Project ownership and stakeholders – From a project manager's angle

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Abstract: Building and leading a company as well as managing projects has always been about managing for stakeholders. The economic world today consists of interconnected networks of customers, suppliers, communities, employees, financiers. Ownership plays a special part in the life of companies and projects. Beyond physical possession of business property it includes responsibility (even in hard times), ability to make decisions, taking control and pride in tangible results and creating value during the process. Addressing project ownership issues should fit within the general framework of the organization. By the temporary and unique nature of projects they are still performed to achieve specific goals. Projects are usually performed by temporary teams, have a non-repetitive feature and provide non-standard deliverables. The purpose of this study is to show, present and highlight the connection between project ownership and stakeholders. For this, I have taken the liberty of referring to the original stakeholder literature (mainly Freeman) and a Hungarian edition of an international standard providing guidance on concepts and processes of project management that are important for, and have impact on, the performance of projects. Stakeholder literature is added with personal observation from 20 years of work in project management. This paper is thus written with the methodology of participatory action research where my experience has been gained through direct management and/or involvement in smaller and larger projects in different roles at all affected levels (project preparation, implementation and evaluation).

Keywords: cooperation, dispersal of ownership, project owners as special stakeholders

1 Stakeholders and the issue of ownership in general

1.1 The ownership issue

Ownership plays a special part in the life of companies and projects. Beyond physical possession of business property it includes responsibility (even among difficulties), ability to make decisions, taking control and pride in tangible results and creating value during the process. Kolnhofer-Derecskei [9] finds mainstream

economic models do not take ownership into consideration. Ownership itself can refer not only to objects but can be also understood in other neighbourhood (e.g. company organization, structure) and can be linked with different socio-economic observations, as well (e.g. ownership problem, endowment effect and economy). Companies have different relationships (contacts and contracts) with many stakeholders and therefore can be seen as a set of principal-agent relationships, between themselves (as agents) and their stakeholders (as principals) [6].

Meaningful stakeholder relationships require high level permanent, active and stable cooperation. Dawes and Thaler [1] note that cooperation is positively related to the investment return on the public good and the supply of cooperation is upward sloping in case of examined groups.

1.2 Interrelationship of stakeholders and ownership

In the now classic text of the 1984 literature a stakeholder is "*any group or individual who can affect or is affected by the achievement of the organization's objectives*" [5]. The said Hungarian standard [8] defines a stakeholder as a person, a group or organization that has interests in, or can affect, be affected by, or perceive itself to be affected by, any aspect of the project. These two definitions resemble to each other, therefore, the baseline definition in this study is the reference base of stakeholders in projects.

A corporation is viewed as a vehicle for individuals to pursue their own personal projects and companies should be organized and run in ways that allow stakeholders to do precisely that, in cooperation with other stakeholders [3]. Freeman [5] depicts the moment of separation of ownership and control over a business in his "*managerial view*". He thinks ownership became more and more dispersed as banks, financial institutions, stockholders and other organizations started to finance the emergence of modern corporations. In order to be successful and competitive, managers of the firm have to satisfy simultaneously various players around the firm: owners, employees and their unions, suppliers and customers (see Figure 1):

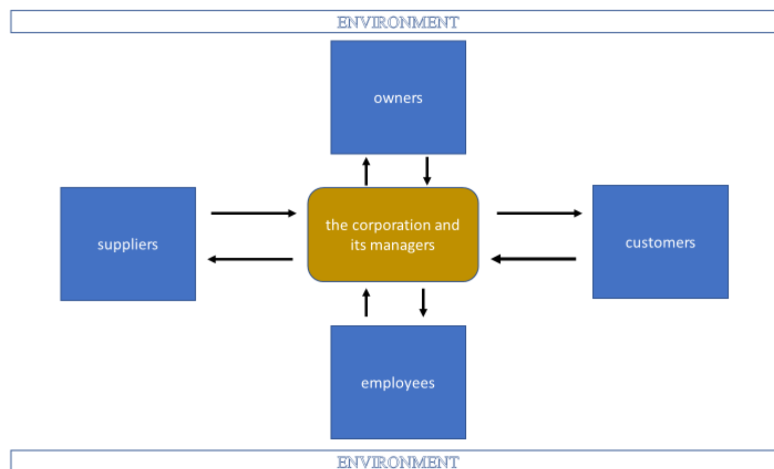

Figure 1: The managerial view of the firm

Source: Freeman, R. Edward (2010): Strategic management. A stakeholder approach. Exhibit 1.2, p. 6.

During the past decades this model has put shareholders, thus owners at the centre of the firms as the most important interest group to be dealt with. The managerial approach has focused more intensively on shareholders and creating value for stakeholders thus it can be called as an inwardly-focused view which concentrates on a single group while neglecting new and external sources of growth. According to Freeman, the world has changed since so that the stability and predictability of this shareholder approach can no longer be assured. Paying attention to only one of these groups (stockholders or financiers supplying the necessary capital) is totally untrue.

Lacking stakeholder involvement, conflicting stakeholder expectations or understanding about project functionality can often cause changes, i.e. variations or modifications from the original scope, cost, time schedule, and agreed quality in projects. [19] Needless to confirm that owners still belong to primary stakeholders, a group with high legitimacy in the company's life. Managers have to pay a special kind of attention to this group, among others and have to concentrate on creating and sustaining value for key stakeholders. The daily life of any business consists of interactions with a broad range of stakeholders, and these relationships need to be managed in a thoughtful way. Thoughtful my understanding can also be a synonym for transparent where – as Velencei [13] said – any transparent processes are considered to be easier to control and monitor. However, ownership of a corporation, especially a larger one, can easily change through mergers and acquisitions, takeovers, management buyouts etc., leaving the business vulnerable to competitive attacks, rapid market declines, takeover bids. This is called, among others, *external change* [3]. External change is

influence from the environment that affects comfortable relationship with suppliers, owners, customers and employees.

External change can thus be understood in terms of the emergence of several new groups to the organization and the restructuring, rebuilding of old relationships of lesser importance around the corporation (see Figure 2).

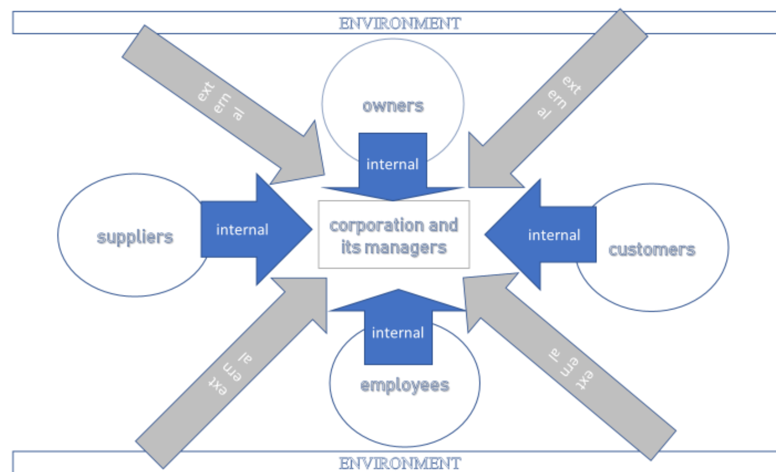

Figure 2: Internal and external change

Source: Freeman, R. Edward (2010): Strategic management. A stakeholder approach. Exhibit 1.3, p. 12.

Recently, employees and management have become significant holders of equity, particularly in the high-growth service industries (e.g. high technology and medical sciences). In many of today's leading firms it is becoming hard to distinguish between owners and employees [4]. Furthermore, nowadays there are multiple ways to finance the corporation beyond shareholders: from equity to debt, capital investments, community investments etc.

In another approach, ownership is closely related with power, especially voting power and economic power in the classical two-dimension stakeholder matrix (interest/stake vs. power). In the first point of interest, owners can devote resources in terms of voting power, e.g. voting for certain directors or voting to support or outvote management. Economic power is meant here by all conditions of having sufficient productive resources at command and at corporate level that give the capacity to make and enforce economic decisions, such as investments or Research Development and Innovation. The third classification of power (political power) in the stakeholder approach is not present here.

The stakeholder environment can be divided into three main categories [7]:

1) The *broad* environment (society, technology, economy, political and legal neighbourhood): over this a business has no or limited influence;

2) The *operating* environment consists of external stakeholders (suppliers, competitors, unions, customers, government, local communities): some influence is relevant and

3) The *internal* organization (with owners, managers and employees): they have formal ties to the firm.

Owners and ownership is therefore linked to the internal organization.

A very confusing issue could be conflicts within the ownership group, these are often conflicts between shareholders, as shareholders for control of the corporation of voice in its management. The existence of such battles demonstrates for managers that there is a substantial need to broaden the horizons and seek to include groups with alternate business views within the corporate organization. If alternatives to win-lose fights are not explored in time and adequate deepness, business opportunities may be lost leaving the firm in a less favourable market position [5].

Building and leading a company has always been about managing for stakeholders. The business world today consists of interconnected networks of customers, suppliers, communities, employees, financiers. The company that manages for stakeholders at the expense of other stakeholders cannot sustain its performance [3].

Stakeholder collaboration to stakeholder management could be preferred in which collaboration is integrated, focuses on building relationships, emphasis is on creating opportunities and mutual benefits, is linked to long term business goals. Based on Svendsen [12] it is also a coherent approach driven by business goals, mission, values and corporate strategies.

Owners have a clear financial stake in the business in the form of stocks, bonds etc. and they expect certain financial return on them. The stakes of owners differ by the type of owner, financial preferences and moral preferences, social and environmental preferences. It makes thus sense to talk about financiers owing, they have connected and real time responsibility for the use of their property and assets. Financiers or investors usually seeks for maximum profit on the investments made. At the same time, any capital investments are connected not only with expectation of obtaining the income and profit but also with constant danger of risky losses. [20] The stakes of each stakeholder group are multifaceted and inherently connected to each other [2]. Managers have a responsibility to act as reliable agents to multiple stakeholders rather than just the stockholders. This opinion is considered as an extended agency theory [2]. In his approach, Freeman depicts ownership in its very physical state in terms of purchase, takeover, control and holding. I see ownership from a different angle: as partnership in which an organization is able to negotiate any kind of emerging problem or obstacle with its internal and external stakeholders. Managers can thus understand the various direct and indirect linkages between the various stakeholders [15].

The relationship among the organization and its stakeholders can also be described as a kind of coach and coachee contact from the perspective of their respective competences and a particular type of the coaching process [14]. It is justified that there is no conflict between serving all stakeholders and providing outstanding returns for the shareholders [4].

2 Simultaneously on the project level…

2.1 A project-focused approach to stakeholders

Project owners should be seen as special stakeholders who have vast interest in the success of the project and within the environment the project operates. Owners have both control and responsibility for cost and income related to the project. This special stakeholder who has both control and financial responsibility has incentives and tools to maximise the value creation related to the source [10]. Project stakeholders, including the project organization, should be described in sufficient detail for the project to be successful. A typical breakdown of project stakeholders is shown in Figure 3:

Figure 3: Project stakeholders

Source: Hungarian Standard MSZ ISO 21500: 2015, page 25, figure 4.

Different players in the figure are clear and speak for themselves. One category should be however described in further detail: suppliers is an umbrella phrase for all suppliers, subcontractors, commissioned experts who contribute to the project by supplying different resources. Stakeholder interfaces should be managed within the project through project management processed described in the standard.

According to Olson et al. [10] project ownership can take the form of

- financier (who provided funds to the project, either using own funds or coordinating funds from other sources)
- ultimate owner of financier (e.g. private consultancy firms, government, inhabitants)
- operators: organizations responsible for operating the project result (facility management, service provider, maintenance etc) and
- value generators: represent the value generating activity that utilises the project delivery (e.g. end users).

Olsson et al [10] have indicated in their study that not all examined project have a single, well-identifiable owner (especially in large governmental projects, e.g. infrastructure, traffic). However, stakeholder management can be still considered a key area in the management of projects [16]. To understand the hidden power and influence of various stakeholder is a critical skill for successful project managers [17].

2.2 Stakeholders in project processes

The said international standard identifies the recommended project management (PM) processes to be used during a project. These processes are appropriate to be applied to projects in all kind of organizations. PM processes may be viewed from two different perspectives, namely as:

1. Process groups: initiating, planning, implementing, controlling and closing and
2. Subject groups: integration, stakeholder, scope, resource, time, cost, risk, quality, procurement and communication.

Stakeholders as subject groups come into the picture in the initiating phase where the task is to identify stakeholders. Initiation is normally used to launch a project phase or the project itself and to define the project objectives. Stakeholders are also affected during implementation period in form of managing stakeholders. This stage is usually used to perform PM activities and to support the provision of deliverables, as to the actual project plan. When identifying stakeholders the task is to determine individuals, groups or organizations affected by or affecting the project in both internal and external categories and to document relevant information regarding their interest and involvement. Primary inputs are the project charter and the project organization chart, a stakeholder register is considered relevant primary output. [8] During the management of stakeholders the task is to give appropriate understanding and attention to stakeholder needs, concerns, expectations and resolving issues. Primary inputs are the project plans and the stakeholder register, change requests (documentation defining a proposed alteration to the project) are considered relevant primary outputs. [8]

In another approach, strategic stakeholders are those who affect project portfolios i.e. collections of projects conducted under the sporsorship and/or management of a specific organization and compete at the same time for scarce resources. [18]

2.3 Project ownership

Addressing project ownership issues should fit within the general framework of the organization. By the temporary and unique nature of projects they are still performed to achieve specific goals. Projects are usually performed by temporary teams, have a non-repetitive feature and provide non-standard deliverables. Project ownership in physical terms (possession, property and rights) is relevant in the following environments:

1. *External*: factors outside the organizational boundary may have impact on the project by imposing constraints or risks. They are often beyond the control of PM, they should still be considered,
2. *Organizational*: factors arising out of current and future operation, calculated benefits and opportunities (e.g. new market demand or niche, new legal environment) as well as strategy, structure, applied technology, resources, organizational structure etc.,
3. *Project*: factors to be calculated with at PM level (e.g. business case, financial investment alternatives, goals and benefits, strategic alignment, PM maturity, social and environmental impact etc.

Project ownership should escort the project during the entire project life cycle: during initiating, planning, implementation, controlling and closing (Figure 4).

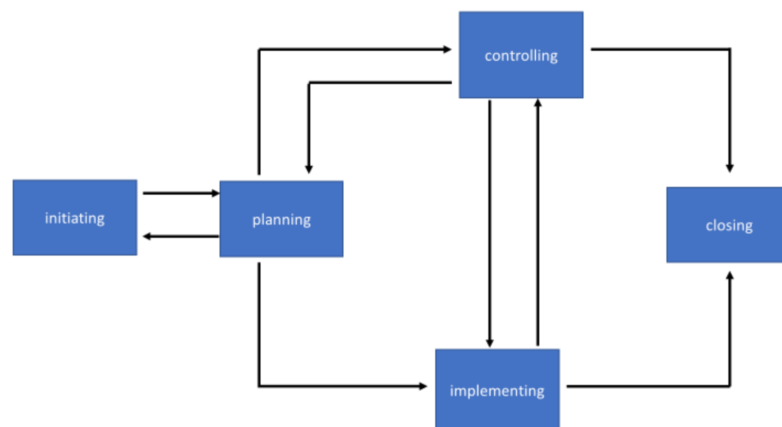

Figure 4: Process groups' interaction

Source: Hungarian Standard MSZ ISO 21500: 2015, page 35, figure 5

Project ownership in management terms creates a framework in which a project or different projects within and organization are directed and managed. It also includes areas that are specifically related to project activities, such as:

- PM management structure,
- PM policies, processes and methodologies to be applied,
- limits of authority in decision making,
- stakeholder responsibilities and accountabilities and
- other interactions such as reporting and escalation of risks.

Normally, a project owner focuses on the business case and has responsibility for both project delivery and benefit realization. A further type of project owner is found who is mainly concerned with supporting the project manager and enabling project delivery [11]. Project ownership in my terms also includes constant development of competencies. These competencies might include technical competencies (e.g. PM and PM processes), behavioural competencies (e.g. personal relationships within the project) and environmental competencies related to the management of the project within a given organization and external environment. Each project team, therefore, should be comprised of personnel capable of applying their knowledge and experience to provide project deliverables.

Conclusions

Ownership, especially project ownership cannot ultimately be separated from stakeholders, owners are considered one of the stakeholder groups. Organizations and projects are managed by managers in favour of all stakeholders (including owners) in form of created value. Project owners should therefore be seen as special stakeholders who have vast interest in the success of the project and within the environment the project operates. Owners can be at the same time both influencers and stakeholders [6]. Naturally, owners step up as investors in the company: they, among others, provide specific capital needed to finance operations and investment. Recently, financiers have replaced "*traditional*" owners, financing parties are often used as project owners. Project ownership is not linked to one single form, it can take various forms (financier, ultimate owner, value generator etc.)

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