementation. As a result, the whole technology deployment became so complicated that it used to take six to nine months for the technology team to implement a simple enhancement request. Due to the retarded support from the technology team, the company could not handle the sales volume and its revenue growth was severely impacted.

In all the three examples stated above, one of the key reasons for failure was the poor stakeholder involvement during the project execution. In any project execution, three factors should be looked in to carefully – people, process and technology. All three are equally important, but the people factor plays a significant role in the business success post the project implementation. Hence it is very important to take care of stakeholder management during project implementation.

Risks involved with poor stakeholder management

As discussed before, business risk associated with a project implementation could be attributed to the inability of the system to address three parameters – revenue growth, profitability and productivity. From a stakeholder management perspective, following factors could result in business risks:

- **Inadequate understanding of end user requirements** – more often, technical people associated with business users will try and understand the business needs and generate requirements. They seldom go back to business users to verify the actual requirements.
- **Improper communication of end user requirements** – the project manager and the project team members are mostly technically qualified and do not understand the business domain. They will end up implementing the application as per the requirements given to them.

- **Impact of attrition in the team on project output** – in long term projects, team members involved in requirements development many not be same as the team members involved in the project implementation. Team members will leave in between projects and knowledge transfer between incoming and outgoing team members will not happen as desired.
- **Lack of accountability for sub-contracted work** – in a complex project, several part of the project such as data centre setup, network connectivity or data migration are sub-contracted to other vendors and the work will happen as per the contractual terms. But overall understanding of the project objectives among vendors will be generally missing and can potentially manifest as a mis-interpreted feature in the final application
- **Poor or missing end user training** – once the application is developed and deployed, it is the end user who will use the application to perform business related operations. If the end user is not adequately trained to use the new application, he may end up taking more time than necessary to perform business transactions.

There could be many other factors such as employee motivation, customer perception, management direction and cross-functional team composition which will play its part in adding to business risks.

Identifying right stakeholders

The first and foremost challenge in stakeholder management is to identify the right stakeholders associated with the project and the business. It is easy to identify the direct project stakeholders as they are normally stated in the project contract documents. Some of the direct project stakeholders are:

- Project sponsor
- Project manager
- Team members
- Customer manager

There are many indirect stakeholders who get associated with the project. They are difficult to identify. Some of the indirect stakeholders are:

- Finance manager – to control project budgets
- HR manager – to handle employee related challenges

- Business end users – who will eventually use the application
- Suppliers – who will supply the resources for the project
- Vendors – who will handle sub-contracted work
- Training manager – who will handle team member training as well as end user training
- Investor – who has stake in the success of the project and hence the business

For any given project, it is very important to first identify and list all stakeholders of the project. There are several methods available for identifying stakeholders of the project. Whatever may be the method used, it is important to identify two critical aspects of each identified stakeholder – (i) Importance of the stakeholder in the project and (ii) Interest of the stakeholder in the project. The same is discussed in detail in the next section.

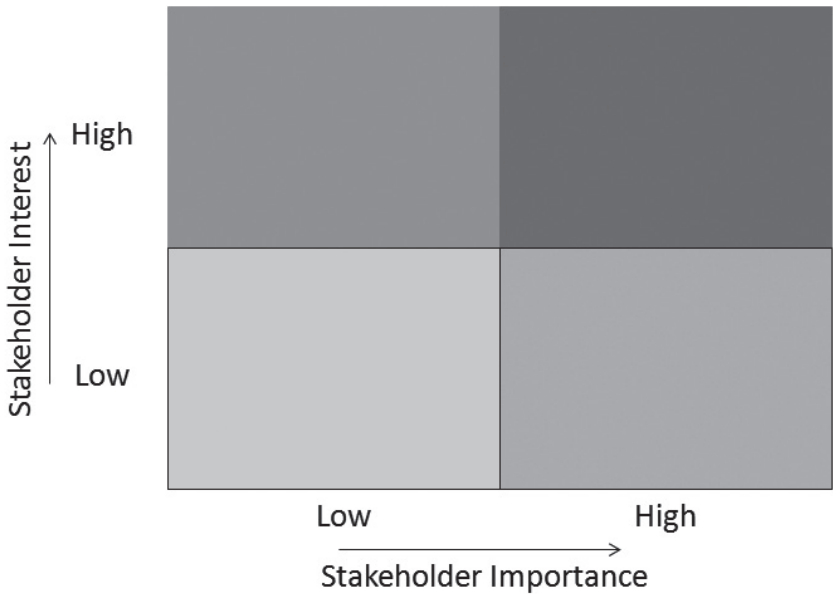
Analyzing and prioritizing stakeholders

Any stakeholder identified for a given project will have two important attributes:

- 1. Interest of the stakeholder** – this attribute will describe the interest (positive or negative) of the stakeholder on the outcome of the project and its impact on business. There are several questions that one need to ask to understand the interest of the stakeholder:
 - How the project output is going to be used? Who will use it?
 - What is the dependency of the stakeholder on the project output? Are there alternate resources available to accomplish the business goal?
 - Who has the final stake on the business results? Are government or international bodies going to be involved in measuring the business success?
 - Who is likely to be involved in the execution of the project keeping business results in mind?
 - Are the stakeholders spread across geography having same expectations on the project output?
 - Are there major change initiatives happening with stakeholder which will impact the project output and hence the business results?

- Has there been a similar initiative in the region? How that would impact the stakeholder?
2. **Importance of the stakeholder** – this attribute will describe the involvement of the stakeholder during the implementation of the project. There are several questions that one need to ask to understand the interest of the stakeholder:
- Who is directly responsible for decisions on issues important to the project?
 - Who holds positions of responsibility in interested organizations?
 - Who is influential in the project related decisions?
 - Who will be affected by the project?
 - Who will support the project, provided that they are involved?
 - Who will hinder the project if they are not involved?
 - Who has been involved in the project from the past?
 - Who has not been involved up to now but should have been?

The most popular practice is to prioritize the stakeholders on the basis of their relative interest and importance in the project. Most stakeholder analysis tools suggest to rate the interest and importance of the stakeholder on a scale of 1 to 10 (10 being highest) and plot them on a 'Interest-Importance Matrix' shown below:



Based on the relative interest and importance, stakeholders can be grouped in to four categories:

1. **Key Players** – Stakeholders with high interest and high importance
2. **Keep satisfied** – Stakeholders with high interest and low importance
3. **Keep informed** – Stakeholders with low interest and high importance
4. **Minimal effort** – Stakeholders with low interest and low importance

It is important to treat each group of stakeholders differently to manage business risks associated with a project. The next section will describe key strategies in handling each group of stakeholders.

Strategy for handling different groups of project stakeholders

Each identified stakeholder will have a role to play in the success of a project and associated business. But the real question is to what extent the stakeholders should be involved in the project execution and how he can impact the outcome of the project? To understand this, it is worthwhile considering each group of stakeholder and understands the strategy that is needed to involve that stakeholder in the execution of the project.

1. **Key players** – have a major role to play during the project execution. They very much control the project and need to be very actively involved in the decision making process. The project manager, the project sponsor, the customer manager belong to this category of stakeholder.

The key strategy to handle this group of stakeholder is to assign a role in the project and define responsibility and accountability. They need to sign-off on project plan and project deliverables. The key expectations of such stakeholders should be analyzed in greater level of detail and the activities needed to meet those expectations should be embedded in the project plan.

2. **Keep satisfied** – the stakeholders belonging to this category are the people who can either make the business successful or kill the project. The business sponsor, the finance manager, end users belong to this category of stakeholder.

The key strategy to handle this group of stakeholder is to involve them in critical project milestone reviews and ensure that their expectations are always met. They normally do not worry about immediate project

deliverables and will look for feedback from key players to make a decision whether to go ahead with the project or kill it.

- 3. Keep informed** – the stakeholders belonging to this category are the people who will primarily contribute to the success of the project deliverables. The designers, technical architects, independent testers belong to this category of stakeholder.

The key strategy to handle this group of stakeholder is to involve them in the project planning process and define key deliverables expected out of them. It is critical to hold them responsible and accountable during the milestone reviews and ensure that the project is on right track.

- 4. Minimal effort** – the stakeholders belonging to this category are the people who have very specific role to play in the project and are otherwise not accountable to the success or failure of the project. The training manager and the HR manager belong to this group of stakeholder.

The key strategy to handle this group of stakeholders is to involve them in the execution of specific activity in the project as and when they are needed. They are normally shared resources across several projects and hence need to plan and schedule their time in advance.

The idea behind defining key strategy is to involve the stakeholders in the project execution in the right manner so that the project will benefit and the stakeholders will be satisfied with the overall outcome of the business.

Linking stakeholder satisfaction to mitigate business risks

The manager responsible for project execution will have to do a detailed analysis of stakeholders and group them as per their importance and interest in the project. Once this step is done, the manager has to list all possible business risks associated with the project and start indicating the likely impact. This impact is bound to affect the stakeholder satisfaction and hence need to be mitigated.

As the stakeholder expectations are understood and their roles in the project are defined, the manager should discuss the probability and impact of associated with business risk with key stakeholders and discuss methods to mitigate those risks. The common mitigation strategy for some of the risks mentioned in the earlier section is listed below:

Sl.	Risk	Mitigation Strategy
1	Inadequate understanding of end user requirements	<ul style="list-style-type: none">• Workshops involving key stakeholders and end users• Documentation review and sign-off• Field trials• Prototyping
2	Improper communication of end user requirements	<ul style="list-style-type: none">• Stakeholder interviews, business survey results• Business domain training
3	Impact of attrition in the team on project output	<ul style="list-style-type: none">• Project organization structure with well defined responsibility• Backup plan for each resource• Minimum committed time for shared resources
4	Lack of accountability for sub-contracted work	<ul style="list-style-type: none">• Involving stakeholders in milestone reviews• Focused workshops on project output and business objectives
5	Poor or missing end user training	<ul style="list-style-type: none">• Professional training for identified stakeholders• Train the trainer programs with incentive schemes

Conclusion

In summary, stakeholder management is very critical to mitigate business risks associated with a project. Involving stakeholders at the right time and working with them through the execution of the project will go a long way in meeting the business objectives of the organization.

References:

“McKinsey Report Highlights Failure of Large Projects: why it is better to be small, particularly in IT”, Mark P. McDonald, http://blogs.gartner.com/mark_mcdonald/2012/10/29/mckinsey-report-highlights-failure-of-large-projects-why-it-is-better-to-be-small-particularly-in-it/

Applegate M Lynda (2006) “Stakeholder Analysis Tool”, Harvard Business School.

- “Cross cutting tool – stakeholder analysis”, Resources for implementing the WWF standards, October 2005
- “Improving Risk Management in Projects: Stakeholder Management in Perspective of Risk Management”, Shahbaz Ahmed, NTNU University, July 2009
- “Stakeholder Satisfaction Survey Report”, Reliability First, 2011
- “Who really matters? – A stakeholder analysis tool”, Nicole Kennon, Peter Howden and Meredith Hartley, <http://www.csu.edu.au/faculty/16science/saws/afbmnetwork/efsjournal/index.htm>
- “Guidelines for Stakeholder Identification and Analysis: A Manual for Caribbean Natural Resource Managers and Planners”, Yves Renard, 2004