

## ***Advances in Project Management Series***<sup>1</sup>

### **In whose interest? Repositioning the stakeholder paradox**<sup>2</sup>

*By Prof Darren Dalcher  
School of Management, University of Lancaster  
United Kingdom*

Stakeholders represent a significant, albeit a relatively more recent addition to the project management discourse. The 7<sup>th</sup> edition of the APM Body of Knowledge (APM, 2019) positions stakeholders as the individuals or groups who have an interest or role in the project, programme or portfolio, or who are impacted by it. Other bodies of knowledge and some texts make use of the notion of *stakeholder management*, implying that stakeholder behaviours and actions can be managed, but as many project failures attest, it is highly debateable whether such behaviours and actions of stakeholders can indeed be predicted, planned and controlled in the full management sense (Dalcher, 2014a; 2015a; Eskerod et al. 2015).

Put simply, a stakeholder is anyone affected, or potentially affected, by your work. Given that managing people, let alone those not directly under our power and control, raises many objections, instead, we need to embrace the necessity of forming relationships with stakeholders. This implies employing a softer type of relationship management as we endeavour to understand, engage and influence stakeholders.

Moreover, given the recognition that the success of any activity undertaken by organisations, be it at the strategic, tactical or operational level, can only be achieved with the input, commitment and support of its people, the stakeholders (Bourne, 2009; 2015), it is essential to position these people and their needs at the very core of any conversations around projects, actions, impacts, value and success.

#### **The origin of stakeholder thinking**

The focus on stakeholders at the core of organisations can be traced to early discourse within systems thinking and systems analysis. Systems thinkers traditionally contrast *technical*

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<sup>1</sup>The PMWJ *Advances in Project Management* series includes articles by authors of program and project management books published by Routledge publishers worldwide. Each month an introduction to the current article is provided by series editor **Prof Darren Dalcher**, who is also the editor of the Routledge *Advances in Project Management* series of books on new and emerging concepts in PM. To see [project management books published by Routledge, click here](#). Prof Dalcher's article is an introduction to the invited paper this month in the PMWJ. See Darren's background and qualifications at the end of this article.

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aspects with the need to account for *social* concerns and form supportive coalitions to enable change, whilst the IS community has often shown a similar interest in socio-technical considerations and focuses on the users and their requirements. However, the defining seminal writing in this area is associated with Edward Freeman's (1984) *Strategic Management: A Stakeholder's approach*, which has explored previous work and established a position as the leading foundational resource. At the core of the approach lies the recognition that managers have to deal with those groups and individuals that could affect, or be affected, by their company. Placing stakeholders at the core, requires a shift towards a more relational perspective regarding business and its management. Numerous financial crises and ethical breakdowns have reinforced the need to develop a more balanced approach to the ethical management of organisations, thereby encouraging the development of extended governance structures and approaches that can support a wider scope.

Freeman's original thesis is that as the pressures on managers intensify due to new government regulations, media scrutiny and substantial competition together with an increase in external demand and a decrease in internal flexibility, managers are required to reconsider their approaches. He therefore calls for new concepts that enable managers to reposition their role and work effectively whilst considering economic as well as social issues. The business context has expanded to incorporate internal and external impacts that shape and influence the organisation and all planned actions. In Freeman's view, reinvigorating management therefore calls for shifting attention to stakeholders, including employees, customers, suppliers, stockholders, banks, environmentalists, government and other groups who can help or hurt the corporation (Freeman, 1984: vi). Successful implementation of any strategic intent will ultimately depend on the ability to engage with the different groups and develop and sustain beneficial progress through new and enhanced coalitions.

Goodpaster (1991: 54) maintains that the term stakeholder has been invented as a deliberate play on the word 'stockholder' to signify that there are additional parties with a substantial stake in the decision-making that takes place inside organisations, extending beyond those who hold equity positions. He further invokes the metaphor of 'player', as in a poker game, to illustrate the need to involve all relevant players with a stake in the game. Adding stakeholder concerns to decision making is a responsible and necessary act and feature of management, however, it opens an ethical relationship between management and other relevant participants. The relationship can become problematic: If stakeholders are not considered valid participants, they can become mere means to achieving stockholders' financial preferences. Conversely, if stakeholders begin to dominate the relationship, they can influence decisions away from the core preferences of the organisation. The balance can be difficult to attain. The fundamental discussion therefore must revolve around the priorities, concerns and the balancing and trade-offs between different positions, arrangements and preferences.

## The stakeholder paradox

Goodpaster (1991: 63) introduces a distinction between managers who believe that a strategic orientation that emphasises the economic mission and legal constitution of the corporation is the legitimate core of the business, and those who pursue a multi-fiduciary stakeholder orientation taking into account a wider set of views and concerns from different interest groups. This can be transposed as a debate between the obligation of agents (i.e. managers and executives) to their principals in the traditional mode, versus the active relationships between agents and other interested and concerned third parties. Pursuit of either end of the proposed separation can lead to the two paradoxical positions characterised respectively (ibid.: 67) as either, business without ethics, or ethics without business.

The *stakeholder paradox* asserts that: *'It seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones.'* (ibid.: 63)

Finding a balance between extreme positions is difficult. Should businesses therefore favour the profit maximising obligation to the corporation, or embrace their responsibility to the needs and preferences of other concerned groups? A decade later, Goodpaster et al. (2002: 96) revisit and rephrase the *stakeholder paradox* as follows: *'It seems essential, yet illegitimate, to guide corporate decision by ethical values that go beyond prudential or instrumental stakeholder considerations to impartial ones.'*

Freeman (1994) takes issue with the implied separation between business and ethics, arguing passionately that morality and business need to be intertwined and managers must have responsibility for other stakeholders. However, more recent crises suggest that this view is not shared by all corporations. Moreover Goodpaster & Holloran (1994) rally against any attempt to underplay the tension and therefore counsel against the elimination of ethics in favour of prudence. Jensen (2007) concurs, asserting that while it is legitimate for the corporation to serve as an instrument for the owners and management has a fiduciary obligation to serve those interests, the shareholders, acting in their capacity as business owners are not exempt from their ethical responsibility. Calton & Payne (2003) similarly herald the value of paradox in positioning contradictory terms so that something new can emerge from the tension and better guide efforts to cope with a messy reality, especially when dealing with problematic stakeholder conundrums.

Invoking stakeholder concerns and their impact on management is not a new occupation. Ansoff (1965) claims that managers could not be expected to balance or reconcile co-existing economic and social organisational objectives, suggesting that stakeholder concerns can be treated instead as secondary external constraints, applied to the primary economic objectives. It has been widely noted that the integration of stakeholder concerns requires a radical rethinking of the model of the firm (Freeman, 1994: 24), not least by introducing further mechanisms for consideration, oversight and governance.

Modern contexts often include different groupings of stakeholders. Goodpaster et al. (2002) are duly concerned with the aggregation of varied stakeholder perspectives. Consulting diverse stakeholder groups results in competing claims and assertions. These preferences and needs can be represented through stakeholder maps showing influence, power, roles and proximity of different groups. However, mapping the individual positions is insufficient; stakeholder synthesis is needed to combine, contrast and aggregate the different priorities and positions in order to balance the diverse claims and fuse the fragmented set of interests into a collective notion of a wider common good.

Responding to the individual claims raised by a diverse collective of groups is challenging. The sum common good is neither the particular good articulated by a single grouping, nor the clever aggregation of all different goods invoked by the different groups. Goodpaster et al. (2002: 98) conclude that there is a second barrier to the good application of stakeholder thinking, leading to the second *stakeholder paradox* stating that: *'It seems essential, yet problematic, to guide corporate decisions by a view of common good arrived at by simply aggregating separate stakeholder costs and benefits.'*

Resolving multiple positions implies recognition of different communities and constituencies and the application of creative methods for enhancing divergence as well as conflict resolution. Specific approaches to resolving the paradox and balancing roles and perspectives have been proposed using various approaches including value matrices, contracting mechanisms, integrative social contracts, a deep cultural discipline, stakeholder enabling, community conversations, and multi stakeholder dialogues (see for example, Kurland & Calton, 1996; Goodpaster et al, 2002; Calton & Payne, 2003; Goodman et al., 2011).

## **Reporting and engaging**

The pioneering work of Edward Freeman on engaging with stakeholders is well acknowledged. At the launch of the 25<sup>th</sup> anniversary edition of his influential book, Freeman (2010) reflects on earlier debates, noting that while the interests of the different stakeholder groups may diverge at times, it is the intersection of these interests which is central to effective and sustainable management within organisations. Differences, trade-offs and conflicts between stakeholder perspectives and interests engender new opportunities rife for added value creation. Yet, integrating different perspectives requires engagement, appreciation, understanding and rich interpretation.

Whilst the original literature positioned stakeholders as interested parties within organisations, similar concerns apply during project work, when novel change initiatives are proposed, planned and enacted. The 7<sup>th</sup> Edition of the APM Body of Knowledge (2019) dedicates a full chapter (out of a total of four, representing roughly a quarter of the total page count) to people and behaviours, which in turn is divided into three segments focusing on: engaging stakeholder; leading teams; and, working professionally. It is instructive that the focus on stakeholders comes first, and noteworthy that such a large emphasis is placed on

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topics such as stakeholders, the social context, engagement and influence, facilitation and conflict resolution.

Making sense of an increasingly messy reality infused with different stakeholder groups presenting different needs and expectations in the context of projects, programmes and portfolios matters because stakeholders shape, influence and determine the success of project work. Engaging with the different groups and constituencies requires an understanding of the roles, preferences and needs of the different communities. The guest article this month aims to offer insights into the messy terrain of stakeholder groups and their impacts and influences on projects. The article by Dr Alexia Nalewaik is derived from her recent book *Project Cost Recording and Reporting* published by Routledge.

Communicating with stakeholders is essential to the success of projects and Dr Nalewaik endeavours to provide a clear framework and enhanced understanding required to facilitate meaningful and purposeful communication. Engaging with stakeholder groups entails informing, updating, reporting, and also listening, to enable and support timely two-way communication. Reports establish trust and underpin the development of meaningful relationships. Effective communication underpins informed decision making that draws on the integrated knowledge from different stakeholder groups and enables projects, and organisations to respond to opportunities, identify concerns and address emerging challenges in a timely manner.

Communication starts with understanding. Understanding the different groups and communities will allow managers to tailor their communication strategies and responses to the needs of the communities they are approaching and foster effective relationships. It can subsequently be used to improve the quality of decision making and to encourage the adoption of a more responsive and opportunistic style that would facilitate more meaningful collaboration, and lead to sustainable success that involves and includes more stakeholder groups.

Engagement requires planning and thoughtful understanding. Nalewaik encourages the adoption of a more flexible and diverse approach to communication by starting with the needs and expectations of the participants. Reports, data and needs are thus used to underpin the dialogue required to inform, update, refresh, resolve, respond and capitalise on the information and opportunities uncovered. Informed communication also plays a critical part in supporting both analysis and synthesis of stakeholder positions. Understanding where participants come from, what is available and what might be needed and considering the communication expectations of different constituencies, will enable management to flow more smoothly. The starting point offered through Nalewaik's work will support managers in delivering the meaningful information required by communities and groups in order to develop, support and embrace projects and change initiatives, further enhancing the likelihood of successful engagement, impactful deployment and realised benefits.

## Where next for stakeholders?

Stakeholder engagement is still grappling with the needs of a diverse multitude of communities and interests. In thinking about future directions for balancing ethics and stakeholders it is useful to explore new work by Freeman. Freeman et al. (2020) assert that the idea that business is about money no longer applies in the twenty-first century. While companies are changing their traditional distinctions in order to succeed in a more demanding marketplace, there is an urgent need to update the mindsets, outdated worldviews, and invalid expectations that emphasise profits above all else.

Freeman et al (p. 3) distil a set of key ideas that need to be added to existing business models (slightly paraphrased and condensed; p. 3):

- prioritizing purpose, values and ethics as well as profits;
- creating value for stakeholders as well as shareholders;
- seeing business as embedded in society as well as markets;
- recognising people's full humanity as well as their economic interests; and
- integrating business and ethics into a more holistic model.

The combination of the different key ideas embraces an emerging new narrative about the very nature of modern business as well as a conception of what responsible business might be all about in this new modern world.

To conclude, two key themes related to the previous discussion also re-emerge from the distilled new perspective. The first one is that the link between business and ethics must be maintained. Various business and economic failures suggest that a disjointed perspective may allow partial interpretations to become normalised, justifying ethical and moral lapses. Switching lenses may indeed, result in temporary blindness, and hence a more comprehensive and encompassing holistic perspective is to be welcomed.

The second theme that is worth emphasising relates to the idea of creating value for stakeholders as a key feature of modern management. Engaging wider groups of employees, customers and communities requires that the main purpose of the company also encompasses their expectations and needs. Satisfying the needs of employees, customers, and communities creates the market and space for longer-term growth and further development through establishing and strengthening relationships. More critically, from a project perspective, it allows users to realise the anticipated benefits from deployed projects and capabilities (Dalcher, 2015b), and thereby achieve the intended outcomes and secure additional value streams that guarantee sustained performance over the extended life of assets. As relationships strengthen and trust is established, new opportunities will emerge that will further enable groups to prosper jointly and collaboratively, especially in response to emerging opportunities (Dalcher, 2014b). While project management may have joined the stakeholder engagement discourse relatively late, it might yet offer the potential vehicle to

embrace new ways of supporting the continuous development of organisations by enabling growth through sustained engagement, benefit realisation, informed deliberation and opportunistic pragmatism. The next stage of the conversation beyond the stakeholder paradox may well invoke projects as the instruments for strategically enabling and sustaining improved performance across communities.

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## About the Author



### **Darren Dalcher, PhD**

Author, Professor, Series Editor  
Director, National Centre for Project Management  
Lancaster University Management School, UK



**Darren Dalcher**, Ph.D. HonFAPM, FRSA, FBCS, CITP, FCMI, SMIEEE, SFHEA, MINCOSE is Professor in Strategic Project Management at Lancaster University, and founder and Director of the National Centre for Project Management (NCPM) in the UK. He has been named by the Association for Project Management (APM) as one of the top 10 “movers and shapers” in project management and was voted Project Magazine’s “Academic of the Year” for his contribution in “integrating and weaving academic work with practice”. Following industrial and consultancy experience in managing IT projects, Professor Dalcher gained his PhD in Software Engineering from King's College, University of London.

Professor Dalcher has written over 200 papers and book chapters on project management and software engineering. He is Editor-in-Chief of *Journal of Software: Evolution and Process*, a leading international software engineering journal. He is the editor of the book series, *Advances in Project Management*, published by Routledge and of the companion series *Fundamentals of Project Management*. Heavily involved in a variety of research projects and subjects, Professor Dalcher has built a reputation as leader and innovator in the areas of practice-based education and reflection in project management. He works with many major industrial, commercial and third sector organisations, learned societies and government bodies.

Darren is an Honorary Fellow of the APM, a Chartered Fellow of the British Computer Society, a Fellow of the Chartered Management Institute, and the Royal Society of Arts, A Senior Member of the Institute of Electrical and Electronic Engineers, a Senior Fellow of the Higher Education Academy and a Member of the Project Management Institute (PMI), the British Academy of Management and the International Council on Systems Engineering. He is a Chartered IT Practitioner. He sits on numerous senior research and professional boards, including The PMI Academic Insight Team, the CMI Academic Council and the APM Group Ethics and Standards Governance Board. He is the Academic Advisor, author and co-Editor for the highly influential 7<sup>th</sup> edition of the APM Body of Knowledge. Prof Dalcher is an academic advisor for the *PM World Journal*. He can be contacted at [d.dalcher@lancaster.ac.uk](mailto:d.dalcher@lancaster.ac.uk).