Stakeholder Theory and Balanced Scorecard to Improve IS Strategy Development in Public Sector

Leif Skiftenes Flak and Willy Dertz
Agder University College, Norway
Leif.Flak@hia.no, Willy.Dertz@hia.no

Abstract. Implementation of the balanced scorecard (BSC) in public sector organizations is more likely to succeed if the organizations already possess clear conceptions of vision, strategy and outcomes. This is a paradox, as the BSC holds the promise of providing apt techniques for supporting organizations in the strategy developing process. The public sector is characterized as complex environments facing a variety of stakeholders with different, multiple and often vague objectives. The balanced scorecard is particularly useful in emphasizing multiple factors when developing and implementing strategy. However, the BSC has been criticized for having a too narrow stakeholder focus. We show that stakeholder theory contains elements that are particularly suited for solving the complexity challenges of public sector managers. Hence, we argue that stakeholder theory can complement the BSC by providing a more explicit stakeholder focus and that this will enhance the strategy development aspects of the BSC.

Introduction

Public sector worldwide is investing large sums of money in information systems. Accurate figures are hard to come up with, but it is estimated that about US$ 500 billion is spent annually on public sector information systems worldwide (Heeks and Davis, 2002). Tight budgets and a demand for new digital services, both for increased internal efficiency and increased "customer" value, are important drivers for reforming public sector with information technology. Due to the tight budget situation and an increasing demand from central governments on accountability for tax money, public sector managers are turning their attention towards strategic management and performance measurement (Yee-Chin, 2004). Often lacking context specific techniques, these managers are adopting modern management tools from the for-profit sector (Yee-Chin, 2004). This raises the debate as to whether or not techniques, tools, and theories can be exchanged across the sectors without adaptation, or if the sectors are so fundamentally different that no such exchange can be made. We review this ongoing discourse and take the position that exchange is possible as long as the imported elements are subject to a rational judgement of the fit to the new context, and are adjusted accordingly.

The balanced scorecard (BSC) was developed to help translate an organizations vision and strategy into a set of supporting factors. By developing indicators for the different factors, the balanced scorecard can provide an organization with the necessary tools for performance measurement and monitoring, directly addressing multiple aspects that support the overall vision and strategy (Kaplan and Norton, 1992). Since the appearance in 1992, the BSC has gained widespread acceptance as an instrument for performance measurement. The BSC has later developed into an integrated part of the mission identification and strategy development process (Yee-Chin, 2004). However, recent studies reveal limitations to the BSC. It has particularly proved to be inadequate in addressing contributions from employees and suppliers, in identifying the role of the community, in developing performance measures to address stakeholders' contributions, in accounting for the importance of motivated employees and not being able to provide adequate distinction between means and ends (Maltz, 2003). In addition, Yee-Ching (2004) reports that the likelihood of successful BSC implementations in the public sector increases if the target organization already has a clear vision and strategy. This indicates that the strategy developing aspects of the BSC can be improved.

There is a general consensus that public sector is characterized by having a variety of stakeholders with potentially diverging and often vague objectives (Boyne, 2002; Bretschneider, 1990; Traunmüller and Wimmer, 2003). In order to successfully carry out public sector IS strategy processes, the objectives of these stakeholders need to be attended to. That does not necessarily mean that all

stakeholders needs can or should be met, but the decision on which to attend to should be made on a rational foundation. Stakeholder theory has been developed as a response to this need in the context of for-profit organizations. Still, we argue that the nature of stakeholder theory allows for application in other settings as it is as much about mapping complex settings as it is about describing context specific patterns of behaviour.

This paper provides a theoretical discussion on how to improve the strategy development aspects of the balanced scorecard. The paper will discuss characteristics of public sector and argue that the balanced scorecard, in its present form, is only capable of covering a portion of the needs of public sector. We argue that the challenge of including different stakeholder needs in the strategy developing process can be addressed by complementing the strategy development process with elements from stakeholder theory and incorporating these elements into the balanced scorecard. Finally, we outline a research strategy for investigating this proposition.

2. Theory

This section will provide the basis for discussing how public sector IS managers can use the balanced scorecard as a strategy development tool. We draw on elements from information systems, public administration and management literature. We present theory on the balanced scorecard and discuss how this satisfies the needs of public sector. Finally, elements from stakeholder theory are outlined in order to provide a basis for complementing the balanced scorecard to fit the needs of public sector organizations.

2.1 Public sector

The quest for a descriptive set of characteristics of public sector organizations has been given much attention by public administration researchers (Boyne, 2002). The driver behind this internal discourse has been to investigate whether or not public sector are fundamentally different from the private sector. This discourse was boosted by the rise of New Public Management (NPM) in the late 1980ies. NPM is primarily concerned with importing managerial processes and behavior from the private sector, particularly the supposedly successful techniques like management by objectives, total quality management and performance related pay (Box, 1999; Hood, 1991; Newman and Clarke 1994). New public management has been subject to extensive critique, as its opponents argue that the public sector are so fundamentally different from the private sector that there will be little use in exchanging experiences between the two Boyne (2002). Recurring characteristics of public sector organizations are found to be (Boyne, 2002):

- Complex environments;
- Open to environmental influences;
- Low degree of competitive forces, experienced by managers;
- Distinctive goals of public organizations;
- Large number of goals;
- Vague goals of public agencies;
- High levels of bureaucracy;
- High presence of “red tape” in decision making;
- Managers have little autonomy from superiors;
- Public managers are less materialistic than private managers;
- High motivation to serve public interest;
- Managers have weak organizational commitment.

Possible differences between management information systems (MIS) and its counterpart the public management information systems (PMIS), have also been subject to investigation. Bretschneider (1990) found that the environment of PMIS differs from that of MIS, primarily in the form of greater interdependencies that at least partly lead to increased accountability, procedural delays and red tape. In addition, it is suggested that MIS practices are not automatically adopted in public sector environments, but rather adjusted and adapted to fit the context.

The recent focus on e-Government has lead parts of the IS community to take an interest in how to reform public sector with the use of information technology. The emerging e-Government literature describes some of the same characteristics of the public sector as the public administration literature does. Examples of frequently cited characteristics include high level of complexity, multiple stakeholders with diverging and vague objectives and need for transparency and accountability (e.g., Heeks, 2002; Heeks and Bhatnagar, 2001; Layne and Lee, 2001; Swedberg and Douglas, 2001; Traunmüller and Wimmer, 2003).

For the purpose of this paper, our position is that the question of whether or not there are fundamental differences between the two sectors has little relevance. Proving such differences seems like a huge task with a number of uncertainties attached to it. In our opinion, a more relevant question would be to ask if a set of basic characteristics of public sector can be assembled. From the literature discussed in this section, we take the position that public sector can be characterized as complex, addressing the needs of many stakeholders and having an often vague and diverse goal structure. We argue, in line with Bretschneider (1990), that management practices and theories may be adapted to fit the context of public sector, but presumably not directly adopted.

2.3 The Balanced Scorecard

Since the appearance of the balanced scorecard (BSC) in 1992, it has gained widespread acceptance as a nuanced tool for performance measurement and strategic management in the for-profit sector (Kaplan and Norton, 1992; 1996, 2001; Yee-Chin, 2004). The balanced scorecard model was developed as a means for addressing both the strategy development process and continuing monitoring strategy achievement and performance measurement. It does this by dividing measures into four different, inter-related perspectives: Financial, Customer, Internal Business Processes and Innovation and Learning. Applying measures on these four perspectives moves the evaluation away from being a control element towards a tool for putting strategy into action (Kaplan and Norton, 2001). By integrating objectives, measures, targets and initiatives of each of the four perspectives to support the overall vision and strategy, the BSC demonstrates its value as a strategic management instrument that goes beyond mere financial indicators by emphasizing the importance of non-financial perspectives such as customer satisfaction, internal business processes and learning and growth. By selecting appropriate performance drivers and outcome measures to fit the theory of business in a chain of cause and effect relationships, the organization will have a better idea of how to achieve its potential competitive advantage (Yee-Chin, 2004).

The implementation process of the BSC can be described as a series of four steps (Kaplan and Norton, 2001; Yee-Chin, 2004).

1. Translating the vision and gaining consensus;
2. Communicating the objectives, setting goals and linking strategies;
3. Setting targets, allocating resources and establishing milestones;
4. Providing feedback and learning.

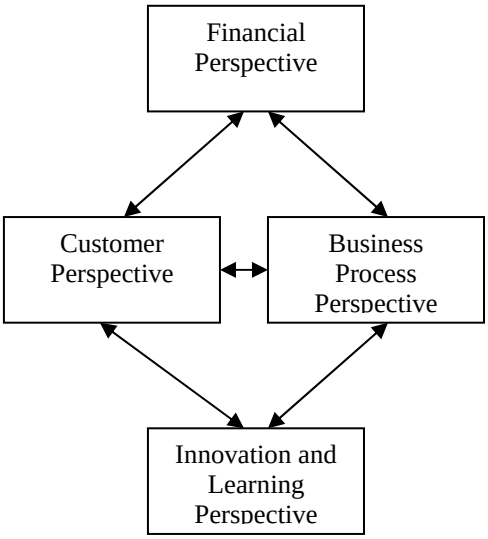
According to Yee-Chin 2004, the BSC can assist municipal managers in accomplishing the same strategic planning and control functions as is the case for for-profit managers:

- Clarify and gain consensus about strategy;
- Communicate strategy throughout the organization;
- Align departmental and personal goals to the strategy;
- Link strategic objectives to long-term targets and annual budgets;
- Identify and align strategic initiatives;
- Perform periodic and systematic strategic reviews;
- Obtain feedback to learn and improve strategy.

As a consequence of a number of positive experiences from implementing the BSC in for-profit sector, some non-profit organizations have reported to have made similar attempts to gain value from the BSC (Atkinson and McGrindell,

1997; Seddon et al. 1999). As a response to this, Kaplan and Norton (2001) revised the BSC to include performance perspectives specifically targeted at the needs of non-profit organizations.

The original balanced scorecard



Balanced scorecard for the non-profit sector

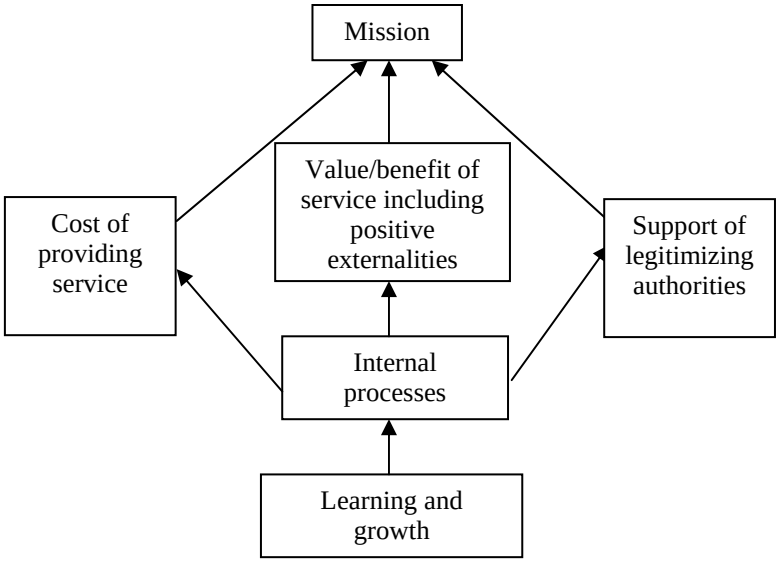


Figure 1. The two versions of the balanced scorecard (Kaplan and Norton 1992; 2001).

The revised model is said to be useful in the management of non-profit organizations in:

- Bridging the gap between vague mission and strategy statements with day-to-day operational measures;
- Facilitating a process by which an organization can achieve strategic focus;
- Shifting the organizations focus from programs and initiatives to the outcomes the programs and initiatives are supposed to accomplish:
- Helping organizations to avoid the illusion that they have a strategy because they are managing a diverse and non-cumulative set of programs and initiatives;
- Enabling organizations to align initiatives, departments and individuals to work in ways that reinforce each other so that dramatic performance improvements can be achieved.

A recent survey covering US and Canadian municipalities, show that about 40 % of the managers were fairly well acquainted with the BSC but only about 8 % had actually implemented it in their organizations (Yee-Chin, 2004). The most frequently cited factors, necessary for implementation success, include:

- Top management commitment and leadership buy-in;
- Departmental, middle manager and employee participation and buy-in;
- Culture of performance excellence;
- Training and education;
- Keeping it relatively simple, easy to use and understand;
- Clarity of vision, strategy and outcome;
- Link of the BSC to incentives;
- Resources to implement the system.

Support from senior management and the importance of a clearly defined organizational strategy was reported to be especially important.

In spite of the wide usage of the balanced scorecard, it has recently been deemed inadequate in various circumstances (Maltz, 2003). There are five important limitations to the original balanced scorecard model (Maltz, 2003):

(1) It fails to adequately highlight the contributions that employees and suppliers make to help the company achieve its objectives.
(2) It does not identify the role of the community in defining the environment within which the company works.
(3) It does not identify performance measures to assess stakeholders' contribution.
(4) It fails to account for the importance of "motivated employees", which is particularly critical in the service sector.
(5) The distinction between means and ends is not well defined.

Several organizations have included an additional dimension in their implementation of the BSC to improve the missing people focus. Best Foods added a fifth dimension to their BSC called “People Development”. Also, several European organizations (e.g. Nokia) are highlighting the importance of human resource management and are adding similar dimensions as Best Foods (Maltz, 2003).

For public sector in particular, the balanced scorecard can be hard to implement because it is primarily a top-down management tool that tend to hamper bottom-up initiatives (Hoff and Holving, 2002). There is a challenge in accounting for the strong experienced and creative forces from the lower levels of the organization.

Seddon et al (1999) argues that information systems benefits and success is contextual, meaning that a project can be thought of as a success by some stakeholders and failure by others, depending on their different requirements. A thorough understanding of a projects stakeholders and requirements is thus important in order to decide on the final project objectives. The BSC claims to support this process, but experiences from implementations suggest that settings where this is already in place before the implementation are more likely to succeed than the other way around (Yee-Chin, 2004). This shortcoming is also supported in the critique by Maltz (2003). Thus there seems to be a need for improving the strategy development aspects of the BSC with respect to stakeholder needs.

2.4 Stakeholder theory

The importance of stakeholders from a strategy development and service planning perspective is well acknowledged (Ackermann and Eden, 2001; Neely et al, 2001). Still, the role of stakeholders and performance measurement has been little discussed (Yee-Chin, 2004). The issue of who is seen as the end user of the performance measurement information generated has received little attention and yet, particularly in the public sector, is of critical importance.

Applying a stakeholder conception of organizations as opposed to the more traditional input-output perspective implies adhering to a belief where all actors are involved with an organization in order to obtain benefits. This differs from the input-output model that illustrates how certain actors contribute input which the black box of an organization converts to benefits for its customers (Donaldson and Preston, 1995). The difference between the two models is illustrated in figure 2 and 3.

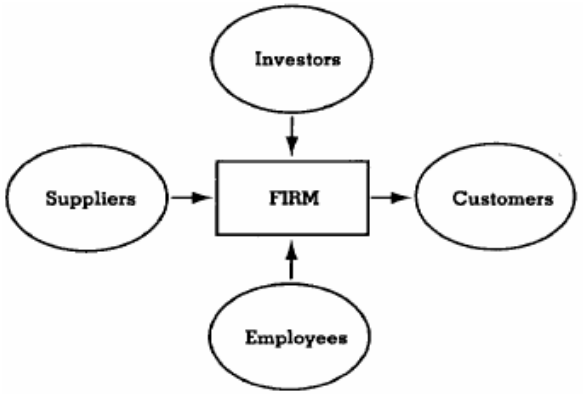


Figure 2. The input-output model (Donaldson and Preston, 1995)

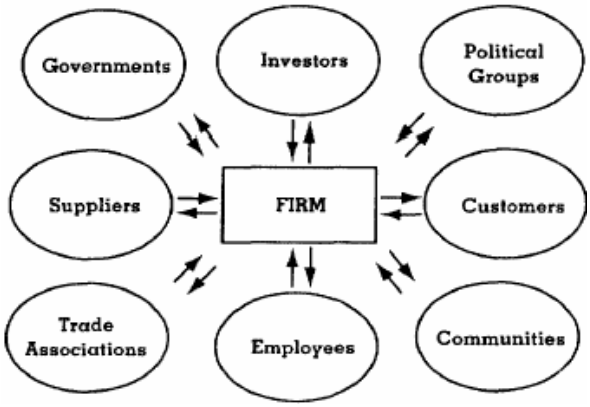


Figure 3. The stakeholder model (Donaldson and Preston, 1995)

Stakeholder theory is primarily a management instrument. The attributes power, urgency and legitimacy of claims define an organization's stakeholders. Power and urgency must be attended to if managers are to serve the legal and moral interests of legitimate stakeholders (Mitchell et al, 1997). Stakeholder theory thus contains methods for identifying and managing stakeholders (see figure 4 for an example). In addition, a substantial amount of work has been done on identifying the relative influence of different stakeholders (e.g. Mitchell et al, 1997).

1. Identification of stakeholders and their representatives and opinion formers.
2. Position analysis – analysis of stakeholders' perception of the project and its potential consequences, of the attitude to the other stakeholders, a picture of who has the actual power and influence, and a picture of stakeholders' expectations with respect to influence.
3. Analysis of the project's consequences for each stakeholder; this will also provide a picture of the anchoring and organizational change task.
4. Analysis of the need to influence the opinion and attitude of the stakeholders, as part of planning the anchoring and organizational change process.
5. Analysis of the congruency of interests with a view to identifying potential coalitions for and against the project.
6. Analysis of the conflicts of interest and areas of tension, as a basis for planning the decision making process.

Figure 4. Stakeholder analysis (Mikkelsen and Riis, 2001)

In order to be able to identify stakeholders, it is important to have a clear notion of what a stakeholder is. Freeman's (1984) definition of stakeholders is still frequently cited and does provide a general understanding of the concept:

"*…any group or individual who can affect or is affected by the organization's objectives*."

Stakeholder theory is justified on the basis of three mutually supportive aspects: (1) descriptive accuracy, (2) instrumental power and (3) normative validity (Donaldson and Preston, 1995). Donaldson and Preston (1995) summarize stakeholder theory in four theses:

- Thesis 1
  Stakeholder theory is descriptive, presenting a model of what an organization is. It describes the corporation as constellation of cooperative and competitive interests.

- Thesis 2
  Stakeholder theory is 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.

- Thesis 3
  Stakeholder theory is fundamentally normative and involves acceptance of two basic ideas. (a) Stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by **their** interest in the corporation, whether 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.

- Thesis 4

  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.

Since the publication of Freeman's book Strategic Management: A Stakeholder Approach (Freeman, 1984) about a dozen books and more than 100 articles with primary emphasis on the stakeholder concept has appeared. The idea that organizations have stakeholders, has become commonplace in management literature. Also, studies of health care organization embrace the logic of stakeholder theory (Varvarovszky and Brugha,, 2000).

Stakeholder theory has been applied in various settings to support strategy development and implementation. Daake and Anthony (2000) report that allowing stakeholders to take part in strategy development has proven useful in the health sector. They found that two assessments of stakeholders were important in the strategy development process. The first assessment centered on identifying key stakeholders and determining the relative power of relevant stakeholders. The second and often neglected assessment aimed at mapping the stakeholders' perception of their power relative to other groups. Both assessments added to a good understanding of the stakeholders negotiating postures and provided a good basis aligning the new strategy with the needs of the key stakeholders. Byrson (1988) emphasize similar issues and argue that failure to consider stakeholders' interests will guarantee failure in the implementation.

Stakeholder theory has also been applied related to information systems development. Pouloudi and Whitley (1997) found that stakeholder analysis can highlight issues that other approaches would neglect related to the information requirements of different stakeholders and the evolution of requirements over time. Also, the number of stakeholders identified by the stakeholder analysis was far greater than first thought, and stakeholder analysis proved useful in enhancing the understanding of a complex domain (inter-organizational systems). In 1995, Gupta (1995) called for research on how stakeholder theory could assist strategy development for inter-organizational systems. He argued that traditional models would fail to fully understand complex settings like inter-organizational systems, and that only a paradigm like stakeholder theory would be able to capture the its fundamental impacts.

Stakeholder analysis has been applied to improve the understanding of information systems requirements engineering (Vidgen, 1997). The stakeholder

analysis proved to enhance the understanding of pluralism and was useful in complementing existing requirements engineering methods.

This section has demonstrated the nature and some key advantages of stakeholder theory. The theory contains both descriptive and instrumental tools that are especially suited to increase the understanding of, and the ability to map, complex situations. We have also shown a number of application areas where stakeholder theory, and particularly stakeholder analysis, has been successfully applied. Common for these application areas is that they can all be characterized as complex settings.

3. Discussion

From the presented theory, we argue that public sector can be characterized as being complex settings with multiple stakeholders that often have multiple, vague and diverging goals. However, no significant evidence have been found that categorically prevents the transfer of functioning ideas, techniques and theories from the private sector to the public sector. Still, the likelihood of successful outcomes of such transfers is assumed to be related to the degree of adjustment to fit the characteristics of the target setting. Our position is thus that there is likely to be differences between the public and private sector, but not as severe differences that no diffusion of techniques, theories and ideas can be possible.

The balanced scorecard appears in two flavors: one developed to fit the needs of the private sector and one to match the specific needs of the public sector. Although somewhat different in structure and content, the rationale for using either version is the desire to develop and realize a strategy based on more than just financial measures. As both versions are applied (in some form) in the context of public sector, we will not in this paper discuss which is more suited for this particular context. We will however, argue that the principles behind the balanced scorecard are well suited to target the challenges of developing the public sector with information technology. The support of the balanced scorecard as a strategy developing instrument has been widely acknowledged in the private sector (Kaplan and Norton, 2001; Neely et al, 2001; Silk, 1998; Wisniewski and Stewart, 2004). Not only does the BSC target financial factors, it provides a basis for determining other important factors that influence how an organization can work towards its vision. The elements included in the BSC varies between implementations, but the process of filling the scorecard with content is important in order to raise the consciousness of important issues to the particular organization. Applying such a process to a setting that is distinguished by often vague and multiple objectives can provide the necessary structure to transform the currently vague objectives into an actionable strategy. And equally important, the BSC allows public organizations to maintain attention on several areas such as for instance service quality, budget, internal processes and learning. Continuing from

the strategic aspects, the BSC holds the potential of developing performance measures that are directly linked to the strategic objectives.

Having discussed the above promising characteristics, it is surprising to learn that the BSC is more likely to succeed if the target organization already from the beginning has a clear conception of vision, strategy and outcomes (Yee-Chin, 2004). It is not known whether this is so because strategy crafting is a cumbersome process that is generally more likely to succeed on the second attempt, or if the BSC is insufficient for the job. However, when combining this insight with the recent critique of the BSC for having a too narrow stakeholder focus and only giving limited attention to context, it seems reasonable to assume that there is a potential for improving the initial stages of implementing the BSC. The question is then: How can the BSC be complemented to improve the likelihood of providing successful strategies on the first attempt?

It is not particularly radical to argue that addressing the needs of important stakeholders is important both in terms of developing strategy and in the process of realizing strategic objectives. Nevertheless, the role of stakeholders and performance measurement has been little discussed (Wisniewski and Stewart, 2004). In response to this, Wisniewski and Stewart (2004) developed an information portfolio that would meet the performance measurement needs of diverse stakeholders in Scottish local authorities. The project was reported to receive positive feedback from case organizations. However, the study lacks a strong theoretical foundation.

Theoretical work on stakeholder theory provide arguments that instruments from stakeholder theory are particularly suited for identifying key stakeholders, mapping their objectives and determining the relative influence of stakeholders on organizations (Donaldson and Preston, 1995; Freeman, 1984; Gupta, 1995; Mitchell et al, 1997). Field studies from various contexts have shown the practical value of stakeholder theory on various application areas, especially in complex environments (Daake and Anthony, 2000; Pouloudi and Whitley, 1997; Varvarovszky and Brugha, 2000; Silk, 1998). One of the key challenges facing public sector managers is exactly how to deal with complexity Box, 1999; Boyne, 2002; Heeks, 2002; Layne and Lee, 2001; Traunmüller and Wimmer, 2003). The apparent complexity challenge faced by public sector managers and the demonstrated ability of stakeholder theory to unveil and handle complex settings, creates a strong argument for applying stakeholder theory in the public sector.

Stakeholder theory contains a variety of management tools and techniques, particularly developed to assist managers operating in complex settings. Key tenets of the theory include acknowledging that any organization or project is surrounded by a variety of stakeholders and that these stakeholders can affect the organization or project. It is therefore important to understand the interests of key stakeholders in order to maneuver an organization or a project with a minimum of conflict. Stakeholder analysis is particularly useful in mapping key stakeholders

of a project and identifying their respective interests in the project. The stakeholder analysis thus seems like an appropriate candidate remedy for the complexity related challenges of the balanced scorecard related to developing IS strategy.

3.2 Limitations

Combining stakeholder theory and the balanced scorecard requires considerable theoretical discussions. This paper is meant to raise this as an important issue, but does not attempt to provide a complete discussion on all relevant concerns.

The approach outlined in this paper has not been extensively tested in public sector projects. Elements of the approach have been suggested to public sector managers and received positive feedback.

3.3 Future research

Both the original version of the balanced scorecard and the version designed specifically for the non-profit sector are implemented in public sector organizations. Regardless of which version is applied, implementations show that there is a need for, often extensive, adjustments. This indicates that more case research is necessary on balanced scorecard implementations in the context of public sector.

Although stakeholder theory has proved useful in non-profit contexts such as for instance hospitals and health care management, efforts are needed to validate and possibly refine its tools and techniques for use in government settings.

Empirical evidence is needed in order to validate the suggested approach for IS strategy development in the public sector. Inter-agency or inter-sectoral cooperation projects may be especially well suited, as complexity rises as multiple public sector organizations seeks to align their objectives to reach common goals.

3.3.1 Action research

“Action research claims to contribute both to the practical concerns of people in an immediate problematic situation and to the goals of social science by joint collaboration within a mutually acceptable ethical framework.”

Rapoport (1970) p. 499

From the above definition, action research seems to provide a suitable approach to testing stakeholder analysis as a means of enhancing the early phases of IS strategy development. Few if any are currently explicitly using stakeholder theory to complement the balanced scorecard. Case study investigations are therefore impossible as no case context can be found. On the other hand, action

research can provide a scientific approach to introducing a novel solution to a practical problem. According to Avison et. al. (2001), research driven innovation caused by a researcher's possession of a theoretical approach for addressing a particular problem, is a common way of initiating action research.

Several authors have introduced guidelines for action research to ensure its scientific rigor and validity (Baskerville and Wood-Harper, 1996; Checkland and Holwell, 1998; Susman and Evered, 1978). Although action research is an iterative process of problem solving and learning, a series of phases have been outlined to ensure rigor and scientific validity. We will briefly show how these phases can be applied when introducing stakeholder theory to complement the balanced scorecard by applying the 5 action research phases of Suseman and Evered (1978). A prerequisite of the phases are the establishment of the client system infrastructure (the research environment). For this example, we suggest that the research environment consist of a number of municipalities embarking at developing a common eStrategy to enable IS cooperation. A close relationship should be developed between the eStrategy project group and the researcher(s), with a clear objective of common problem solving.

Step 1: Diagnosing
What is the problem facing the project group?
How can relevant stakeholders be identified and their different interests aligned into an eStrategy that is acceptable to all parties?

Step 2: Action planning
What theory can be applied to solve the problem identified in phase 1 and how can the theory be practically applied to solve the problem? Stakeholder analysis can identify stakeholders, power relationships and objectives. Results from the stakeholder analysis can serve as a basis for the eStrategy development with the balanced scorecard.

Step 3: Action taking
Conduct stakeholder analysis, negotiate for consensus on a common set of objectives, and implement the objectives into the balanced scorecard.

Step 4: Evaluating
Were all relevant stakeholders involved? Are the stakeholders satisfied with the common eStrategy? Did the applied theory solve the initial problem?

Step 5: Specifying learning
What are the general findings from the action research?

4. Conclusion

This paper has discussed characteristics of public sector organizations and found that a balanced scorecard approach seems well suited as a strategy development instrument for this particular context as it holds the potential for incorporating several different objectives. However, the strategy development aspects of the balanced scorecard have recently been criticized for being rather weak at accounting for complex environments and different stakeholder influences. Stakeholder theory has proved useful in assisting the strategy development process. We therefore propose that stakeholder analysis is performed in the initial stage of developing IS strategy through a balanced scorecard approach, particularly in complex settings such as the public sector. This will incorporate the stakeholder complexity directly into the strategy development process, giving valuable and diverse information when setting up the sub-goals and necessary activities to reach these goals. Also, the stakeholder analysis process in itself draws attention the diversity of objectives from a variety of stakeholders and allows managers to develop strategies and accompanying measures that account for key stakeholders' interest. Still, while a stakeholder based approach to IS strategy development in the public sector seems theoretically promising, it needs empirical validation. As few organizations are currently applying a stakeholder approach to their BSC development, we suggest action research as a way of providing empirical support for a stakeholder based approach to IS strategy development.

5. References

Ackermann, F. and Eden, C. (2001). Stakeholders Matter: Techniques for Their Identification and Management. Department of Management Science Research Paper No 2001/20, Strathclyde Business School, Glasgow.

Atkinson, A. A. and McCrindell, J. Q. (1997). Strategic Performance Measurement in Government. CMA Magazine, April 1997, pp 20 – 23.

Avison, D., Baskerville, R. and Myers, M. (2001) Controlling Action Research Projects," *Information Technology & People* Vol 14, No 1, pp. 28-45.

Baskerville, R.L. and Wood-Harper, A.T. (1996) A Critical Perspective on Action Research as a Method for Information Systems Research. *Journal of Information Technology* Vol 11, pp. 235-246.

Box, R. (1999). Running Government Like a Business: Implications for Public Administrations Theory and Research. American Review of Public Administration. Vol 29, pp 19 – 43.

Boyne, George A. (2002). Public and private management: What is the difference? Journal of Management Studies. Vol 39, Issue 1.

Bretschneider, S. (1990). Management Information Systems in Public and Private Organizations: An Empirical Test. Public Administrations Review, Vol , pp 536 – 545.

Byrson, J. M. (1988). Strategic Planning for Public and Non-Profit Organizations. San Francisco, Jossey-Bass, 1988.

Checkland, P. & S. Holwell (1998) Action Research: Its Nature and Validity. *Systemic Practice and Action Research* Vol 11, No 1, pp. 9-21.

Daake, D. and Anthony, W. P. (2000). Understanding Stakeholder Power and Influence Gaps in a Health Care Organization: An Empirical Study. Health Care Manage Review, Vol 25, No 3, pp 94 – 107.

Donaldson, T. and Preston, L. E. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications. Academy of Management Review. Vol 20, No 1, pp 65 – 91.

Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach. Pitman Publishing Company, 276 p

Gupta, A. (1995). A Stakeholder Approach for Interorganizational Systems. Industrial Management and Data Systems. Vol. 95, No. 6, pp 3 – 7.

Heeks, R. (2002). Re-inventing Government in the Information Age, R.B. Heeks (ed.), Routledge, London.

Heeks, R. and Bhatnagar, S. C. (2001). Understanding Success and Failure in Information Age Reform. In Re-inventing Government in the Information Age, R.B. Heeks (ed.), Routledge, London, pp 49 – 74.

Heeks, R. and Davies, A. (2002). Different Approaches to Information Age Reform. In Re-inventing Government in the Information Age, R.B. Heeks (ed.), Routledge, London, pp 22 – 43.

Hoff, K. G. and Holving, P. A. (2002). Balansert målstyring. Universitetsforlaget, Oslo, Norge.

Hood, C. (1991). A Public Management for All Seasons? Public Administration, Vol 69, pp 3 – 19.

Kaplan, R. S. and Norton, D. P. (1992). The Balanced Scorecard – Measures that Drive Performance. Harvard Business Review. January – February, pp 71 – 79.

Kaplan, R. S. and Norton, D. P. (1996). Using the Balanced Scorecard as a Strategic Management System. Harvard Business Review. January – February, pp 75 – 85.

Kaplan, R. S. and Norton, D. P. (2001). Transforming the Balanced Scorecard from Perfomance Measurement to Strategic Management: Part I. Accounting Horizons. Vol 15, No 1, pp 87 – 104.

Kaylor, C., Deshazo, R. and Van Eck, D. (2001). Gauging e-government: A Report on Implementing Services Among American Cities. Government Information Quarterly, Vol 18, pp 293 – 307.

Layne, K. and Lee, J. (2001). Developing a Fully Functional E-government: A Four Stage Model. Government Information Quarterly, Vol 18, pp 122 – 136.

Maltz, (2003). Beyond the Balanced Scorecard: Refining the Search for Organizational Success Measures. Long Range Planning. Vol 36, pp 187 – 204.

Mikkelsen, H. and Riis, J. O. (2001). Projeckstyring – Med Enkle Midler. Forlaget Prodevo Aps. 175p.

Mitchell, R. K., Agle, B. R. and Wood, D. J. (1997). Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. Academy of Management Review. Vol 22, No 4, pp 853 – 886.

Neely, A., Adams, C. and Crowe, P. (2001). The Performance Prism in Practice. Measuring Business Excellence, Vol 5, No 2, pp 6 – 12.

Newman, J. and Clarke, J. (1994). Going About Our Business: The Managerialization of Public Services. In Clarke, J., Cochran, A. and McLaughlin, E. (Eds), Managing Social Policy. London, Sage.

Pouloudi, A. and Whitley, E. A. (1997). Stakeholder Identification in Inter-Organizational Systems: Gaining Insights for Drug Use Management Systems. European Journal of Information Systems, Vol 6, pp 1 – 12.

Rapoport, R.N. (1970) Three Dilemmas in Action Research, *Human Relations*, Vol 23, No 4, pp. 499-513.

Seddon, P. B., Staples, S., Patnayakuni, R. and Bowtell, M. (1999). Dimensions of Informtion Systems Success. Communications of the AIS.

Silk, S. (1998). Automating the Balanced Scorecard. Management Accounting, Vol 80, pp 38 – 44.

Susman, G. I. & Evered, R. D. (1978) An assessment of the scientific merits of action research. *Administrative Science Quarterly*, Vol 23, pp 582 – 603.

Swedberg, D. and Douglas, J. (2001). Transformation by Design: An Innovative to Implementation of E-government. Proceedings of the 2nd European Conference on e-Government, Dublin, Ireland, pp. 441 – 449.

Traunmüller, R. and Wimmer , M. (2003). E-Government at a Decisive Moment: Sketching a Roadmap to Excellence. R. Traunmüller (Ed.). Proceedings of the 2nd International Conference, EGOV 2003. Springer Verlag, pp 1 – 14.

Varvarovszky, Z. and Brugha, R. (2000). Stakeholder Analysis: A review. Health Policy and Planning. Vol 15, No 3, pp 239 – 246.

Vidgen, R (1997). Stakeholders, Soft Systems and Technology: Separation and Mediation in the Analysis of Information Systems Requirements. Information Systems Journal. Vol 7, pp 21 – 46.

Wisniewski, M. and Stewart, D. (2004). Performance Measurement for Stakeholders. The Case of Scottish Local Authorities. The International Journal of Public Sector Management., Vol 17, No 2, pp 222 – 233.

Yee-Chin, L. C. (2004). Performance Measurement and Adoption of Balanced Scorecards. A Survey of Municipal Governments in the USA and Canada. The International Journal of Public Sector Management, Vol 17, No 3, pp 204 – 221.