

## Chapter 15

# Managing Information for a Risk Based Approach to Stakeholder Management

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### ABSTRACT

*This paper proposes a risk based approach in order to obtain a quantitative estimate of the salience of the stakeholders involved in a project. The integration between stakeholders and risk management processes in the Project Management System allows us to realize a twofold objective: a quantitative estimate of the salience of each stakeholder in terms of the contribution to the overall project riskiness and an identification of the most effective responses as a function of the dynamics of the risks generated by each stakeholder. The proposed approach has been applied to an international project concerning the building of a pipe line.*

### INTRODUCTION

For more than 25 years, the issue of the stakeholders has been so significant in management sciences as to question the function of the company itself as a generator of economic wealth. A long debate has ensued between supporters of two opposing visions looking either to shareholders or to stakeholders. The classical view (Friedman, 1982) sees the company as a process that transforms production factors into goods with added value for the final customer. In this view, the company's shareholders are the sole recipients

of the management's attention and the wealth generated by the company. The alternative view considers the company as a generator of economic value not only for the shareholders, but also for all the other stakeholders that participate through the company in a co-operative effort to create wealth. Generally speaking, stakeholders may be defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984). The most important difference is that every stakeholder, and not just the shareholder, deserves the management's attention. The discussion (Donaldson & Preston,

1995; Clarkson, 1995; Sternberg, 1997; Jensen, 2002) has concentrated in particular on the role of Corporate Social Responsibility (CSR) as a competitive advantage in ensuring the generation of long-term wealth for all stakeholders (Friedman, 1970; Jensen, 2002; Vogel, 2005; Crook, 2005).

At the corporate level, the key point in the issue is described by the definition: "The stakeholders in a corporation are individuals or constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and that are therefore its potential beneficiaries and/or risk bearers" (Post, Preston, & Sachs, 2002). In particular, for project based companies, "project stakeholders are persons or organizations who are actively involved in the project, or whose interests may be positively or negatively affected by the performance or completion of the project" (PMI, 2008). Examples of project stakeholders may be sponsors, managers, team members, suppliers, subcontractors, partners, clients, shareholders, financial institutions, insurance companies, labor unions, mass media, pressure groups, consumers, local communities, etc.

In order to classify the project stakeholders, different criteria may be applied. Based on their level of involvement in the project, it is possible to differentiate stakeholders into: primary and secondary (Clarkson, 1995), voluntary and involuntary (Clarkson, 1994), vested and non vested (Wideman, 1998; Durrenburg, Beebe & Spring 1996), internal and external. For instance, primary stakeholders should have a contractual or legal obligation to the project team (Cleland, 1998). Examples of such primary stakeholders include: client, main contractor, suppliers, subcontractors, etc. Secondary stakeholders include, for instance, government, local authorities, media, consumers, competitors, local communities, etc.

In this perspective, the notion of project stakeholder is used extensively in the literature on project management, in order to highlight the multi-dimensional and political nature of project success (Achterkamp & Vos, 2008; Baccarini,

1999; Shenhar, Dvir, Levy & Maltz, 2001; Diallo & Thuillier, 2005; Chan & Chan, 2004; Bannerman, 2008). For example, the following success criteria can be considered: the classical iron triangle (cost, quality, time), the product performance, the benefits for the organization developing the project and the benefits for the local community (Atkinson, 1999).

It is important to underline how the definition of project success is highly dependent on the evaluation expressed by the stakeholders involved (Stukenbruck, 1986; Wideman, 1988). Each stakeholder - owner, managers, employees, suppliers, etc - expresses a different point of view, different expectations, and, therefore, different criteria to assess project success. Consequently, the concept of project success appears to be inherently political, since the influence of the various stakeholders, i.e. their salience, will play a fundamental role in determining whether the project has been a success or not.

Mitchell, Agle, & Wood (1997) suggest that the salience of the individual stakeholders can be assessed in terms of the presence of one or more of the following attributes: power, legitimacy and urgency. Power refers to the ability to influence the decision-making process; legitimacy to the legal context within which the project is developed, and urgency to the criticality and time sensitivity of the issues raised by the stakeholder. Furthermore, the level of salience usually depends not only on the individual characteristics of the single stakeholder, but more generally on the interactions with other stakeholders. In other words, power may derive from the position within the network of stakeholders, rather than from individual attributes (Rowley, 1997; Neville & Menguc, 2006). In this perspective, the interaction between stakeholders can lead to the creation of alliances pursuing common objectives and determining a significant influence on the project. In addition to power, legitimacy and urgency, stakeholder assessment may consider, for each stakeholder, other attributes that may influence the project such as interests

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