

**THE EFFECTIVE STRATEGY OF STAKEHOLDER ENGAGEMENT
APPROACH IN CONSTRUCTION INDUSTRY**

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ABSTRACT

Effectiveness of stakeholder engagement is one of important determinants to success of completion of project in construction industry. It is because effectiveness of stakeholder engagement will influence the project performance in construction industry. When the companies have effectiveness of stakeholder engagement and efficiently stakeholder engagement it can help the company to increase their effectiveness performance of the project from aspect cost, time and quality. The purpose of this research is to determine the effectiveness of stakeholder engagement approach and their performance in construction industry. These researches also identify the benefit and challenges during managing stakeholder. In conducting this study, questionnaire was distributed to respondent by email and face to face. Questionnaire was distributed to respondent who are developer under member CIDB in Kuantan, Pahang areas. From 75 questionnaires distribute, only 63 were collected back. The data solicited were than analyzed by using SPSS software to get result. In conclusion, effectiveness of stakeholder engagement approach is the important to get the project success or failure. Once stakeholder engagement approach is effective in construction industry, then it will improve the project performance in construction project.

ABSTRAK

Keberkesanan penglibatan pihak berkepentingan adalah salah satu penentu utama kepada kejayaan penyiapan projek dalam industri pembinaan. Ini adalah kerana penglibatan pihak berkepentingan yang berkesan akan mempengaruhi prestasi projek dalam industri pembinaan. Apabila syarikat-syarikat mempunyai penglibatan pihak berkepentingan yang efektif dan efisien penglibatan pihak berkepentingan itu boleh membantu syarikat meningkatkan prestasi keberkesanannya projek dari aspek kos, masa dan kualiti. Tujuan kajian ini adalah untuk mengukur keberkesanan pendekatan penglibatan pemegang kepentingan dan prestasi mereka dalam industri pembinaan. Kajian ini juga adalah untuk mengenal pasti kesan keberkesanan penglibatan pihak-pihak berkepentingan dalam industri pembinaan. Dalam menjalankan kajian ini, borang soal selidik telah diedarkan kepada responden melalui e-mel dan tatap muka. Soal selidik telah diedarkan kepada responden yang pemaju di bawah ahli CIDB di daerah Kuantan, Pahang. Daripada 75 borang soal selidik mengedar, hanya 63 telah dikumpulkan kembali. Data yang diminta kemudian dianalisis dengan menggunakan perisian SPSS untuk mendapatkan keputusan. Kesimpulannya, pendekatan penglibatan pihak berkepentingan adalah penting untuk mendapatkan kejayaan projek atau kegagalan. Setelah pendekatan penglibatan pihak berkepentingan adalah berkesan dalam industri pembinaan, maka ia akan meningkatkan prestasi projek dalam projek pembinaan

TABLE OF CONTENT

SUPERVISOR’S DECLARATION	I
STUDENT’S DECLARATION	II
DEDICATION TO FAMILY	III
ACKNOWLEDGEMENT	IV
ABSTRACT	V
ABSTRAK	VI
TABLE OF CONTENT	VII
LIST OF TABLE	XI
LIST OF FIGURE	XIV
CHAPTER 1	1
1.1 Introduction	1
1.2 Background of study	1
1.3 Problem statement	3
1.4 Research objective	4
1.5 Research question	5
1.6 Research scope	5
1.7 Significant of study	5
1.8 Operational definition	6
1.8.1 Effectiveness	6
1.8.2 Stakeholder	6
1.8.3 Stakeholder Engagement Approach	6
1.8.4 Construction Industry	6
1.9 Expected result	6
CHAPTER 2.....	7

2.1	Introduction.....	7
2.2	Stakeholder.....	7
2.2.1	Primary Stakeholder and Secondary Stakeholder.....	8
2.2.2	Internal and External Stakeholder.....	9
2.2.3	Non-Social Stakeholder	9
2.3	Effectiveness of stakeholder engagement approach	9
2.3.1	Stakeholder Engagement Profile	11
2.3.2	Stakeholders Engagement Process.....	14
2.4	Best practices for an effectiveness of stakeholder engagement approach.....	17
2.5	Benefit of stakeholder engagement.....	19
2.6	The challenges in stakeholder engagement.....	20
2.6.1	Communication.....	20
2.6.2	Stakeholder Needs and Expectation	21
2.6.3	Stakeholder Engagement Perception	21
2.6.4	Stakeholder Conflict	22
2.7	Stakeholder engagement in construction	22
2.8	Conclusion.....	25
CHAPTER 3.....		26
3.1	Introduction.....	26
3.2	Research objective	26
3.3	Reserch design	27
3.4	Population and sampling.....	27
3.4.1	population	27
3.4.2	Sampling.....	28
3.5	Data collection technique.....	29
3.6	Questionnaire design.....	29
3.6.1	Design of Questionnaire	30
3.7	Data analysis methods.....	30

3.8	Conclusion.....	31
CHAPTER 4.....		32
4.1	Introduction.....	32
4.2	Demographic analysis.....	32
4.3	Reliability analysis.....	40
4.4	Scale analysis of benefit and challenges.....	41
4.5	Analysis scale of effectiveness stakeholder engagement.....	52
4.6	Summary of finding.....	68
4.6.1	Benafit and Challengess.....	68
4.6.2	Effectiveness Stakeholder Engagement.....	69
CHAPTER 5.....		70
5.1	Introduction.....	70
5.2	Discussion of finding.....	70
5.2.1	Objective 1: To Determine The Effectiveness of Stakeholder Engagement That Influences the Success Factor in the Construction Industry.	71
5.2.2	Objective 2: To Identify the Impact of the Effectiveness Stakeholder Engagement in Construction Industry.....	71
5.3	Limitation.....	72
5.4	Recommendation.....	72

LIST OF TABLE

Table No.	Title	Page
Table 2.1	Rating for Support	12
Table 2.2	Rating for Receptiveness	12
Table 3.1	Table of determine Sample Size from a Given Population	29
Table 4.1	Statistic of Demographic Data	34
Table 4.2	Frequency Analysis on Age of Respondent	35
Table 4.3	Frequency Analysis on Gender of Respondent	36
Table 4.4	Frequency Analysis on Race of Respondent	37
Table 4.5	Frequency Analysis on Working Experience of Respondent	38
Table 4.6	Frequency Analysis on Academic Qualification of Respondent	39
Table 4.7	Frequency Analysis on Position of Respondent	40
Table 4.8	Reliability of Section B and Section C	41
Table 4.9	Stakeholder engagement help to increase organization access capital as well as reduce the risk related	42
Table 4.10	Stakeholder engagement help organization will know their expectation and interest to achieve their goal and objective of the project.	43
Table 4.11	Stakeholder engagement can use as a tool for identifying future critical trends in organization project.	44
Table 4.12	Stakeholder engagement helps the organization to get the quality of the project.	45
Table 4.13	Effectiveness stakeholder engagement helps the organization to give information about the organization performance for time to time.	46

Table 4.14	Effectiveness stakeholder engagements help organization identify the problem in organization and help organization solve the problem	47
Table 4.15	Stakeholder engagement challenges make effect the social, risk and environmental.	48
Table 4.16	Poor communications with stakeholder engagement cause project objective cannot be achieved.	49
Table 4.17	Bad communication cause schedule delay occurs and increase the cost and time of the project.	50
Table 4.18	Fulfill stakeholder needed and expectation influences the stakeholder participation.	51
Table 4.19	We have skill to addressing the challenges in stakeholder engagement.	52
Table 4.20	We using stakeholder support and receptiveness level to determine the stakeholder attitude for a project success.	53
Table 4.21	Effective the stakeholder support and receptiveness level to the optimal position will significantly benefit of the project.	54
Table 4.22	Using rating for support level can help organization know about their project outcome either project failure or success.	55
Table 4.23	Using rating for receptiveness level can help organization messages or messengers about the project or it outcome.	56
Table 4.24	We have effectively manage the relationship between stakeholders.	57
Table 4.25	We understand what stakeholder engagement requires from the project outcomes.	58
Table 4.26	We have engaged the right stakeholder.	59
Table 4.27	We have effectively identified the importance of stakeholder towards project.	60

Table 4.28	Two ways communication and open style communication is effective implementation during stakeholder engagement.	61
Table 4.29	We have to develop and carry out to strengthen the capabilities needed to engage effectively.	62
Table 4.30	We have the process and skill to get the effectiveness stakeholder engagement.	63
Table 4.31	Stakeholder engagement can increase the number of participation of stakeholder.	64
Table 4.32	Stakeholder engagement in the organization can play important role to understanding the reasonable expectation and the different stakeholder interest.	65
Table 4.33	Stakeholder engagement affects the relationship between stakeholder and organization.	66
Table 4.34	Stakeholder engagement gives big impact to make a decision in organization.	67
Table 4.35	Stakeholder engagement is a one of the factor that makes the project success.	68
Table 4.36	Summarize of Benefit and Challenges in Section B	69
Table 4.37	Summarize of Effectiveness of Stakeholder Engagement in Section C	70

LIST OF FIGURE

Figure No.	Title	Page
Figure 2.1	Engagement Profile-Stakeholders 1, 2, and 3	13
Figure 2.2	The Effectiveness Stakeholder Engagement Strategy	14
Figure 2.3	Different Project Stakeholder Engagements	24
Figure 4.1	Age of Respondent	35
Figure 4.2	Gender of Respondent	36
Figure 4.3	Race of Respondent	37
Figure 4.4	Working Experience of Respondent	38
Figure 4.5	Academic Qualification of Respondent	39
Figure 4.6	Position of Respondent	40
Figure 4.7	Help to increase organization access capital	42
Figure 4.8	know their expectation and interest	43
Figure 4.9	Tools to identify	44
Figure 4.10	Help organization get the quality project	45
Figure 4.11	Give information performance time to time	46
Figure 4.12	Identify the problem in organization	47
Figure 4.13	Make effect the social, risk and environmental	48
Figure 4.14	Poor communication make objective cannot achieve	49
Figure 4.15	Bad communication cause schedule delay	50
Figure 4.16	Need and expectation influence stakeholder participant	51
Figure 4.17	Skill to addressing the challenges	52

Figure 4.18	Support and receptiveness level	53
Figure 4.19	Effectiveness stakeholder support and receptiveness	54
Figure 4.20	Support level	55
Figure 4.21	Receptiveness level	56
Figure 4.22	Effectively manage the relationship	57
Figure 4.23	Understand what stakeholder require	58
Figure 4.24	Engage right stakeholder	59
Figure 4.25	Identify the importance of stakeholder towards	60
Figure 4.26	Two way communication and open style communication	61
Figure 4.27	Develop and carry out strengthen	62
Figure 4.28	Process skill	63
Figure 4.29	Increase the number of participants	64
Figure 4.30	Play importance role	65
Figure 4.31	Effect the relationship	66
Figure 4.32	Impact to make decision	67
Figure 4.33	Factor that make project success	68

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

In this chapter it will provide the outlines of the scope and the overview of dissertation. This chapter addresses the background of the study about the effectiveness of stakeholder engagement approach in construction industry. From this chapter it will explain about research objective, problem statement, research question, the scope of the study, the significant of the study and the expected result.

1.2 BACKGROUND OF STUDY

In this new era global economy, stakeholder is a key to suitable part in the project construction industries. Stakeholder is essential because they will give the excellent project outcomes to construction industries. Stakeholder is made up of external and internal stakeholder. The example of external stakeholder is environment, government or community and for internal stakeholder are employee, customer, client, creditor, and supplier. In construction, manager must be managing all stakeholders in compartments way. It is because stakeholder is important to help the organization to achieve their goal. An effectiveness managing engagement with stakeholder easy to industry for cooperates to get construction industry goal. It also will improve the comfortable in company and improve the quality performance of project in the construction industries. According of Bal et al. (2013), a well-managed stakeholder engagement process helps the project stakeholder to work together to increase comfort and quality of life, while decreasing

negative environmental impact and increasing the economic sustainability of the project.

Stakeholder engagement is a process in organizations that involve all parties of stakeholder to make decision or may affect the implementation of decision. Stakeholder will support or push the decision that influence in organization. Prado-Lorenzo et al. (2009) Stakeholder engagement is the process used by an organization to engage the relevant stakeholder for a purpose to achieve accepted outcomes. Stakeholder engagement is important in organization to achieve profitability triple. The organization must engage stakeholder in dialogue to knowing the issue and the important of environment to improve the organization performance

Now days, construction industries like infrastructure development is an input of development economic and is an economic growth to all country. Construction is a process that preparing for forming building. Construction industry also is the industry that will always be in demand and have many risks and challenging. Chan and Tse (2003), construction industry is a very competitive and risky business. There have many problems that happen in construction industry in the world. For example, construction industries had caused environmental pollutions. So, the construction industries must be suitability change from being reactive to being more proactive. According Bal et al. (2013), construction industry in United Kingdom (UK) have profit more than 100 billion and have account almost 10% of the contrary GDP. So, in UK, given the size and importance of the construction to the world economy and its contribution to environmental damage the recommendation were made to use emerging sustainability agenda as the lens in which the performance of the construction can be measure.

Construction is the important part of the industrial sector. Construction industry must have excellent performance to given quality outcome in construction. For example, industries must improve their image by changing their culture or take care of environmental, increase their productivity and competitiveness, take action with the individual, and engaging the better with all stakeholder. According to IHS Global Insight (2014), US\$175 billion was spent on construction in India in 2007 after growing

156% since 2005. So, construction industries is the important part to give the important of economic growth if the industries given the quality outcome.

1.3 PROBLEM STATEMENT

Nowadays, there are many problems that will face in construction industries. To managing a construction will impact every city, town, state and other place. This problem also happen cause by stakeholder. The problems that happen in industry are lack of responsibilities. Employee is a one of important stakeholder that makes the project fail or success. The employee will give a good impact to make the success or failure of the project. A lack of employee responsibilities makes the industry failure. In construction also have problem such as project late to completion within the stipulated time or project unsuccessful. Based on previous journal, Masule (2014), stated the statement of this problem is slow or does not work implementation of development project as flagged in Services Delivery and Budget implementation Plan (SDBIP) and the source of mandate. Next, a construction project can cause environmental pollution. This will happen because the industry is not concerned with the long term effect. For example, cement plants release of suspended particles in the air that has caused in the polluted air and deforestation for residential areas can be almost caused the area to be hot. Next, is misunderstanding the relationship and the communication is not clear or miscommunication. It is essential to note that to understand each stakeholder interests and consulted on an individual basis and collectively.

It is the common cause of this problem that can cause the project failure. From this problem, organizations will loss of community or customer confident. They did not trust the company and the company will bankrupt. It also can cause lack of cooperation with another stakeholder engagement. The partnership did not invest in this company. According to Pillay (2011)the lack of effectiveness stakeholder engagement in the design renewable energy policy or regulatory framework is the one of the barriers facing. The organization must be building the trust to every stakeholder. The customer fulfill is a most powerful indicator for the future company. The fulfill customer is a loyal customer and ensuring a lasting cash flow for company future. Based on previous journal, Berger and Nasr (1998), stated the improvement in rate of 5% customer loyalty

can improve the company profitability as much as 100%. Miscommunication in workplace, small or big can give negative effect in the industry. This can cause the reputation of the company will badly, and the fall of the company reputation in the eyes of all stakeholder.

Stakeholder is very important to all industries to assist a strategic management, management of organization and social responsibility. In work place, stakeholder engagement managing is important in construction industry and it involve the understanding all stakeholder parties for work together for achieve industry goal. Managing the stakeholder means company deal with suppliers, employee, environment, customer, government, committee, business partner. Even, this maybe look like every people must be know the responsibility and their own objective, that managing each one is a waste of time, effective stakeholder engagement usually make a real different on outcome of the work and industry. But, have a good managing stakeholder engagement sometimes have a common problem it will be occurs. Every problem in organization that related with stakeholder must be identifying so that the organization can achieve their goal and get the quality project. Manager also must build trust to all stakeholders to improve their confident level. Organization must be establish rapport before begin work to help smooth out the process and make boundaries known. Managers must cooperate with all stakeholders and clearly explain about organization objective so that every job can be resolve well.

1.4 RESEARCH OBJECTIVE

This subject area focuses on the effectiveness of stakeholder engagement in construction industry. This subject area will solve the problems according to the objective that are needed to be achieved. The objectives are:

- i. To determine the effective strategy of stakeholder engagement that influences the success factor in the construction industry.
- ii. To identify the impact of the effectiveness of stakeholder engagement in the construction industry.

1.5 RESEARCH QUESTION

In order to achieve this objective, the question must be define and confirmed to get the better solution for the problem statement. The research question is:

- i. What are the strategies that influence the stakeholder engagement that can cause the success or failure factor?
- ii. What are the stakeholder engagement performances?
- iii. What are the impacts of the effectiveness stakeholder engagement in the construction industry?

1.6 RESEARCH SCOPE

This study will be carried out in the construction industry around Kuantan, Pahang. Kuantan, may the most appropriate and strategic to conduct research that including construction companies causes to the growth of the industry. The data collection will more focus on contractor grade 7 or executive in company in construction industry. This group of population is chosen because of this level have more knowledgeable and experience to answer this research. Construction industry is one of work related with changes, repair, development, maintenance and addition. It also can give the impact to environment directly and indirectly.

1.7 SICNIFICANT OF STUDY

In this significant of study, it is to identify the effectiveness of stakeholder engagement approach in construction industry. Importance of this study is to make an organization determine the best way to make a quality project by selecting the best stakeholder. The effectiveness of stakeholder engagement will help the organization achieve their goal. They also can gain and maintain the number of stakeholder participation in the project.

1.8 OPERATIONAL DEFINITION

1.8.1 Effectiveness

Effectiveness is the extent that the organizations achieve their objective and how they solve the organization problem. The effectiveness did not measure with the value.

1.8.2 Stakeholder

Stakeholder is the people, team members or organizations that have an important in the industry. For example of stakeholder are customer, shareholder, supplier, government, and environment.

1.8.3 Stakeholder Engagement Approach

A stakeholder approach is to developing a model of performance measurement captures strategic planning issues. In turn, the choices the company makes in strategic planning must direct and inform the design of the performance measurement system.

1.8.4 Construction Industry

Construction industry is an extensive industry that related with the changes of building, repair the building, and addition in the building.

1.9 EXPECTED RESULT

Based on this research, it helps the organization to improving their effectiveness of stakeholder engagement. Other than that, by providing the strategy of implementation on stakeholder engagement it can measure the effectiveness of it. In addition by having effectiveness of stakeholder engagement it can influence the positive outcomes between organization and the stakeholder.

CHAPTER 2

LITERITURE REVIEW

2.1 INTRODUCTION

Stakeholder engagement is activity whereby an organization will give affect in organization. Stakeholder is important to any organization to know the project will successful or failure through stakeholder expectation or interest. From chapter two it involve from some reading and literature review that conduct through the research. This research was conducted to get the deeply information of the effectiveness of stakeholder engagement. This chapter will organize as follow. First is stakeholder, effectiveness of stakeholder engagement approach and best practices of stakeholder engagement. Then are the challenges of stakeholder engagement, stakeholder engagement strategy, benefit of engaging stakeholder and stakeholder engagement in construction. From this chapter it will explain more about stakeholder engagement.

2.2 STAKEHOLDER

Stakeholder is a people that incurred in on ongoing project plays in important role in the success of the project. It also is a people that will involve in the project or has vested interest in a success or failure project. It will give the effect in the company

project or company activities. They have legitimate interest in a project because they have requirement to achieve the organization goal and objective. The example of stakeholder is employee, government, customer, environment, committee, supplier, shareholder, and other. According Freeman (1984), stated stakeholder is any individual or group that can give affect or influence by the achievement of organizational goal and objective. This statement or definition are classic, it is because this definition already accepted of 8 definition of stakeholder. A very ordinary to distinguish different type of stakeholder is to consider a group of people who have a relationship that can be classified by the organization. Friedman and Miles (2006) stated it means that are the clear relationship among definition of what stakeholder and identify the relevant stakeholder. There are many different characteristic and type of stakeholder.

2.2.1 Primary Stakeholder and Secondary Stakeholder

Primary stakeholder is a major important people that make the project successful. It is because primary stakeholder will directly affected by the outcome of the project. According to Gibson (2000), primary stakeholder is the person who has an official, formal and contractual relationships that will give impact in relationship are direct. According to Clarkson (1995), without the support of these primary stakeholder groups, the company would not survive. If a company is not satisfying and receiving the support of a primary stakeholder group, it is possible that the company will be seriously damaged and unable to continue in the project. Usually customer and user are a primary stakeholder as well as project sponsor, project manager and team member. According Sillanpää (1998), the example of primary stakeholder is customer, employee, and investor.

Secondary stakeholder is the people that help to complete the project. According Nilsson and Fagerström (2006), secondary stakeholders are a people that have special interest stake in organization and it having less direct in organization. According to Padiaditi et al. (2010) state a secondary stakeholder have the capacity to mobilize the public recommendation or opinion in the company performance. Although, they is not primary stakeholder they assist with administrative process and financial process. The example of secondary stakeholder is society and business at large.

2.2.2 Internal and External Stakeholder

The classification of internal and external stakeholder related with position relative to the organizational. Internal stakeholder is a people that directly involve making the organization achieve the organizational goal. Project manager and team member is an internal stakeholder. Project manager have a power to handling the project and work performance. According to Nilsson (2006), internal stakeholder is a people that involve in management, assemble, sales, manufacturing and other and external stakeholder is the people like customer, users, government, suppliers and other. External stakeholder is not a part in the organization but this stakeholder is important to get the project successful. The external stakeholder is customer, government, competitor and other.

2.2.3 Non-Social Stakeholder

Non-social stakeholder is a something that not related with the people. This stakeholder can be dividing into the primary stakeholder and secondary stakeholder. For example of this stakeholder is a natural environment stakeholder. According to Sillanpää, (1998), non-social stakeholder is a one thing that not influence by the factor into survival of the organizational.

2.3 EFFECTIVENESS OF STAKEHOLDER ENGAGEMENT APPROACH

Effectiveness of stakeholder engagement is characterized by two-way communication and depends on the good faith of the participants on both sides. This engagement can be particularly helpful in the planning and decision-making concerning projects or other activities involving, for example, the intensive use of land or water, which could significantly affect local communities. Effectiveness is the extent that the stakeholders achieve the organization objective and how the stakeholder solves the organization problem. The effectiveness did not measure with the value. In another side effectiveness stakeholder require to more explain. Effectiveness describes or provides an insight into how or what to achieve the organizational goal or objective. The effectiveness of stakeholder usually measure of the term effect of that activities or

project on something else. For example the effectiveness of stakeholder is the capability to identify and combine the requirement of the community or customer, profitability support for the decision or a deal to proceed even the people or community always not agree with specific action, but they agreed that the process is inclusive and fair.

Stakeholder engagement is the process whereby an organization involves the people that give affected to decision making or influence the implementation of the decision making. Stakeholder engagement involves interactive processes of engagement with relevant stakeholders. For example of stakeholder engagement is meetings, hearings or consultation proceedings. While engagement is the process to learn, listen from stakeholder and process to change the information. This process is to build understanding and trust about the issues of mutual interest. According Grunig (2008), state stakeholder engagement is bridging, non-buffering function, focuses on public participation in strategic decision making and organizational behavior. Stakeholder has a potential to give influence of failure and success of the organizational at a various level. For example, if the workers do not have discipline and bad attitude in their task it can cause the project will delay or failure. To get the sustainable development agenda the stakeholder engagement should be at the central of sustainable development. A major objective of stakeholder engagement is to generate a good understanding on perspective of stakeholder on the key issue and build a good relationship with the important of people.

In an effort to react to request of stakeholder every organization must be know the about the stakeholder expectation and the different interest from any stakeholder on the organization project. Stakeholder engagement in the organization can play important role to understanding the reasonable expectation and the different stakeholder interest. An involvement participant show the accountability of organization to stakeholder and to ensure the organization make decision based on the exactly and understanding the aspiration of stakeholder needed. According Cooper and Owen (2007) stated the purpose of the stakeholder engage is:

“Drive strategic direction and operational excellence for organizations and to contribute to the kind of sustainable development from which organizations, their stakeholders and wider society can benefit by learning, innovating and performing”

Although there are many benefit of stakeholder engagement, the stakeholder engagement also have some weakness. According Bebbington et al. (2007), stated stakeholder engagement not always comfortable, sometimes stakeholder engagement can give the complex issue or weakness for organization. For example, the major of complex that can be interrupting is the different of stakeholder that have the different opinion and different expectation. This makes the organization difficult to make decision. Next, if the organization involve stakeholders but don't take their advice, organizations have raised an expectation that hasn't been met, which can lead to distrust and hamper morale. Stakeholder engagement lies in engaging stakeholder in a two way relation so that the decision making was made after into consideration conflict interest in organization and the stakeholder. To take stakeholder engagement the organization must be planning to get the good stakeholder. So, if organizations have a good stakeholder they can get the quality of their project.

2.3.1 Stakeholder Engagement Profile

According to stakeholder circle methodology, stakeholder engagement profiles are developed by assessing the actual attitude to select stakeholder and to describe the target attitude of stakeholder necessary for success the activity. The stakeholder engagement profile is to measures the support and receptiveness of the project overall stakeholder community. While, the stakeholder engagement process must by requirement involving communication with stakeholder and to change detect individual to key stakeholder is essential. The steps in this process are:

1. Identify the current level of support of the stakeholder. There have 5 levels of support it is active opposition, passive opposition neutral, passive support and active support. Table 2-1 will summarize about the level of support.

Table 2-1 Rating for support (Bourne and D.H.T Walker, 2005)

Support	<p>5. Active support: provides positive support and advocacy for the activity.</p> <p>4. Passive support: supportive, but not actively supportive.</p> <p>3. Neutral: is neither opposed nor supportive.</p> <p>2. Passive opposition: will make negative statements about the activity, but not do anything to affect its success or failure.</p> <p>1. Active opposition: is outspoken about opposition to the activity, and may even act to promote failure or affect success.</p>
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2. To analyze the current level of receptiveness of every stakeholder to message about the strategy. The receptiveness of stakeholder has 5 levels it is completely uninterested, not interested, ambivalent, medium and high. Table 2-2 will summarize about the level of receptiveness.

Table 2-2 Rating for Receptiveness (Bourne and D.H.T Walker, 2005)

Receptiveness	<p>5. High: eager to receive information.</p> <p>4. Medium: will agree to receive information.</p> <p>3. Ambivalent: may agree to receive information.</p> <p>2. Not interested: not prepared to receive information.</p> <p>1. Completely uninterested: emphatically refuses to receive information.</p>
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Next is to identify the target attitude it is the optimal engagement position for stakeholder to get the purpose of project success. This identify is a level of receptiveness and support that will the best meet the need of both the activity and the stakeholder. If an important stakeholder is both active oppose and does not accept the message about the activity. From this they have a different approach to the engagement of stakeholder that is very supportive and encourage personal delivered of message.

Figure 2-1 will show of the assessment of engagement profiles. For the stakeholder 1 it already assessed as the activity of being ambivalent. This activity is

supportive or not supportive. From this group they did not interest to get any information about the activity. But this group decide to get the target attitude is neutral and ambivalent about the information. This will show in the bold circle. In this assessment it has a small gap between the current of stakeholder attitude and the attitude of the group agreed. It is important to get the successful in the activity.

For the stakeholder 2, it wills assessment as passive unsupportive and medium level to get the information about the activity. The engagement profile must be actively supportive and the interest to accepted the information anytime. From this, the gap between the current of engagement profile and the profile optimum show it have the high level. So, in this group many efforts needed to build up the communication strategy to encourage their support and interest in information about the activity.

For stakeholder 3, it wills assessment as supportive or unsupportive. This group interest to get the information anytime. This group assess that the stakeholder must be at level of receptiveness of ambivalent. This level is neither support and non-supportive. It happens because the current profile is quite different from the optimal profile. From this group it needed carefully handling to avoid alienating the stakeholder.

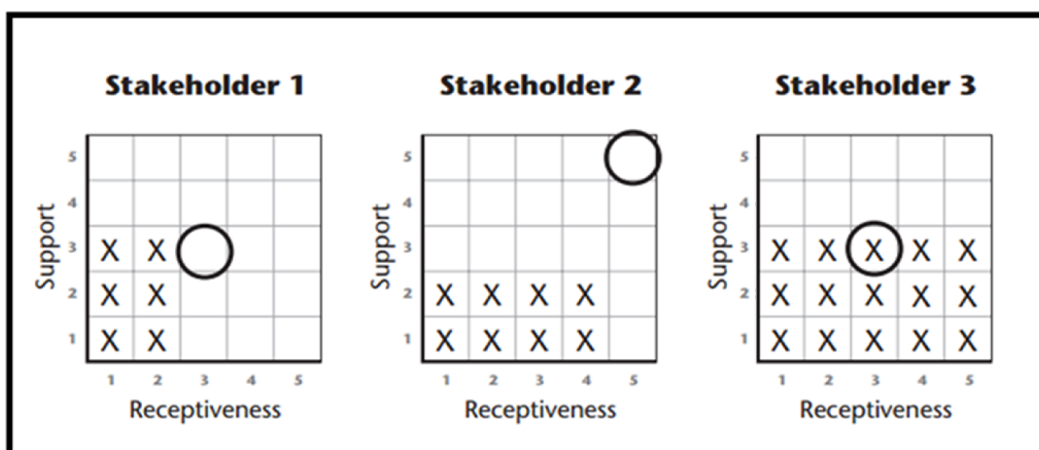


Figure 2-1 Engagement profile: Stakeholder 1, 2 and 3. (Lynda Bourne, 2009)