



## Governance and Stakeholders

The only reason organisations exist is to meet the needs of stakeholders. Sometimes this can be a very limited group of stakeholders such as the executive management group, or the shareholders/owners. Sometimes a much wider group of stakeholders that includes, employees, suppliers and the wider community, as well as the organisation's management and shareholders or owners. Since the publication of Ed Freeman's *Stakeholder Theory* in 1984, the pendulum has been steadily swinging towards his wider view of stakeholders<sup>1</sup>.

However, applying *Stakeholder Theory* is not easy, each of the stakeholder groups has competing needs and a desire to maximise their share of the organisation's outputs, but all of the stakeholders benefit from cooperating and balancing their needs against the greater benefits for all that can be gained by making the organisation successful. These relationships are interdependent and require balanced decision making:

- The organisation will not be profitable unless its employees and suppliers work together constructively to make goods or services the customers are prepared to buy.
- The organisation has to pay sufficient money and create a culture that attracts the right type of employee, but if employees take too much out of the organisation in the form of excessive pay, the organisation becomes uncompetitive and the employees lose their jobs.
- Organisations are expected to be good citizens – not to expose the community to unreasonable hazards in the form of pollution or substandard goods or services. But the community benefits from using the goods and services and it is impossible to create things without some pollution.

The art of managing within stakeholder theory is to find ways to minimise the damage and maximise the benefits accrued by each of the stakeholder groups. This is a creative process and management teams that do it best create the most successful organisations with sustained growth and profitability. There are four fundamental reasons for taking this 'values' based approach:

1. To protect the organisations reputation and avoid the financial losses associated with 'loss of reputation' and 'brand value'
2. To achieve a specific cost benefit from a defined activity such as a community sponsorship.
3. To build a strategic long-term competitive advantage: alliances, supply chain partnerships, etc.
4. To assist innovation and learning in complex and dynamic environments: crowd sourcing, open access, etc.

The problem is the management team itself is a powerful stakeholder in the organisation and without effective governance can easily focus on maximising its share of the benefits at the expense of other stakeholders. The on-going scandals in the finance and banking sector, world-wide, show what happens when management lose sight of the 'larger picture' and focus on short term gains.

The role of governance in every organisation is to balance these competing objectives to the benefit of all stakeholder interests. To paraphrase Sir Adrian Cadbury's 2002 definition: "*Governance is holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, the organisation and society*".

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<sup>1</sup> For a brief overview of **Stakeholder Theory** see:  
<http://stakeholdermanagement.wordpress.com/2014/07/11/understanding-stakeholder-theory/>





The functions of governance<sup>2</sup> include:

- Determining the objectives of the organisation
- Determining the ethics of the organisation
- Creating the culture of the organisation
- Designing and implementing the governance framework for the organisation
- Ensuring accountability by management
- Ensuring compliance by the organisation

Once the ‘governing body’ has determined the organisation’s objectives, ethics and culture, the role of management is to achieve the objectives working within the organisations ethical and cultural framework<sup>3</sup>; and the governing body’s role is to ensure this happens appropriately.

Projects and programs are an important part of this overall construct:

- The organisation grows and adapts by implementing projects and programs;
- The effective ‘management of projects’ requires a supportive management culture;
- People working within the projects and programs are stakeholders;
- Projects and programs affect many other stakeholders;

The way the stakeholders working within the organisations projects are treated is determined by the overall approach to stakeholder management implemented by the organisation, which is a governance decision, implemented through management.

In turn, the way the projects and programs engage with their stakeholders will be largely shaped by the organisations overall approach to stakeholder engagement. It is very difficult for a project manager to attempt to develop an effective stakeholder engagement culture within a project if this is contrary to the organisations way of working.

Many studies have clearly demonstrated that successful projects, programs and organisations work with their stakeholders to create shared benefits. The challenge facing most organisations is creating the culture and capabilities that allow this to occur<sup>4</sup>. From a project and program perspective, this means developing the management capabilities needed for the management of projects and creating a culture in which stakeholders matter. Both of these start at the governance level.

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<sup>2</sup> For more on the **functions of governance** see: [http://www.mosaicprojects.com.au/WhitePapers/WP1096\\_Six\\_Functions\\_Governance.pdf](http://www.mosaicprojects.com.au/WhitePapers/WP1096_Six_Functions_Governance.pdf)

<sup>3</sup> See **The Functions of Management**: [http://www.mosaicprojects.com.au/WhitePapers/WP1094\\_Defining\\_Management.pdf](http://www.mosaicprojects.com.au/WhitePapers/WP1094_Defining_Management.pdf)

<sup>4</sup> For some thoughts on how to achieve this see **Making Projects Work: Effective Stakeholder and Communication Management**: [http://www.mosaicprojects.com.au/Book\\_Sales.html#MPW](http://www.mosaicprojects.com.au/Book_Sales.html#MPW)