Series on Effective Stakeholder Engagement[1]

Stakeholders and Risk

By Dr. Lynda Bourne

Managing risks is important because it focuses attention on the uncertainties that matter. The international risk standard *ISO31000:2009 Risk Management - Principles and Guidelines* says risk is the **'effect of uncertainty on objectives'**, and the Project Management Institute *Practice Standard for Project Risk Management* defines risk as an **'uncertain event or condition that, if it occurs, has a positive or negative effect on a project's objectives.'** These definitions implicitly contain three elements:

- An uncertain event or condition (situation) that may occur in the future;
- The likelihood of occurrence of the situation; and
- The effect (positive or negative) that the occurrence would have on one or more of the project's (or program's) objectives.

Consequently, for every project objective there will be various risks of different types that may affect it, all of which require managing[2].

Stakeholders interact with risk management in three distinct ways:

1. A significant proportion of project (or program) risks are directly caused by the action or inaction of stakeholders, in some circumstances this may be in excess of 90% of the identified risks.
2. The perception of what is an acceptable or unacceptable risk is intrinsic to individual stakeholders and their attitudes - some people seek and enjoy risks (eg, skydivers), others are risk averse.
3. The identification, assessment and management of risk depends on the decisions and actions of stakeholders.

All of these factors affect the perception of project success and again these perceptions are formed and held by stakeholders based on their personal experiences of the project and its outcomes.

In short, successful risk management requires effective stakeholder management and the stakeholder's perceptions of project success or failure is intrinsically linked to effective risk management.

Heathrow's Terminal 5 (T5) is a good example of how different stakeholders' perceptions of success, failure and risks can vary enormously. In this edited excerpt from my book

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[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 general risk management see:
http://www.mosaicprojects.com.au/WhitePapers/WP1047_Risk_Management.pdf

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Stakeholder Relationship Management[3], I follow the saga of T5 from construction through to its public opening in 2008, and beyond.

The process of building Heathrow's Terminal 5 and its public opening in 2008 is a good example of how different stakeholders have different perceptions of success (or failure) depending on their experiences and expectations, and how the passage of time can affect those perceptions. The whole saga of T5 covers many years, for simplicity this description is broken into two stages:

1. Construction: building of the terminal begins for British Airport Authority (BAA), supported by enlightened contractual arrangements.
2. British Airways (BA) moves into the facility and begins operation.

Stage 1 – Construction

The £4.3bn Heathrow T5 project included a new terminal and satellite building, nine new tunnels, river diversions and road connections to the M25. It was hailed in 2006 as enlightened due to the adoption of innovative project management practices to avert the consequences of the traditional approach used in the UK construction industry. This traditional approach for a project of this size would potentially have resulted in average time overruns of two years, 40% budget overruns and six to eight fatalities, whereas T5 had been completed on time and within budget at the human cost of two fatalities[4].

Under the unique T5 agreement, BAA absorbed total risk in all contracts for the project, and developed the concept of integrated teams with stakeholders from the designers, builders and suppliers collocates and working together in a partnering relationship. This pioneering approach concentrated on early risk mitigation to anticipate, manage and reduce risks associated with the project. The change in BAA's culture was described as a 'watershed', creating an environment for early problem-solving, sharing of information and collaboration.

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[3] ***Stakeholder Relationship Management: A Maturity Model for Organisational Implementation***,
Gower Publishing Ltd: http://www.gowerpub.com/isbn/9780566088643

[4] For more on the management of the T5 construction risks see, ***Risk Attitudes in the Construction Industry***:
http://www.mosaicprojects.com.au/Resources_Papers_084.html

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In July 2007 the terminal was reported as ready with testing on the check-in process and baggage systems being planned. BA management was to take possession of the building mid-September 2007, to test all the facilities and to ensure delivery of the new 'passenger-oriented experience'.

The construction of the terminal was lauded as a success, from a time, cost, scope and quality perspective, but also from the management of risk and reduction of disputes and conflicts. However, in June 2006, BAA was bought by a consortium led by the Spanish construction company Ferrovial, and despite the T5 success has been reluctance to use the T5 agreement on further projects.

Stage 2 – The Opening

T5 was designed exclusively for British Airway's use (BA), providing an opportunity to define specific business processes during the design and construction of a new terminal. Aspects of the new terminal included: seamless check-in, designed to eliminate queuing; improvements in punctuality and baggage handling.

T5 was officially opened on 14 March 2008 by HM Queen Elizabeth and began operating on 27 March. From the first day flights had to be cancelled, passengers were stranded, and more than 15,000 pieces of baggage were lost[5], The BBC described the opening as a 'national embarrassment'. What went wrong?

The CEO of BA, Willie Walsh, was interviewed by The Times on the day before T5 opened. His positive and confident approach in answering questions about T5's readiness was interpreted in the same newspaper after the event as hubris: '*... he didn't countenance failure before the event, risking this over-confident interview ...* our hunch is that he may be so determined, so driven, he simply does not recognise that incompetence could exist in those below him.'

In another interview, Walsh said: '*T5 chaos was in part the result of calculated risk taken by the airline's management…. The company had known there were problems with the building from September when BA began to move in its staff and test systems. It was not 100% complete… managers had reviewed their decision to open as planned on 27 March on a weekly basis and had decided that the problems caused by delaying the move to [October]… would be greater than those caused by pressing ahead'*.

Perhaps BA management were indulging in the 'halo effect' – the construction project went so well, the implementation would also go equally well. They certainly failed to adequately manage many of the people-risks involved in the opening including:

- Staff preparation. Reports from staff of inadequate training show a lack of understanding of the importance of training and adequate preparation for implementation. There was no contingency on that first day, no recognition that something might go wrong:

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[5] For more detail see the House of Commons Transport Committee report, **The opening of Heathrow Terminal 5** in November 2008:
http://www.publications.parliament.uk/pa/cm200708/cmselect/cmtran/543/543.pdf

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- o Management did not ask staff to arrive early to counter potential delays in entering a building they had not entered before.
  - o They did not pay for additional staff, merely asking staff to come in on their day off to help out, but due to low morale staff were not prepared to volunteer on their day off.
  - o The baggage handlers were unfamiliar with the new technology and processes. They claimed that they had not been adequately trained and did not have any support or back-up even on this first day.
  - o The staff were unclear on their assignments for that first day because they did not know how to use the new resource management system.

- Staff arriving for the first shifts at T5 were delayed by a number of issues:
  - o There was a scarcity of specially designated staff car parking facilities, with the staff overflow car parks closed.
  - o There were delays in passing through security.
  - o Staff were unfamiliar with the new terminal building and where they needed to go.
  - o Staff were not familiar with the new resource allocation system and therefore did not know what tasks they had been given on that day.

There was a technological underpinning to the disaster, whilst the new baggage handling system was based on proven technology installed at other airports, it was designed and configured for T5. But, the baggage handling processes did not have back-ups (manual or other) to support the new complex system. As problems developed 'down below' due to untrained baggage handlers not removing them quickly enough from the belts (and other issues), check-in staff continued to add bags to the system, causing the new baggage handling system to overload and there was no overall 'shut down' option to stop the problems

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compounding - eventually more than 15,000 pieces of baggage were lost (most were eventually reunited with their owners, but only after days of delay).

Through the life of T5, success, failure, stakeholders and risk management have been inextricably entwined:

- T5 was hailed as a success in 2006 due to the adoption of innovative project management practices focused on stakeholder engagement and risk management.
- It was seen as a success during its construction, on time, on budget, built to a high quality, with an exemplary safety record; due in no small part to a very strong focus on stakeholder engagement and communication.
- It was seen as a disastrous failure during and immediately after the opening due mainly to the abject failure of BA management to manage the stakeholder risks associated with transitioning staff to the new facility. Prior to the T5 opening, BA staff knew they were inadequately trained and had identified many of the problems - their management were simply not listening to their internal stakeholders.
- But during the intervening years T5 has gradually become recognised as an outstanding international terminal with a fantastic baggage handling system.

Lessons were learned, since the T5 opening in 2008, BAA have managed more than 50 airline relocations at Heathrow associated with the reconstruction of Terminals 1, 2 and 3; all without incident. The key to these successes (learned from the T5 debacle) has been an absolute focus on stakeholder engagement and risk mitigation. The challenge in other situations is to engage and listen to the *'right stakeholders'* at the *'right times'*, so that the *'right risks'* are accepted and the unacceptable risks are identified and mitigated before disaster happens. The T5 opening cost BA £millions in actual and reputational damage that took years to overcome.

The rest of the articles in this series will look at how you can identify the *right stakeholders* at the *right times* and engage with them effectively to optimise your project success.

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 previous articles in this series by Lynda Bourne, visit her author showcase in the PM World Library at http://pmworldlibrary.net/authors/dr-lynda-bourne/