

Stakeholder Perspective and Effective Relationship Management ¹

A series of stakeholder-centered short guidance articles for increasing delivered value and success rate of projects

Managing high levels of project complexity via stakeholder perspective ²

by Massimo Pirozzi

If we consider present International and National Standards for project management, maybe one of the most updated definitions of project management is «the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements», together with «effective project management helps individuals, groups, and public and private organizations to meet business objectives (and to) satisfy stakeholder expectations» (Project Management Institute, 2017). In general, although undoubtedly the attention to stakeholders, and specifically to stakeholder expectations, increased significantly in last years, the dichotomy between requirements and expectations led, and still leads, to harmful misunderstandings, and, moreover, it is clearly, as we will see further in this article, a basic cause for projects' lack of success and/or failures.

In fact, possible misunderstandings are because that, while we consider natural and/or normal that stakeholders have one-sided behaviors in accordance with the diversity of their interests, we tend to consider the projects as if they are neutral. In other words, while we feel uncomfortable when dealing with stakeholder expectations, because they are subjective, we feel more comfortable when dealing with project requirements, which we tend to consider as objective ... although they are intrinsically not. Actually, project requirements are nothing but stakeholder requirements, and, moreover, requirements are the result of a complex, non-linear, and affected by semantic noise, mediation among diverse subjective expectations, which, although it has been initially somehow agreed when stakeholders signed the contract, can be evidently interpreted differently by different "stakeholders at stake". Furthermore, requirements have a dynamic nature too, and this can be either positive and/or neutral for the project, if they are managed

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accurately and properly during all project lifecycle, or negative, if they diverge from what it has been “apparently” agreed before so that, in most of this cases “scope creeps” phenomena arise, or, definitively, as it happens quite often, a combination of positivity and negativity.

Actually, does the conversion from stakeholder expectations to project/stakeholder requirements work effectively? Moreover, can the satisfaction of project requirements be considered an outcome that is sufficient to ensure the project success? The actual information that are available from the field (Project Management Institute, 2018) absolutely confirm the answer “no, not at all”, although the benefits due to an increasing Project Management Maturity in the Organizations are evident. In fact, on average:

- more than 30% of projects do not successfully meet those original goals and business intents on which their existence itself is based on, i.e. they do not satisfy stakeholder expectations;
- more than 50% of projects experience scope creep or uncontrolled changes to the project’s scope, i.e. they do not satisfy original project requirements, which grow abnormally during project lifecycle;
- almost 50% of projects do not finish within their initially scheduled times, i.e. they do not satisfy original project time requirements;
- more than 40% of projects do not finish within their initial budgets, i.e. they do not still satisfy original project cost requirements.

Above evidence of projects’ not-so-brilliant performances - can we imagine what it would happen if going to a potential investor and asking him to fund a project while showing average performances like above? - lead us to an important principle: stakeholder perspective is a definite driver for project success, and, even if it includes the subjectivity of relations, it is more reliable, and controllable, than traditional stand-alone project requirements perspective, which, in any case, is objective only apparently, since requirements are a mediation of different subjective stakeholder expectations.

Indeed, a project is really successful when its results, in terms of delivered value, do not only achieve those project objectives that traditionally correspond to the fulfillment of project requirements, but are also perceived as they will achieve those project goals, which correspond to the satisfaction of stakeholder expectations. Therefore, perception becomes a basic driver during project life cycle, because project’s performances could be evidently measured only after project completion, i.e. during following product/ service/ infrastructure life cycle, and, then, subjectivity of stakeholder relations takes, through and through, that central role, which is crucial for driving stakeholder satisfaction. In fact, depending on the complexity of the projects, the gap between the generated value in terms of deliverables, and the perceived value in terms of satisfaction, may become significant.

In the Stakeholder Perspective (Pirozzi, 2017), starting from the invested value in terms of resources, stakeholder relations both generate a value in terms of deliverables, and determine a perceived value in terms of satisfaction. Indeed, a rational domain of requirements, which is oriented to efficiency and targets project objectives, interacts with a relational domain of expectations, which is oriented to efficacy and targets project

goals: each of the two domains both influences and supports the other, and a stream of project value is created to be delivered at project completion.

Effective Stakeholder Management should therefore target both the fulfillment of project/stakeholder requirements and the satisfaction of stakeholder expectations, which correspond to both the achievement of project objectives and the perception that project goals will be achieved. Stakeholder satisfaction, instead of being "a" critical success factor, proves then to be "the" critical success factor. In fact, projects may not succeed their goals, or may fail at all, for various reasons, which could be technically very different, but, for sure, each project that was not successful had at least one key stakeholder whose expectations were not satisfied (Pirozzi, 2017).

Ultimately, project management faces project complexity both rationally and relationally. The rational approach is the most well-known, and mature, part of project management, and it is also its most common understanding; rationally, the complexity of the project is addressed:

- by providing proper breakdowns that lead to the possibility of both handling and estimating more easily lower complex work packages, which will then be integrated bottom-up to provide appropriate project outcomes and deliverables;
- by making efficient use of initiating, planning, executing, monitoring and controlling process groups, and this also by making an effective process tailoring, and, especially, by establishing an appropriate baseline as reference for project development, and, then, by properly controlling project's progress;
- by managing risks, and by doing it properly, in order to take the uncertainty of the context and/or of the project environment into account.

Relational issues are of extraordinary importance in facing project complexity. First aspect to be considered is that stakeholder relations are themselves characterized by a multilevel complexity, since, as previously stated,

- stakeholders are persons, or groups of persons, i.e. complex systems,
- stakeholders are different, they may speak or understand different languages, and they have different interests,
- stakeholders are numerous, and stakeholder relations are even more numerous;
- stakeholder relations are context dependent, and they influence each other;
- all stakeholder relations are important, and, at least, have to be monitored;
- stakeholder relations may be evolutive.

Therefore, since stakeholder relations introduce complexity, it should be evident, although sometimes it seems that is not, that this relational complexity could and should be faced, and possibly solved, relationally only, i.e. through the same relations that generate the problem; in other words, it is inconceivable that a relational complexity can be solved rationally, e.g. through a better planning and control. However, it is basic that stakeholder relations have a primary supportive role, and not only a role of complexity bringers, and, moreover, that their positive importance and usefulness is even more than above and that it is still increasing.

A second relational issue that is of extraordinary importance in facing complexity is teamwork, since it is not only the major factor for creating value, but it is also the major

factor of destruction and removal of endogenous complexity, so generating a huge regaining and/or increase of productivity in the project. The virtuous circle is due to the emerging of “warm” individual responsibilities with respect to “cold” organizational responsibilities, which in project management takes place in planning process group, and, specifically, when assigning transparently, after both Work Breakdown Structure and project Organizational Breakdown structure have been assessed, the responsibilities of different Work Packages to diverse team members. From this point on, indeed, project team stakeholder relations evolve to efficient professional relations, since they succeed to overcome the constraints due to the existence of hierarchical organizational structures, which, being based on functions to be held and/or maintained rather than on objectives to be achieved, generally introduce endogenous complexity with those uncertainties about “who is the owner of what”, and/or “who is doing what” and/or “waiting something from somebody”, which almost always generate huge loss of time.

Ultimately, a major relational approach in facing complexity is stakeholder perspective at all: key processes as development and management of stakeholder relations, management of stakeholder requirements and expectations, stakeholder engagement, and an appropriate management of neutral and negative stakeholders (Pirozzi, 2019) can greatly support project success, and it may be useful, in order to identify properly the most efficacious actions, to assess the different levels of complexity that may characterize the diverse projects (Pirozzi, 2018).

A model which can be very helpful to face complexity, by supporting effectively decision-making processes, is the well-known Cynefin® Framework, which has been created, and developed, starting from early 2000s (Snowden, 2020). Cynefin® Framework is properly a Sense-Making Model based on observation, in which “data precede model”, rather than a theoretical Categorization Model, in which “model precedes data”: it individuates four domains which are characterized by different levels of complexity, i.e. Simple, Complicated, Complex, and Chaotic. If we apply the Cynefin® Framework to the projects, we observe that, while operations are part of simple domain and, respectively, crisis of chaotic domain, projects may be part either of the complicated or of the complex domain.

In complicated projects, support of experts is needed, and that is where project managers start to come in. In this domain, the value generation is a consequence of achieving the target of project objectives, the discipline of project management is very important and/or essential, and fulfilling the project requirements is the critical success factor; lessons learned about good practices are very useful.

In complex projects, but also in a part of “manageable” emergencies, which include those events that are substantially unpredictable, but where it is possible to plan adequate responses, and/or to manage properly the relevant risks, the value generation is a consequence of achieving the target of project goals, the discipline of project management is essential, and satisfying the stakeholder expectations is the critical success factor; lessons learned are essential to find out a proper emergent practice.

In both complicated and complex projects, the stakeholder perspective (Fig.1) can help to understand in depth their differences (Pirozzi, 2018), and also those historical

dichotomies as traditional versus agile, value-driven versus plan-driven, project management 2.0 versus 1.0, etc.

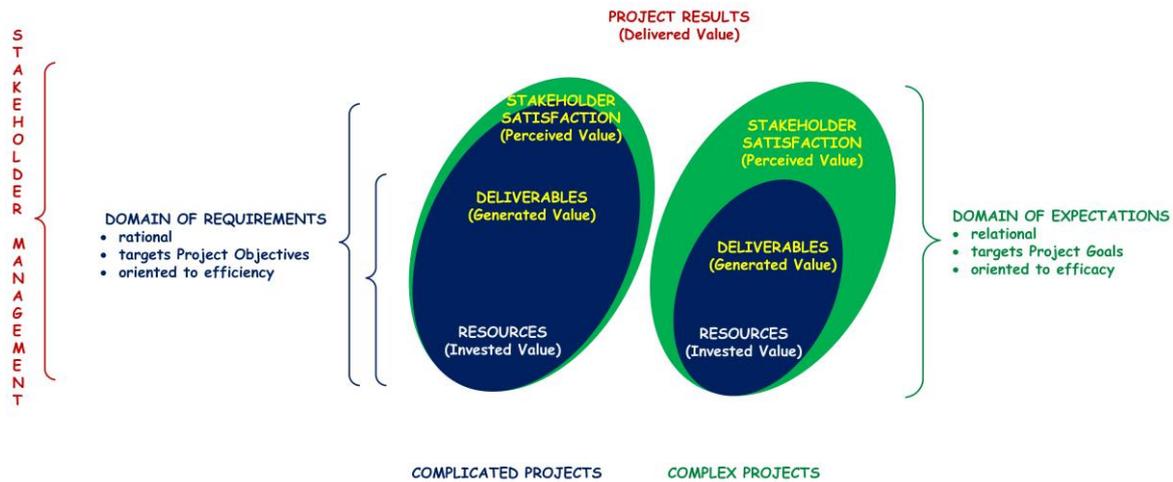


Fig.1 – Complicated and Complex Projects

In complicated projects, there is a small gap between meeting the requirements and meeting the expectations of stakeholders, and this happens when:

- the project is part of the customer's core business (“supplier perspective”, as in internal or in outsourcing projects), and, then, for the customer, the project is the business goal, and/or project results are product-oriented and/or tangible (e.g. in some infrastructure projects) and/or, in any case, stakeholder requirements are either well-defined (as in traditional contexts) or are evolutionary, but, in both cases, all stakeholders cooperate effectively (as in agile contexts);
- projects are essentially plan-driven;
- the triple constraints Time-Cost-Quality are dominant;
- the relations with stakeholders are important and periodic.

Since, in complicated projects, the domains of the stakeholder expectations and of the stakeholder requirements substantially overlap, we can assume that success is based on the fulfillment of stakeholder requirements, and that, therefore, managing properly the generated value, whose measures consist, as in classic project management, in cost and in consistency/progression of the deliverables, is necessary and sufficient.

On the other hand, in complex projects, there is a significant gap between meeting the stakeholder requirements and meeting the stakeholder expectations, and this happens when:

- the project is a support of the customer's core business (“customer perspective”, as in most external projects), and, then, for the customer, the project is a mean to achieve his business goals, and/or the project results are service-oriented and/or intangible (e.g. in software projects), and/or stakeholder requirements are not well-defined, or are evolutionary, but not all stakeholders cooperate effectively;
- projects are essentially value-driven;

- competing constraints are dominant: the importance of value and reputation is superior to that of the triple constraints (Kerzner, 2015);
- relationships with stakeholders are primary and can be continuous, fast, interactive (as in 2.0 world), evolutive (Kerzner, 2015).

Since, in complex projects, expected project goals can be far away from required project objectives, the project success is based on the satisfaction of stakeholder expectations, and, therefore, managing properly the perceived business value becomes mandatory. However, successful management of the business value requires adequate metrics and measures, which can be used also during project life cycle, and not only after project completion: proper indicators are then needed.

In fact, in all projects, which are, in any case, either complicated or complex, success derives from the capability of satisfying stakeholders by both generating the required project value and delivering the expected perceived business value: «Success is not necessarily achieved by completing the project within time, cost, and scope. Success is when the planned business value is achieved within the imposed constraints and assumptions» (Kerzner, 2009). However, managing value requires adequate metrics and measures (Kerzner, 2017); moreover, since the expectations of different stakeholder communities are evidently diverse, the relevant measures and estimates must include a set of parameters that cover both project management, economic, and business and/or social needs (Pirozzi, 2018), and, then, cannot be limited to Earned Value, which is powerful and extraordinary, but is unavoidably based on requirements only, and not on expectations too.

Definitively, during project life cycle, we may need the support of other additional indicators that can represent effectively both the project value and the business and/or social value: proper Key Performance Indicators, or KPIs (Parmenter, 2015), are, therefore, very useful and/or necessary, to target the success of both complicated and complex projects (Pirozzi, 2018). In fact, when managing major projects, Key Performance Indicators are, in any case, part of the necessary multidimensional evaluation of project success and value (Archibald and Archibald, 2016), and the same consideration can be applied in case of managing complex projects, too. Indeed, although Key Performance Indicators are fundamental measures of released projects/products/services, KPI-based measures and estimations can be also extremely useful to get crucial progress indications about the generated value, and to monitor stakeholder expectations, during both investment, project, and product/service lifecycles.

However, project stakeholders are different, have a different behavior, which characterize them in communities, and, then, have different expectations (Pirozzi, 2017): the diverse stakeholder communities, indeed, target different types of value. Providers (project manager, project team, business partners) target a technical (delivered) value, which include triple constraints, project objectives, revenues, while investors (top management, shareholders, funders...) target an economic value, which include costs, revenues, business prospects, and purchasers (customers, users) target their business value, including customer costs (which, of course, coincide with providers/investors revenues), project goals, expected benefits achievement. Specifically, KPIs should address different types of value, to cover both project management, economic, and business domains.

Project Management KPIs are especially useful to enhance project control, and to maintain and/or modify the proper route towards deliveries that fulfill stakeholder requirements: they are very helpful both in complicated and in complex projects. These KPIs include, for example (Kerzner, 2017) Earned Value, percentages of completed work packages compared to those planned, percentages of work packages that are aligned with budget and/or schedule, percentages of critical work packages that are aligned with budget and/or schedule, percentages of critical work packages that still have to be completed, and/or percentages of completed milestones, quantity and quality of resources that have been allocated compared to planned ones, turnover indices, numbers and percentages related to risks, revisions, requests for change, and changes.

Economic KPIs are especially useful to improve relations with top management and funders, and to maintain and/or modify the proper route towards the satisfaction of their economic and financial expectations: their use can be very helpful in complicated projects, and it is basic in complex projects. In any case, since the domain of economic KPIs is very analytical, and very vast, it is preferable to narrow focus on some selected high-level indexes. Economic KPIs groups include, for example (Marr, 2012) economic and financial indicators, marketing Indicators, Customer Relationship Management indicators, Human Resource indicators, and Sustainability Indicators.

Ultimately, Business Value KPIs are either common, or specific, for each sector of activity: they are especially useful to improve relations with customers and users, and to maintain and/or modify the proper route towards the satisfaction of their business expectations; their use is foundational in complex projects (Pirozzi, 2018). The business value KPIs that are common to the different sectors of activity are of primary importance, since they include measures and percentages of stakeholder satisfaction (in terms of both requirements and expectations), measures and percentages of stakeholder positive engagement, measures of perceived value, as perceived business value, social value, quality, reputation, business climate, innovation, sustainability. In addition, there are other important business value KPIs, as functional and/or quantitative measures, and the relevant percentages of completion/deviation from budget/schedule, which are specific of each sector of activity.

In all cases, Key Performance Indicators are necessary, powerful, and effective means, to manage both delivered and perceived value: proper KPIs can be, therefore, selected, agreed, measured/estimated, shared with stakeholders via dashboards (Kerzner, 2015), and used to confirm/readdress, in terms of both deliverables and stakeholder satisfaction, the action of the project team during the entire project life cycle (Pirozzi, 2018). In this way, an effective stakeholder management, which uses properly KPIs and dashboards, can increase the success rate of complex projects, by supporting both the value generation, and the project goals achievement.

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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 of the Executive Board and of the Scientific Committee, and an Accredited Master Teacher, of the Istituto Italiano di Project Management (Italian Institute of Project Management). 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, and his papers have been published in U.S.A., in Italy, and also in Russia; in particular, he is the Author of the innovative Book “*The Stakeholder Perspective: Relationship Management to enhance Project value and Success*”, CRC Press, Taylor & Francis Group, Boca Raton (FL), U.S.A., October 2019. Due to the acknowledgement of his comments on stakeholder-related issues contained in Exposure Draft of The Standard for Project Management - 7th Edition, he will be also included in the list of *Contributors and Reviewers of The PMBOK® Guide - Seventh Edition*.

Massimo Pirozzi has a wide experience in managing large and complex projects, programs, and portfolios in national and international contexts, and in managing business 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, Engineering, Logistics, Cultural Heritage, Transport, Gaming, Services to Citizens, Consulting, and Web. 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.

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