THE STAKEHOLDER MANAGEMENT IN REAL ESTATE

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Abstract
In this paper we investigate which are the most relevant stakeholder categories in the real estate business. In order to do so we initially define the cultural/managerial aspects of firms specialised in real estate. That is, we identify the nature of “project-based firms” as opposed to industrial and manufacturing firms as well as merely service providing firms. Secondly, we go back the main contributions regarding stakeholders, stakeholder management and the emerging field of project stakeholder management. Third, we try to identify the critical issues involved in the relationship between “project-based firms” and “stakeholders”, whose consensus has to be managed in order to achieve project satisfaction in spite of the damages caused during site works. The identification of the main project stakeholders and the relevance of each of these for the real estate companies is done analyzing a few interviews we have simulated in the field.

Key words: project based firms, stakeholder, stakeholder management, real estate
Introduction

This paper is an attempt to shed light on several aspects of the real estate industry and – more generally – tries to underline some features which strongly characterize the so called “project-based firms” (PBF). In order to do so we will define the cultural/managerial aspects of these firms as opposed to industrial, manufacturing and service providing ones. The identification of the main elements which allow to distinguish the PBF from other typical productive paradigms is important in order to understand why the stakeholder management practices are crucial in supporting the project activity and in increasing the success rate of any initiative and the long term competitiveness of firms. The stakeholder management for PBF could be a “strategic tool” allowing the builders to run the productive process in a cooperative way with all the actors (internal and external) that are involved directly or indirectly in this process, thus achieving positive effects on the “virtuous triad” time/costs/quality.

In this paper we assume the Donaldson & Preston (1995) point of view about the stakeholder theory (and stakeholder management). For the cited authors the stakeholder theory is managerial; for them it is not simply descriptive but also normative. They state that stakeholder management requires simultaneous attention to be paid to all the legitimate interests that are involved in the company’s activities. The theory does not imply that all stakeholders (however they may be identified) should be equally involved in all processes and decisions (Donaldson & Preston, 1995). We firstly depict the “conceptual framework” for PBF underlying, on the basis of its characteristics, the role of stakeholder management; secondly we go over the main contributions of the stakeholder theory mainstream underlying those elements that match with the real estate industry; thirdly we define which are the main stakeholder categories for real estate companies and which of these are more or less relevant for the business on the basis of an *ad hoc* questionnaire which was submitted to the top management of five
real estate firms. In the conclusion section we comment on the results of a simulated analysis and we suggest some future development in this field.

Identity of project based firms and its implication for stakeholder management

As many companies adopt project-oriented working methods in their businesses, a new paradigm concerning project-based firm and project business has been developed (Tikkanen, Kujala & Arto, 2007). Which are the central features of project business? The early contributions which try to depict a specific framework for PBF were developed in the field of the study of production systems (Woodward, 1965; Hayes & Wheelwright, 1979, 1984; Shmenner, 1986). Woodward formalized the peculiarity of the project business as regards to the other forms of production and identifies four dimensions which characterize PBF activity: 1) product’s uniqueness; 2) intermittence of the productive process; 3) specificity of the productive and organizational system; 4) small dimension of the served market.

The early models were developed in the stream of the so called “contingency theory” whose basic assumption is that the environment in which an organization operates determines the best way to organize itself. In spite of this, nothing is said about strategic implication of each kind of production pattern and the relationship between all the actors involved in the realization of a project (firm, customer, supplier, etc.) is not mentioned. A major interest for PBF arises in 1965 when the International Project Management Association (IPMA) is founded followed by the institution of the Project Management Institute in 1969 and continues in further events such as the publication in 1987 of the PMBOK (Project Management Body of Knowledge) which is declared a standard in 1998 by the American National Standard Institute. Although the emergence of the project management practices could be considered the first attempt to consider the
strategic implication of the project business, it is guilty of being extremely focused on operational performance and on the need to meet time and budget goals. In fact, in the last decade a new corpus of literature parallel to that of project management has been developed: strategic project management. This concept was developed in order to give a broader significance to project management focusing on the competitive advantage of the project outcome rather than on the need of “getting the job done”. It is concerned with customer needs, competitive advantage, future market success, research of distinctive competences and so on, and not only on the accomplishment of a single project on time and on budget. This explains also why several contributions were developed on themes which are far from the traditional project management issues and closer to general management principles and practices generally developed in the manufacturing, mass products and services sectors. A strong stimulus for this “cultural revolution” in the field of the project studies came from the researchers of the IMP group (Industrial Marketing and Purchasing) that already in the early ‘90s perceived a need for a conceptual framework depicting unique relationship-related features of project business as opposed to other types of b-to-b markets. This has resulted in the D-U-C (Discontinuity-Uniqueness-Complexity) framework (Cova & Ghauri, 1996; Mandják & Veres, 1998; Tikkanen, 1998), which suggests the need for new strategies: (D)iscontinuity of demand for projects; (U)niqueness of each project in technical, financial and socio-political terms, (C)omplexity of each individual project in terms of the number of actors involved throughout the supply process. As well as the IMP academics, other authors agree on these three features (Hobday, 2000; Carassus, 2001; Genco, 2006). The D-U-C framework has opened the door for a marketing perspective applied to the project business (because it explicitly cites the demand), for the strategic management of the supply chain and of all the other actors involved in the production process and for the conceptualization of the relationship between
PBF and socio-political institution (also in this case explicitly mentioned). This means that a new space for a different approach in conceiving the industrial relationships related to the realization of a project emerges, as well as the legitimization of a stakeholder management approach coherent with the Donaldson & Preston point of view: stakeholder theory is managerial (Donaldson & Preston, 1995).

In the field of strategic project management, relationships with customers, suppliers and all the actors which are involved in the productive/construction process are crucial. From a strategic perspective, the marketing action of a PBF should be focused on the management of multiple relationships in a network of business and non-business actors. If we assume this point of view it is clear that the plethora of subjects who can have a stake in the project is broad; there are both internal and external actors.

As we have noted above project managers in the last decade were fashioned by a broader view of conceiving their activity: not only focused on a single project, but on a portfolio of them (Tikkanen, Kujala & Artto, 2007) coherently with the wider corporate strategy. In fact, in the third edition of the PMBOK (Project Management Body of Knowledge) by the PMI (Project Management Institute), the notion of “project stakeholders” appears for the first time. They are defined as “individuals and organizations who are actively involved in the project, or whose interests may be positively or negatively affected as a result of project execution or successful project completion”. And it is recommended that “the project management team must identify the stakeholders, determine what their needs and expectations are, and then manage and influence those expectations to ensure a successful project” (PMBOK, 2004). It is however important to point out that the notion of stakeholder appeared for the first time just seventeen years after the first publication of the PMBOK.
Moreover, we can assert that the definition of stakeholder given by the PMBOK is extremely project focused. In fact the key stakeholders it identifies are: 1) project manager, individual responsible for running the project; 2) customer, individual or organization who will use the project product; 3) performing organization, that is the enterprise whose employees are most directly involved in doing the work of the project; 4) sponsor, individual or group within the performing organization who provides the financial resources necessary for the fulfilment of the project (PMBOK, 2004). Nothing is said about all those stakes which are indirectly involved in the project.

In the next section we will provide the main contributions regarding the notion of stakeholder and the practices of stakeholder management (within the framework of the stakeholder theory) and we will attempt to underline the connection of both with the emerging project stakeholder management.

**Stakeholder, stakeholder management and project stakeholder management**

Before going back over the main contributions that were developed since 1984 when the famous Freeman’s book “Strategic management: a stakeholder approach” was published it is necessary to provide a satisfactory definition of stakeholder. The notion of stakeholder was coined in an internal memorandum at the Stanford Research Institute in 1963 and meant “those groups without whose support the organization would cease to exist”. In a famous article Freeman and Reed defined stakeholders as “those groups who have a stake in the action of the corporation” (Freeman & Reed, 1983). In the same paper the authors gave two definitions of stakeholder: a first wider and a second narrower. The former defines a stakeholder as “any identifiable group or individual who can affect the achievement of an organization’s objectives or who is

It is so evident that since the first contribution on the theme a huge debate was developed upon.

Regarding the stakeholder theory the attempt of Jones (1995) to harmonize all the disparate scholars’ point of view was particularly important. Jones argues that stakeholder theory can be divided into three main approaches: descriptive, which depict “what happens”, instrumental which outlines “what happens if” and normative which suggests “what should happen”. In the same year Donaldson and Preston suggest a model which tries to link together the three elements mentioned by Jones stating their so called four central thesis.

In the first one they assert that “the stakeholder theory is unarguably descriptive. It presents a model describing what the corporation is. It describes the corporation as a constellation of cooperative and competitive interests possessing intrinsic value” (Donaldson & Preston, 1995:66).

In the second one they affirm that “the stakeholder theory is also instrumental. It establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals. The principal focus of interest here has been the proposition that corporations practicing stakeholder management will, other things being equal, be relatively
successful in conventional performance terms (profitability, stability, growth, etc.) (Donaldson & Preston, 1995:66).

In the third they affirm that “although theses one and two are significant aspects of the stakeholder theory, its fundamental basis is normative and involves acceptance of the following ideas: (a) stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity; stakeholders are identified by their interests in the corporation, whether or not the corporation has any corresponding functional interest in them; (b) the interests of all stakeholders are of intrinsic value; that is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners” (Donaldson & Preston, 1995:67).

Finally, the forth thesis states that “the stakeholder theory is managerial in the broad sense of that term. It does not simply describe existing situations or predict cause-effect relationships; it also recommends attitudes, structures, and practices that, taken together, constitute stakeholder management. Stakeholder management requires, as its key attribute, simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishment of organizational structures and general policies and in case-by-case decision making. This requirement holds for anyone managing or affecting corporate policies, including not only professional managers, but shareowners, the government, and others. Stakeholder theory does not necessarily presume that managers are the only rightful locus of corporate control and governance. Nor does the requirement of simultaneous attention to stakeholder interests resolve the longstanding problem of identifying stakeholders and evaluating their legitimate "stakes" in the corporation. The theory does not imply that all stakeholders (however they may be
identified) should be equally involved in all processes and decisions”. (Donaldson & Preston, 1995:67).

The wideness of stakeholder notion and the several facets of its theory has determined frequent ambiguity and misunderstanding in the current literature. Phillips, Freeman and Wicks (2003) have summarized the principal distortion contribution in two categories: critical distortion and friendly misinterpretation. In the first one they have placed these definitions: 1) stakeholder theory is an excuse for managerial opportunism (Jensen, 2000; Marcoux, 2000; Sternberg, 2000); 2) it cannot provide a sufficiently specific objective function for the corporation (Jensen 2000); 3) it is primarily concerned with distribution of financial outputs (Marcoux, 2000); 4) all stakeholders must be treated equally (Gioia, 1999; Marcoux, 2000; Sternberg, 2000).

Instead in the second one they have placed: 1) stakeholder theory requires changes to current law (Hendry, 2001); 2) it is socialism and refers to the entire economy (Barnett, 1997; Hutton, 1995; Rustin, 1997); 3) it is a comprehensive moral doctrine (Orts and Strudler, 2002); 4) it applies only to corporation (Donaldson and Preston, 1995).

In this paper we espouse two central ideas from the Donaldson and Preston model: between the firm and its stakeholders there is a bidirectional relationship and the firm is the centre of the model.

But why are stakeholder management practices important in the real estate industry? In order to answer this question one idea is central: in real estate – and generally in the construction industry – every productive process (the realization of a building rather than of a dime, a bridge or an industrial plant) has both positive and negative effects. Negative effects are inevitable because every construction project corresponds to a permanent modification of the territory. We can state that “to build” means in a certain sense “to hurt” the land.
Ismodes (1997) stated that scarce attention to the stakeholder in a construction project process could generate:
a) conflicts with the local community: in the real estate business for example it is important to manage the relationships with the neighbours who are affected by the building site for a period of time that generally lasts a few years;
b) complicated decision-making process: the implementation of a construction project can have many unwanted consequences if it is inadequately managed. This is the sphere of influence of the project manager who has to be able to run the project during all the phases in which it is composed;
c) time delays and cost overruns: generally are associated with conflicts with the local community or with problems connected with the running of the construction process;
d) negative publicity for the companies involved: a poorly performed external stakeholder management process can lead to negative publicity.

Cleland (1999) states that the project stakeholder management process a) is essential for ensuring success in managing projects, b) requires a formal approach, c) should provide the project team with adequate intelligence for the selection of realistic options in the management of project stakeholders and d) needs information in order to be carried out.

It is clear that the construction industry (to which real estate belongs) involves more interests and a bigger plethora of subjects that directly or indirectly are affected by the realization of a project than any other: it is strongly regulated, it has a long supply chain, it is both very capital and very labour intensive, it is characterized by long term production processes, it permanently modifies the territory and its landscape, it has an important macroeconomic effect. In fact, it is not by chance that several articles were written about the theme of negative externalities in the real estate industry (Anderson, 1993; Jou & Lee, 2007). In spite of
this the current literature in more concerned with analysing the stakeholders’ impact and influence on huge construction projects (infrastructures primarily) (Olander & Landin, 2005) because they attract more interest on the part of the media.

**Methodology**

The aim of this paper is to depict the main stakeholder categories that have to be managed by real estate companies. In order to do so we have considered five Italian firms which operate in this sector. We prefer not to disclose the names of these firms because we hope to continue this work and analyze how stakeholder management practices are carried out by those firms and in which cases this approach allows better results to be obtained. To identify the various interests involved in real estate, we consider the Cleland model (1999) fitted to the real estate specificity cause this model was developed for construction projects in general. The Cleland model was fitted on the basis of interviews carried out involving opinion leaders and top managers starting from the Freeman and Reed (1983) definition of stakeholders: “any identifiable group or individual who can affect the achievement of an organization’s objectives or who is affected by the achievement of an organization’s objective”. The stakeholder categories we have identified and that we consider relevant (not divided into internal and external as the model does) are: shareholders, employees, clients, suppliers, financiers/creditors, local and national authorities, social/political organizations, land owners, environmentalists, nearby residents and media.

For all the categories we have specified the main stake they have in the company’s activity. In this way each interviewee was able to assign the score on the basis of the same set of information:
- Shareholders: are interested in obtaining a fair remuneration of the invested capital;
- Employees: are interested in safeguarding their job, that could be threatened if the company invests in high risk operations, and in obtaining economic benefits;
- Clients: are interested in the quality of construction and in the maximization of their investment (good value for money);
- Suppliers: we have considered the two main actors of the construction supply chain: designers and contractors (assuming a turn key contract);
- Financiers/creditors: like shareholders are concerned with the cash flow from the real estate investment;
- Local and national authorities: are concerned with the safeguarding of the environment and of the landscape and in the evaluation of the company’s behaviour in accordance with current law;
- Social/political organizations: involve the broader concept of society;
- Nearby owners: they could benefit or they could be damaged by the firm’s operations;
- Environmentalists: are interested in the environment’s issues;
- Nearby residents: are interested in not making their life’s conditions worse;
- Media: could damage the company’s image and could influence the success of the real estate initiative.

For each of these categories we have simulated asking the interviewees (top managers) to assign a score from 1 to 7 in order to understand which are the stakeholders about which they are most concerned. We used a structured e-mail questionnaire. In this way summing all the scores assigned to each category of stakeholders we can compute a firm’s global score of stakeholder sensibility. For each shareholder category we
computed the mean square error in order to measure the agreement of the
interviewees on the relevance of the specific stakeholder.
In the following section the simulated results are shown.

Findings
The simulated results are reported in table 1 in the Appendix: it shows
that social/political organizations and shareholders are considered the
most important stakeholders with a total score of 35 and 34 respectively.
They are followed by customers (33), employees (31), national/local
authorities (30), contractors (30), financers/creditors and nearby residents
(28), environmentalists (22), designers (19), nearby owners (17) and,
finally, media (15). In this paper we don’t want to point out why some
stakeholders are considered more relevant than others because this will
need a deeper analysis and a methodology based on non structured
interviews. We only want to point out the different perception of the
relevance of each of the identified stakeholder category. In order to do so
we analyse the mean square error (MSE) which is a measure of the
degree of agreement about the importance of each category. The category
which is considered most relevant by the five top managers that have
answered to the questionnaire is social/political organizations, that is
society as a whole: all the interviewees assigned the maximum score for
this category, so the MSE is zero. MSE is 0,5 for shareholders,
employees, contractors, nearby residents and nearby owners, while it is
0,81 for national/local authorities and media, 0,95 for financers/creditors
and designers. Less agreement was expressed about the importance of
environmentalists: the MSE’s value for this category is only 1,29.
Observing the distribution of MSEs we can state that there is high
agreement among top managers regarding the identification of the main
stakeholders. Looking at the total score for each company it is also
possible to appreciate different levels of sensibility to the stakeholders and – more generally – to the stakeholder management. Decreasingly: company C (total score 62), company B (59), company A (56), company D (54). On average the score for the five companies we have considered is 57.8 up to 70: we can consider this number as a high score.

**Conclusions**

In this paper we have reached some important results (although through simulation resorting to our “best judgment”). First of all we have verified that there is a large consensus among opinion leaders and managers regarding who the main categories of stakeholders are that must be considered and managed in the real estate business. In particular all the firms interviewed are concerned with social/political organizations (the society in general) and we retain that this is due to the social impact that the construction business has. Moreover we have noted that top managers tend to consider shareholders more relevant than financers/creditors: maybe this indicates that real estate investments are mostly financed by equity rather than by debt. Other important findings are revealed: media and environmentalists as well as designers are not considered so important by company managers. Instead, contractors are considered more relevant because customer satisfaction, the remuneration of invested capitals, the local acceptance of a new building, directly depends on the success of the construction process. Success that is measurable in terms of time, cost and quality. Finally, we have shown that all the companies’ top managers tend to consider all the stakeholders relevant for their activity: we can state this because the mean score is near to six in a scale whose maximum is seven.

In spite of these results several limitations have to be underlined: first of all the number of firms we considered is not enough to state conclusions
that could be deemed valid in general; second, we should have considered other categories of stakeholders that are less relevant than those we analyzed in this paper but that could have strong influence on the survival and the competitiveness of the firm; third, we do not investigate why those stakeholders are important for the companies and how they affect their activity. Real estate could be a good “school case” for the study of the so called “stakeholder engagement”.

But we believe this paper to be a starting point which can inspire future research on this theme and we hope that all the limitations could be surpassed by further work in the future when sufficient time will be available to run a series of more extensive “real life” interviews.
## Appendix

**Table 1 – Simulated Interviews’ Results**

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Total Score</th>
<th>Mean</th>
<th>MSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>634</td>
<td>6.88</td>
<td>0.5</td>
</tr>
<tr>
<td>Employees</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>34</td>
<td>0.25</td>
<td>0.5</td>
</tr>
<tr>
<td>Financiers/Creditors</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>31</td>
<td>0.5</td>
</tr>
<tr>
<td>Designers</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>28</td>
<td>0.5</td>
</tr>
<tr>
<td>Contacts</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>30</td>
<td>0.5</td>
</tr>
<tr>
<td>Social/Political Organizations</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>35</td>
<td>5.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Nearby Residents</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>35</td>
<td>5.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Nearby Owners</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>17</td>
<td>3.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Environmentalists</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>6</td>
<td>22</td>
<td>4.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Media</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>15</td>
<td>3</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Total Score/Mean Value

56 54 289 525 66
References


Project Management Body of Knowledge (PMBOK), Project Management Institute, PMI, 2004;


4, n. 4, 475-497;