INVOLVING STAKEHOLDERS IN MANAGING BUSINESS RISKS

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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 have run 45% over the budget, are 7% behind schedule and deliver 56% 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 CEOs of companies are worried about. A project not delivered on time will affect the sales schedules of the company and will impact the revenue growth. A project not delivered within the budget will affect the project cost and will impact the 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 business and hence not achieving these will be treated as business risk.

A manager responsible for executing the projects is not only responsible for managing project risks, but also becomes answerable for these business risks. A European client undertook a project to migrate existing application to a newer technology platform with the 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 the 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 causing 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 of internal operations can be reduced and hence the profitability increased. However the application development team over engineered the requirements of the workflow and implemented very complicated business rules in the software. When this application was deployed, the actual cost of the internal operation actually went up as the client had to set up a small maintenance team to simplify the business rules and also answer 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 package to meet the requirements of a different country for the implementation. As a result, the whole technology deployment became so complicated that it would 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 cited 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 into 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 the stakeholder management during the 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, the team members involved in requirements development may 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 parts 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 the overall understanding of the project objectives among vendors will be generally missing and can potentially manifest itself 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 mentioned 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 a 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 the 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.

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 stakeholder 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 understand 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 and the customer manager belong to this category of stakeholder.

The key strategy to handle this group of stakeholders is to assign them a role in the project and define their responsibility and accountability. They need to sign off on the project plan and project deliverables. The key expectations of such stakeholders should be analysed in greater 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 and end users belong to this category of stakeholder.

The key strategy to handle this group of stakeholders 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 take a decision as to 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 and independent testers belong to this category of stakeholders.

The key strategy to handle this group of stakeholders is to involve them in the project planning process and define the 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 a very specific role to play in the project and are otherwise not accountable for the success or failure of the project. The training manager and HR manager belong to this group of stakeholders.

The key strategy to handle this group of stakeholders is to involve them in the execution of specific activities in the project as and when they are needed. They are normally shared resources across several projects and hence the need for the risks 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 mitigating 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 completed, 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 the 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 business risks with the key stakeholders and discuss methods to mitigate those risks. The common mitigation strategies for some of the risks mentioned in the earlier section are listed below:

Sl.	Risk	Mitigation Strategy
1	**Inadequate understanding of end user requirements**	• Workshops involving key stakeholders and end users • Documentation review and sign-off Field trials • Prototyping
2	**Improper communication of end user requirements**	• Stakeholder interviews and business survey results • Business domain training
3	**Impact of attrition in the team on project output**	• 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**	• Involving stakeholders in milestone reviews • Focused workshops on project output and business objectives
5	**Poor or missing end user training**	• Professional training for identified stakeholders • Train-the-trainer programmes 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.

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