THE SECRET INGREDIENT FOR SUCCESSFUL PROJECT LEADERSHIP

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Abstract. When it comes to understanding how to ensure the successful delivery of organisational value, stakeholder engagement has been one of the best kept secrets. There is now an emerging recognition of the importance of people in the formula for success: recognition that projects are really about 'people doing work for the benefit of other people'. As a result, there must also be recognition that an essential role of the project leader is to ensure effective consultation with stakeholders and to convince the organisation's executive of the benefit of doing so.

For decades project management literature and research have identified the need to focus on stakeholder engagement as a means for delivery of value to organisations through successful delivery of a project's objectives – whether product, service or result. At the same time organisations are requiring the project leadership to do more with less. It should come as no surprise then, that senior managers in organisations are resisting calls to spend more time (and therefore more funds) on additional communication to build the necessary relationships between the project (or organisation) and its stakeholders.

In studies of extractive industries around the world, including South America and New Guinea, it has become increasing clear that neglecting the lives and economies of the indigenous communities will cause a backlash that can lead to early closing of these projects and often radical action from those most affected. The findings of each of these studies have shown that a long-term peaceful and profitable resolution will only come from consultation with those who are affected – not just their leaders. This is an example of how timely stakeholder engagement with its consequent additional consultation, communication and negotiation will add value to the project and all the partner organisations – a practice that is not always supported by the management of those organisations.

This conceptual paper draws on some case studies of projects within the extractive industries in New Guinea and South America to develop arguments that may persuade corporate executives to apply more funding and support on stakeholder engagement activities within their own organisations. The paper will focus on the value of stakeholders to an organisation through emphasis on the connection between risk management and effective stakeholder engagement activities. It also provides guidance to project leaders on how to encourage and assist organisational leadership improve stakeholder engagement activities. Suggestions for further research will be included.

Key words: *stakeholder, stakeholder engagement, maturity models, organisational value*

Introduction

Just as each project is unique, so are its stakeholders! Whether as individuals, groups or organisations, every stakeholder and every stakeholder community has a unique and evolving set of cultures, expectations and perceptions. To deal with this environment, when managers engage with these diverse communities the traditional approach of regular reports and other 'one size fits all' strategies

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needs to be replaced, or at least intelligently enhanced, especially in major extractive programs involving affected communities (Bourne, 2015). Effective communication takes into account the complexity of the people who work with or benefit from the outcomes of the program, and works to engage the constantly changing group of people whose support and involvement are essential to success. This type of engagement requires ongoing consultation and a recognition of the importance of all stakeholders to the successful delivery of value to the organisation. At the same time, the organisation's financial imperatives require its leaders, including project managers, to do more with less. The paradox is that it takes more time and focus to effectively engage and consult with stakeholders, to maximise value and enhance corporate reputation at a time when resources including time and people are increasingly restricted. It's necessary to spend money to make money.

The findings of studies of extractive industries around the world, including South America and New Guinea, have shown that a peaceful (and financially efficient) resolution will only come from early and frequent consultation with the communities who are most affected – not just their leaders. Stakeholder engagement with its consequent additional consultation, communication and negotiation has been shown to add value to the project outcomes and all the partner organisations no matter how large or small the project or program.

This conceptual paper draws on some case studies of projects within the extractive industries in New Guinea and South America to develop and describe the connection between risk management and stakeholder engagement, and describe ways that project leaders can the organisation's financial community of the benefits of early consultation, instead of the compensation claims, costs of sabotage and lost reputation that have plagued extractive programs such as the ones described in this paper. Finally, suggestions for further research will be discussed.

Discussion

There are many cases of stakeholder disadvantage and unrest in extractive industries resulting from inadequate consultation. This paper uses only a small sample: British Petroleum's (BP) Macondo oil well disaster in the Gulf of Mexico, two of BHP Billiton's partnerships: one in Brazil at Samarco, and another in Papua New Guinea (the Ok Tedi), and also the El Mauro copper mine in Antofagosta, Chile, run by Antofagosta PLC, still 65% owned by a highly influential Chilean family. These examples have been chosen either because they are topical or because there is sufficient information available to allow appropriate analysis of the issues. They also represent the range of issues within the industry, where state-run companies, large multinationals or influential national companies have followed the business model of shareholder value to the detriment of the original landholders; but paradoxically this narrow focus has destroyed shareholder value.

BP's Macondo Well in the Gulf of Mexico: In April 2010, the 'well from hell' - the *Deepwater Horizon* Macondo well in the Gulf of Mexico exploded and eventually sank: 11 workers died. By July 15, 2010 when the well was finally capped, 5 million gallons of oil had leaked into the Gulf of Mexico, with significant loss of livelihood and lifestyle to business and residents, and damage to the environment and wildlife of the areas affected by the oil spill. BP's shares lost 'billions' in value (Simms & Boyle, 2013) driven down by expectation of major losses to the company – and its investors. At the time of writing (2016) the costs to BP are greater than US$6billion. The US Government Report into the disaster (Simms & Boyle, 2013; Udo & Kcik, 1994; US Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, 2011) blamed cost-cutting for contributing to the disaster: *"Management put time and money ahead of safety measures to prevent the accident.* The Report also stated that the industry regulatory bodies were 'starved' for Government funding to meet their own responsibilities. The cost-cutting was focused on maintaining 'shareholder value' – a healthy bottom-line to encourage shareholder investment: it actually destroyed stakeholder value.

BHP partnership at Ok Tedi, New Guinea: In 1999, BHP reported that 90 million tons of mine waste had been discharged into the OkTedi River every year for more than ten years and the contamination had destroyed the agriculture and fisheries of the downstream villages. After heavy rain mine tailings were swept into the surrounding rainforest, swamps and creeks and leaving 30 square kilometers of dead forest, killing or contaminating fish consumed by the surrounding villages. A tailings dam damaged by an earthquake was not repaired – the company considered this work to be too expensive. The PNG government took over control of the mine in 2013 without compensation and with the support of the local community – but it may take up to 300 years to clean up the toxic contamination (Stevens, Kooroshy, Lahn, & Lee, 2013). The capital invested and value of unmined resources were stripped from BHP's shareholders.

BHP Billiton partnership at Samarco, Brazil: In November 2015, two tailings dams ruptured releasing toxic material, destroying homes of around 600 people, and causing the deaths of at least 11 people with many still unaccounted for. Water supplies within the region have been contaminated with a mixture of mercury, arsenic, lead, copper, fish killed and a protected coastal area endangered. At the time of writing (early 2016) the causes of this disaster have not yet been disclosed, but there are a number of lawsuits already in train naming both BHP and its Brazilian partner Vale. The costs and consequences are yet to be determined but there is no doubt that earlier concern for the environment, safety and stakeholders may have averted the disaster and loss of shareholder value.

Antofagosta copper mine in Chile: Protests against the El Mauro dam in Chile have been going on for nearly a decade says Jonathan Franklin for *the Guardian* in 22 March 2014. The protests centre on a tailings dam built above the village of Caimanes to contain the waste from the Los Pelambres copper mine, mostly owned by a wealthy Chilean family and listed on the London Stock Exchange. The villagers claim that the dam has meant that they now have no source of fresh water, it has to be brought in by truck. They also fear that the village is in danger from the dam that could burst if an earthquake were to hit the area around the village. Chile is subject to frequent earthquakes. In April 2015, a Chilean court ruled that the mine was safe, rejecting a lawsuit presented by the residents and supported by environmentalists in other parts of the world. Other reports cite the inequality in Chile – where the inhabitants of the Antofagosta region have the highest per capita income in the country, but also where around 4000 families continue to live in slums. Sustained stakeholder opposition continues from those with most to lose, and they are supported by international organisations in their quest for relief from the situation.

Each of these cases, representing many other similar extractive enterprises world-wide share a common set of problems:

- Degradation of the environment,
- Degradation of the lifestyle and livelihood of the original residents, leaving them with no substitute for their previous means of living,
- Influx of foreign 'expert' workers, meaning that the locals were left with underpaid menial jobs (if at all),
- Drift of younger people to the cities,
- Promise of education and better life not fulfilled,
- Sustained stakeholder opposition – 'them against us',
- Potential for actual destruction of shareholder value when 'powerless' locals decide to react.

These problems persist despite the growth in reports from organisations of dedication to corporate social responsibility (CSR) and sustainability: in 2012 more than 50% of the Fortune 500 companies reported on their programs for CSR and sustainability (Bader, 2014). Many of these organisations and other corporations frequently fail to invest resources effectively in stakeholder engagement.

The extractive enterprises focus on financial success, tangible results, strong 'bottom line' for 'shareholder value'. By only focussing on the needs of the small group of stakeholders – investors and executives, and possible state interests, the needs and expectations of some of the most important stakeholders are ignored. These stakeholders, local residents and the environment in particular, are the most adversely affected by the existence of the extractive program either through a combination of degradation of the environment or degradation of lifestyle, or even more urgently through outright danger to life. These stakeholders are also the groups with the least formal power. When organisations ignore the needs and requirements of these powerless stakeholders, they fail to recognise the interests of ALL stakeholders, AND to ignore risks in the name of 'shareholder value'. This is unethical business practice, at odds with the quest for CSR and raises the prospect of extreme reactions by disenfranchised stakeholders. These issues will be further discussed later in this paper.

The purpose of this paper is to propose a different, more ethical approach to developing extractive programs that can benefit ALL stakeholders, reduce the risk of such operations and still ensure that the organisation (and its shareholders) achieve 'value'. The model for improvement of stakeholder engagement practices is readily applicable to all organisations, not just those involved in extractive programs.

1. Implications for successful engagement of stakeholders in programs (and projects)

If certain groups or individuals can influence the success delivery of the outcomes of a program through provision (or withholding) of funds, support, or resources such as materials or people with the essential skills, they should be identified by the project team as stakeholders. Others will self-select - protesters, objectors or authorities. If any of these groups or individuals fit the definition of stakeholders then an appropriate level of effort should be directed towards engaging them by developing appropriate relationships driven by communication.

Relationships that are appropriate and sustainable are two-sided: both parties gain from participation in this relationship – or have expectations of gaining something. The relationship will not flourish unless both parties participate. To make the relationship work it is essential to understand the *expectations* and fears of each stakeholder, in particular the stakeholders who have been identified as being the most important in the stakeholder community for any given time in the life cycle of the project or other organisational activity.

Knowing the expectations of important stakeholders will support early identification of potential conflicts between important stakeholders. It will also be the means to develop a useful message to provide the stakeholder with the feeling of confidence that his needs are known and understood. Through targeted communication the stakeholder can also be assured that the team will make every effort to provide these requirements or ensure that the reasons for NOT being able to provide these requirements are explained so that the stakeholder's NEW expectations can be established. By doing these things stakeholders will *perceive* that their needs are understood and from that will be more effectively engaged in contributing to the success of the project, or have their fears and opposition reduced.

2. Stakeholder risk management

Extractive programs are high-risk, the high costs of exploration will only occasionally be rewarded. Organisations focus most on financial risk, and not enough on the consequences of ignoring the needs and expectations of many of its stakeholders. This section focuses on stakeholder risk management and the importance of stakeholder engagement in reducing risk.

Effective risk management involves more than simply gathering data and applying actuarial calculations to define risk premiums or contingencies. Effectively managing stakeholder risk involves interacting with people's deepest needs for control, safety, and comfort (Rock & Cox, 2012). Apart from the significant exploration risks most other risk are related to stakeholders:

- More than 90% of risks to any program or project are the direct consequence of the action or inaction of stakeholders.
- The perception of what is acceptable or unacceptable is closely connected to individual stakeholders and their attitudes or needs.
- The identification, assessment and management of risks depend on the decisions and actions of stakeholders.

When stakeholders whose needs are ignored and whose life is significantly worse as a result of the organisation's activity they are most likely to react negatively and within the limits of their power will seek compensation or cessation of the work at times these reactions will be extreme. To reduce these risks stakeholder engagement activities such as user consultation and community engagement should be regular and early elements in a stakeholder engagement plan. These activities consume resources, take time and have cost consequences. There are a number of practices that can assist in the efficient management of this work. The starting point is using a robust stakeholder engagement methodology that has the capacity to identify and track stakeholder attitudes over an extended period. Monitoring the effectiveness of stakeholder communication and engagement processes generates usable data to feed into the assessment process; subjectivity needs to be minimised. The elements that feed into the risk management system include:

- A contingency (cost and time) for additional stakeholder engagement activities, identified as a consequence of planned consultation.
- Allowances for changes in the stakeholder community which should be tracked and communication strategies and plans updated accordingly.

The value proposition for the effort involved in stakeholder engagement is derived from an understanding of the difference between crisis management (a result of inadequate or non-existing stakeholder risk management), stakeholder management and stakeholder engagement. Table *1*1 shows the main differences.

Table 1: Difference between crisis management, stakeholder management and stakeholder engagement. Adapted from (Jeffrey, 2009)

	Crisis Management	**Stakeholder Management**	**Stakeholder Engagement**
Stakeholder relationships	Reactive	Proactive	Interactive
Exposure to stakeholder issues	Vulnerable	Anticipate	Encourage
Stakeholder involvement invited	Episodic	Regular	Inclusive
Organisation/project attitude to stakeholder involvement	Hostile	Defensive	Prepared to change

The four aspects in the table are as follows:

- *Stakeholder relationships*: building relationships with stakeholders is good risk management. If the relationship is strong through proactive or even interactive communication strategies, any issue that occurs can be resolved more effectively. When organisations react to crisis without a strong relationship with stakeholders it becomes difficult to resolve the crisis to the satisfaction of everyone involved.

- *Exposure to stakeholder issues*: organisations are more exposed to issues or crises that arise through poor attention to stakeholder relationships. The stronger the relationship the less vulnerable the organisation is to the impact of any issues or crises.
- *Stakeholder involvement invited*: the stronger the relationships between the organisation and its stakeholders the more stakeholders are treated as partners, invited to participate in decision making and other organisational activities regularly.
- *Organisation's attitude to stakeholder involvement*: when organisations move from a hostile or defensive approach to their stakeholders and recognise the need to embrace the involvement and ideas of their stakeholders, many of the sources of issues of loss of trust or reputation will reduce (or disappear).

3. Building a business case for more effective stakeholder engagement activities

Financial measures of value, primarily 'shareholder value' has been the source of decisions made by organisations without understanding (or heeding) the impact that such actions will have on other stakeholders – employees, customers, the public and the threat they pose to 'shareholder value'. The best way for organisations to survive and prosper is to focus on wants and needs of all stakeholders and try to deliver appropriate value to each one. 'Value' will be different for each stakeholder group: linked to their expectations and requirements.

In the corporate world tangible 'value' is known and understood: these definitions are applied to financial balance sheets and often focused on 'shareholder value' – driving a culture of short-term decisions to maximize share price, investor return and executive bonuses. The intangible definitions of 'value' are less easy to measure. This is the contribution of the human element – stakeholders such as the customer, employees, the public, users of a product, organisational reputation. Failure to consider how these other stakeholders perceive organisational value, and to enhance organisational value is failure of the organisation to be as effective as it can be and will affect tangible values. An organisation's assets and structures – tangible and intangible – are ALL the result of human actions. The assets of the organisation related to human competences are in the form of knowledge, skills, experience, social networks of the stakeholders within the framework of the communication ecosystem (Sveiby 1997).

<u>Zero cost of quality</u>

The concepts of the 'zero cost of quality' can be useful in assisting organisations monitor and measure investment in people through a focus on what happens when this investment is missing. *Quality is free* (Crosby, 1979): what really costs an organisation is failure to do things right *the first time*. This concept is a useful basis for building a business case to persuade management of the benefits of improving stakeholder engagement practices and stakeholder consultation in an organisation. One of the impediments to developing a viable business case is the lack of data about both what is invested but also the costs of not investing in stakeholder engagement and consultation.

CRC Industries first started tracking the cost of quality in 1997 (Donovan, 2006) . They measured 'failure dollars' (money spent because of product and services that do not meet customer requirements). Using this approach, CRC reported that 'failure dollars' reduced from 0.7% of sales to 0.21% of sales from 1997 to 2005. In this organisation 'cost of quality' means *the expense of failing to provide a quality product or service,* and requires the measurement of the costs of:
Materials and labor for rework,
Correct shipping and customer service errors,
Product replacement and waste.

When organisations focus on reducing costs they will usually do this at the expense of customer and employee satisfaction: "the costs of poor quality make up as much as 15% to 30% of all costs"

(DeFeo, 2001). On the other hand, when organisations focus on eliminating 'poor quality' by elimination of waste, reduction in inaccurate orders or billings, reduced allowances to customers for late delivery, they can reach their targets for cost reduction in ways that result in improved relationships with customers and employees, and other stakeholders.

It is possible to extend this concept to stakeholder engagement processes and practices. 'Stakeholder engagement is free' – making it more relevant to today's organisations. The cost of NOT understanding and engaging ALL stakeholders is tangible[†]:

- Substantial costs in compensation to affected stakeholders or product recall,
- Loss of assets,
- Loss of share value.

More importantly, intangible costs include loss of reputation and reduced morale of staff. .

4. A maturity model for stakeholder engagement

A maturity model approach enables the organisation to define a starting point for improvement efforts and a means of measuring improvements. The Stakeholder Relationship Management Maturity (SRMM) (Bourne, 2012) has been developed as a tool for measuring the levels of use of consistent, wide-spread stakeholder relationship management processes and practices. Each level defines the existing state of stakeholder relationship management in an organisation. This existing state is the starting point for planning the implementation of processes improvements to enhance the effective management of stakeholder engagement within the organisation. In developing this concept, a number of levels of organisational readiness have been described that link:

- Organisational willingness to engage proactively in developing and maintaining stakeholders relationships; and
- Techniques, processes or practices that can assist in achieving those objectives.

Through an understanding of the level of readiness an organisation its management can define the starting point for improvements in stakeholder relationship management. Using SRMM will enable effective and pragmatic implementation of stakeholder relationship management processes and practices within an organisation. It provides a framework for progressively building capability towards proactive and creative management of its stakeholder relationships in alignment with a structured approach to achieving organisational maturity in stakeholder relationship management.

Stakeholder Relationship Management Maturity (SRMM)

The five levels of SRMM are:

- Level 1 - Ad hoc**:** some use of processes, but isolated, reactive and not consistent.
- Level 2 - Procedural: focus on processes and tools, as a reflection of focus on delivering traditional, measurable results – schedule, budget, quality without necessarily recognising the importance of relationships with stakeholders.
- Level 3 - Relational: focus on the stakeholders and mutual benefits, and the recognition that communication is the tool for stakeholder relationship management, but the communication must be targeted to meet the needs (often conflicting) of the stakeholder community as well as the needs of the organisation within the capacity and capability of the team.
- Level 4 - Integrated: the organisation's methodology is repeatable and integrated across all areas and functions of the organisation that are responsible for activities that in some way contribute to the organisation's business strategy.

[†] The case study of BP's disaster in the Gulf of Mexico in 2012. One hypothesis is that too much focus on cost cutting for 'shareholder value' resulted in the failures of the Macondo Well and subsequently the oil spill and loss of life and livelihood.

- Level 5 - Predictive: used for health checks and predictive risk assessment and other creative and proactive ways to measure improvements in the delivery of the business' strategy (Bourne, 2012).

The benefits of using a tool such as SRMM are that the improvements agreed by the organisation's senior management can introduced to the extent that the organisation can absorb the changes and also measure the benefits of doing so. It avoids over-ambitious implementations which can lead to failure. Table 2 shows an overview of the model.

Table 2 Guidelines for implementing SRMM

SRMM Level	Features	Methodology Steps	Reporting / Tools	Comments
1. Ad hoc: some use of processes	Individuals recognise the need for stakeholder relationship management; may not use an existing methodology	Generally focuses on simplified selected steps:	Self-developed tools - Word templates - Spreadsheet lists	Requires continuous and significant management 'push' to maintain impetus
2. Procedural: focus on processes and tools	SHM introduced as part of the implementation of consistent processes	Sometimes all *five steps* but truncated and simplified	Standardised tools - Word templates - Spreadsheets - Simple database	Require continuous and significant management 'push' to maintain impetus
3. Relational: focus on the stakeholders and mutual benefits	Recognition of usefulness for consultation, competitor analysis, or support for mergers/acquisition	Move towards valuing insights / information in decision making	Fully functional tools - Spreadsheets with macros - Sophisticated databases	Useful for specific applications or events; rarely with an intention of continuous application
4. Integrated: methodology is repeatable and integrated	'Business as usual' application using the full methodology for all projects and selected operational work	*All Steps* of stakeholder methodology evidence of success	Graphic reports, engagement profiles, etc, used in management reports and KPIs	The methodology and tool repeatable application within that part of the organisation
5. Predictive: used for health checks, predictive risk assessment, management:	Implementation of the full methodology and supporting tools	'Lessons Learned' & comparative data. Integrated data	Trend reporting, pro-active risk identification Comparison between projects and different categories of work	Organisation –wide and complete focus on continuous improvement as competitive advantage

5. Ethical approaches, reputation and CSR

The starting point for a correct approach to stakeholder engagement is that "most people, most of the time, want to, and do, accept responsibility for the effects of their actions on others" (Freeman, Harrison, Wicks, Parmar, & deColle, 2010). If business is separated from ethics there can be no moral responsibility for business decisions. What this means is that:

- People engaged in value creation and trade (in business) are responsible precisely to *"those groups and individuals who can affect or be affected by their actions"*.
- This means at least: customers, employees, suppliers, communities and financiers (shareholders).

Stakeholder theory, then, is fundamentally a theory about how business could work <u>at its best</u>. It is descriptive, prescriptive and instrumental at the same time. Stakeholder theory is more than just considering value for shareholders – it is more complex, because there are many relationships involved. For any organisational activity there will be a complex web of human beings and their needs and wants (stakes). Instead of the flawed shareholder value paradigm, developing a 'stakeholder mindset' in organisations and by extension in projects and programs is, paradoxically, a better way to maximize profits, where:

- Business is a set of relationships among groups which have a stake in the activities that make up the business.
- *Business is about how customers, suppliers, employees, financiers (stockholders, bondholders, banks), communities and managers interact and create value.*
- To understand business is to know how these relationships work.
- The executive's job is to manage and shape these relationships (Freeman et al., 2010).

There is great value to be gained in examining how the stakes of each stakeholder or stakeholder group contribute, positively or negatively, to the value creation process of a business; and what the role of the executive is in stakeholder relationship management. In this context stakeholders are defined:

- Narrow: those groups without whose support the business would cease to be viable: categorized as 'primary' by (Freeman et al., 2010). Such thinking was also the basis of the categorization of stakeholders as 'legitimate' and 'salient' (Mitchell, Agle, & Wood, 1997), leading to the accepted viewpoint that only the 'important primary' stakeholders matter.
- Wider: those who can affect the business, or be affected by its activities categorized as secondary or instrumental (a means to an end). This wider idea of stakeholder includes those who are affected by the introduction of extractive programs because they do not benefit and are nominally powerless to change the way the business operates.

(Freeman et al., 2010) have the final word:

> *Executives need to understand that business is fully situated in the realms of human beings; stakeholders have names and faces and children AND they are not placeholders for social roles.*

In addition, when 'powerless' communities are pushed too far, they can resort to extreme action attacking and destroying the cause of their oppression.

Conclusions, proposals, recommendations

The focus of this paper was on the treatment of the powerless by large organisations introducing mining and other extractive programs into communities. These organisations range from multinational corporates, Government enterprises, private companies and partnerships between local companies and international conglomerates. It looks at the readily available date from the treatment of local communities by these organisations and seeks to analyse the causes and consequences as well to define a more effect way to approach stakeholder engagement to prevent the catastrophes described in the four cases. It also emphasizes that the adverse reactions of the 'powerless' can often cause these programs to fail entirely, or at least result in significant losses for the organisation. The principles are the same for all projects and programs, even the business projects that we are most familiar with. Early and frequent consultation with those affected by the work is essential – it is prudent but also more cost effective in the long-run. Understanding stakeholder expectations and working to meet those is far more effective than the risky business of trouble shooting issues as they appear.

The info from the study of these four cases gives a strong indication of the need for organisations to invest in early and frequent consultation with ALL stakeholders, but more research needs to be conducted in enterprises other than in the extractive industries. Senior managers often require a business case before agreeing to invest more in stakeholder engagement practices – they are not convinced that there is benefit. Research needs to be conducted on ways to gather the costs of 'failure' dollars. The managers I have interviewed are reluctant to do so because it may be seen to reflect poorly on their management capabilities. Research may uncover other ways to track the negative costs of stakeholders who are not consulted or weaknesses in the current stakeholder engagement practices. Finally more research needs to be conducted into the scalability and feasibility of using the SRMM model to drive effective improvement of stakeholder engagement practices within an organisation

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