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Stakeholders, who are they?
by Massimo Pirozzi
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Massimo Pirozzi

ABSTRACT

This paper focuses on *stakeholders*, and on their importance with respect to projects. At first, the origin and the history of this word help to understand the complexity of this role, which includes several key concepts as interest, support, participation, organizational behavior, influence, value, ethics, and risks. Then, the centrality of stakeholders, who are both the doers and the beneficiaries of each project, is demonstrated: while, on the one side, the stakeholder work is basic for project implementation, on the other side, the stakeholder satisfaction is the main success factor in all projects. Then, an accurate overview about all different project stakeholders is made, with a special focus on project manager, on project team, on reluctant stakeholders, on negative stakeholders, and on personal stakeholders. Finally, the concepts of importance both of stakeholder relationships - as real and proper business and/or social relationships - and of stakeholder management are introduced. This paper is extracted from the first Chapter of my new book *"The Stakeholder Perspective: Relationship Management to Increase Value and Success Rates of Projects"*, CRC Press, Taylor and Francis Group, October 2019.

THE EVOLUTION OF STAKEHOLDER'S CONCEPT

Stakeholders are *persons*, without a doubt: but why do we use a word that specific, which incorporates so many concepts that some hundreds of its different definitions exist in the literature, and direct translation of which in other languages is nearly impossible? In fact, some history, and a little in-depth analysis, of the meanings of this word can help us to reveal a significant part of the mystery.

The word stakeholder dates back to the beginning of the eighteenth century, in England, and it meant the person who was entrusted with the *stakes* of bettors: he was the *holder* of all the bets placed on a game or a race, and he was the one who was paying the money to the winners. Therefore, the first stakeholder was a *holder of interests*, and this is, even today, one of the most common meanings, if we consider, in addition, that "having a stake" is a synonym of "having an interest", and that stakes (meaning "strong sticks") can be pushed in the ground either to mark a property, or to be part of a fence that settles the boundaries of an estate, so defining the perimeter of an interest.

But stakes (still meaning "strong sticks") can be hammered in the ground also for *supporting* plants: in fact, it is believed that the first modern meaning of stakeholders,

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PM World *Journal*
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which has been attributed (Freeman, 1984) to an internal memorandum of Stanford University Research Center dated 1963, was "those groups without whose support the organization would cease to exist". Therefore, stakeholders are the strongest supporters of an organization (we could also say that they may be ready to "go to the stake" for it!), and their contribution is foundational to the existence of the organization itself: main emphasis is, in this definition, on *internal stakeholders*, who are the doers of organization's performances, and who need to be properly engaged to give an effective contribution. Meanwhile, in the above-mentioned perspective, stakeholders do not act anymore as individuals only, but they are considered as part of *groups*, too: stakeholders interface each other through processes, start to act collectively, by sharing their resources and by integrating their efforts, and they do it through *relations*, so that their *behavior becomes organizational, and not only personal*.

Furthermore, in the first text on the theory of stakeholders (Freeman, 1984), the definition of stakeholder was "a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives". Since "to affect" is a synonym of "to influence", it was here that one other of the most common concepts in stakeholder definitions came in: stakeholders *influence* the organization's objectives, and are influenced by them, and this is the first time that the nature of stakeholders' centrality in the organizations became evident, since stakeholders were defined as both the actors and the recipients of the organization's results.

In the original PMBOK (Project Management Institute, 1987), the stakeholders were considered as the *participants* to the project. In addition, some years later (Freeman, 1994), the foundational concepts of *participation* and of *created value* were enhanced too, and stakeholders were defined as "participants in the human process of joint value creation". At first, in fact, stakeholders participate in the organizations, as far as other stakeholders would like to participate in the same organizations, and, in both cases, they want to do so *jointly*, e.g., by becoming, and then *being part of a specific community*, which is deeply characterized by common goals, behavioral rules, specific languages, and so on. Thus, regarding the created value, the extraordinary importance of this concept, on the one hand, is due to the enhancement of the stakeholders' role on the joint creation of the business and/or social value, while, on the other hand, is because it introduces the issue that actual value which is added by stakeholders must be considered *arithmetically*: in fact, it can be positive, but also null or negative. Indeed, in, and outside of, all the organizations, there are positive stakeholders to engage, but there are generally also *neutral/reluctant* stakeholders, who require special additional efforts for their engagement, and *negative/hostile* stakeholders too, who have to be properly combated.

Moreover, starting from the second half of the 1980s, a vision of the enterprise as a complex system inserted in the society was born, and a new "stakeholder theory" started to be developed. In this vision, the basic idea is to extend the benefits that are created by the enterprise from its shareholders to its participants to various titles, and to affirm the conviction that this same idea must be translated in ethical principles of

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www.pmworldjournal.com

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managerial behavior. Without entering into the dispute between stakeholder view and shareholder view (also because shareholders are stakeholders, too), it is important to notice that above focus on corporate social responsibility started to incorporate an important *ethical* component into the concept of stakeholder. In fact, it is confirmed that a strong ethical concept is still valid today, since, for instance, Cambridge Dictionary defines stakeholder as "a person such as an employee, customer, or citizen who is involved with an organization, society, etc., and therefore *has responsibilities* toward it and an interest in its success": conveniently, responsibility is considered by the community of project managers as one of the top ethical issues (Project Management Institute, 2006).

Finally, if we go back to the word stake, it could be interesting to notice that one of its main meaning is *risk*, and that "at stake" is a synonym of "at risk": in other words, stakeholders do risk in order to achieve their goals, and risk-based thinking is part of their life, exactly as it is part of several disciplines, from project management, since its early beginning, to quality management, more recently, and so on. On the other side, stakeholders are the ones who introduce risk in all the domains.

THE CHARACTERISTICS OF PROJECT STAKEHOLDERS

Are all the above considerations applicable to *project stakeholders*? Of course they are, with a specific focus on *unicity*, and a necessary emphasis on the *relation between stakeholder expectations and project goals*, which confirms the *stakeholder centrality* in all projects. Every project is, actually, unique, and its unicity is reflected not only in its scope, goals, objectives, deliverables, time, cost, resources, and so on, but also in its own set of stakeholders, which, then, characterizes specifically each project both with respect to others - also if they may be related in the same program, and in terms of its inherent complexity. Furthermore, a foundational issue is that *stakeholders are central in all the projects: stakeholders are both the doers and the beneficiaries of the project*, and while, on the one side, the stakeholder work is basic for project implementation, on the other side, *the stakeholder satisfaction is the main project success factor*. Therefore, different stakeholder perspectives go with the project not only during project life cycle, but also during both before it, i.e. during investment phase, and after it, i.e. in released product/ infrastructure/ service life cycle.

Definitively, a project stakeholder is a person, or a group of persons, or an organization, who:

- *participates*, or would like to participate, in the project;
- has some kind of *interest* in the project;
- can be (if properly engaged) a foundational *supporter* of the project;
- may affect/*influence* the project, or may be affected/ influenced by the project itself;
- can bring a *value*, which could be either positive or negative, to the project;
- may have *responsibilities* toward the project, which, in turn, is supposed to satisfy his requirements and expectations;

PM World *Journal*
Vol. VIII, Issue IX – October 2019
www.pmworldjournal.com

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Featured Paper

- is characterized by a *risk*-based thinking approach;
- is part of a set that characterizes *uniquely* each project; and
- *has a central role in all projects*: stakeholders, indeed, both implement the project and determine its success via their satisfaction, and, then, are the actual key for project success.

It is, then, a fact, on the one hand, that each project includes a large variety of stakeholders, having different interests, expectations, level of influence, responsibilities, etc., and, on the other hand, that, due to the key centrality of their role, *all stakeholders are important*.

In project management literature, the definitions of project stakeholders are quite essential: while in first PMBOK (Project Management Institute, 1987), stakeholders were considered as just the synonym of "*participants*", maybe the first real definition of project stakeholders, with an evident emphasis on *active involvement* and i*nterest* aspects, was "individuals and organizations who are actively involved in the project, or whose interests may be positively or negatively affected as a result of project execution or successful project completion" (Project Management Institute, 1996).

However, current definitions leave the active involvement issue, which, on one part, limits the stakeholder domain, while, on the other, is more an objective to be reached via positive engagement, rather than an assumption that is part of a definition, and, at the same time, insist on *influence* aspects as the core ones. Moreover, some perspectives add the essential human factor of *perception* "stakeholder is a person, group or organization that *has interests* in, or can affect, be affected by, or perceive itself to be affected by, any aspect of the project" (International Organization for Standardization, 2012), some other insist on the first concept of *participation* "all individuals, groups or organisations participating in, affecting, being affected by, or interested in the execution or the result of the project can be seen as stakeholders" or, very similarly, relaxing the interest issue but with *a further extension to programs and portfolios concepts*, "stakeholder is an individual, group or organization that may affect, be affected by, or perceive itself to be affected by a decision, activity, or outcome of a project, program, or portfolio" (Project Management Institute, 2017).

THE DOMAIN OF PROJECT STAKEHOLDERS: FROM PROJECT MANAGER TO RELUCTANT STAKEHOLDERS

In general, typical project stakeholders include two groups that are both temporary and specific structures of the project domain, i.e., the project organization and the project governance stakeholders, and other groups, as investors, customers, and special interests groups, that we can find also in   more stable structures, as organizations generally are. The project organization is the temporary structure that includes (International Organization for Standardization, 2012) the project manager and the project team, and that may include a project management team and a Project Management Office, too, while project governance may involve the project sponsor, a

PM World *Journal*
Vol. VIII, Issue IX – October 2019
www.pmworldjournal.com

Stakeholders, who are they?
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Featured Paper

project steering committee or board, and other top management executives. Definitively, since all the stakeholders are important, it is foundational to consider them all properly.

An accurate overview about different project stakeholders should include (see Figure 1):

- the project manager;
- the project team, the project management team, the project management office;
- the sponsor, the project steering committee or board, the top management;
- the customers, the users, the contracting officers;
- the shareholders, the investors, the funders, the partners;
- the functional and/or resource managers, the employees, the professionals, the collaborators;
- the business partners, the network partners, the distributors, the representatives, the members of the consortium;
- the suppliers, the consultants, the service companies, the outsourcers;
- the authorities, the central and local public administration, the regulatory bodies;
- the potential customers and users, the participants and the candidates to participate in the project;
- the local communities, the web communities, the associations, the trade unions, the media;
- the competitors, and the other reluctant and/or negative and/or hostile stakeholders; and
- the personal stakeholders, including stakeholders' families, lovers, close friends, and generally, all the persons the stakeholders have strong personal relations with.

Project managers, who are they? In the project management literature, one of the first definitions of project manager was "the individual *responsible* for managing the project" (Project Management Institute, 1996), and it is interesting to notice that, in any case, *responsibility* has been recognized by the community of project managers as the most important ethical value to be used as a primary reference (Project Management Institute, 2006). In today's definitions, there is a special focus on *leadership*, too: in fact, project manager either "leads and manages project activities and is accountable for project completion" (International Organization for Standardization, 2012), or "is the person assigned by the performing organization to lead the team that is responsible for achieving the project objectives" (Project Management Institute, 2017). However, furthermore, in modern project management, project manager's role(s) and competences became, and are still becoming, so important, that *project manager can be considered*, in his own full right, *the central stakeholder among stakeholders*.
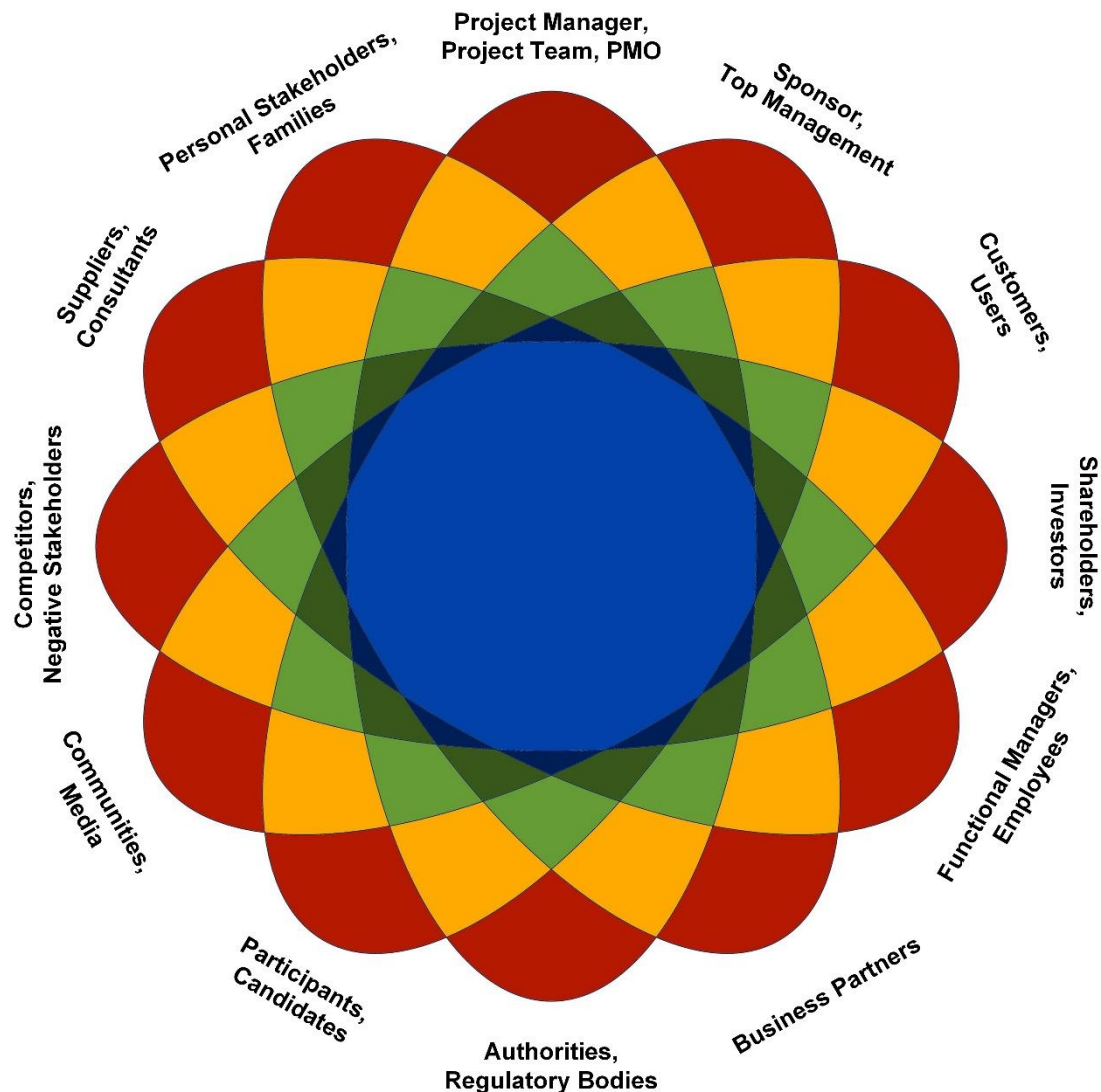
PM World Journal
Vol. VIII, Issue IX – October 2019
www.pmworldjournal.com

Stakeholders, who are they?
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Featured Paper

Fig.1 – The Project Stakeholder Rose

At first, in fact, *project manager is the only stakeholder who must have relations with all other project stakeholders, and who is responsible of monitoring relations among other stakeholders, too*. The immediate, although quite never enough emphasized, consequences of this project manager's role are that, on the one hand, *communication with stakeholders absorbs the largest part of project manager's time* (literature reports percentages that are higher than 80%, maybe about 90%, and that are still increasing), while, on the other hand, *in the major part of project management processes, the management of relations with stakeholders is needed*. Definitely, project manager is the unique stakeholder who spends almost 90% of his time by acting as a front office versus the other stakeholders (while only about 10% or less of his time is absorbed by back office activities, mainly in planning and controlling processes), and, then, he actually can be considered as *the stakeholder who is central with respect to all other stakeholders*.

PM World *Journal*
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www.pmworldjournal.com

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Featured Paper

It can be interesting to notice that above time percentages, which are valid for project managers, are almost inverted in the case of *project team members*, who, on the contrary, dedicate the major part of their time to perform "technical" project activities, and, then, have relatively little time to dedicate to relations with other stakeholders: although this time is almost spent internally, i.e., with the project manager and with other team members, it is foundational externally too, in order both to check the validity of the requirements with customers and/or users, and to valorize the perceived quality.

Finally, while existing literature substantially agrees on the belonging to the project stakeholders' domain of almost all individuals and groups that have been identified as those that are relevant for the project, there are two groups of foundational importance that have been, quite incomprehensibly, substantially forgotten and/or neglected by project management literature: *the reluctant/negative/hostile stakeholders, and the personal stakeholders*, i.e., the people with whom project stakeholders have strong personal relations, including families, lovers, close friends and relatives, and so on.

Reluctant stakeholders are not necessarily hostile, but, since they tend not to give their expected support, they do not guarantee their contribution in terms of positive value to the project: special additional efforts are then continuously needed to engage them, in order to avoid possible, and frequent, negative impacts on the project itself. On the other hand, *negative* and *hostile* stakeholders aim at bringing an increasing negative value, and, if they are not combated properly, they can become a critical issue for the project. Both hostile and negative stakeholders have interests that are contrary to the project, and, then, hope project's failure, but, generally, while the hostile stakeholders, as the competitors and other communities that do not want the project to be realized (e.g., the NIMBY "Not In My Back Yard" associations), are evident, the negative stakeholders, who are commonly present in the same organizations that are entitled to implement the project, and who oppose the project for reasons of internal competition/ envy and/or disagreement on priorities/budgets, are generally *hidden*, and their identification is often quite difficult.

Furthermore, especially in Information Security domain, there are two additional categories of hidden stakeholders that are of extraordinary importance, which are the *unrevealed stakeholders* and the *two-timing stakeholders*: both act as normal stakeholders until such time as they can, suddenly and/or unexpectedly, turn out to be hostile, and then create great damages to the project through hacking, cracking, DoS (denial-of-service) attacks, social engineering, etc. Ultimately, both hostile and negative stakeholders mainly combat the project by trying to discredit it, often by using the power of amplification that is a characteristic of internet and/or social media, and, if project reputation is not properly defended, they can succeed to be disruptive for the project, as we will see in following paragraphs.

Finally, the *personal stakeholders*, who are the people with whom project stakeholders have strong personal relations, including families, lovers, close friends, and (although not always!) parents and relatives, although they are not directly involved in the project, have an extraordinary importance in order to achieve project success. In fact,

PM World *Journal*
Vol. VIII, Issue IX – October 2019
www.pmworldjournal.com

Stakeholders, who are they?
by Massimo Pirozzi
Featured Paper

personal stakeholders do not only wish and/or want to participate to the project, but they can be also considered as engaged full time, and they can influence very significantly the motivation of key stakeholders, including the project manager, the project team, the sponsor, the top management, the board, and the customers too. *Personal stakeholders may turn out to be either part of the best supporters of the project*, e.g., in case they believe the project is an opportunity for the key stakeholder they have a close relation with, *or part of the worst hostile/negative of the project itself,* e.g., in case they become haters of the project because they believe that it takes up too much time to their relationship, and, furthermore and unfortunately, quite often, on an event-based logic, they can change rapidly, and several times, from one behavior to the other. In project management literature, just team members' families, among all possible personal stakeholders, were mentioned as project stakeholders, but this happened only in the early beginning (Project Management Institute, 1996), while, after that, they disappeared.

THE CENTRALITY OF PROJECT STAKEHOLDERS

Definitively, stakeholders, i.e., people, are central with respect to all projects. Indeed, stakeholders, including the project manager and the project team, are the doers of the project, as well as other stakeholders, including customers/users, and shareholders/ funders, are the target groups of the project itself: *business is the domain in which various stakeholders interact, through both project and project management processes, to create and to exchange value*. The relationships among the project stakeholders are, then, real and proper business and social relationships, which are associated with the generation, and the exchange, of business and/or social value: in general, this flow of value, among the stakeholders, courses through the project with a continuous exchange of resources and results (Pirozzi, 2017). *Managing contents and relations of, and among, project stakeholders is the extended meaning of what we call stakeholder management: ultimately, although only quite recently, project management community started to recognize the primary importance of both stakeholders and stakeholder management.*

PM World *Journal*
Vol. VIII, Issue IX – October 2019
www.pmworldjournal.com

Stakeholders, who are they?
by Massimo Pirozzi
Featured Paper

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www.pmworldjournal.com

Stakeholders, who are they?
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Featured Paper

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Massimo Pirozzi, MSc cum laude, Electronic Engineering, University of Rome "La Sapienza", Principal Consultant, Project Manager, and Educator. He is a Member and the Secretary of the Executive Board, a Member of the Scientific Committee, and an Accredited Master Teacher, of the Istituto Italiano di Project Management (Italian Institute of Project Management), and he is a Senior Examiner for Certifications in Project Management, and for Professional Project Managers, too. He is Certified as a Professional Project Manager, as an Information Security Management Systems Lead Auditor, and as an International Mediator. He is a Researcher, a Lecturer, and an Author about Stakeholder Management, Relationship Management, and Complex Projects Management; in particular, he is the Author of the Book "*The Stakeholder Perspective: Relationship Management to Increase Value and Success Rates of Projects*", CRC Press, Taylor & Francis Group, October 2019. He has a wide experience in managing large and complex projects in national and international contexts, and in managing relations with public and private organizations, including multinational companies, small and medium-sized enterprises, research institutes, and non-profit organizations. He worked successfully in several sectors, including Defense, Security, Health, Education, Cultural Heritage, Transport, Gaming, and Services to Citizens. He was also, for many years, a Top Manager in ICT Industry, and an Adjunct Professor in Organizational Psychology. He is registered as an Expert both of the European Commission, and of Italian Public Administrations.

Massimo Pirozzi serves as an International Correspondent in Italy for the *PM World Journal.* He received the *2018 PM World Journal Editor's Choice Award* for his featured paper "*The Stakeholder Management Perspective to Increase the Success Rate of Complex Projects*".

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