

# Psychology for Effective Stakeholder Management

**Theme:** Overcoming challenges & complexities in Project Management

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## Abstract

The complexities in project management are growing every day due to increase in size, rapidly changing technology landscape and mounting expectations from diverse stakeholders on the outcomes. Managing the needs of the stakeholders with these complexities is becoming more challenging. Traditional stakeholder management relies upon process centric approach based on rational factors. But, stakeholders also have emotional needs and these need to be attended to. By focusing on human factors in addition to rational factors, we can be more effective in stakeholder management.

Psychology being a science that seeks to understand human factors can provide insights for application in stakeholder management. This article elaborates on how project managers can leverage insights from psychology to manage the human factors. For example, Social Psychology provides a valid methodology for influencing stakeholders without authority. Likewise, Organizational Psychology offers solutions for effective internal and external communication. Positive Psychology which focuses on what goes well will enable project managers to build more productive engagement with stakeholders.

The main discussion points of the article include

- The dimensions of human interactions at different levels covering Organization, Project Team and an Individual in a project
- The various challenges associated with human factors
- How insights from psychology can be used to address the challenges

The article takes examples from real life case studies and provides implementable recommendations for today's project managers. This will ensure effective stakeholder management which is of paramount importance for the success of a project.

## Table of Contents

<b>Abstract</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>4</b>
<b>Introduction to Psychology</b> .....	<b>5</b>
<b>Stakeholder Management Processes and Challenges</b> .....	<b>5</b>
Identify Stakeholders:.....	6
How to identify powerful stakeholders early? .....	6
How to avoid pitfalls in understanding the needs of the stakeholders?.....	7
Plan Stakeholder Management: .....	8
How do we plan to get stakeholder buy-in? .....	8
How to create a collaborative environment? .....	9
Manage Stakeholder Engagement: .....	9
How to influence stakeholders without authority? .....	9
Control Stakeholder Engagement:.....	13
How to negotiate effectively?.....	13
<b>Conclusion</b> .....	<b>14</b>
<b>References</b> .....	<b>15</b>

## Table of Figures

Figure 1 : Rider and Elephant Metaphor .....	4
Figure 2: Stakeholder Management Processes – Challenges – Recommendations .....	5
Figure 3: Sources of Power .....	6
Figure 4 : Six Principles of Persuasion .....	9
Figure 5: Adoption of Principles of Persuasion .....	11
Figure 6: Cognitive Bias .....	11
Figure 7: Framing and Influence .....	12
Figure 8 : Principled Negotiation .....	13
Figure 9: Interests and Positions.....	13

## Introduction

The Make in India initiative launched recently by the Government of India is expected to have a great impact on the Indian economy. The realization of this initiative would involve executing large projects covering a wide range of stakeholders. Managing these stakeholders is very critical. In a recent report<sup>1</sup> FICCI-PMI have identified “Quality of Stakeholder Engagement” as a critical area for the success of Make in India.

Global standards have also recognized the criticality of stakeholder management. PMI included Stakeholder Management as one of the knowledge areas in PMBoK fifth edition<sup>2</sup>. This is to align with the growing body of research showing Stakeholder Management is one of the keys to overall project success. In addition, ISO 21500 standards put forward focus on stakeholder management.

The Standish Group, an independent international IT research advisory firm, in its well-known Chaos Report<sup>3</sup> observed that the more complex and bigger the project, the higher the risk of failure. One can observe from the report that the top three factors of project success which contribute to 45% of the overall weightage are in the domain of stakeholder management.

While the criticality of stakeholder management is understood, the project management standards predominantly rely on a process-centric approach with less emphasis on managing human factors. But it is also important to focus on human factors in addition to the process-centric rational factors.

Rider and Elephant metaphor presented by psychologist Jonathan Haidt<sup>4</sup> talk about a human riding atop an elephant. The Rider represents our analytical, planning side. The Rider decides the direction and where to go but, it's the Elephant, the emotional side, that's providing the power. The Rider can try to lead the Elephant, but in any direct contest of wills, the Elephant with its six-ton advantage is going to win. So part of achieving success in stakeholder engagement is aligning both sides of the brain by pointing out the direction for the Rider (our analytical,

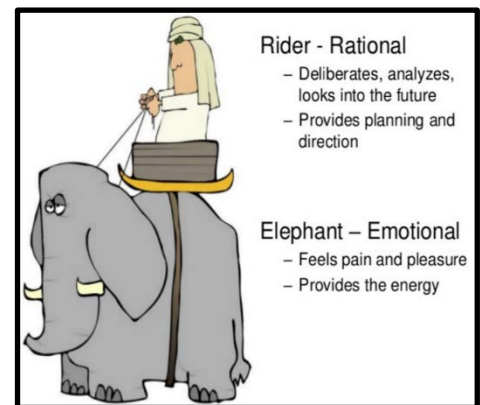


Figure 1 : Rider and Elephant Metaphor

planning side) and also motivating the Elephant to undertake the journey (emotional side). Managing the emotional side is in the domain of Psychology.

Psychology is the scientific study of the human mind and its functions, especially those affecting behavior in a given context. The insights from psychology can help PMs understand the human factors closely, analyze their interactions across different stages effectively and manage them efficiently. So psychology can help PMs in stakeholder management by

- Ensuring that the needs of stakeholders are understood and buy-in is obtained
- Ensuring stakeholders engagement
- Ensuring alignment
- Understanding how to negotiate

## Introduction to Psychology

Psychology is an academic discipline and an applied science that seeks to understand individuals and groups by establishing general principles and researching specific cases. There are many branches in psychology such as industrial or organizational psychology, which offers insights on team functioning, group dynamics, motivation; cognitive psychology, which provides insights on motivation, decision making, and thinking; and Social Psychology provides an approach for influencing stakeholders without authority.

By applying insights from different branches of psychology to challenges in various processes of stakeholder management, the effectiveness can be enhanced significantly.

## Stakeholder Management Processes and Challenges

PMBok defines stakeholder management as processes required to identify people, groups, or organizations that could impact or impacted by the project, to analyze the stakeholder expectations and their impact, and to develop appropriate management strategies for effectively engaging stakeholders.

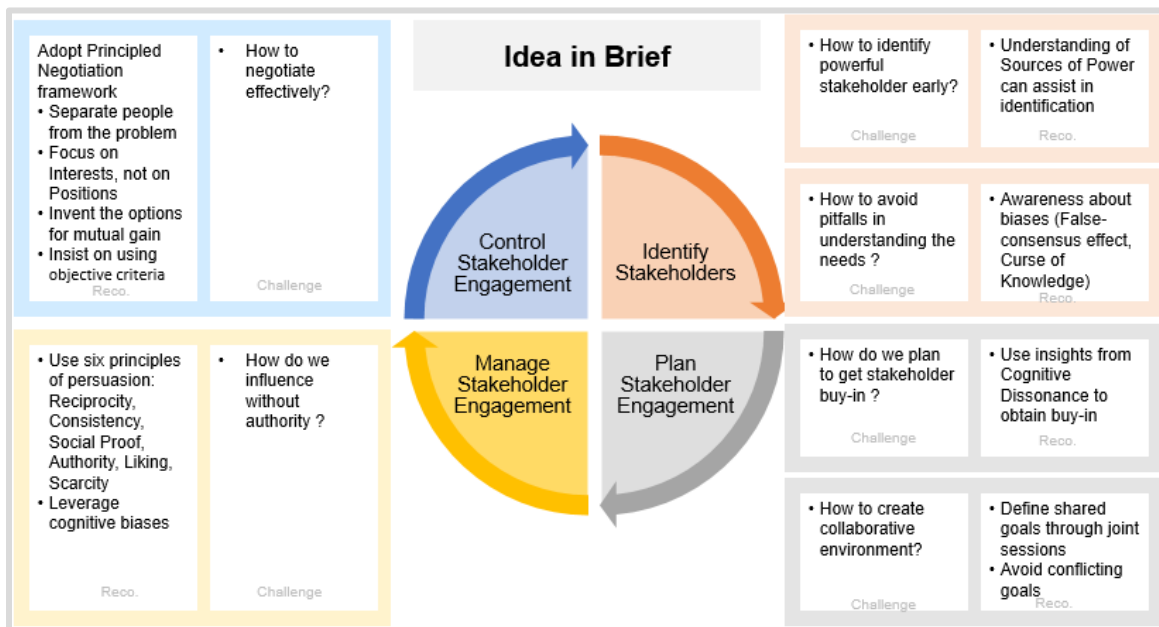


Figure 2: Stakeholder Management Processes – Challenges – Recommendations

In this paper, authors have attempted to identify some of the key challenges for each of four stakeholder management processes and provide practical and implementable recommendations (Ref: Figure 2). These recommendations are based on the research done by authors over many years, speaking engagements at professional forums/events, and practical experience.

The following sections delve into each of the Stakeholder Management processes.

**Identify Stakeholders:**

This is the process of identifying the people, groups, or organizations that could impact or be impacted by a decision, activity, or outcome of the project, analyzing and capturing the information regarding their interests, involvement, and potential impact on project success. The typical key challenges that PMs encounter are early identification of powerful stakeholders and a better understanding of stakeholder needs.

**How to identify powerful stakeholders early?**

Delayed identification and engagement of a stakeholder is a challenge that every PM would like to manage. PMs will be better off by asking and probing following questions for identification:

- Who else the project may impact?
- What else can create surprise?

Identification of powerful stakeholder early is more critical to the success of the project. The project

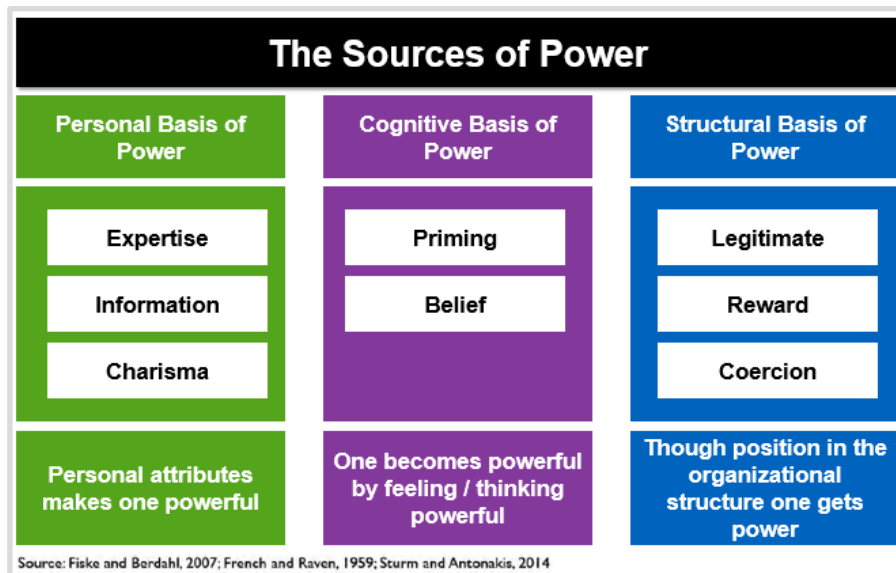


Figure 3: Sources of Power

documentation, organization structure, and lessons learned from previous projects can help in identifying powerful stakeholders. In addition, insights from psychology on sources of power that make stakeholders powerful can be used for identification.

Research<sup>6</sup> shows that there are mainly three types of power sources. By understanding these sources, PMs can effectively identify powerful stakeholders. For example, stakeholders who hold expertise, information or charisma tend to be powerful. Looking for these will help PMs in identification. Likewise, stakeholders who hold legitimate power through organizational structure, those who can reward or those who can coerce others tend to be more powerful.

One of the state governments embarked on a pioneering journey of deploying Integrated HRM solution (including Learning Management Solution) across the state. Government partnered with a leading IT company to develop and deploy HRM solution. The PM of this initiative, given complex nature of the project and nature of the government environment, understood the criticality of identifying the powerful stakeholders early.

PM studied the organization structure as well as the political structure to identify the powerful stakeholders who hold the legitimate power. These include Principle Secretary IT&C, Secretary IT&C, and Jt. Secretary IT&C, Heads of pilot departments. In addition, the heads of the key forums, key representatives of partner companies, and union representatives of the pilot departments who also hold legitimate power are identified as powerful stakeholders.

The understanding of government HR processes is very crucial to the success of the project. Hence, stakeholders who possess power by having knowledge and expertise like the head of HRD institute, key members of the General Administration Department (GAD), department level process experts, and key representatives of the partner companies who bring in HR domain expertise are identified as powerful stakeholders.

Through the understanding of sources of power, most of the powerful stakeholders were identified early in the project lifecycle.

### **How to avoid pitfalls in understanding the needs of the stakeholders?**

Research in social psychology shows that people tend to overestimate the extent to which their opinions, preferences, values, and habits are normal and typical of those of others (i.e., that others also think the same way that they do) —a tendency known as the “False-consensus effect”<sup>7</sup>. Another similar study highlights a different phenomenon called “Curse of Knowledge”: people believe that whatever they know is known to others as well. By being aware of these biases PMs can avoid some of the pitfalls in understanding the needs of the stakeholders.

A 1990 experiment by a Stanford graduate student<sup>8</sup>, Elizabeth Newton, illustrated the curse of knowledge in the results of a simple task. A group of subjects was asked to “tap” out well known songs with their fingers, while another group tried to name the melodies. When the “tappers” were asked to predict how many of the “tapped” songs would be recognized by listeners, they would always overestimate (over 50%). But the actual success rate was much less (in the range of 2.5%).

The curse of knowledge is demonstrated here as the “tappers” are so familiar with what they were tapping that they assumed listeners would easily recognize the tune

The next process in the stakeholder management is Plan Stakeholder Management.

### **Plan Stakeholder Management:**

This is the process of developing appropriate management strategies to effectively engage stakeholders throughout the project lifecycle, based on the analysis of their needs, interests, and potential impact on project success. The typical key challenges that PMs encounter are planning to get stakeholder buy-in and creating a collaborative environment.

#### **How do we plan to get stakeholder buy-in?**

As per the theory of Cognitive Dissonance<sup>9</sup> published by Stanford social psychologist, Leon Festinger, the distressing mental state arises when people find that their beliefs are inconsistent with their actions. The implication of this finding for the PMs is that if the stakeholders don't believe in project's overall objective, they will suffer from cognitive dissonance. If they do, they will be happy to change their individual behavior to achieve that objective.

PMs to get the buy-in of the stakeholders must ensure the objectives of the project are conveyed in such a way that stakeholders believe the project is worth undertaking and their contributions make sense to them.

A leading retailer in Europe decided to implement Oracle ERP suite to transform the organization. To obtain the early stakeholder buy-in with minimal resistance, the PM of this initiative planned series of interventions.

- Communication: Executive Communication demonstrating the commitment to the project; Communication to all levels highlighting the need for transformation; Establish process to communicate early wins
- Plan comprehensive role-based training and not one common training to all
- Plan change agent network to drive the adoption
- Plan to turn as many stakeholders as possible into powerful supporters

The engagement approach adopted by PM in this project was:

- Powerful – Supporter : Engage actively and leverage their support for adoption
- Less Powerful- Supporter : Retain & build their support and pair them with Powerful Supporters
- Powerful- Resistant : Focus first on these stakeholders ; Leverage existing relationships for turnaround; Take steps to dilute their power
- Less Powerful- Resistant : Engage Less Powerful- Resistants, as weak may not remain weak ; Encourage them to become supporters



**How to create a collaborative environment?**

A related study of group dynamics in the field of Social Psychology provides interesting and valuable insights into managing group interactions. Psychologist Muzafer Sheriff conducted the most widely known experiment called The Robbers Cave Experiment<sup>10</sup> to understand what can make groups work together collaboratively. He concluded that if the groups compete for the same goals the conflict increases <sup>11</sup>. The alignment between the groups can be enhanced in the presence goals which can be achieved only by the involvement of two or more people or groups.

If we draw parallel to stakeholder management, we can infer that stakeholder groups need to agree jointly to set goals which are mutually compatible and enhance collaboration. Having shared goals leads to a collaborative environment.

The next process in the stakeholder management is Manage Stakeholder Engagement.

**Manage Stakeholder Engagement:**







This is the process of communicating and working with stakeholders to meet their needs/expectations, address issues as they occur, and foster appropriate stakeholder engagement. One of the typical key challenges that PMs encounter is influencing without authority.

**How to influence stakeholders without authority?**

Influencing different stakeholders internal and external to a project is crucial to the success of the project. This is a challenging area for many PMs as many of the stakeholder groups are powerful, demanding and troublesome if incorrectly managed. This challenge is covered in two parts:

- Using persuasion principles
- Leveraging cognitive biases

**Influencing stakeholders without authority – using persuasion principles:** Psychology of persuasion

<b>Six Principles of Persuasion – Dr. Robert Cialdini</b>					
					
<b>Reciprocity</b>	<b>Consistency</b>	<b>Social Proof</b>	<b>Authority</b>	<b>Liking</b>	<b>Scarcity</b>
People tend to return a favor	If people commit, they are more likely honor	People will do things that they see other people are doing	People tend to obey authority figures	People are easily persuaded by the people they like	Perceived scarcity will generate demand
<b>What can PMs do ?</b>					
PMs can consider offering resources, help to enhance trust coefficient	Taking a commitment however small it is will influence the stakeholder to continue the support	PMs can use horizontal peer power to influence	PMs to develop a reputation for being an expert	PMs draw on similarities, engage in dialogue prior to making requests	PMs can emphasize uniqueness, time constraints and exclusivity of information

authored by Rober Cialdini, identifies six principles of persuasion for effective influencing<sup>12</sup>.

**Reciprocity:** People tend to return a favor, thus the pervasiveness of free samples in marketing. The research proves that if a favor done to a stakeholder group without any expectation, one will invariably return the favor. This will also enhance trust coefficient.

PMs can consider offering resources, help to enhance trust coefficient. Also, one can consider both social and professional resources for extending help. If the help can't be provided directly, one can think of providing it through known contacts.

**Consistency:** If people commit, orally or in writing, to an idea or goal, they are more likely to honor that commitment to be congruent with their self-image. This is in line with cognitive dissonance theory which highlights that humans strive for internal consistency. Taking a commitment for the project however small it is will influence the stakeholder to continue the support. Research suggests that if the commitment is given in writing and is made public the impact is much more. Any commitment with a stakeholder group should thus be in written and made public.

**Social proof:** People will do things that they see other people are doing. To influence other person / group, one will be better served if one uses the horizontal peer power which is better than vertical power. For example, while taking a proposition to a stakeholder, one can convey that other similar stakeholders have already liked it. PMs can leverage Social Proof by

- Showing that similar others are doing what you are asking
- Showing that others have succeeded
- Sharing testimonials of similar others

Useful Tip: You can use Social Proof to build coalitions before key discussions.

**Authority:** People tend to obey authority figures. In any conversations that precede key meetings, PM should establish and communicate its expertise to the stakeholders on the discussion agenda before commencing the meeting.

**Liking:** People are easily persuaded by the people they like. Researchers have found that positive remarks of other person's traits and performance reliably generate liking in return. This will lead to willing compliance with the wishes of the person offering the praise.

PMs should be aware that personal appearance matters and they should draw on similarities, engage in dialogue prior to making requests to the stakeholders.

It was observed that dialogue followed by a request lead to 2.2-3.6x levels of compliance. (Dolinski et al. 2001) <sup>13</sup>.

**Scarcity:** Perceived scarcity will generate demand. While discussing with stakeholders one can highlight the exclusivity of information and unique benefits to gain attention and to influence. For example, informing that the report is received just a little while ago even though the content is ordinary will gain more attention. PMs can emphasize the uniqueness of the proposal, time constraints and exclusivity of information to successfully influence the stakeholders.

Useful Tip: The above six principles are the result of many research studies and these are in line with our intuitive understanding. These can be applied by PMs in combination to compound their impact.

A leading IT company initiated deployment of the next-gen solution to re-imagine internal operations. PM leveraged some of the six principles of persuasion in the digital channels to drive adoption.



Figure 5: Adoption of Principles of Persuasion

**Influencing stakeholders without authority – Leveraging cognitive biases:**

Cognitive bias<sup>14</sup> refers to a systematic pattern of deviation from rationality in judgment, leading to wrong inferences. In a seminal work on cognitive bias, Tversky and Kahneman (a Nobel Laureate and a social psychologist) have identified different types of cognitive biases on human judgments and decisions.

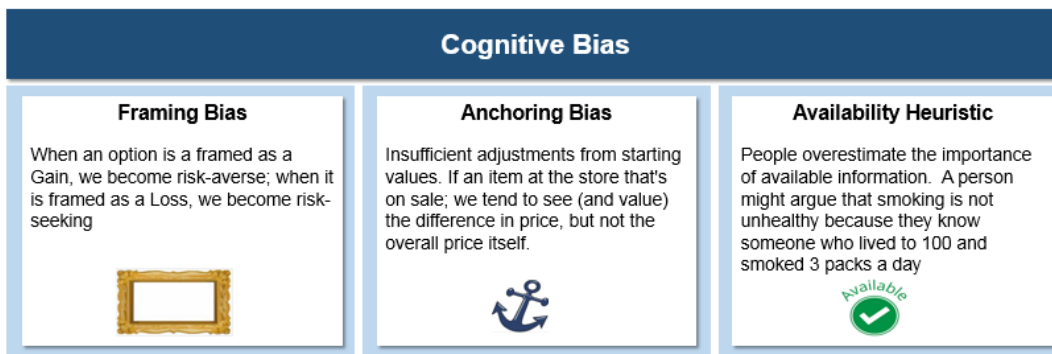


Figure 6: Cognitive Bias

**Influencing stakeholders without authority – Leveraging cognitive biases - Framing:** After researching on the cognitive bias, Tversky and Kahneman have stated that people decide based on the way the situation is presented – Framing Bias. When an option is a framed as a Gain, we become risk-averse; when it is framed as a Loss, we become risk-taking.

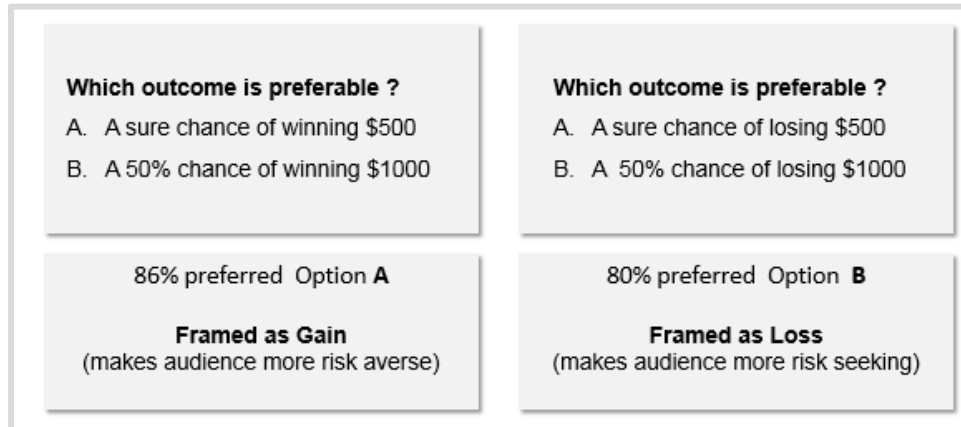


Figure 7: Framing and Influence

PMs can frame the situation in such a way that positive part of the problem is highlighted to get the risk-averse response. For example, by framing the situation that “Deferring the go-live by a month we are certain to meet project objectives” instead of “Not deferring the go-live by a month will significantly reduce the probability of meeting project objectives”.

**Influencing stakeholders without authority – Leveraging cognitive biases – Anchoring:** This is another type of cognitive bias first theorized by Tversky and Kahneman. It states that when an initial estimate is provided, we tend to adjust the final outcome to reach the initial estimate.

PMs can take advantage of this bias by positioning their request with reference to an accepted number. For example, PM asking for a project budget of USD 10Mil by referring to another recently executed project having a budget of USD 9Mil.

**Influencing stakeholders without authority – Leveraging cognitive biases – Availability:**

Tversky and Kahneman have observed that we tend to be particularly influenced by vivid, salient, and readily available information. PMs can influence stakeholders better by using information which is recent and familiar.

The final process in the stakeholder management is Control Stakeholder Engagement.

## Control Stakeholder Engagement:

This is the process of monitoring overall project stakeholder relationships and adjusting strategies and plans for engaging stakeholders. While monitoring the relationships PMs do negotiate with the stakeholders and make adjustments to the plan. Hence the typical key challenge that PMs encounter is negotiating effectively.

### How to negotiate effectively?

PMs are required to use negotiation skills while engaging with the stakeholders, resolving the conflicts at different stages. The art of “principled negotiation” developed as part of Harvard Negotiation Project by Fisher and Ury (1991)<sup>15,16</sup> provides a comprehensive framework for negotiation. The basis of this negotiation framework is to separate the relationship issues from the problem issues and to focus on interests not on positions, while trying to be creative in developing solutions.

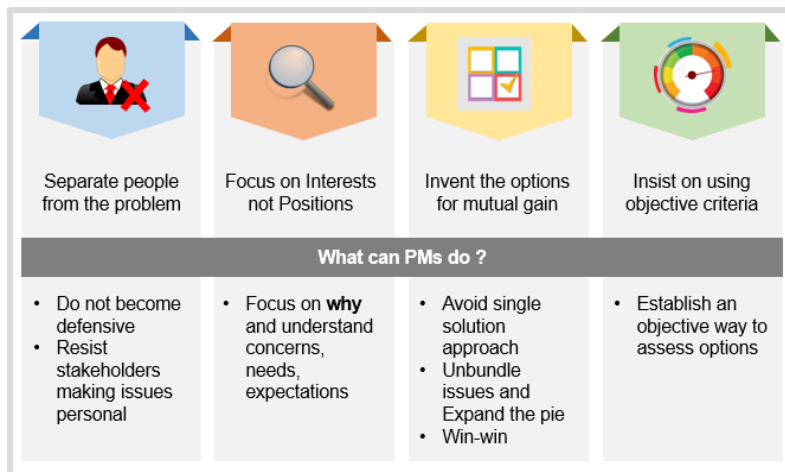


Figure 8 : Principled Negotiation

### Separate people from the problem:

Usually, when negotiating, people tend to get personally involved with the issues in question and get defensive. They consider attacks on those positions as personal attacks. The principle of separating people from the problem helps to reach a solution while minimizing damage to relationships. For example, if a stakeholder is not accepting a solution provided by the PM, instead of taking it personal, the PM can involve him in problem solving. Emphasizing a collective approach by frequent use of “we” can help. The typical problems with people arise because of (a) differing interpretations of perceptions (b) emotions (c) poor communication.

PM can be aware of the above problem areas and jointly focus on finding solutions.

### Focus on Interests, not on Positions:

In a negotiation, it is important not to focus on Positions but rather focus on Interests covering underlying needs, desires and concerns. For example, if a competent team member insisting for a release from



Figure 9: Interests and Positions

the project is a position that she may be taking. The interest may be that she is not happy reporting to a current supervisor. By giving a different role, the PM may be able to address the interest and retain the team member.

In large a core insurance solution implementation project, the client had taken a Position that the packaged software is not suitable for the organization. The PM, instead of taking a contradictory position, understood the underlying concern which is that the stakeholder felt that his power would diminish with the implementation. PM without focusing on stated position addressed the concern (or the interest of the stakeholder) and converted him into a supporter.

**Invent the options for mutual gain:**

Negotiations tend to get into the direction of Win-Loss mode focusing on one issue raising the tension and inhibiting creativity. It is more effective to unbundles multiple negotiable issues with different priorities leading to trade-offs and win-win situation. This provides opportunities for enhanced stakeholder engagement to realize mutual gains through negotiations across multiple issues.

**Insist on using objective criteria:**

Making decisions by using objective criteria may help reach a solution while preserving a good relationship, especially when the interests are directly opposed. For example, PM can prepare multiple options for a project plan and decide on the final plan along with client by using objective criteria.

## Conclusion

Stakeholder Management processes are required for successful engagement of stakeholders. While these provide necessary a framework for managing rational factors, it is vital for the PM to manage human factors such as influencing, negotiating, and power dynamics. With the increasing complexity and size of the projects visualized in Make in India initiative, the challenges with respect to human factors increase exponentially. As discussed in this paper, Psychology provides many insights for stakeholder management which PMs can effectively leverage to manage human factors leading to successful project outcomes. Authors regard that the current work on leveraging insights from psychology can be extended by larger PM community. This will prove to be a force multiplier in enabling the nation to redefine itself and achieve ambitious goals.

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