Series on Effective Stakeholder Engagement[1]

Why effective stakeholder management is free

By Dr. Lynda Bourne

Stakeholder engagement is not an overhead and it is not discretionary! Your project is being done by one group of stakeholders for the benefit of another group of stakeholders. It is impossible to deliver a successful project without effectively engaging with your stakeholder community. The good news is the investment in stakeholder engagement is likely to be significantly less than the costs of dealing with problems and issues caused by not engaging with stakeholders effectively.

However, as with any investment in quality, assessing the return on investment (ROI) from effective stakeholder engagement is not straightforward. Determining the real ROI is a difficult question to answer accurately because no-one measures the cost of problems that don't occur and very few organisations measure the cost of failure. This paper outlines one approach to calculating the ROI needed to support the business case for using a structured stakeholder management methodology within a business or project.

The stakeholder ROI problem is not unique; it is very difficult to value the benefits of an effective PMO, of improving project delivery methods (eg, improving the skills of your schedulers), of investing in effective communication or of better managing risk. The costs of investing in the improvement are easily defined, but the pay-back is far more difficult to measure. However, just because something is not easy to measure, does not mean it is unimportant, meeting or exceeding stakeholder expectations is one of the primary definitions of project success.

There are two practical reasons why investing in effective stakeholder analytics is likely to deliver a valuable ROI:

1. By knowing who the important stakeholders are at any point in time, the expenditure on other processes such as communication can be focused where it is needed most, generating efficiencies and a 'bigger bang for your buck'.
2. Stakeholders are a major factor in the risk profile of the work[2], their attitudes and actions can have significant positive or negative consequences and understanding the overall community provides valuable input to a range of processes including risk identification, requirements definition and schedule management.

[1] This series of articles on effective stakeholder engagement is by Lynda Bourne, PhD, Managing Director of Stakeholder Pty Ltd (Australia) and author of the books *Stakeholder Relationship Management* and *Advising Upwards*, both published by Gower (UK). Dr. Bourne is one of the world's leading authorities on program/project stakeholder relations. Her author profile can be found at the end of this article.

[2] For more on ***Risk Management*** see:
http://www.mosaicprojects.com.au/WhitePapers/WP1047_Risk_Management.pdf

At the most fundamental level, improving the management of stakeholders is directly linked to improving the quality of the organisation's interaction with the stakeholders. The quality of the goods or services delivered to the end users or client (i.e., stakeholders) is improved as a result of being better informed of their requirements[3] whilst undertaking the work.

Quality was defined by Joseph Juran as ***fit for purpose***, this elegant definition applies equally to the quality of your management processes as it does to your production processes and to the deliverables produced. These three elements are interlinked; you need good management systems and information to allow an effective production system to create quality outputs for delivery to the client. A failure at any point in the chain will result in a quality failure and the production on deliverables that do not meet client requirements.

Placing stakeholder management within the context of quality allows access to some reasonably well researched data that can be extrapolated to provide a reasonable basis for assessing the 'return' likely to be generated from an investment in stakeholder management.

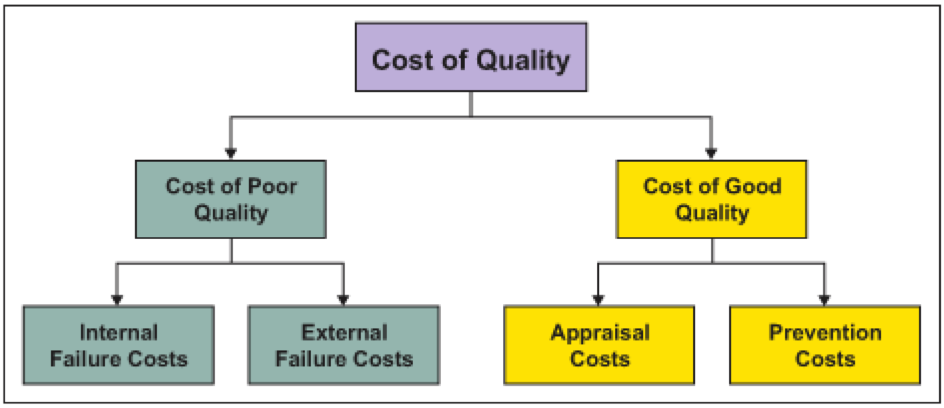
Philip B. Crosby invented the concept of the 'cost of quality' and his book, ***Quality Is Free*** set out four major principles:

1. the definition of quality is conformance to requirements (requirements meaning both the product and the customer's requirements)
2. the system of quality is prevention
3. the performance standard is zero defects (relative to requirements)
4. the measurement of quality is the price of non-conformance

His belief was that an organisation that established a quality program will see savings returns that more than pay for the cost of the quality program: ***quality is free***. The challenge is knowing who your 'customers' actually are, and precisely what their various requirements and expectations are, and having ways to manage mutually exclusive or conflicting expectations. Knowing 'who's who and who's important' is a critical first step.

Feigenbaum's categorisation of the cost of quality has two main components; the cost of conformance (to achieve 'good' quality) and the cost of poor quality (or the cost of non-conformance).

[3] For more on ***Requirements*** see: http://www.mosaicprojects.com.au/WhitePapers/WP1071_Requirements.pdf



Derived from: Feigenbaum, Armand V. (1991), Total Quality Control (3 ed.), New York, New York: McGraw-Hill, p. 109, ISBN 978-0-07-112612-0.

The total cost of achieving the required level of quality is the investment made in the prevention of non-conformance to requirements plus (Quality Assurance) the cost of testing and inspections to be comfortable the required quality levels have been achieved (Quality Control).

The cost of poor quality resulting from failing to meet requirements has both internal and external components. The internal costs are associated with defects, rework and lost opportunities caused by tying people up on rectification work. External failure costs can be much higher with major damage to an organisation's brand and image as well as the direct costs associated with fixing the quality failure.

The management challenge is balancing the investment in quality against the cost of quality failure to hit the 'sweet spot' where your investment is sufficient to achieve the required quality level to be *fit for purpose*: overkill is wasted $$$$. But first you and 'right stakeholders' need to agree on precisely what *fit for purpose* actually means.

The level of investment needed to achieve the optimum cost of quality is not fixed. The better the organisation's quality systems, the lower the net cost. Six sigma proponents have assessed the total cost of quality as a percentage of sales based on the organisations sigma rating.

Sigma Level and the Cost of Quality	
Sigma Level	**Cost of Quality as Percentage of Sales**
Level 2	More than 40%
Level 3	25-40%
Level 4	15-25%
Level 5	5-15%
Level 6	Less than 5%
Source http://www.isixsigma.com/implementation/financial-analysis/cost-quality-not-only-failure-costs/	

This table demonstrates that as the quality capability of the organisation improves, the overall cost of quality reduces offering a major competitive advantage to higher rating organisations. Most organisations are rated at 3 Sigma so the opportunity for improvement is significant.

Within this overall framework, the costs and risks associated with poor stakeholder engagement are significant and follow the typical pattern where most of the costs of poor quality are hidden. Using the quality 'iceberg metaphor' some of the consequences of poor stakeholder engagement and communication are set out below:

Effective stakeholder analysis and management directly contribute to achieving the required quality levels for the organisation's outputs to be *fit for purpose* whilst at the same time reducing the overall expenditure on the *cost of quality* needed to achieve this objective. The key components are:

- Effective analysis of the stakeholder community will help you identify and understand all of the key stakeholders that need to be consulted to determine the relevant aspects of fit for purpose[4].
- Understanding the structure of your stakeholder community facilitates the implementation of an effective two-way communication strategy to fully understand and manage the expectations of key stakeholders[5].
- Effective communication builds trust and understanding within a robust relationship.
    - Trust reduces the cost of doing business[6].
    - Understanding the full set of requirements needed for the work to be successful reduces the risk of failure.
    - Robust relationships with key stakeholders also contribute to more effective problem solving and issue management.
- Maintaining the stakeholder engagement effort generates enhanced information that will mitigate risks and issues across all aspects of the work.

Calculating the Return on Investment:

Effective stakeholder management is a facilitating process that reduces the cost, and increases the efficiency of an organisations quality and risk management processes. Based on observations of similar process improvement initiatives such as CMMI, the reduction in the *cost of quality* facilitated by improved stakeholder engagement and management is likely to be in the order of 10% to 20%.

Based on the typical 'Level 3' organisation outlined above, a conservative estimate of the efficiency dividend per $1million in sales is likely to be:

Total cost of quality = $1,000,000 x 25% = $250,000
Efficiency dividend = $250,000 x 10% = $25,000 per $1 million in sales.

Given the basic costs of establishing an effective stakeholder management system for a $5million business, using the ***Stakeholder** Circle®*[7], including software and training will be between $30,000 and $50,000 the efficiency dividend will be:

[4] For more on ***stakeholder analysis*** see:
http://www.mosaicprojects.com.au/Mag_Articles/SA1002_What_makes_a_Stakeholder.pdf

[5] For more on ***communication*** see:
http://www.mosaicprojects.com.au/WhitePapers/WP1066_Communcation_Theory.pdf

[6] For more on the ***value of trust*** see:
http://www.mosaicprojects.com.au/WhitePapers/WP1030_The_Value_of_Trust.pdf

[7] For more on the ***Stakeholder** Circle* see: http://www.stakeholder-management.com/

($25,000 x 5) – 50,000 = $75,000 (or more depending on the actual costs and savings).

The element not included above is the staff costs associated firstly with maintaining the 'culture change' associated with introducing an effective stakeholder engagement process and secondly with actually performing the stakeholder analysis and engagement. These costs are embedded in the *cost of quality* already being outlaid by the organisation and are inversely proportional to the effectiveness of the current situation:

- If current expenditures on stakeholder engagement are relatively low, the additional costs of engagement will be relatively high, but the payback in reduced failures and unexpected risk events will be greater. The overall ROI is likely to be significant.
- If the current expenditures on stakeholder engagement are relatively high, the additional costs will be minimal (implementing a systemic approach may even save costs), however, the payback in reduced failure costs will be lower because many of the more obvious issues and opportunities are likely to have been identified under the current processes. The directly measurable ROI will be lower, offset by the other benefits of moving towards a higher 'Sigma level'.

Within the overall framework of organisational capability improvement there are many different facets; the path to organisational Stakeholder Relationship Management Maturity (SRMM®) focuses on the ability of the organisation to effectively engage with its stakeholder community[8].

Conclusion

The approach outlined in this paper is likely to be of value in assessing a realistic ROI for a range of process improvement initiatives including the implementation of an effective stakeholder management system.

Based on the analysis, the introduction of an effective stakeholder management system is likely to generate a significant ROI for most organisations. The larger part of the 'return' being a reduction in the hidden costs associated with poor stakeholder engagement. These costs affect reputation and future business opportunities to a far greater extent than their direct costs on current work. For this reason, we feel implementing a system such as the ***Stakeholder*** *Circle* is best undertaken as a strategic organisational initiative rather than on an ad hoc project or individual workplace basis.

[8] For more on **SRMM®** see: http://www.stakeholdermapping.com/srmm-maturity-model/

About the Author

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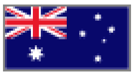

Dr. Lynda Bourne is Managing Director of Stakeholder Management Pty Ltd – an Australian based company with partners in South America and Europe. Through this global network she works with organisations to manage change through managing the relationships essential for successful delivery of organisational outcomes. Lynda was the first graduate of the RMIT University, Doctor of Project Management course, where her research was focussed on tools and techniques for more effective stakeholder engagement. She has been recognised in the field of project management through her work on development of project and program management standards. She was also included in PMI's list of 50 most influential women in PM.

She is a Fellow of the Australian Institute of Management (AIM) and a Fellow of the Australian Computer Society (ACS). She is a recognized international speaker and seminar leader on the topic of stakeholder management, the Stakeholder Circle® visualization tool, and building credibility and reputation for more effective communication. She has extensive experience as a Senior Project Manager and Project Director specializing in delivery of information technology and other business-related projects within the telecommunications sector, working as a Senior IT Project Management Consultant with various telecommunications companies in Australia and South East Asia (primarily in Malaysia) including senior roles with Optus and Telstra.

Dr Bourne's publications include: *Stakeholder Relationship Management*, now in 2nd edition, published in 2009, *Advising Upwards* published in 2011, and Making Projects Work, published in 2015. She has also contributed to books on stakeholder engagement, and has published papers in many academic and professional journals and is blogger for PMI's *Voices on Project Management*.

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To see more works by Lynda Bourne, visit her author showcase in the PM World Library at http://pmworldlibrary.net/authors/dr-lynda-bourne/